Will the state pension triple lock be scrapped to help pay for the government's coronavirus spending?

The government is under pressure to ditch the 2.5% triple lock guarantee

By Kim Kaveh

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State pension payments rise every year under the 'triple lock' system which guarantees at least a 2.5% boost. However, Chancellor Rishi Sunak is now being urged to scrap the guarantee so that the government can make up for financial losses incurred by supporting workers and the economy during the coronavirus pandemic.

The Treasury has estimated that Britain will end up with a spending bill worth over £300bn by the end of the 2020-21 financial year next April – a sharp rise on the £55bn forecast in the March Budget. In a Treasury document seen by The Telegraph, it was noted that it would be 'very difficult' for the economy to recover without taking certain measures, which reportedly includes axing the triple lock system.

Here, Which? explains why the triple lock guarantee could

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be under threat and what could replace it.

How does the triple lock work?

In 2010 the then coalition government introduced the state pension triple lock system to ensure state pension rates would keep up with inflation and wage growth.

Under the system the state pension increases by the highest of growth in wages, inflation as measured by the Consumer Prices Index (CPI) or 2.5%.

The government takes September's CPI inflation and uses the three-month average of weekly earnings from July to help work out what the uprating will be.

This April the state pension increased by 3.9% to match the average earnings increase seen by UK workers in July last year.

Here's how the state pension has been boosted since the triple lock guarantee was introduced.

	CPI	Average earnings	2.5%	Which part of the triple lock kicked in?
April 2012	**5.2%**	2.7%	2.5%	Inflation (CPI)
April 2013	2.2%	1.5%	**2.5%**	Guaranteed minimum
April 2014	**2.7%**	1.2%	2.5%	Inflation (CPI)
April 2015	1.2%	0.6%	**2.5%**	Guaranteed minimum
April 2016	-0.1%	**2.9%**	2.5%	Average earnings
April 2017	1%	2.4%	2.5%	Guaranteed minimum
April 2018	**3%**	2.3%	2.5%	Inflation (CPI)
April 2019	2.4%	**2.6%**	2.5%	Average earnings
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April 2020	1.7%	**3.9%**	2.5%	Average earnings

Source: UK government data

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Why might the triple lock be axed?

The effectiveness of the triple lock guarantee has been questioned since it was first announced.

Most recently last month, think tank Social Market Foundation (SMF) suggested scrapping the triple lock could help to ensure that the financial cost of coronavirus was borne by all generations.

The SMF says that any future austerity programme must not favour pension benefits over working-age welfare.

In other words, the guarantee has been criticised for creating intergenerational unfairness between working-age households who haven't seen much in the way of wage growth, and those who have retired.

On the other hand, charity Age UK argues that axing the triple lock could make hundreds and thousands of pensioners worse off. The Pensions Policy Institute has estimated that around 700,000 people could fall into poverty by 2050 if it's scrapped.

Whether or not the government will scrap it now to plug the growing deficit brought on by coronavirus is still unclear, although ditching it would be a controversial move.

In its manifesto pledge ahead of the November general election, the Conservative Party said it would not bin the guarantee. Although that was before coronavirus had emerged, and it has become clear now that limiting the economic impact of the virus will not come cheap.

For instance, the government's coronavirus job retention furlough scheme alone is costing around £14bn a month.

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What could replace the triple lock?

The triple lock could potentially be replaced with a less generous 'double lock', mooted in 2017 by former prime minister Theresa May.

Under this system, the 2.5% element of the guarantee would be removed, which the SMF says could save the government £20bn over the next five years.

This system has been backed by many other experts, including former pensions minister and conservative peer Baroness Ros Altmann and even the Resolution Foundation, which initially had concerns over raising pensioner incomes faster than working-age incomes.

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Would pensioners be worse off under a double lock system?

The 2.5% triple lock system is a guarantee that the state pension will always rise by at least this amount. However, this year it rose by 3.9% – 1.4% more than the 2.5% benchmark. So a double lock system doesn't necessarily mean less money for pensioners provided average wage growth or inflation is higher than this amount.

However, the triple lock system has protected pensioners in recent years, especially during times of high inflation and slow earnings growth.

For example, research published by the Resolution Foundation found that in 2001 households relying on pensioner income were £70 a week less well off than those in work. Now, a typical pensioner household income overtakes working-age households, and we can partially thank the triple lock guarantee for this.

In February, a report by the Resolution Foundation revealed that new retirees with occupational pensions were £20 a week better off than those who work. The report revealed a reversal in fortunes in comparison to 2001 where pensioners were £70 a week worse off than those in work.

If the triple lock were to be scrapped, in the current economic climate, the double lock would likely mean pensioners would be much more likely to be worse off next year than they would under a triple lock system.

According to the Office for National Statistics the number of people claiming unemployment benefit in the UK soared to 2.1 million in April. Government statisticians have said annual wage growth slowed to 1.5% in March, the lowest rate in almost six years. Economists have also warned there will probably be a decline in average earnings within months.

Meanwhile, the current rate of inflation is 1.5% and according to Statista, CPI inflation is expected to rest at 2% by Q3 2020, although this is not guaranteed.