Suspending the state pension triple lock this year would hurt the poorest pensioners

Such a decision could have grave consequences and should not be lightly taken

By Baroness Ros Altmann

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Here we go again. As soon as the debate moves on to how to control spending, talk of cutting pensions resurfaces.

Even though we still have the worst state pension in the developed world and many British pensioners – most particularly women – rely almost wholly on state pensions for their retirement income, there are knee-jerk reactions that suggest we cannot afford to pay the state pension and must find ways to save money by raiding pensioners somehow. The Treasury often targets the "pensions piggy bank" when looking for quick gains, but the longer-term consequences are usually poorly thought-through.

Successive chancellors have tinkered with pensions for decades, leaving a complex mess that has allowed politicians to use pensions for political headlines to garner the "grey vote", a system that appears to be generous in the short term, but leaves future governments with legacy policies that are difficult to undo or to manage in future uncertain times.

Strong denials from Number 10 and the Chancellor have not quashed rumours that the state pension triple lock may be suspended or amended in the aftermath of the pandemic. I have long believed that the state pension triple lock needs reform – it is more of a political gimmick than a sensible policy choice. It promises to increase just two particular parts of the state pension by the best of price inflation, earnings inflation or 2.5 per cent. Even though 2.5 per cent has no relevance to the wider economy, the lock has become a totemic political symbol, considered as shorthand for any government's commitment to protect poor pensioners.

Politicians who have previously suggested it is past its sell-by date risked a backlash from older generations. The same is true of the free TV licences, Winter Fuel Payments, Christmas Bonus, which were all politically aimed at pleasing pensioners many years ago, while the triple lock was introduced after years of a dwindling basic state pension resulted in pensioners falling well behind other groups. But each policy has proved politically challenging to remove.

Last year, the 2.5 per cent element of the triple lock was applied. This year, as earnings inflation has risen far more than usual, there are suggestions that the Chancellor is considering abandoning the earnings link, at least temporarily. Such an attempt at supposed cost cutting would carry significant problems.

As always with pensions, beware the unintended consequences of policy adjustments. Any reform of how the state pension is adjusted needs to be conducted on a considered basis, looking at all the different moving parts. Certainly there is a need to do so. The current system is not sensible or sustainable, but it is a crucial part of old age support.

In reality, not only does the 2.5 per cent underpin have no sound basis, the triple lock does not protect the poorest pensioners properly either. In fact, since 2015, the triple lock favours the youngest pensioners on the entire new state pension (just under £180 a week), while those in their seventies and older only have the basic state pension triple locked (which is only around £137.60 a week). All the other bits of their state pension just rise with prices.

Even more illogically, Pension Credit, on which the poorest and oldest pensioners rely, is tied to average earnings only, not the triple lock.

Suddenly deciding to abandon the triple lock manifesto pledge because of a post-Covid recovery in average earnings seems inadequate justification for removing a state pension increase from millions of retired people who have struggled through the pandemic.

I believe it would be a significant mistake to use the pandemic public spending excesses as an excuse to penalise pensioners and deny them a possible extra £8 or £10 a week. Any Exchequer savings would be tiny, in the context of the overall public finances, but to each individual pensioner the impact could be politically and economically significant.

The pandemic does give opportunities to review the way we protect pensioners in the UK, but any reforms need to be carefully considered, not decided in a rush because of one year's figures.

In practice, if the Chancellor chooses not to increase State Pensions in line with the actual rise in average earnings, he would still be legally bound to raise the Pension Credit by that amount, which would see all the other elements of the National Insurance pension falling behind. Such a decision could have grave consequences and should not be lightly taken.

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