Nic Cicutti: Triple lock is far from the biggest pension issue on government's plate

By **Nic Cicutti** | 26th July 2021 8:00 am

One of the realisations of reaching an age when you are beginning to plan the details of what to do when you finally stop work is how much those preparations are affected by decisions made by others, over which you have limited control.

Illustration by Dan Murrell

Chief among them is the issue of money. The income you retire on is a key determinant in what happens next: how comfortable your life will be and what compromises you need to make to get through the next 20 or 30 years.

Which brings me to the triple lock on state pensions – an element of government policy about which we have been hearing so much in recent weeks.

After several months in which the Treasury was supposedly "relaxed" at the prospect of an above-average increase in the state pension from next April, suddenly all bets are off, with chancellor Rishi Sunak hinting earlier this month that the government will temporarily break it.

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The deciding factor in his calculations was apparently the extra £3.2bn needed to meet the cost of the triple lock, because of the anomaly in the way furloughed workers' return to earning a full wage is impacting on annual pay statistics.

Ironically, for those who have always opposed the triple lock in the past, the key objection has never been to its annual earnings indexation element. Until now, what they have always disliked far more is the minimum 2.5% increase, payable no matter what happens to inflation or earnings.

As the Institute of Fiscal Studies pointed out in a report in October, over the previous 11 years earnings-indexation increases have only been applied three times, compared with eight times for the minimum percentage increase.

This time, a projected 8% increase in pensions is way higher than the original forecast in March, which, while still high, was for "only" half that amount. The difference is between an extra £7 or £8 a week on the new state pension, which the Treasury might have swallowed as a one-off, and a larger £14 a week, which the government claims it can't afford.

Those on the basic state pension, who retired before the new pension was introduced in April 2016, would see a smaller rise from the current weekly level of £137.60 – probably about £11 a week.

The rest of their pensions, linked to the State Earnings Related Pension Scheme, the State Second Pension and so on, only rise in line with consumer price inflation. Even so, were it to be paid, this admittedly anomalous increase would still see a sizeable rise in over-70s state pension incomes.

So, what should happen next? More perceptive commentators like former pensions minister and fellow *Money Marketing* columnist Ros Altmann, who has long opposed the triple lock as an unnecessary political totem, argue that "removing the earnings link because of one year's numbers would be yet another short-term politically-inspired reform to a policy that needs long-term and holistic reconsideration."

Altmann wants wholesale reform of the pension system, which should take into account a range of additional benefits that have gradually been added to pensioner incomes – including the Winter Fuel Allowance, the £10 Christmas Bonus and so forth.

I'm inclined to agree. But if so, we should also recognise a number of additional factors. The first is that pensioner incomes in the UK are shockingly bad when compared with the European Union (EU) average. A research briefing in the House of Commons Library in April this year acknowledges that comparisons between different countries' pension systems are difficult because of the differing proportion of incomes paid by the state via occupational schemes or private savings.

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But even taking into account all these varying considerations, the UK's net replacement rate – the level of combined pensioner income relative to average earnings – is 61%, compared to an EU average of 67%. Within that overall statistic, millions of UK pensioners without generous occupational pensions or sizeable savings receive far less.

The second factor is that every piece of research over the past 50 years shows that if you want to make sure people receive pension benefits they are entitled to and need, you don't place the onus on them to apply. You pay it into their account as a matter of course. The alternative is billions of pounds unclaimed every year in additional pensions for women, in unpaid pensions credit, housing benefits and even TV licences for older people.

So, if you are going to reform the pensions system, I have a simple proposal: first pay all retired people a decent flat rate state pension of, say, at least 40% of average earnings, up from the current 25% level of the new state pension. That would be about £12,500 a year. Personally, I'd favour 50% or £15,500, but that's just me.

Only then should you tinker with the triple lock. Until that happens, politicians should keep their hands off a system which, for all its faults, has slowly helped address a running sore that left many millions of pensioners living in poverty.

Nic Cicutti can be contacted at nic@inspiredmoney.co.uk

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