The State Pension ‘triple lock’ guarantee:
Explanation, analysis and implications

Slide pack for Devon County Council

Current and ongoing changes to State Pension

- Through various pieces of legislation, Government is in the process of increasing the State Pension Age (SPA).
  - between April 2010 and November 2018, women's SPA will increase from 60 to 65.
  - by October 2020, the equalised SPA will increase to 66, rising again to 67 by April 2028. The Pensions Act 2007 legislates for a further increase to 68 between 2044 and 2046.
- The 2014 Pensions Act commits Government to a statutory review of the State Pension age each parliament, with John Cridland appointed to complete an independent report.
- The report will inform the first statutory review, to be published by 7th May 2017. The independent review **will not** cover the existing SPA timetable to April 2028, but will aim to identify how changes in life expectancy and wider changes in society impact on the State Pension's sustainability.
- From April 2016, as set out in the 2015 Spending Review, the Basic State Pension is £119.30 a week, with the rate of the single tier pension set at £155.65 a week.

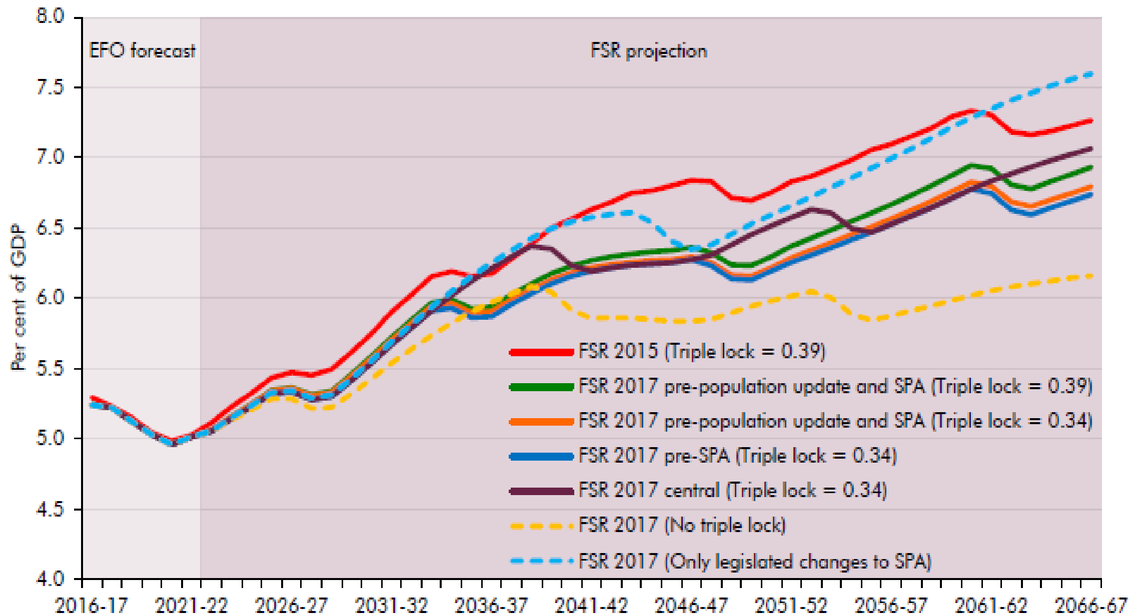
The State Pension 'triple lock' guarantee

- The triple lock was introduced by the Coalition Government in the 2010 Budget and implemented in 2012.
- The triple lock uprates the Basic State Pension and the New State Pension annually by the highest of:
  - price inflation, measured by the Consumer Price Index (CPI);
  - average earnings growth; or
  - 2.5 per cent.
- Historically, the triple lock has been driven by either the Consumer Prices Index or the 2.5% minimum threshold, with CPI inflation driving the highest recorded annual change, at 5.2%, in 2012-13.

	2.5 per cent	Consumer Prices Index (a)	Earnings growth (b)	Triple lock - Basic & New State Pension uprated by:
	%	%	%	%
2012-13	2.5	5.2	2.8	5.2
2013-14	2.5	2.2	1.6	2.5
2014-15	2.5	2.7	1.2	2.7
2015-16	2.5	1.2	0.6	2.5
2016-17	2.5	-0.1	2.9	2.9
2017-18 (c)	2.5	0.6	2.4	2.5
2018-19	2.5	1.6	3.6	3.6
2019-20	2.5	2.1	3.5	3.5
2020-21	2.5	2.0	3.5	3.5

The Work and Pensions Committee, 'Intergenerational Fairness Inquiry', 2016

Long-term fiscal cost & sustainability



Source: OBR

- The triple lock is expensive. The FT reported in October 2015 that the triple lock cost £6bn more than the cost of increasing pensions in line with earnings or inflation, based on Government Actuary's Department calculations[1].
- By 2020-21, the State Pension will cost about 5% of GDP, rising to 7.1% in 2066-67 under the OBR's central projections for the triple lock. Assuming constant revenue over the forecast period, upward demographic pressure will almost triple the public sector debt as a share of GDP over the next 50 years.

'UK pension triple lock costs extra £6n a year, says report', Financial Times, 13/10/2015 (Available at: https://www.ft.com/content/e344e79c-71af-11e5-9b9e-690fdae72044)

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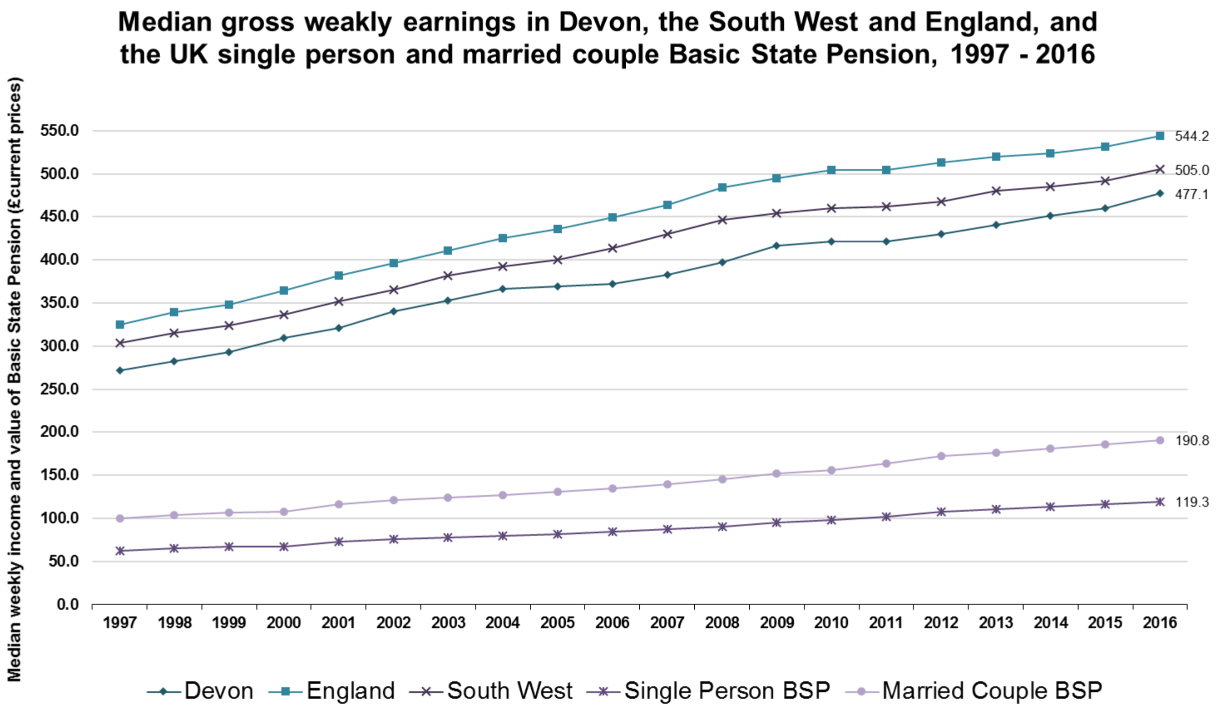
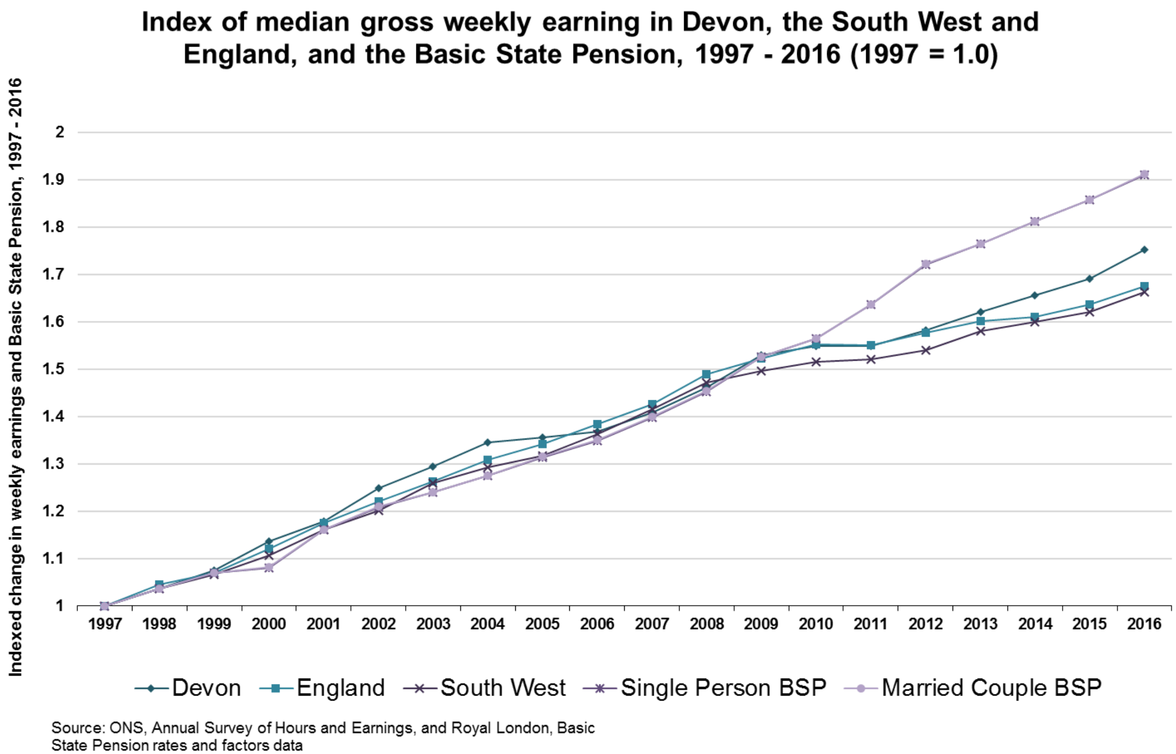
Comparing the growth of workplace earnings with the growth of the state pension (1)



Source: ONS, Annual Survey of Hours and Earnings, and Royal London, Basic State Pension rates and factors data

- The value of the Basic State Pension remains substantially below median gross weekly earnings in Devon, the South West and England.
- However, between 1997 and 2016, the Basic State Pension grew by about 90%, compared with wage growth of 75% in Devon, with compound annual growth rates of 3.5% and 3.0% respectively.

Comparing the growth of workplace earnings with the growth of the state pension (2)



- The historic rate of growth in the Basic State Pension broadly tracked changes to earnings
- However, a gap has opened between the Basic State Pension and median earnings growth since 2010, when the triple lock was introduced.

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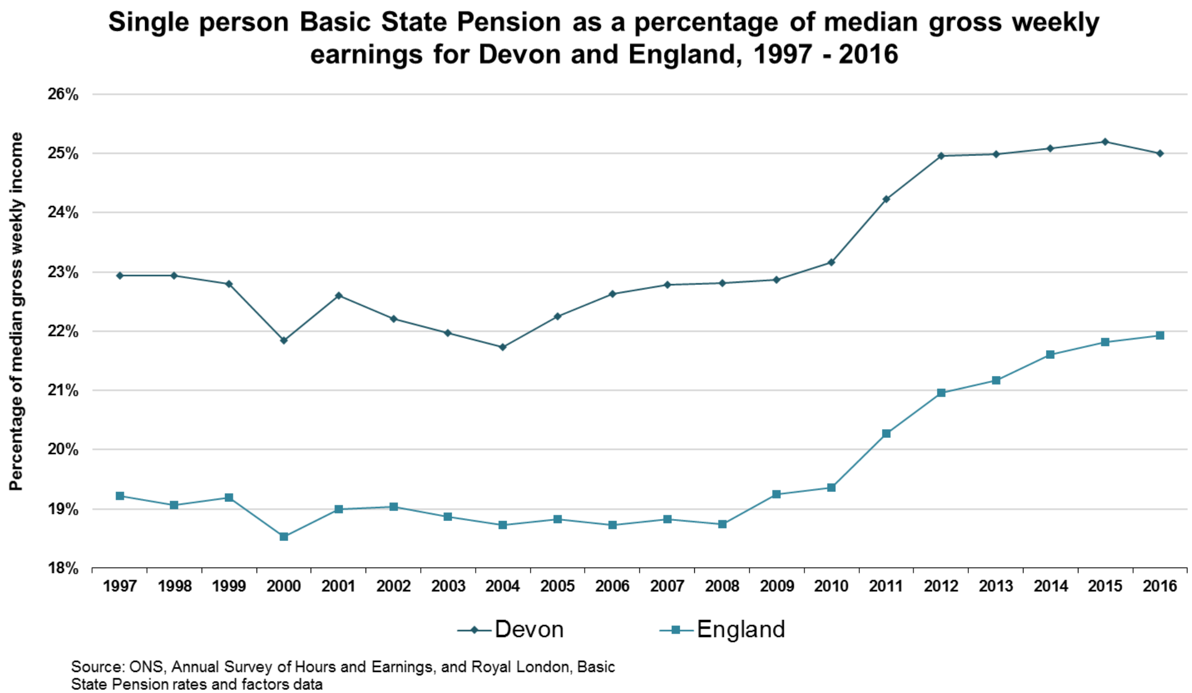
Comparing the growth of workplace earnings with the growth of the state pension (3)



- As a result of rapid growth since 2010, the value of the Basic State Pension is now equivalent to about 25% of median gross weekly earnings, up about two percentage points from the an average of about 23% between 1997-2010.
- While the pattern is similar for England, the lower ratios reflect higher median gross weekly earnings at the national level.

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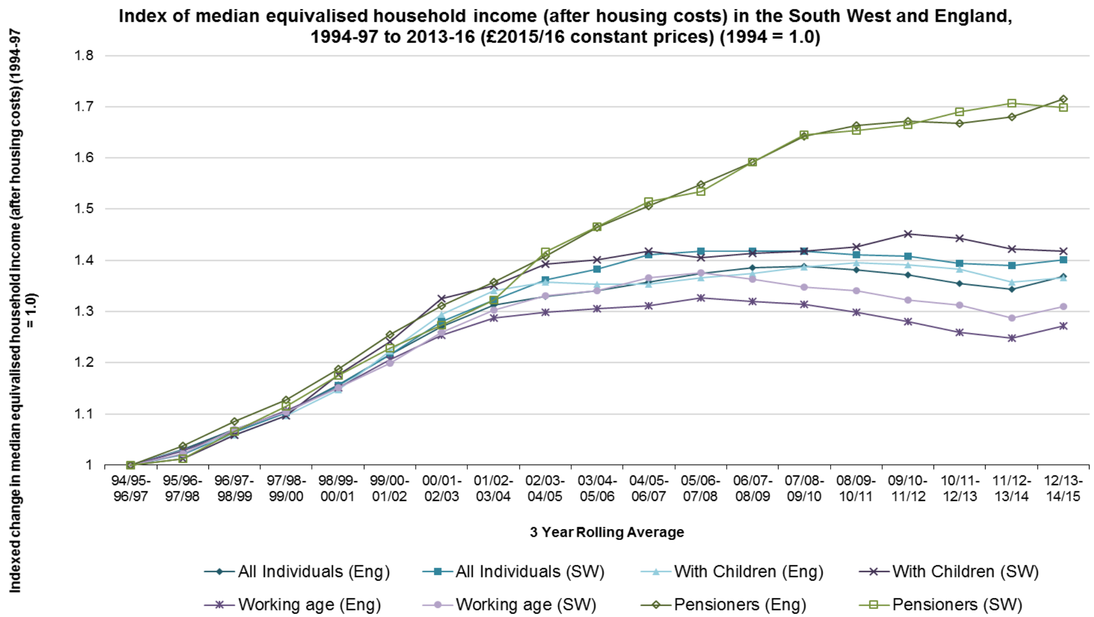
Understanding regional equivalised household income (after housing costs) in the South West



DWP, 'Households Below Average Income' 1994/95 - 2015/16

- The DWP's Households Below Average Income dataset provides detailed data on the median total household income of pensioners compared with the rest of the population. These data include non-State Pension sources of income and are measured after housing costs (noting that many pensioners have paid off their mortgages).
- Reflecting trends identified earlier, pensioner income has grown at a much faster pace than the working-age average, at a compound annual growth rate of 2.9% over the 1994-97 – 2013-16 period (compared with 1.6% for working-age). In absolute terms, this means that median equivalised pensioner household income after housing costs is now £419 per week, compared with £429 among the working-age population.

Potential changes to the triple lock guarantee

- In the 2016 Autumn Statement, Phillip Hammond said Government would “meet our pledge to our country’s pensioners through the triple lock” for the duration of the current Parliament. However, in the 2017 Spring Budget, the Chancellor said public spending commitments in the next Parliament “will need to be determined in light of evolving prospects for the fiscal position”.
- More broadly, political sentiment seems to be turning against the current system, with;
    - the Work and Pensions Committee reporting that the triple lock is “inherently unsustainable”. The committee instead recommended that the underpinning 2.5% minimum increase be removed and a smoothed earnings link applied to ensure pensions remain responsive to change in earnings and inflation;
    - former Pensions Minister Ros Altmann has argued that the triple lock will have achieved its goal of returning the State Pension to an appropriate level by 2020 and should thereafter be replaced by the earnings and inflation double lock; and
    - the Intergenerational Foundation has suggested that above inflation or earnings growth increase to the State Pension is unfair when working age benefits have stagnated, with the Institute for Fiscal Studies arguing that there is “no plausible objective to which the triple-lock is the best solution”.
- However, Labour has committed to “preserving the triple lock throughout the lifetime of the next Parliament” while the SNP pensions spokesperson has also said the SNP would keep the guarantee.
- The statutory review to be published in May will provide the clearest indication of the current system’s sustainability and the triple lock’s prospects going forward.

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Implications for Devon

- Devon has an older-than-average population, with residents aged 65+ accounting for about 24.5% of the county's total population (190,000 of 773,100) in 2015, compared with an England average of 17.7% and South West average of 21.4%.
- Devon's 65+ population has also grown faster than the national average, at 1.8% per year (CAGR) between 2001 – 2015, compared with 1.6% for England and 1.7% for the South West.
- ONS Sub-National Population Projections project 65+ residents to account for 31.9% of Devon's population by 2039, compared with 24% nationally. On these projections, the annual growth rate for Devon's population aged 65+ is 1.6%, compared with 0.5% nationally.
- While it is difficult to estimate how much of – and to what extent – Devon's population is dependent on the State Pension for income, any changes to the triple lock will be an important factor going forward.
- However, over recent years, Devon's employed population has seen very little growth in earnings while State Pensions – which are important for a large proportion of the population – have risen quickly

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