Locked in

As the government once again doubles down on its commitment to the state pension triple lock, Sophie Smith takes a closer look at the debate surrounding it and the issues brewing as a result of the pandemic

Arguments for and against the triple lock have continued to rage both within and outside of the pensions industry, and whilst groups such as the Centre for Policy Studies have "long been critical" of the state pension triple lock, they also acknowledged that this is a "politically sensitive" area with the government "reluctant to set aside its manifesto commitments".

Hargreaves Lansdown personal finance analyst, Sarah Coles, describes the triple lock as the "bedrock of people's retirements" noting that any questions over its future are bound to raise alarm.

"However, it's also politically difficult for the government to touch it, and legally very difficult to make temporary tweaks to account for an unusual year, so it will be wary of making major changes," she agrees.

Perhaps unsurprisingly, the government has also recently reiterated its commitment to the triple lock in line with its manifesto promise. There is of course an argument, aside from manifesto promises however, to keep the triple lock, as Aegon pensions director, Steven Cameron, explains that in times of predictable inflation and earnings growth, the triple lock's promise made sure state pensioners kept pace with inflation and shared in earnings growth of the working age population.

However, Cameron warns that the huge impact Covid-19 has wrought on employment and pay means the headline national average earnings figures no longer reflect what someone who has remained unaffected in employment for the past 16 months may have experienced.

"Blindly following the current formula could grant state pensioners a windfall boost, estimated to cost the Chancellor £4 billion a year, paid for by the working age population's National Insurance, creating real intergenerational tensions," he warns.

This is echoed by LCP partner, Steve Webb, who says: "The triple lock was designed to progressively restore the value of the state pension after three decades of price indexation between 1980 and 2010. Despite this policy, the UK state pension is still one of the lowest in the OECD so the job is not done.

"This is especially true for women, many of whom may have very limited non-state pension income, especially if they have not worked in the public sector. But the recent slump and surge in earnings does create a problem and could lead to an unaffordable hike in the pension. The best balance might be to retain the policy but use a measure of earnings that smooths out these unprecedented gyrations in the level of average earnings."

Indeed, Cameron warns that whilst the latest ONS earnings data has shown an 8.4 per cent increase in wages from April last year to this year, the ONS has estimated that a truer underlying increase is "far lower" at around 3 per cent.

Cameron is also quick to point out that although the government remains committed to the triple lock, there could be a difference between being wedded to the spirit rather than the detail.

"There are two possible compromise options," he says, suggesting that one such option would be to use the ONS figure with the recent labour market anomalies stripped out, currently estimated to be 3 per cent. The other route highlighted by Cameron is to smooth out peaks and troughs caused by the pandemic and average things out over two or three years, as also raised by Webb. "Both these solutions involve technical changes," Cameron notes, "but do follow the principles behind the triple lock."

But with the latest reports that the government will be basing its decision on "fairness for pensioners and for taxpayers", only time will tell whether the government is truly wedded to the pensions triple lock, or if more tweaks are waiting just around the corner.

Written by Sophie Smith