Unlocking the *Triple Lock*

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> *"average UK State pensions increases have been around 1% pa higher than price inflation since 2012"*

Following much media speculation over the summer about how the UK State pensions would be increased next year, the UK Government confirmed in September that it would be suspending part of its "Triple Lock" policy for 2022. In this article we take a look at the background to the Triple Lock, its financial implications and why it has been such a contentious issue this year.

What is the Triple Lock?

The UK Government's "Triple Lock" policy was introduced just over a decade ago and is the rule used to calculate the increase to State pensions in April each year. The increase is the highest of three different measures:

- 2.5%
- The increase in average earnings
- The increase in UK inflation measured by CPI (the Consumer Prices Index)

In practice, this means that UK State pension increases have been at least 2.5%pa, and in some cases significantly more over the last decade or so. To put this in context, the UK Government's target for inflation is 2% pa. Consequently the Triple Lock policy is designed to provide pensioners with increases that, on average, will be above the rate of inflation.

What's the problem?

The key issue for the April 2022 increase is that the changes in average earnings have been distorted significantly by the Government's Covid 19 furlough scheme and its subsequent unwinding. This has made the average earnings increase measure of over 8% artificially high. However, not to apply the Triple Lock would have been contrary to the Government's most recent election manifesto so the issue is politically sensitive.

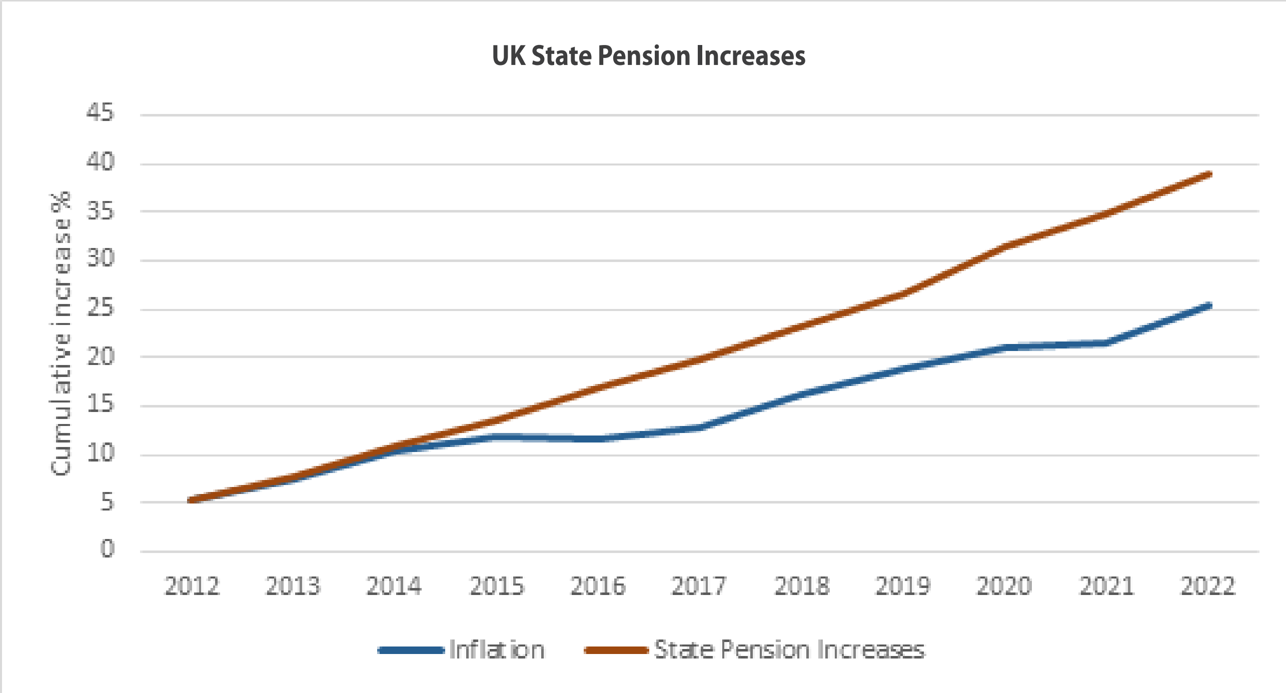
As well as the political difficulties, the long-term cost of applying the Triple Lock in 2022 was also significant. This is because each annual increase in the State pension not only increases the bill for State pensions in that year, but also increases it for every future year as the increase is permanent.

The UK Chancellor hinted back in the summer that there might need to be some adjustment to the Triple Lock next year to remove the impact of the furlough scheme distortion. It was subsequently confirmed that the earnings element of the Triple Lock would be suspended for 2022; there is an expectation that it will be reintroduced in 2023.

Now that the UK's September CPI inflation figure has been published, it has been confirmed that the State pensions will increase by 3.1% from April 2022, around 5% below what pensioners might have been hoping for.

Increases under the Triple Lock

The chart illustrates how the impact of the triple lock has increased State pensions significantly above the rate of price inflation.



In a final twist in this saga, the House of Lords proposed an amendment to the Social Security (Up-rating of Benefits) Bill in October that would reinstate a modified version of the Triple Lock. This was designed to remove the anomalous impact of Covid 19 in the average earnings measure. However, this amendment was rejected by the House of Commons and the April 2022 increase is now expected to be 3.1%.

The graph illustrates that under the Triple Lock State benefits have increased by almost 39% since 2012, which is equivalent to an average annual increase of 3.1%. The corresponding increase in the CPI measure of inflation over the same period was around 25%, equivalent to an average annual increase of 2.1%. Therefore the impact of the Triple Lock has been that average UK State pensions increases have been around 1% pa higher than price inflation since 2012.

Conclusions

The Triple Lock policy is understandably popular with pensioners and has given many a real increase in their State pensions in recent years. However, the cost of the Triple Lock may be difficult to sustain indefinitely and it will be interesting to see if the 2023 State Pension increase will be calculated on the Triple Lock method or whether it will be suspended for longer than the one year indicated at this stage.

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