



# How would removal of the State Pension triple lock affect adequacy?

Daniela Silcock, Head of Policy Research, Pensions Policy Institute

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# We'd like to thank...

The Centre for Ageing Better, Age UK and the Trades Union Congress for sponsoring this project.



# How would removal of the State Pension triple lock affect adequacy?

- What are the aims of the State Pension?
- Why does State Pension indexation matter?
- What are the costs of the State Pension?
- How would removal of the triple lock affect adequacy?

# What are the aims of the State Pension?

- The role of the State Pension has changed over time from its introduction in 1948 from providing a basic level of income, to maintaining living standards, and then back again
- There is a lack of clarity regarding how much income the current basic level is meant to meet as adequacy measures vary.

# What adequacy targets might people try to meet in retirement?

- The Minimum Income Standard: allows pensioners to achieve a minimum socially acceptable standard of living – c. £10,000pa.
- Modest target: c.£17,500pa.
- Comfortable target: c. £25,000pa.
- Working life replacement rate: allows people to replicate their working life living standards when they are in retirement

# How much working life income should the State Pension replace?

- The full value of the nSP, £159.55 in 2017/18, is worth 24% of National Average Earnings, - just above the Pension Credit level of £159.35.
- In order to determine what proportion of average earnings the State Pension should replace, it is necessary first to determine the ultimate aim of the State Pension and how much people should be expected to save privately.

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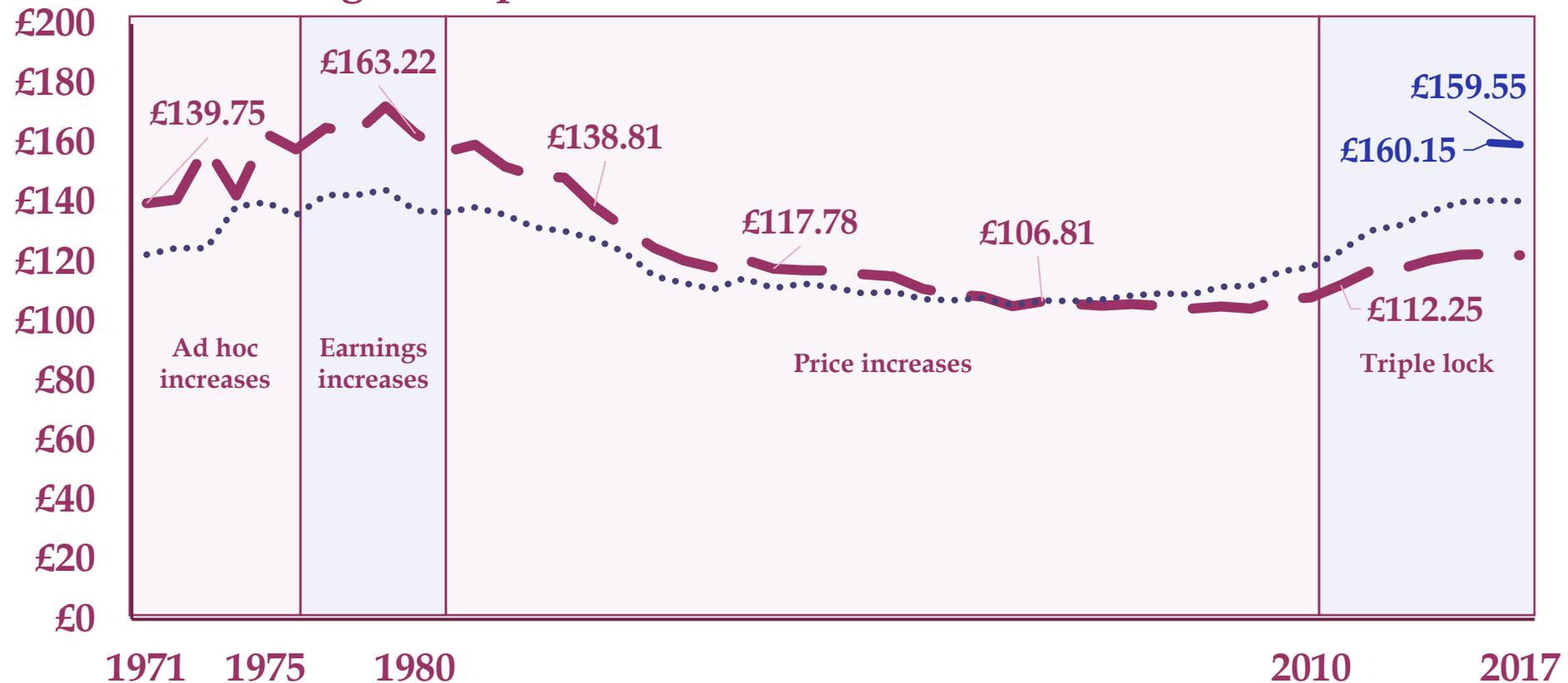
# Why does State Pension indexation matter?

- State Pension indexation:
  - Is an expression of the aims of the State Pension
  - Indicates the inflationary measure against which the government feels standards of living should be measured and maintained
  - Allows for gradual increases or decreases of the State Pension value

# The value of the bSP reduces during periods of price uprating

BSP and nSP full rates for an individual under age 80 with own National Insurance contributions and average total State Pension receipt in 2017 earnings terms, by year

- Full rate of bSP in 2017 earnings terms
- Full rate of nSP in 2017 earnings terms
- ..... Average receipt



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# What are the costs of the State Pension?

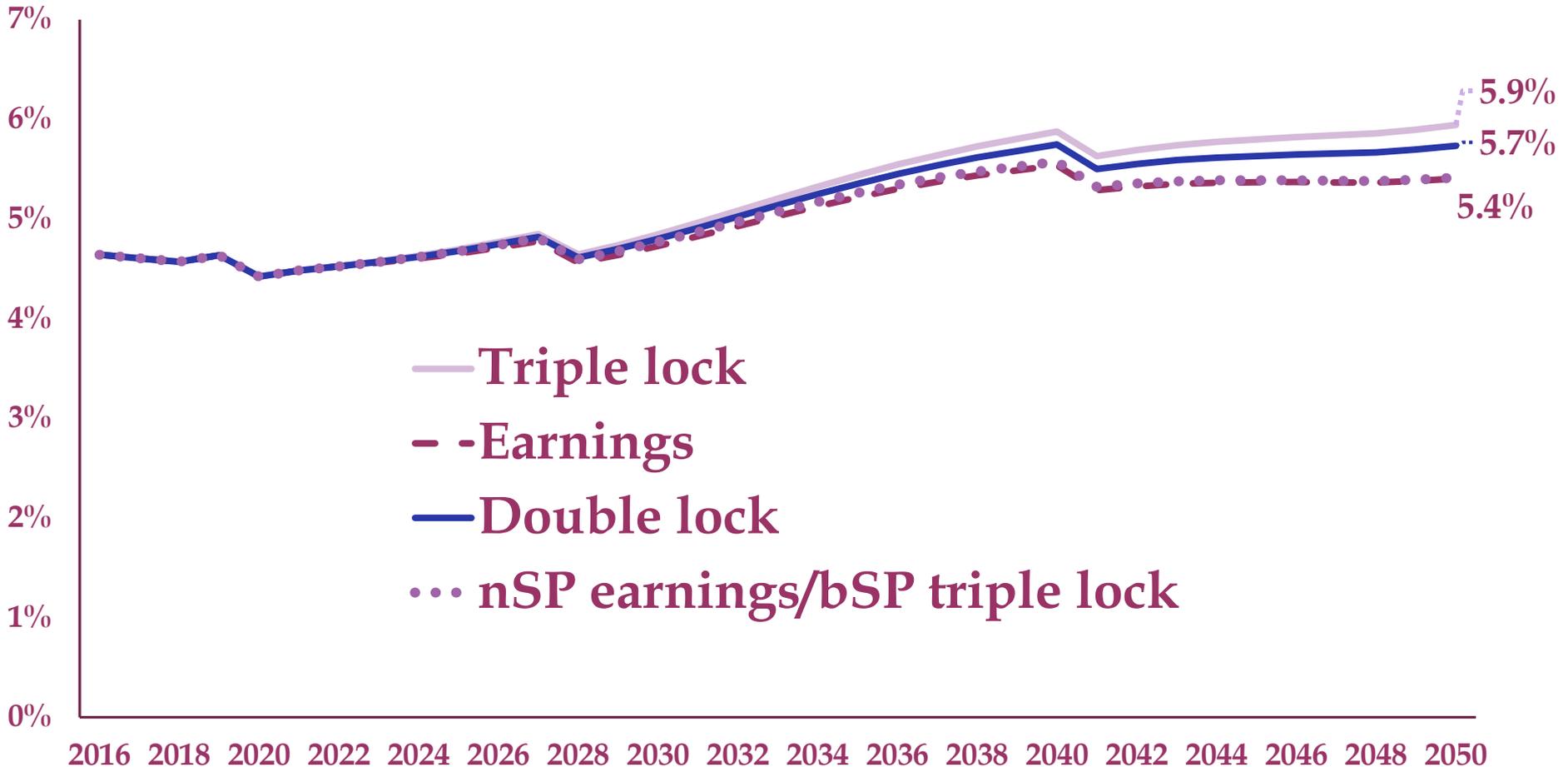
- The costs of the State Pension are projected to increase regardless of the indexation mechanism, due to increases in the proportion of people over State Pension age
- The total cost of State Pensions as a proportion of GDP is projected to increase over time by 31.4% between 2022 and 2050, while the number of pensioners will increase by 37.6%, mainly due to increases in life expectancy.

# A triple locked State Pension would cost more than other indexation scenarios

- The Government may replace the triple lock with an earnings link or double lock from 2022
- By 2050, a double lock would save around 0.2% of GDP per year and an earnings link would save around 0.5% of GDP per year

**By 2050, a double lock would save around 0.2% per year and an earnings link would save around 0.5% per year**

**Cost of State Pension under different indexation scenarios by percent of GDP by year**



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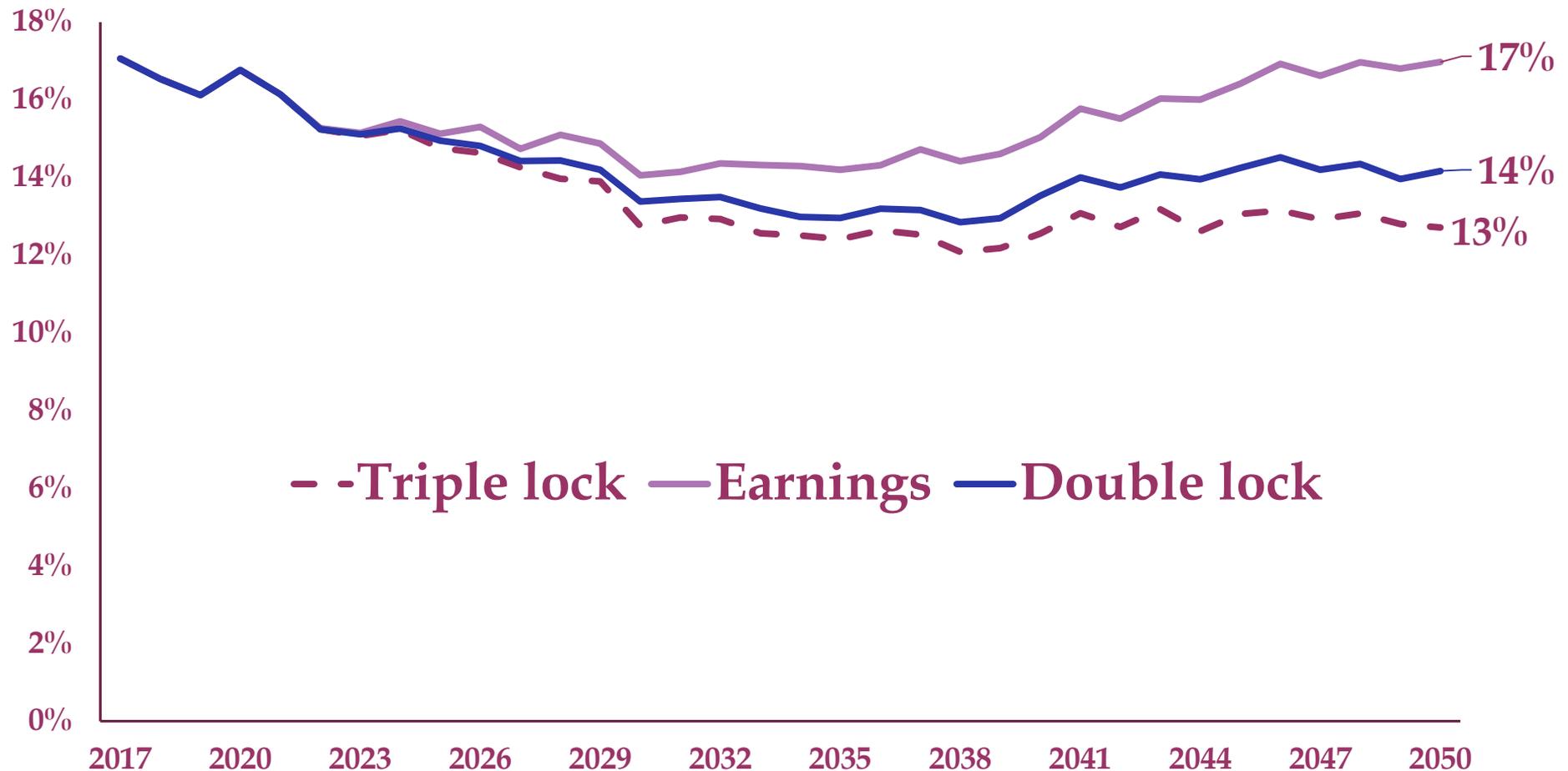
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# The triple lock would make it easier for pensioners to achieve adequacy targets

- The triple lock will make it easier for pensioners to achieve adequate retirement incomes by reducing the amount people will need to save into private pensions
- Pensioner poverty would also be higher under other indexation scenarios than it would be under the triple lock

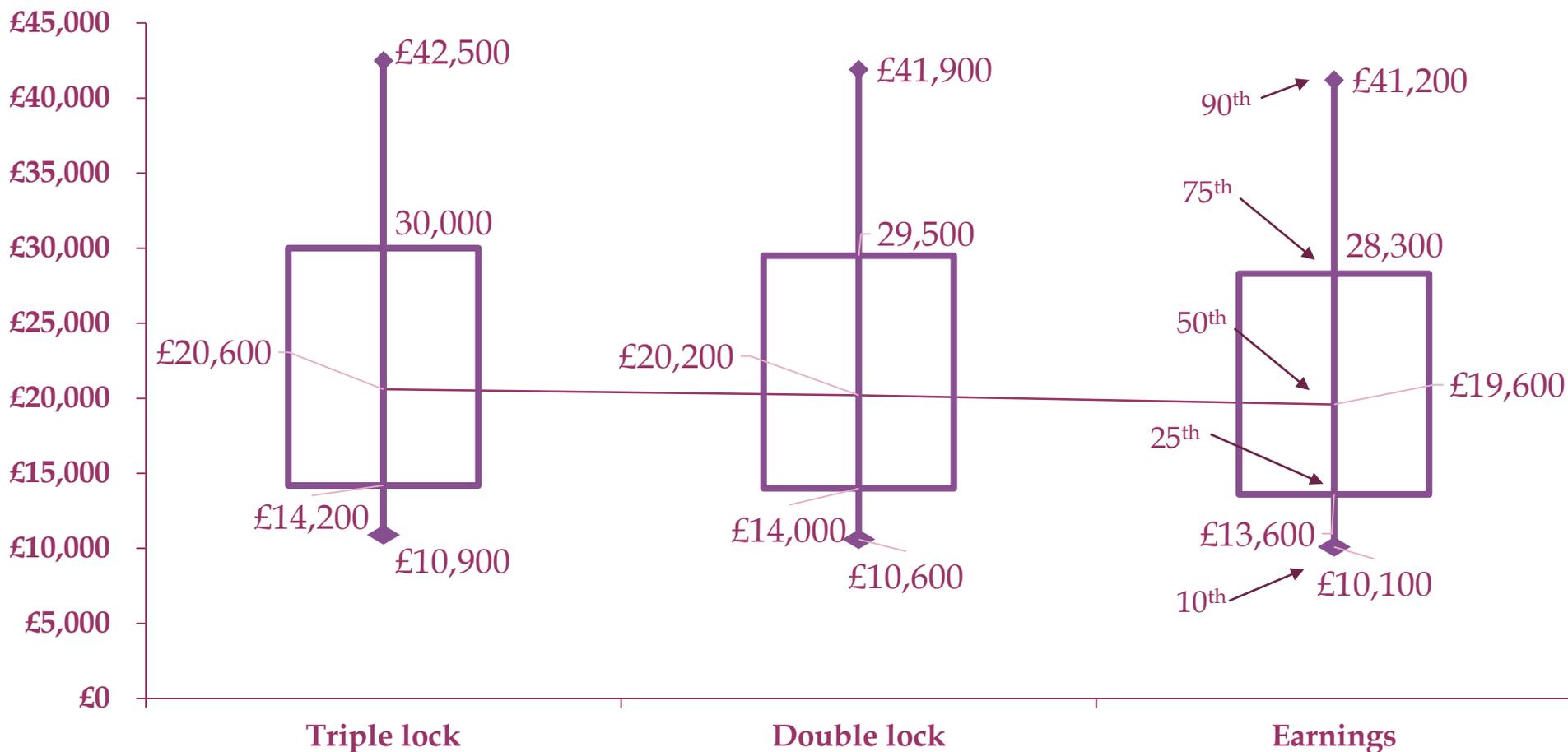
# Pensioner poverty is 1% higher under a double lock and 4% higher under an earnings link than under the triple lock, by 2050

Proportion of pensioners in relative poverty After Housing Costs under different indexation scenarios by year



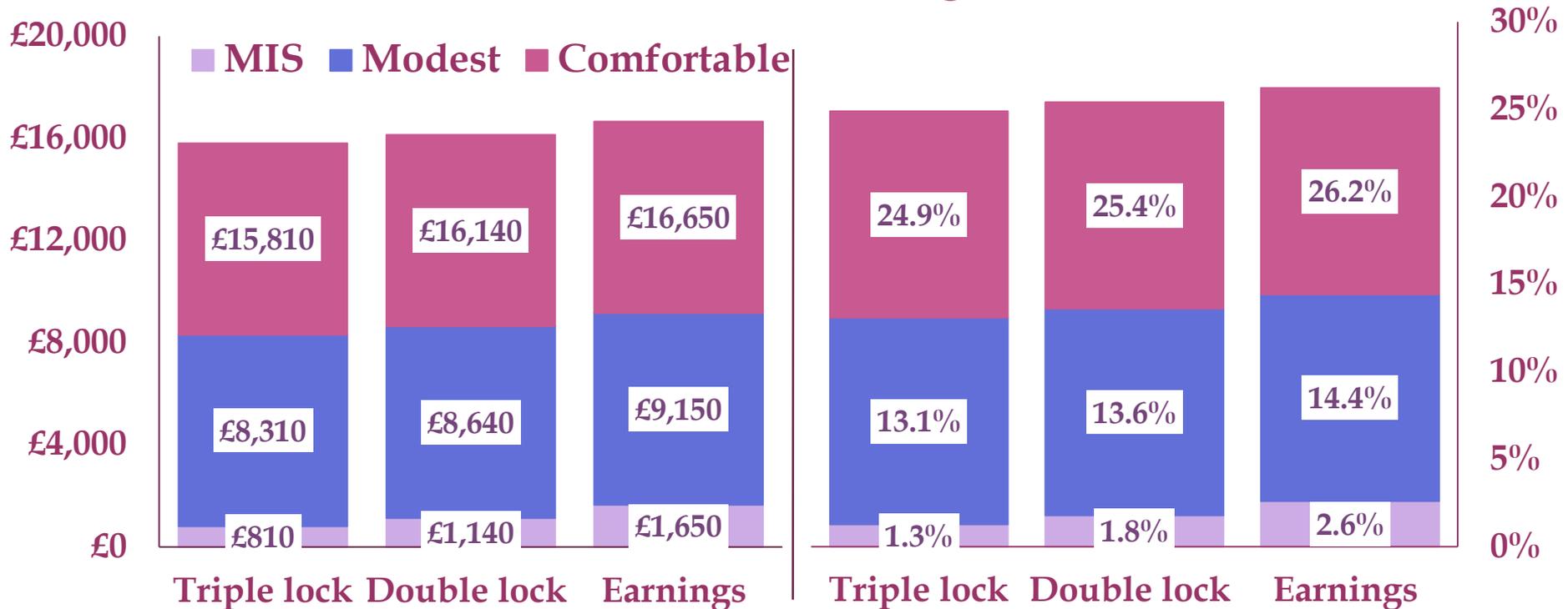
# Those at lower income percentiles will lose a greater proportional amount under changes to indexation

## Annual income per pensioner units by percentiles under different indexation scenarios in 2050



# Low earners may need to contribute around an extra 1.3% of salary to achieve adequacy targets under an earnings indexation than under the triple lock

Required average yearly contribution of salary needed when contributing from age 22 to top up to different target income levels under different indexation scenarios for a low earner reaching SPa in 2047



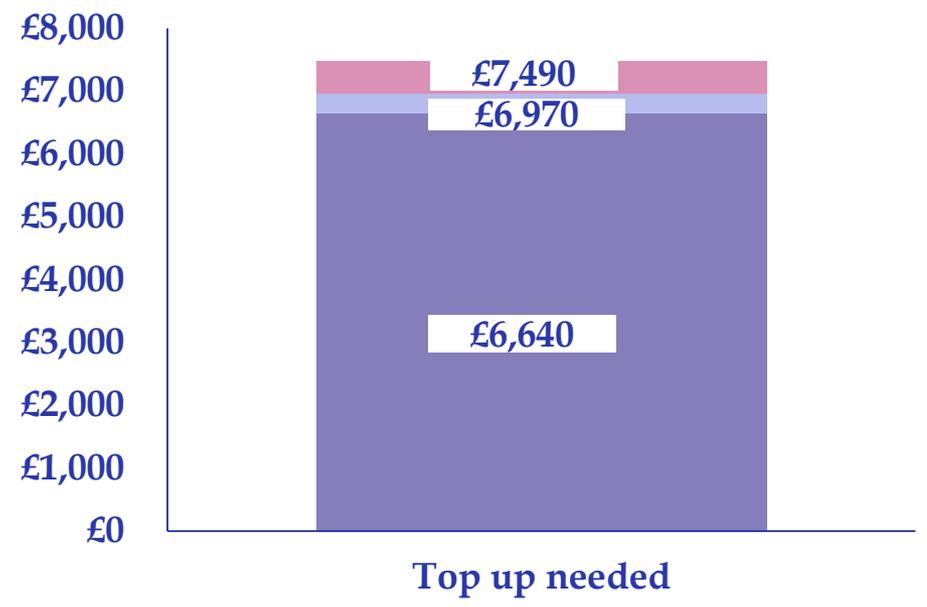
Yearly income gap between State Pension income and target rates

Yearly average amount of salary required to contribute to fill income gap

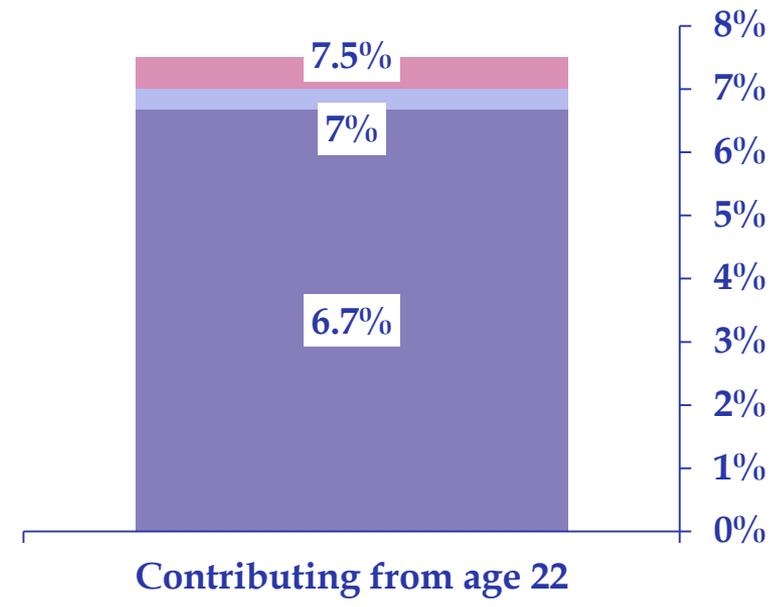
# Median earners may need to contribute between 6.7% and 7.5% to achieve target replacement rates under an earnings indexation

Amount needed to top up to target replacement rate of £15,800 per year and amount of contributions required to reach that amount for a median earner reaching SPa in 2047 (2017 earnings terms)

■ Triple lock ■ Double lock ■ Earnings



Yearly income gap between State Pension income and target replacement rate



Yearly average amount of salary required to contribute to fill income gap

# Conclusions

- Until the aims of the State Pension are fully clarified, it is difficult to compare the impact of indexation scenarios
- The triple lock costs more than other indexation scenarios
- Under all of the scenarios, some pensioners still experience poverty in retirement and many will need to save significant amounts into private pensions, or other saving vehicles, in order to achieve adequate retirement incomes.

**Tim Sharp**

**Policy Officer in the Economics  
and Social Affairs Department**

**TUC**

**Sally West**

**Policy Manager for Income and  
Poverty**

**Age UK**

**Claire Turner**

**Director of Evidence**

**Centre for Ageing Better**

# Panel discussion and Q&A

- **Lawrence Churchill CBE – Chair**
- **Daniela Silcock – PPI**
- **Tim Sharp – TUC**
- **Sally West – Age UK**
- **Claire Turner – Centre for Ageing Better**

**Thank you for coming**

**Please join us for refreshments**