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PENSIONS POLICY INSTITUTE
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## "Replacing the triple lock with an earnings smoothing mechanism could save up to £15bn from the COVID-19 Bill, but would reduce average State Pension income by 2% from 2021" says Pensions Policy Institute

**The Pensions Policy Institute (PPI)** is today publishing **What does COVID-19 mean for the triple lock and State Pension inflation?** This Briefing Note explores the potential impact on the Government and on pensioners of moving from a triple lock to a different measure of inflation.

**Daniela Silcock, Head of Policy Research at the PPI** said *"The Government is reportedly considering replacing the State Pension inflationary mechanism, the triple lock in order to reduce Government expenditure and make the COVID-19 Bill more affordable. News reports originally indicated that the Government was considering replacing the triple lock with a double lock. However, it has become increasingly clear to economists that changes in employment, arising from COVID-19 are likely to result in spikes in earnings inflation in 2021, which would mean that a double lock would not save any money on the State Pension Bill in that year."*

*"The reason behind the expected spike in earnings is that job losses, furloughs and the closure of businesses reduced earnings inflation to around –1% in May 2020, around 4% less than at the end of 2019. If employment figures return to anywhere near pre-COVID-19 levels in 2021, earnings inflation will appear artificially high as it will reflect the jump from reduced levels to standard levels plus any new earnings inflation. As a result, the increase in earnings is likely to be above 2.5% in 2021, meaning that the increase in State Pension income and costs would be the same under both a double and triple lock."*

*"Using an earnings smoothing mechanism to inflate the State Pension, which, for example, used the average for earnings over 2020 and 2021, (before returning to a triple or double lock in 2022) would mean that a spike in earnings inflation in 2021 would be less likely to result in a dramatic increase in the cost of the State Pension, and could save around £15bn."*

*"Changing the State Pension inflation mechanism would also mean that pensioner incomes do not increase as quickly. Under a triple lock, average pensioner incomes could reach*

*around 31% of national average earnings by 2040, compared to around 30% under a double lock and 2% lower at around 29% under the use of a smoothing mechanism in 2021, followed by a return to the triple lock."*

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## For further information please contact -

**Danielle Baker, Head of Membership & External Engagement (PPI)**
07714 250 910, email: danielle@pensionspolicyinstitute.org.uk

**Daniela Silcock, Head of Policy Research (PPI)**
email: daniela@pensionspolicyinstitute.org.uk

**Tim Pike, Head of Modelling (PPI)**
email: Tim@pensionspolicyinstitute.org.uk

## Notes for editors

1. **We are an independent educational research charity: The Pensions Policy Institute (PPI)** does not lobby for any particular solution and we are not a think-tank taking politically influenced views. The PPI is an educational research charity, which provides non-political, independent comment and analysis on policy on pensions and retirement income provision in the UK. Its aim is to improve the information and understanding about pensions policy and retirement income provision through research and analysis, discussion and publication. Further information on the PPI is available on our website www.pensionspolicyinstitute.org.uk
2. **The triple lock** increases State Pension income by the higher of the increase in prices, earnings or 2.5%.
3. **A double lock** would increase income by the higher of the increase in prices or earnings.
4. The State Pension's cost depends on the development of longevity and the triple lock which in turn depends on price and wage inflations. The future development of these risk factors is highly uncertain and impossible to predict correctly. In this study, we have employed the multivariate stochastic

simulation model of **Sergio Alvares Maffra**, **John Armstrong**, and **Teemu Pennanen** from **King's College London** to describe these uncertainties. The model captures the dynamics and the dependencies across different risk factors and it is easy to calibrate to both historical data as well as forecasts or user views concerning the future. The forecasts and views used in the study were obtained from the ONS, OBR, and HMT. Additional data on the average level of benefits for each gender/age group were obtained from the DWP. Short-term forecasts were used to model the first and second wave longevity impacts of the pandemic. Based on the "reasonable worst-case" scenario from the Academy of Medical Sciences and on the number of reported casualties, mortality rates were adjusted to account, on average, for additional 45,000 deaths in 2020, and 120,000 in 2021.