

How would the removal of the State Pension triple lock affect adequacy? – launch write up

The Pensions Policy Institute (PPI) held a policy seminar on 21st March 2018 to launch its research report: *How would the removal of the State Pension triple lock affect adequacy?*, sponsored by the Centre for Ageing Better (CFAB), Trades Union Congress (TUC) and Age UK. The report explores the potential effect of changing State Pension indexation on poverty, adequacy and state spending, and examines the future outlook for State Pension policy as a whole.

40 people representing a broad range of interests within Government, the investment industry, the pensions industry and the third sector attended the seminar.

Lawrence Churchill CBE, PPI Chairman, welcomed the attendees and introduced the panel.

Daniela Silcock, Head of Policy Research, PPI, presented the findings of the Research.

Tim Sharp, Policy Officer, TUC, presented the TUC's view on the research findings:

- The impact of any changes to indexation would not be felt equally across groups. The triple lock remains a useful indexation measure as it gives a better retirement income foundation than the other indexation mechanisms that were studied. Even with the triple lock in place, the State Pension does not protect everybody from the risk of living in poverty.
- The debate around the triple lock policy has brought the focus back on to working people. Where there are conditions of job insecurity, under employment, and poor opportunities for training and progression, it is a challenge to foster individual savings. The research shows that potentially large numbers of people at current working age could be impacted if the triple lock is not in place. The groups at greatest risk are those living in poverty.
- It is difficult for many to envisage what their lifestyle will be at an older age. This is a barrier preventing young people from engaging with pension saving.

Sally West, Age UK, Policy Manager, presented Age UK's view on the research findings:

- Younger people will benefit the most from the triple lock by receiving more from the State Pension, and will be most affected if the policy is

discontinued. This relates to a wider debate around intergenerational fairness.

- Even where the State Pension provides a lower proportion of income, it is vitally important for many. Even for those on mid-income levels, half of their income comes from the state pension. It is the wealthiest that are the least affected by changes in either the level of the State Pension, or the indexation measure.

Claire Turner, CFAB, Director of Evidence, presented CFAB's view on the research:

- This research prompts a reflection on the role of the State Pension and adequacy. Keeping the triple lock gives a better retirement income foundation than the other indexation mechanisms that were studied, including the double lock. Changes to indexation would disproportionately impact women due as they have lower levels of private pension saving than men. This makes them more likely to be dependent on State Pension income.
- Occupational differences by gender, working histories, and different combinations of paid employment are all predictors of private and State Pension savings. Pensions are clearly very much still a labour market issue.
- There is an emphasis on enabling carers to work and a need for better quality of part-time work.

Lawrence Churchill led a panel session, during which the following points were raised.

- The State Pension is a fundamental safety net and only covers basic costs. The State Pension should prevent people from falling into poverty. This is not the case currently, and people are still at risk of poverty with the triple lock in place.
- There is a need to consider the state pension within a wider context, including in relation to the voluntary private savings market and eligibility for Automatic Enrolment. There are variations in cost of living by region and family type.

The following points were raised during the question and discussion session held under the Chatham House rule, chaired by Lawrence Churchill, with the panellists, Tim Sharp (TUC), Sally West (Age UK), Claire Turner (CFAB), and Daniela Silcock (PPI), and the audience. They do not necessarily reflect the views of the Pensions Policy Institute:

The level, indexation and cost of the State Pension

- The starting level of the State Pension and the indexation measure should be evaluated together.
- A strong State Pension is central to the vision of a fairer society. If the role of the State Pension is poverty prevention, then it is currently too low.

- The triple lock is making the State Pension a little more valuable over time. However the cost to the State of keeping the triple lock mechanism would be vast and would require political buy-in.

Intergenerational contract

- It has been considered unfair to expect younger people to subsidise a higher income for older people through the triple lock. There is also contention around one portion of society having their benefits uprated by a more generous index. However, older people benefit marginally from the triple lock while today's workers would receive a far higher level of State Pension as a result.
- There is a need to carefully consider how to maintain an intergenerational contract and improve understanding of across/within generation differences.

Adequacy

- The level of income which would provide an adequate standard of living varies by social and economic group as well as according to different demographic characteristics. Those who will be most impacted by changes in policy are the poorest. This emphasises the importance of voluntary private pension saving and highlights the consumer engagement agenda, financial literacy and teachable moments.
- Current minimum AE contributions do not ensure income adequacy in retirement. The rate at which State Pension policy changes makes it difficult to foster consistent policy around long-term, private pensions saving.
- One option might be to go back to a partial earnings linked State Pension. This might be more redistributive and be a better fit in terms of adequacy. However, there is no political appetite for this at the moment.

Holistic approach

- There is a case to consider income in retirement more holistically and to account for different sources of income when considering adequacy. Studying wider incentives to saving is of relevance to this.
- There is a strong connect between Automatic Enrolment and State Pension policy. It would help to connect the different pension debates around Automatic Enrolment, state pension age, and the triple lock. These are all connected to wider equality and diversity issues. This includes housing where renting can reduce disposable retirement incomes. A standard pensions commission could enable working on these debates together.