nucleus

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Nucleus calls for sensible discussion around future state pension system

Nucleus Financial Platforms, one of the UK's leading, independent, adviser platform groups, explains the impact of today's inflation figures on triple lock calculations for state pensions from April 2024 and calls for a sensible discussion around the future of the triple lock and the state pension system as a whole.

What was announced this morning

- CPI Inflation for the year to September 2023 was 6.7%, the same rate as August (Consumer price inflation, UK - Office for National Statistics). This means prices are rising at the same fairly high rate as the previous month, well above the Bank of England's 2% target

- September's inflation figure is particularly important as it drives increases to many state benefits, increases in many pensions in payment from public sector pension schemes, and is part of the triple lock calculation for state pensions

- The triple lock means state pensions increase by the highest of inflation, earnings and 2.5%

This year the highest of those three is the 8.5% increase in earnings in July (this is higher than the CPI inflation of 6.7% to September and the fixed 2.5%). However there are suggestions the Government may use a lower figure of 7.8% as this is earnings growth excluding bonuses. The total increase in earnings is affected by one-off payments made to the NHS and civil service in June and July 2023.

The potential new state pensions from April 2024

- If the headline single tier state pension increased by 8.5%, from April 2024 it would be £221.20 a week, up from the current £203.85 a week

- If it was increased by the lower 7.8% figure it would be £219.75 a week

- The maximum basic state pension paid to those who reached state pension age before 6 April 2016 is currently £156.20 a week and it would increase to £169.50 s week (assuming 8.5% increase) or to £168.40 (at 7.8%)

- While these are the headline rates many people receive less

- An 8.5% increase in state pensions will cost around £7.6bn a year, whereas a 7.8% increase would cost approx. £7bn, so there is a significant saving if the Government use the lower earnings figure, excluding bonuses

- The Government will make an announcement on State Pension uprating later this autumn confirming the final figures

Andrew Tully, Technical Services Director at Nucleus said: "The large increase in the state pension from April 2024 will be a welcome boost to the many people who are struggling given the current cost of living crisis. The last couple of years has taken its toll on finances, with many having to make difficult choices to make ends meet.

"Like many people we believe that the triple lock is not sustainable over the long term. We need a sensible discussion around the future of our state pension system as a whole.

"This includes what a reasonable state pension provision looks like and potential future increases to state pension age, as well as the future of the triple lock. The wider debate could also consider differing life expectancy across the UK, increasing private pension savings through auto-enrolment, and support for those below state pension age who aren't able to work.

"A separate issue is there is a growing likelihood more pensioners will start paying income tax. The combination of large increases to state pensions over the last couple of years coupled with the freezing of most tax thresholds, mean the state pension will likely be around £11,500 a year, getting close to the personal allowance threshold of £12,570 where people start to pay income tax. The intention is the personal allowance will remain frozen until at least March 2028, which raises the possibility the headline state pension may overtake it at some point."

The history of the triple lock

The triple lock was introduced from 6 April 2011 and means the basic state Pension and Single Tier State Pension increase by the highest of earnings, inflation (CPI) and 2.5%.

Since 2011/12, the state pension has been increased as shown in the table below.

Tax year	Rise in state pension	Based on
2011/12	4.6%	RPI (1)
2012/13	5.2%	CPI
2013/14	2.5%	Fixed 2.5%
2014/15	2.7%	CPI
2015/16	2.5%	Fixed 2.5%

2016/17	2.9%	Earnings
2017/18	2.5%	Fixed 2.5%
2018/19	3%	CPI
2019/20	2.6%	Earnings
2020/21	3.9%	Earnings
2021/22	2.5%	Fixed 2.5%
2022/23	3.1%	CPI (2)
2023/24	10.1%	CPI

(1) RPI inflation was the previous basis for State Pension indexation before the triple lock and the Government chose to use it in 2011/12
(2) Due to the impact of the Covid pandemic the Government chose to suspend the triple lock and use the higher of CPI and the fixed 2.5%

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Notes to editors:

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