Sir Steve Webb

I introduced the triple lock. This is why we still need it

Now is not the time to abandon a policy that offers a lifeline to so many

The rise in pensioner poverty would have been much steeper without the triple lock Credit: PA

Sir Steve Webb
Show biography

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To listen to the discussion around the state pension triple lock, you would think that pensioners have never had it so good, and that the problem of pensioner poverty has been solved.

But the reality now, and particularly in the coming decades, is very different. That's why keeping on building up the state pension remains vital. Some, including The Telegraph's David Blair, have called for this guarantee to go. But now is not the time.

Pensions Unlocked

When The Telegraph's David Blair called for an end to the triple lock on a recent BBC panel show, he was a lone voice.

The three politicians appearing alongside him on *Any Questions?* stuck to their party positions, all of which support the current mechanism for calculating state pensions.

But, with a national debt of £3tn and business leaders calling on the Chancellor to scrap the policy, not all our writers agree.

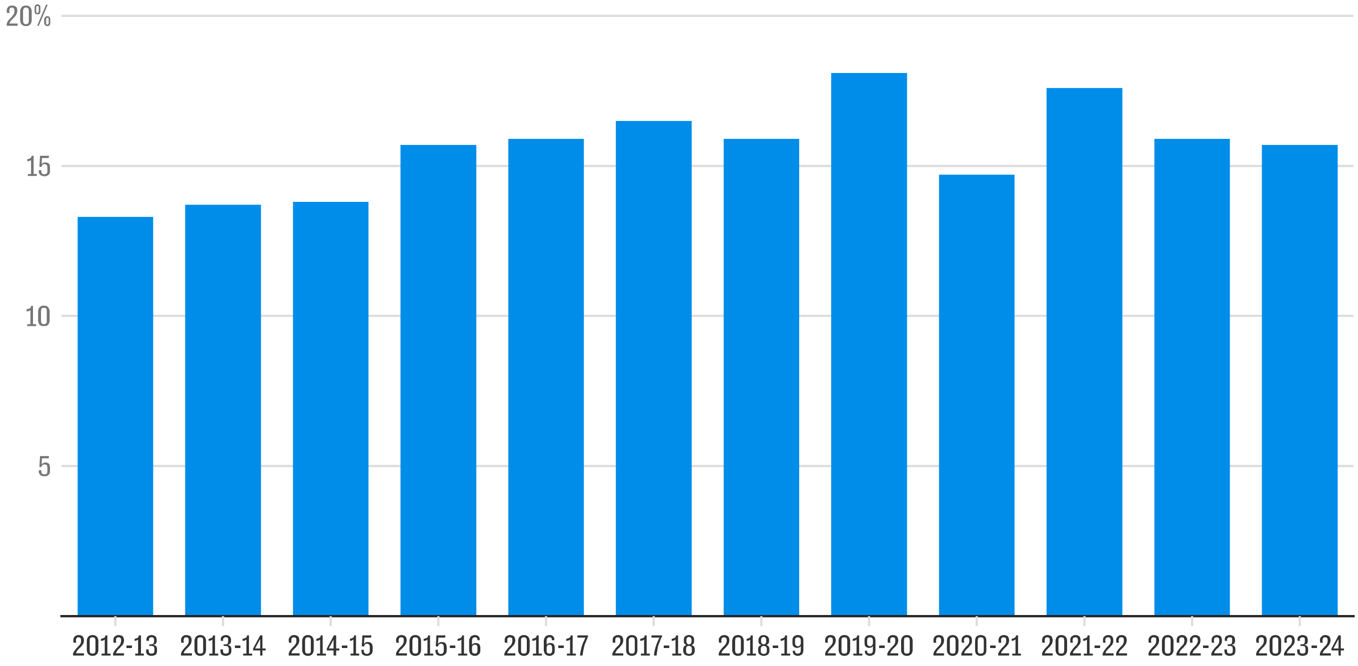
This week, we debate the merits and drawbacks of the measure which links pension rises to hikes in average earnings, inflation or a minimum of 2.5 per cent.

David Blair: The state pension triple lock has to go
Steve Webb: I introduced the triple lock. This is why we still need it
Scrap the triple lock, businesses urge Burnham

Between the late 1990s and early 2010s, there was a welcome fall in pensioner poverty. This was in large part because more married women had been in paid work in the 1980s and 1990s, and these women then retired with better state pensions and better workplace pensions than in previous generations.

But that improvement ground to a halt around 2012-13 and pensioner poverty has been rising steadily since then – and would have risen faster without the triple lock. This is particularly true for groups such as divorced single pensioners, of whom there are now a million more than there were two decades ago.

Proportion of retirees living in poverty



Source: DWP

What is changing is that traditional “gold-plated” final-salary pensions are now in decline in the private sector. Fewer and fewer people who reach pension age have these “defined benefit” pensions at all, and those who do were typically members for shorter periods before they were closed.

This would not matter too much if workers were building up equivalent pensions under the new “automatic enrolment” regime which started on my watch as pensions minister in 2012. Under this policy over 10 million people are now saving for a workplace pension for the first time, gradually building up a pot of money which is invested for their retirement.

There’s no doubt that this policy has been a success in vastly extending the coverage of workplace pensions. It is that rare thing – a UK government policy which is admired around the world.

But the size of these pensions is currently tiny relative to the final-salary pensions which they have replaced.

When this system has had time to mature for a decade or more, we will start to see more people retiring with good private pensions, less dependent on a state pension. But until then it is the state pension which needs to do the heavy lifting if people are not to end up short in retirement.

Without the triple lock, pensioners could be thousands worse off

Triple lock (actual)	£12,547
Wages	£12,212
Inflation	£11,267
2.5pc	£10,361

Source: Standard Life

This is particularly true when we consider another "headwind" affecting future generations of retirees – the rising risk of being a renter in retirement.

In the past, it was a safe assumption that most people in retirement who were not in social housing owned their own home outright and had modest housing costs. But the rate of home ownership amongst pensioners is set to fall, with over a million more renters in retirement by the 2040s.

For these people, current levels of private pension saving are wholly inadequate. Having to fund a rent on top of other living costs needs a pension pot roughly twice as large as that needed by a homeowner. And the vast majority of today's workers are miles short of that sort of pension pot.

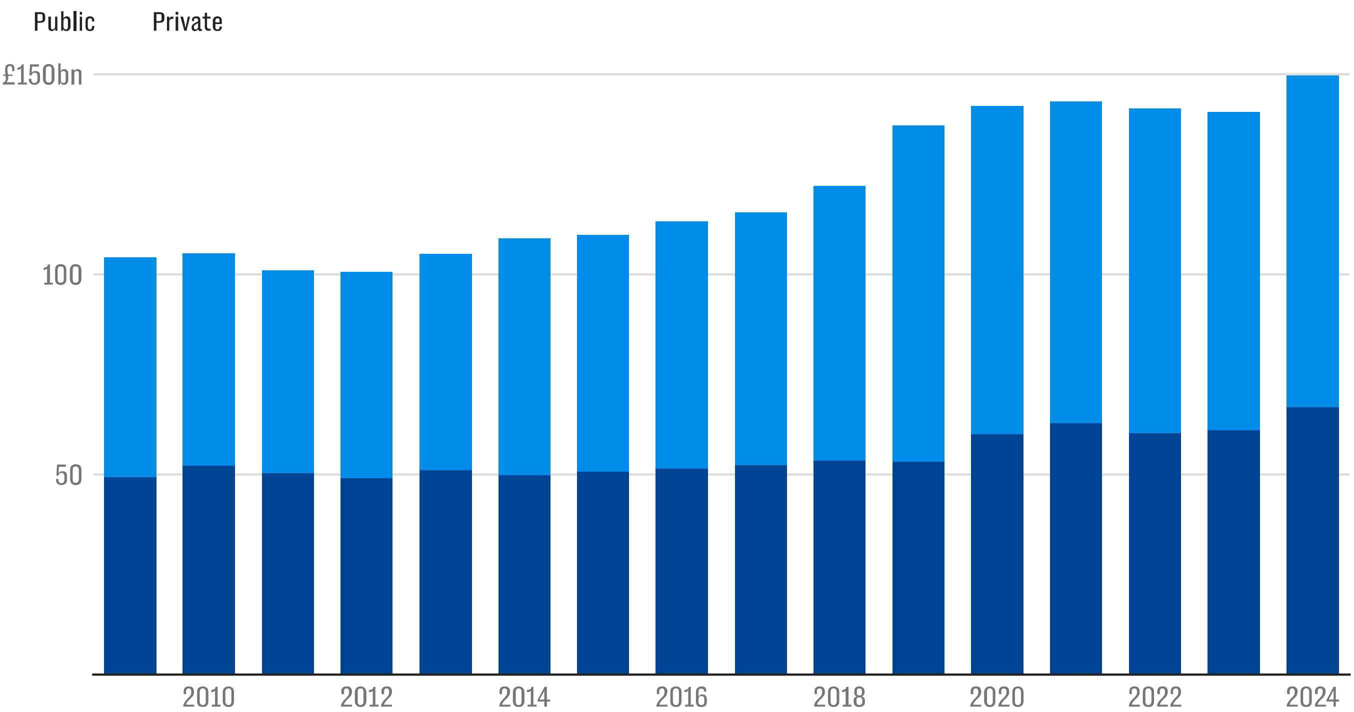
For all of these reasons, the state pension has a vital role to play and its value needs to be maintained and improved. This is especially true for women retirees, who risk being left behind if the state pension becomes less generous.

When we were designing the new state pension system, a specific goal was to get rid of the inequalities between men and women which had been such a feature of the post-war pension system. And that goal has largely been achieved, with the typical man and typical woman now receiving virtually identical state pensions at retirement.

But in private pensions the picture is very different. Shockingly, when it comes to new-style "pot of money" pensions, government figures show that the typical man has four times as much as the typical woman.

Private pensions are increasingly important

Public and private pension schemes



Source: DWP

In a nutshell, if we care about inequality not just in the workplace but in retirement, we cannot ease off on the one part of the system where equality has been achieved – the state pension – and put greater weight on one where women are the poor relations.

It is also worth reflecting on why the triple lock was introduced in the first place.

For 30 years, from 1980 to 2010, state pensions generally rose each year only in line with inflation. This meant that they replaced a smaller and smaller percentage of the earnings which people have before they retire. The result of this long-term squeeze was that in 2010 the UK had one of the worst state pensions in the developed world.

The triple lock did not seek to undo 30 years of harm in one go. But what it did provide was a mechanism which didn't depend on the whim of a chancellor each year at the Budget. It introduced a formula which has gradually, and modestly, started to restore the value of the pension relative to the average wage.

Now it is true that some people say that if the triple lock continues indefinitely it will become unaffordable. And that's undoubtedly true.

But we are not talking about keeping it in place to the 2050s or 2070s as the critics assume. We are talking about a decision to be taken once every five years, at the start of each Parliament, as to whether the state pension still needs boosting or whether private pensions are ready to take up the slack.

For me, the answer to that question now and for the coming Parliament is quite clear. People in work today and coming up to retirement will increasingly have worse private pensions than previous generations and a higher risk of having to pay a rent when they do retire. Against this backdrop, now is not the time to be taking our foot off the gas when it comes to the state pension.

Sir Steve Webb was Pensions Minister 2010-15 and is now a partner at pension consultants LCP.

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