Pension Increase next April

At April 2016, for the first time in around 35 years, the Basic State Pension is set to increase in line with average earnings under the terms of 'triple lock'.

The National Average Earnings increase over May to July 2015 (compared with the same three months a year ago) was announced as 2.9%. So unless the government wants to go back on its word this should be the increase for the State Pension in April.

The cost of living figure used for the April increase is the previous September figure.

Under the triple lock announced in 2011 Basic State Pension will go up by the higher of:-

1. Cost of living

2. 2.5%

3. Average earnings

As you can see from the chart below since the triple lock was introduced pensioners have been worse off until now because the government changed the inflation index from RPI to the lower CPI. It means the increases would have been over 1% higher if RPI had still been used for the cost of living for those who have been drawing their State Pension since before April 2011.

Their pension from their employer's pension scheme is significantly worse off because only Basic State Pension has the triple lock and most pension scheme increases have been limited to the CPI (although some private sector pensions still use RPI). Up to now those who retired before April 2011 are around 2.5% worse off based on CPI increases. Because CPI is negative this September they won't get any increase at all in April 2016 so they are around 3.3% worse off from April 2016 (i.e. RPI 0.8% + 2.5%).

For a number of years CPI has also been applied to means tested benefits like Pensions Credit. We would hope this would hope the increase in April will not be zero.

PENSION INCREASES				
	CPI	**RPI**	**Increase in BSP at the following April**	**Increase on Public Pension Service the following April**
September 2011	**5.2%**	**5.6%**	**5.2%**	**5.2%**
September 2012	**2.7%**	**3.2%**	**2.7%**	**2.7%**
September 2013	**2.2%**	**2.6%**	**2.5%**	**2.2%**
September 2014	**1.2%**	**2.3%**	**2.5%**	**1.2%**
September 2015	**-0.1%**	**0.8%**	**2.9% *** **National Average Earnings May to July**	**0.0%**

Triple lock under attack?

Already there are claims now that finally average earnings will be used to increase the State Pension in April this is ‘unaffordable’.

This ignores how pensioners have actually received lower pension increases because of the link to CPI.

It also conveniently forgets how the Basic State Pension declined relative to earnings after the earnings link to increases was last cut in 1980.

Is it fair to future generations? So should the benefits of today’s pensioners be cut back to pay for the future? This argument is flawed

It is the worsening of employer pension schemes and a ludicrously low minimum employer contribution to Auto Enrolment pension arrangements, and ever increasing state pension ages that are the real threats to future generations.

The State Pension (from April the Basic State Pension and Second State Pension will be combined) will become even more important for future generations to have adequate pension income.

So removing the triple lock would see another massive decline in relative value by the time they need a pension - so just about the worst thing you could do for future generations.

Will the negative CPI mean a decrease in pension?

Our advice is that pensions and deferred pensions will not be reduced. However it is possible the Government may try and push through a change as to how earnings in CARE schemes are revalued for public service workers at next April. They would need to get this through parliament where it would lead to negative revaluation.

Would they try and do this for just - 0.1% - we would of course oppose this.

Paper prepared by Glyn Jenkins, Head of Pensions UNISON

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