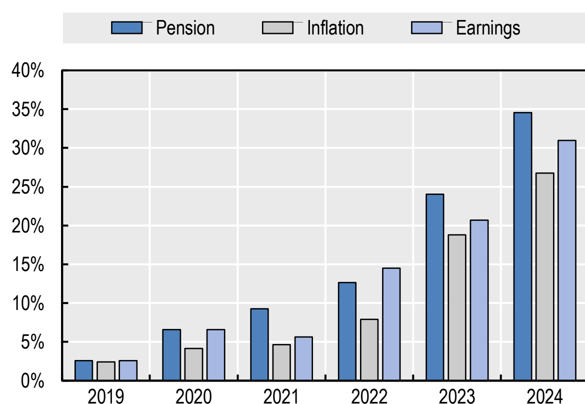
The current episode illustrates the structural weaknesses of applying the triple lock over time

The last few years have seen both high levels of inflation and considerable volatility in earnings. This situation led the UK government to deviate in 2022 from the triple lock mechanism that determines pension increases. The triple lock rule means that pensions should increase in April by the highest of price inflation, measured in September, earnings growth measured between May and July the year before or 2.5%.

In 2021, given low inflation and low wage growth, the 2.5% increase was applied, consistent with this triple lock rule. However, as earnings recovered substantially by mid-2021, increasing by 8.4%, the mechanism was suspended and the price increase of 3.1% was applied instead in April 2022. In April 2023, the full price inflation rate of 10.1% was applied. The government recently announced that the full 8.5% wage increase will be applied to pensions in April 2024. Overall, between 2018 and 2024 the State Pension will have increased by 35% in total in nominal terms, while relevant cumulative inflation and earnings measures increased by 27% and 31%, respectively.

Pensions have increased quicker than inflation and earnings over the last five years

Cumulative increases since 2019



Between 1980 and 2010 the generosity of pensions relative to the incomes of the rest of the population had gradually been eroded as national average earnings rose faster than prices. The triple look was introduced in 2010 to ensure that the value of the state pension was not overtaken by either the increase in the cost of living or the average earnings of workers. Additionally, there was a marked increase for future retirees with the introduction of the new State Pension in 2016, as it is 30% higher than the basic pension for those who retired before 2016.

Current circumstances show that the triple lock can be very costly and lead over time to large increases in pension benefits, well beyond cumulative price inflation or wage growth. This is due to catch-up phases of either price inflation or price growth as the triple lock is applied on a year-on-year basis rather than cumulatively.

Pension funds faced uncommon challenges

Since the late 1990s, regulatory changes and solvency issues driven by population ageing have resulted in many DB pension funds in the UK closing to new members. Active members within DB schemes decreased from 3 million in 2006 to 0.9 million in 2019. With only having to serve existing members' needs the investment strategies changed with the share in equity investment decreasing from 61% in 2006 to around 20% in 2022 (IMF data). Meanwhile the share of fixed-income investments increased from 28% to 72%.

Liability-Driven Investment (LDI) funds based on the use of Derivatives became increasingly popular since late 2010s with interest rates continually declining. However, interest rates rose sharply over the last two years, leading to a large fall in assets.

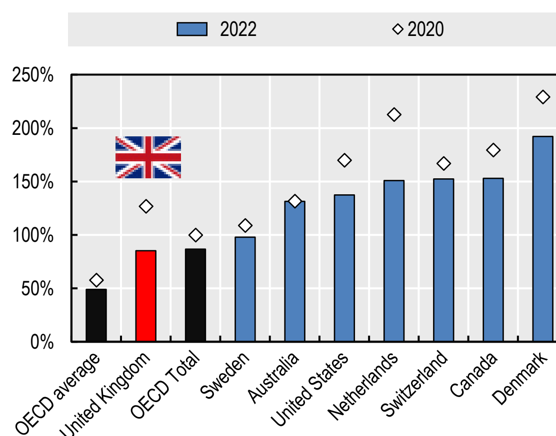
The sudden and sharp increase in gilt yields after the "mini-budget" of September 2022 forced DB pension funds with leveraged LDI strategies to quickly raise a large amount of cash to meet margin and collateral calls, contributing to fire-sales of longer-dated gilts. The effect was compounded with interest rates having started to increase since late 2021. Had the Bank of England not intervened by promising to buy up to £65bn of government debt, pension funds would have been left with cash demands they could not have met.

The events that unfolded in the UK are the result of a number of relatively unique features of the UK pension system and so these events are unlikely to be repeated elsewhere. UK pension funds have an especially high ownership of government bonds and the usage of repos and pooled strategies with high leverage within LDI is uncommon in other countries.

For the UK itself both the Pension Regulator and the Bank of England issued a series of recommendations concerning, for example, the importance of DB pension schemes improving their liquidity management practices, and that appropriate reporting and data collection is likely to be needed to monitor the resilience of LDI funds to try and prevent these events being repeated.

Pension assets declined considerably between 2020 and 2022

Assets as a share of GDP, selection of high-asset countries,



Source: Table 9.2.

Pension rules are more closely aligned across occupations

Within the UK pension system nobody can claim the State Pension prior to the normal retirement age, currently 66 years for men and women, legislated to increase to 67. However, occupational pensions have varying rules depending on when membership began.

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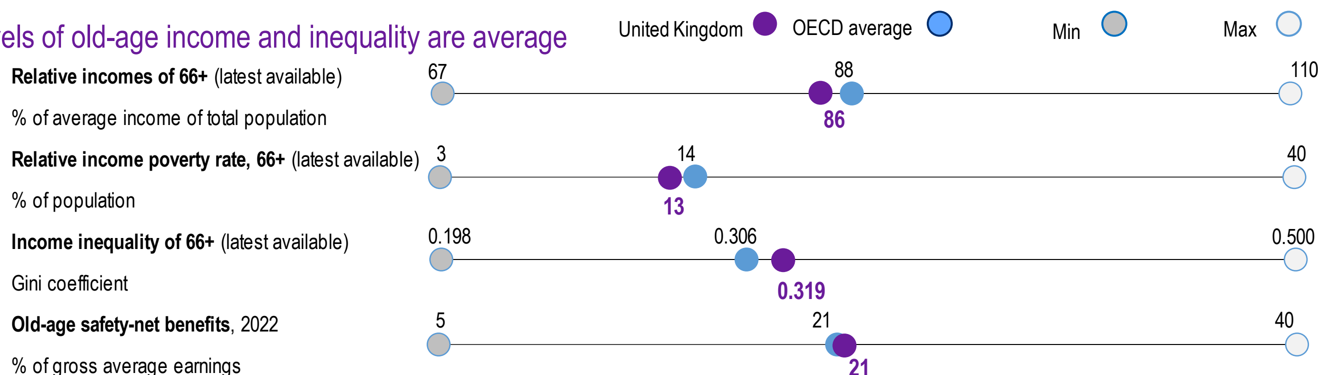
Civil servants, for example, have retirement ages ranging from 60 to 66 depending on the scheme they were first enrolled in.

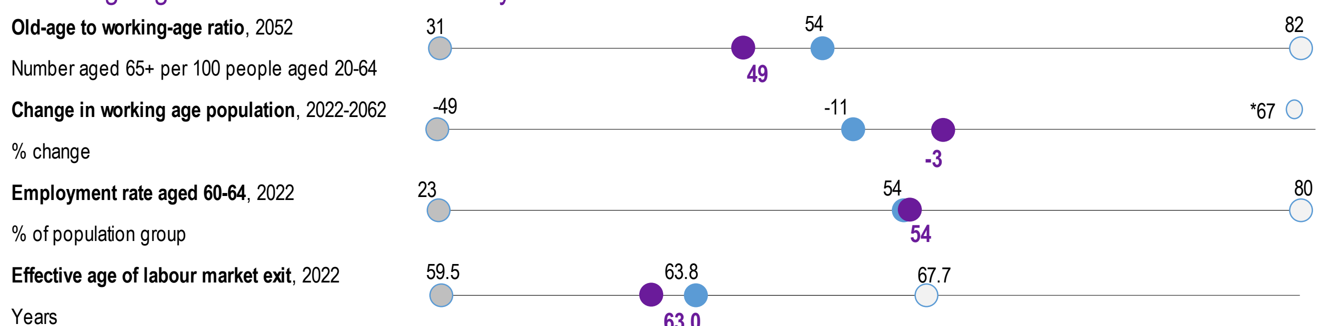
In the UK there is no job or occupation that is officially earmarked as being “hazardous or arduous” and so the UK falls into the group of countries that do not provide special schemes for this category of jobs. However, there are a number of occupational sectors that have, on top of State Pension, their own pension systems which do provide some specific allowances. For example, there are specific schemes for miners, train drivers, bus drivers, teachers, nurses, police officers, firefighters, and members of the armed forces.

However, after several reforms since the 1990s most of these schemes now also have pensionable ages of at least 60 years and therefore do not differ from the workplace pensions available to all private-sector employees who are not already part of an occupational scheme. Most current firefighters or police officers, for example, were initially enrolled in older final-salary pension schemes when they started their careers. However, since 1 April 2022 all further accumulations for all workers are under the 2015 career average scheme, irrespective of past membership.

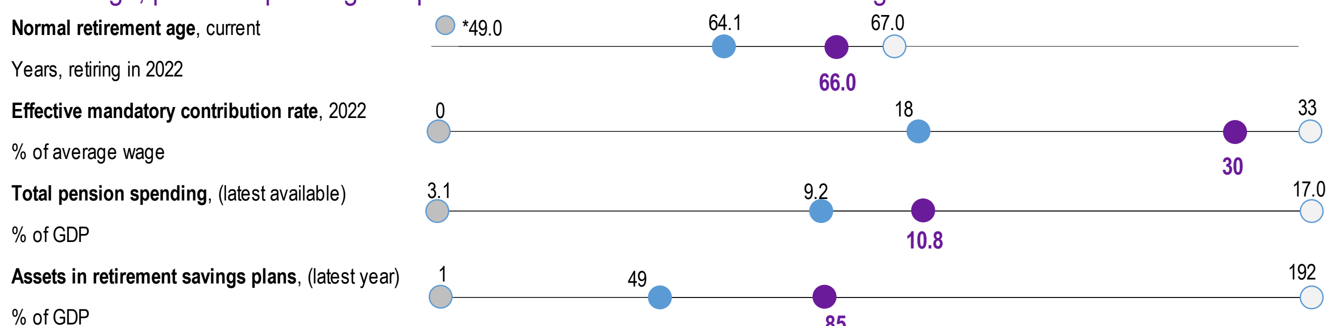
Levels of old-age income and inequality are average



Population ageing will not be as fast as in many countries



Retirement age, pension spending and pension assets are above OECD average



British retirees contributing to private pensions will have replacement rates close to the OECD average