Why is the state pension under attack?

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The old age pension triple lock is under attack again. The Financial Times wants it scrapped. The Resolution Foundation wants it ended. The Tony Blair Institute says it is unaffordable. But they are all looking at the wrong pension subsidy to criticise.

The UK spends around £154 billion a year on state pensions. The accumulated additional cost attributed to the triple lock is estimated at around £16 billion. That money has helped protect pensioners' incomes, including those of the many people who depend almost entirely on the state pension.

There is, however, another pension subsidy that receives far less attention: tax relief on private pensions. The total cost of private pension tax reliefs is around £83.9 billion a year, with 71% of that tax relief going to higher and additional-rate taxpayers.

Most strikingly, the cost of higher-rate pension tax relief, over and above the basic rate everyone can enjoy, is around £15 billion a year, which is remarkably close to the £16 billion cost attributed to the pension triple lock.

So why is the political debate focused on restraining the incomes of pensioners rather than on reducing tax subsidies for people already able to accumulate substantial private wealth?

This isn’t fundamentally an affordability question. It is about inequality, political priorities and whose interests government chooses to protect.

I think the triple lock should stay, and higher-rate pension tax relief should go. You may, of course, disagree.

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The Debate Ammunition for this video is available here.

This is the transcript:

The Triple Lock that protects the incomes of the UK's old-age pensioners is under attack again.

The Financial Times has said it should be scrapped.

The Resolution Foundation, which is laughably called a left-of-centre think tank, wants it ended.

The Tony Blair Institute has called it unaffordable.

But all of them are looking at the wrong pension subsidy when making their comments, and without exception, they are reaching entirely the wrong conclusions with regard to the pension subsidies that the UK government incurs.

But what is the Triple Lock? Let's be clear about what we're talking about.

State pensions rise each April. That is true for every old-age pensioner in the country who does receive a pension from the UK government, and let's be clear, I am one of those. The pension increases by the highest of three numbers.

One is the average earnings growth in the previous year to September.

The second is the increase in the Consumer Price Index, or inflation, as the government prefers to measure it, again for a period ending in the previous September.

Or 2.5%.

The three elements then: average pension growth, the CPI index, or 2.5%.

The Triple Lock was the idea of George Osborne, and it took effect from April 2011. The fact is, it was a purely political gesture introduced by George Osborne when the Tories came into government in 2010, designed to highlight the fact that Labour, for all its so-called pro-pensioner credentials, had let the value of the old-age pension fall at that time, and the Triple Lock was deliberately designed to ensure that pensions rose faster than earnings in most cases to restore the differential between the two, which had become unacceptable.

So we have to understand everything about the Triple Lock as if it is about politics and not just about economics.

But what does the Triple Lock actually cost? The Institute for Fiscal Studies, the so-called premier economic think tank in the UK, although I would question that, estimates that the UK currently spends £154 billion a year on state pensions. And of that sum, the Institute for Fiscal Studies, or IFS as it is known, thinks that £16 billion arises from the accumulated impact of the Triple Lock. In other words, the Triple Lock has worked. It has restored the value of the old-age pension in the way that George Osborne intended that it should. The Tories did leave a lasting legacy as a result. It's one of the few good things that George Osborne ever did. About £1 in every £10 of the state pension spending these days is a consequence of his Triple Lock promise.

But let's be clear, though, that would mean that the state pension would still cost £138 billion a year if there had been no Triple Lock. The lock did something important, though. It did restore the value. It did make vulnerable pensioners better off than they would otherwise have been.

And does it matter? Yes, it does. That's because this pension is critical to the well-being of many older people. If the pension had not been raised by the Triple Lock, it would now be about 12% lower, and that is roughly £1,500 a year now. For someone who's wholly dependent upon that state pension, that is a lot of money when the total pension in question is less than £13,000 a year.

Many say the Triple Lock should go, though. They're saying that pensioners have now caught up, but that is misleading. Those who make this claim are, of course, those who are well off. Everyone in the Financial Times is. Everyone in the Tony Blair Institute is. Everyone working for the Resolution Foundation is probably financially secure.

The fact is that insecure households with very low incomes do have relatively high increased costs compared with those households with financial security. Some of the strongest impacts of inflation in the UK have been on basic costs of living: food prices, energy prices, other fixed costs. Those are ignored when people say that pensions have caught up.

The fact is that pensions might have increased compared to relative wages since 2010, but those who are on the very lowest levels of earnings, and remember pensioners are much less than the minimum wage per year, are still suffering as a consequence of inflation.

Age UK says that one in six single pensioners in the UK relies entirely on the state pension and benefits to survive. That means that they are amongst those who are vulnerable to any ending of the Triple Lock arrangement. For them, the state pension is not supplementary income: it is the foundation of their financial security, and that is true for most of the remaining pensioners as well. They may have some other source of income derived from a pension pot or whatever, but the average pension pot is, you should recall, only around £60,000 a year in the UK, and that buys a very modest pension indeed. Cutting the Triple Lock, and so pensions, to save money would directly affect some of the most vulnerable people in our society.

But in any case, this focus on the Triple Lock is entirely misplaced. That is my argument. We should instead be looking at the cost to the government of private-pension tax relief. Now, whilst the cost of state pensions is £154 billion a year, almost unnoticed is the fact that in the 2024/2025 financial year, the last for which we have data available, the total cost of tax reliefs on private pensions was some £83.9 billion a year in the UK. In other words, subsidies for private pensions cost well over half the cost of the total state pension on which many people are totally dependent.

There are, however, two figures that I should stress. One is that this figure is gross. In other words, whilst the government likes to state this cost of pension tax relief having offset taxes paid on current pensions received by people in retirement, that is not the true cost of the pension tax relief. There would still be that tax income received, even if the government stopped some of the pension tax relief, which contributes to the total £83.9 billion cost. So you cannot offset the two. That is just false accounting.

The second is that the figure of £83.9 billion does include £4.7 billion worth of tax relief provided within pension funds themselves. So the people who are making pension contributions do not see all this relief, but they do get the benefit of it, and that’s the important point. They are being subsidised heavily by the state.

And who gets this relief? Well, 57% goes to people who are on the higher rate of income tax, which means they are paying at 40%. Another 14% goes to people who are paying at the additional rate of income tax, and that is those who pay at 45%. Only 29% of the total value of this pension tax relief was given to people who are paying at the basic rate of income tax. In other words, 71% of the total income tax relief on pension contributions was provided at higher or additional rates of tax.

But to contextualise this, there were 7.71 million people in total who paid higher and additional taxes, and they were almost exactly 20% of all taxpayers. This means that on average, they get £7,726 of tax relief each year, which is more than half the value of the total basic state pension, which has not yet reached £13,000 a year. And to compare it with Universal Credit, the basic Universal Credit allowance in that year was just £4,400 for an adult.

So those who are getting pension tax relief, and are higher or additional rate taxpayers, are getting considerably more in state benefits than of those who are on basic Universal

Credit. That is critical to understand.

At the same time, it's also important to understand that those who get tax relief and who are basic rate taxpayers get an average of £787 each; near enough, 10% each, compared to those who are on higher and additional rate tax. This is a tax relief that is heavily skewed in favour of those who are the most wealthy in our society. And remember that £787 is an average. Most people who are basic rate taxpayers get very little tax relief at all.

In other words, this is a totally unfair tax relief given almost entirely to those who can afford to save themselves and who are being subsidised by the state to become even more wealthy than they would otherwise be. That is the net outcome of this. The state pension prevents poverty. The pension subsidy creates wealth. That's what it's all about, or rather, it doesn't create wealth; it subsidises wealth.

And let's be clear: the Institute for Fiscal Studies says that the cost of the higher and additional rate tax reliefs for those who are paying at 40% and 45% in the UK might amount to around £15 billion a year. My own estimate in the Taxing Wealth Report was £14.5 billion a year, so we are remarkably close.

The annual cost of giving tax relief to those who are already well off, to additionally subsidise their savings so that they may accumulate faster than those of anybody else in society, may be around £15 billion a year, a number that is remarkably similar to the £16 billion a year additional cost that has supposedly been created by the Triple Lock since it was first introduced in 2011.

Now, let's be clear about what we are facing then. Nobody is saying the Triple Lock should be removed. The pension that has been given will still be given. The claim is that we can no longer afford to increase the Triple Lock, but at the same time, nobody in the FT, in the Resolution Foundation, in the Tony Blair Institute or anywhere else in the popular media, is saying that we should be cutting the tax relief on pensions.

This then is all about a political choice. Those who are claiming we can no longer afford the Triple Lock are deciding that if there is to be austerity in this country, we should be putting that austerity onto vulnerable old-age pensioners who have no other source of income. But we could instead be reducing the tax subsidies given to higher earners who are accumulating private pension wealth at cost to the state.

So, why are we choosing to subsidise the already wealthy and not protect the vulnerable? The Triple Lock protects incomes, while higher-rate pension relief simply subsidises wealth accumulation in a way that does, by the way, also create no new investment in the UK economy, as I have shown in a great many videos over time.

My argument then is very simple. We should keep the pension Triple Lock. Doing so would be fair and entirely just. And if there is any question as to the relevance of cost, we should be cutting pension tax relief. Not because the government needs the money, because it doesn't, but because this is an issue around inequality. Why should we subsidise the savings of the best off at a rate that is higher than the rate of subsidy given to those who are on low pay? This is a matter of social injustice. The government should not be favouring the wealthy over everybody else. Money is not the issue here. Social and economic justice is. The higher rates of tax relief on pension contributions should go.

And all of this has a particularly relevant political poignancy at the moment because, at this moment, people in this country already feel deeply alienated by a state that clearly exists to support those with wealth and not those with needs. That is why we have a problem with the far right in the UK, and that is why its popularity has grown so much.

People do feel left behind in this country, and those who feel most left behind, and those who are most inclined to vote for the right-wing, are pensioners and those on very low pay. And these are precisely the people who would be punished if we take away the Triple Lock guarantee on their pension increases. They will become even more alienated in a society where they already feel like outsiders, and they will, as a consequence, simply move ever closer towards supporting fascism.

We do then have a political choice at a level other than cost. This is not a question about affordability. It is a question about whose income the government chooses to protect and whose wealth accumulation it chooses to subsidise. If it chooses to subsidise the wealthy, you can guarantee that will be a gift to the far-right political parties of the UK: Reform and Restore. That's the point I'm trying to make, as well as the fact that there is a social justice issue here.

We have to make a political choice, and the right political choice at this moment is to favour those in need. But the wealthy and their institutions: the Financial Times, the Resolution Foundation, the Tony Blair Institute, all of them want to continue to subsidise wealth, and they don't give a damn it would seem about anyone else, which shocks me to the core. The time has come to talk about what is necessary if we're going to fight poverty and if we're going to fight fascism. And those two causes align on the need to preserve the Triple Lock. That's what I think must happen.

You, however, may disagree; there's a poll down below. Let us know your opinion. Let us have your comments. Please do like and share this video. Please do subscribe to the channel. Hit that bell button because that means you'll be told when we make another video. And if you'd like to buy Tom and me a coffee, well, that would be great.

Poll

[poll id="526"]