Annual review of State Pension and Industrial Death Benefit rates

With permission, Madam Deputy Speaker, I will make a statement on the annual up-rating of State Pensions and survivors’ benefits in Industrial Death Benefit.

Each year, as the Secretary of State for Work and Pensions, I am required to undertake a review of certain benefit and pension rates in relation to the general level of earnings.

And just as happened last year, this year I anticipate an unusual change in earnings due to the effects of the Covid pandemic. The unprecedented but necessary COVID restrictions we introduced last year protected lives, especially the most vulnerable, many of whom are pensioners, and protected the NHS. But these restrictions caused disruption to the economy, including preventing many people from working, wages falling and sadly many people being made redundant.

As we sought to protect lives, so we sought to protect livelihoods. And to mitigate the worst impacts, we introduced a £407 billion package of support, including the furlough and self-employment schemes to support incomes. Nevertheless, last year we saw earnings fall by one percentage point. In response, we legislated to set aside the earnings link, allowing me to award an uprating of 2.5% as this was higher than inflation. If we had not done this, State Pension would have been frozen. Thanks to our vaccination programme which started with the eldest and most vulnerable in our society, we have seen that as the economy and businesses have reopened and millions have moved off furlough and returned to work, the labour market has shown strong signs of recovery and earnings have risen at an unprecedented rate and we face a distorted reflection of earnings growth.

The latest ONS figures from August show an increase in average weekly earnings of 8.8%, compared to the same time last year. Confirmed figures will be published next month, but we expect growth of 8% or more for May to July 2021 – the relevant period earnings are taken into account as part of my uprating review.

This year, as restrictions have lifted and we experienced an irregular statistical spike in earnings over the uprating review period, I am clear that another one-year adjustment is needed.

So tomorrow, I will introduce The Social Security (Up-rating of Benefits) Bill. For 2022/23 only, it will ensure the basic and new State Pensions increase by 2.5% or in line with inflation, which is expected to be the higher figure this year. And as happened last year, it will again set aside the earnings element for 2022/23, before being restored for the remainder of this Parliament.

This will ensure pensioners’ spending power is preserved and protected from higher costs of living. But it will also ensure that as we are having to make difficult decisions elsewhere across public spending – including freezing public sector pay – pensioners are not unfairly benefitting from a statistical anomaly.

At a time when we have made tough decisions to restore the public finances which have impacted working people – such as freezing income tax personal thresholds at current levels – this would not be fair. Setting aside the earnings element is temporary and only for one year. This means we can and will apply the Triple Lock as usual from next year for the remainder of this Parliament, in line with our manifesto commitment. While the earnings growth is a welcome sign of the country’s overall economic recovery, given the unique and exceptional events of the past 18 months, this year’s measure is being skewed and distorted, reflecting a technical and temporary period of reverting or rebounding earnings – the differing cohorts of people who were retained or made redundant.

As a result, the earnings measure is a statistical anomaly and is not a ‘real life’ basis for considering this year’s uprating of State Pensions.

As other commentators have said, for example, the Institute for Government: “The figure for earnings growth is distorted… the increase is artificially high because so many workers were furloughed last year”. The Social Market foundation also endorses my proposal stating: ‘The Triple Lock should be replaced with a double lock…pensions would still rise, but less quickly, reducing the fiscal burden on the working-age population’.

In addition to those receiving basic and new State Pensions, this will apply to those receiving Standard Minimum Guarantee in Pension Credit and widows’ and widowers’ benefits in Industrial Death Benefit. The Bill will not extend to other benefits which are linked to prices, which I will review under the existing legislation, as I did last year.

Madam Deputy Speaker, this government is committed to ensuring that older people can enjoy their retirement with security, dignity and respect – and that those who have worked hard and put in for decades can be confident that the state will be there to support them when they need it.

Since 2010, the full yearly basic State Pension has increased by over £2,050 in cash terms. There are also 200,000 fewer pensioners in absolute poverty – both before and after housing costs – than in 2009/10.

I am proud of our record on support for pensioners and of the action we took last year to ensure that pensioners’ incomes continued to increase, despite falling earnings among working-age taxpayers.

Our recovery is based on the principles of fairness and sustainability as we level up opportunities across the country, invest in jobs, skills and public services, while repairing the public finances.

This is the fair and reasonable course of action given the temporary statistical anomalies in earnings we have seen this year as a result of unprecedented interventions in the economy and the labour market.

I commend this statement to the House.