FINANCE UPDATES

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FINANCIAL PLANNING

STATE PENSION & THE TRIPLE-LOCK

How much will you receive in 2021/22?

At just £175.20 a week in 2020/21 – or £9,110.40 a year – the full new state pension might not be enough for most people to retire on, but it is an important element to consider when planning for your retirement.

You might get more or less than this, depending on how many qualifying years of National Insurance contributions (NICs) you have made over the course of your career and your marital status when you reach your state pension age.

To be eligible for the full new state pension, you need to either be a man born on or after 6 April 1951 or a woman born on or after 6 April 1953.

If you reached state pension age before 6 April 2016, you'll get the state pension under the old rules instead.

You need to have made 35 qualifying years of NICs to qualify for the full new state pension. To receive any state pension at all, at least 10 full years of NICs need to have been paid.

For married couples, each with 35 years of NICs, the new state pension is worth a combined £18,220.80 in 2020/21 as both individuals are entitled to receive the full amounts.

In 2021/22 and subject to any last-minute changes, the full new state pension will see an inflation-busting increase of 2.5% due to the triple-lock system.

WHAT IS THE TRIPLE-LOCK?

Near the end of each calendar year, the Government sets the level of state pension to be paid from the following April.

The annual increases are in line with one of three things: the rising cost of living seen in the Consumer Prices Index (CPI) measure of inflation, increasing average wages, or 2.5%.

Whichever one of those three figures is highest is then used to increase the state pension. This is known as the triple-lock, and the Government's manifesto pledged to keep it until at least 2024.

The triple-lock was introduced in 2010 by the coalition government in a bid to ensure steady increases to pensioners' income to absorb the rising costs of living. At the very least, the triple-lock ensures state pensions will keep pace with inflation.

WHY WAS IT UNDER THREAT?

With falling tax revenues due to the COVID-19 pandemic and a growing number of people entitled to claim state pension, the Treasury was considering scrapping or pausing the triple-lock to tighten its belt.

Estimates suggested pausing the triple-lock in 2021/22 would save the Treasury around £15 billion, equivalent to 7% of the UK's national debt, which stood at £2.1 trillion at the end of December 2020.

Pausing the triple-lock for a year would have seen pensioners pick up part of the bill for the coronavirus spending, reducing their income by around £1,900 in 2021/22.

Fortunately for those concerned, the social security (uprating of benefits) bill was introduced back in September 2020 to protect state pensioners' incomes for 2021/22.

Longer term, as more people edge towards their state pension age, there are concerns the triple-lock will soon become unaffordable and therefore unsustainable.

Millions of employees have had to take a 20% pay cut on the furlough scheme in the last year, while many others are affected by redundancies. The Office for National Statistics said there were 280,000 fewer people employed in November 2020, compared to November 2019.

According to the Office for Budget Responsibility (OBR) in January 2021, average earnings are forecast to increase by just 2.1% this year and inflation is predicted to remain below the Bank of England's 2% target until at least 2025.

THE STATE PENSION IN 2021/22

Last April, the 2020/21 state pension increased 3.9% in line with the average earnings increase seen by UK workers in July 2019 – a rise of £343 for full new state pension recipients.

From next month, the state pension will rise 2.5% which means:

- The full new state pension (for those who reached state pension age after April 2016) will rise by £4.40 a week from £175.20 a week at present to £179.60 a week in April 2021
- The old basic state pension (for those who reached state pension age before April 2016) should go up by £3.35 a week from £134.25 a week now to £137.60 a week in April 2021.

With the social security bill in play, retirees' income is shielded from the worst of the pandemic for at least the next 12 months, while the bill will also protect state pensioners from this year's expected fall in wages and inflation.

Should those medium-term forecasts from the OBR come to fruition, another boost to pensioners' income of at least 2.5% might be on the cards in 2022/23.

Payments might even be higher than that from April 2022 if wages return to previous levels. The Treasury's cost of providing it will further increase and the triple-lock would look less secure as a result.

SUPPLEMENTING THE STATE PENSION

Even if the triple-lock uprates state pension payments beyond April 2022, it will not be solely enough to see you through a comfortable retirement.

If you are an employee, you will almost certainly have a defined contribution workplace pension plan under auto-enrolment rules.

Those returns are nowhere near as valuable as defined benefit workplace pensions and might not provide you with enough income to span your retirement.

Increasing contributions into your workplace pension or saving into a private pension might be the answer. There are plenty of options on the market, each working independently of your state pension and any workplace pension you get via your employer.

Private pensions are very relevant if you are self-employed and don't have auto-enrolment working in your favour. You will make regular contributions and receive generous tax relief in return.

Self-invested personal pensions are similar to private pensions. They give you the freedom to choose and manage your own investments, rather than a fund manager handling your investments within your chosen pooled fund.

ISAs can also have a role to play in supplementing the state pension. You can put up to £20,000 into an ISA each tax year. Profits from any investments held within an ISA are tax-free, so any growth on your investment is yours to keep.

EXPERT HELP IS AVAILABLE

Accruing state benefits, including the state pension, starts early. It's never too early to build on that and, much like all financial arrangements, getting independent advice on retirement planning is essential.

For most people, the state pension only makes up a small percentage of their pension pot. There are many different pension products and providers out there, and finding the right ones for you is much easier with our expert advice.

Speak to us for a pension assessment.