Windfall for pensioners as inflation hits five year high

LTA will rise to £1,030,000

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UK pensioners are set to see their state pension payouts grow and lifetime allowance rise thanks to the highest inflation rate since April 2012, at 3%.

On Tuesday data from the Office for National Statistics showed inflation increased from 2.9% in August to 3% in September.

This is good news for pensioners who will see their state pension grow by at least 3% **thanks to the triple lock**, which ensures it increases by the higher of growth in average earnings, the Consumer Price Index or 2.5%.

Weekly state pension payouts will rise from £159.55 to £164.37, resulting in an annual income rise of £250, although those on the old basic state pension will only see an increase of £3.67 per week, or an annual increase of £191.

Additionally, the figure will be used by the government to calculate the rise in the lifetime allowance (LTA) for the first time.

Aegon head of pensions Kate Smith said the **LTA would increase to £1,030,000 up from £1m** in 2018/19, adding: "Based on today's figures, and following a series of reductions it is welcome that the base-level is set to start growing again, even if on the surface the numbers aren't large."

"Millions Of Pensioners" To Benefit

Tilney managing director Jason Hollands attributed the increase to a slide in Sterling following **last year's EU referendum** pushing import costs higher.

Retirement Advantage pensions technical director Andrew Tully said "millions" of pensioners would benefit.

"People saving hard for retirement now have an opportunity to save a little more as the lifetime allowance, basically the overall limit on the value of your pensions before you get hit by an extra tax charge, will also increase by £30,000.

"This doesn't sound like a big incentive but anything that helps people who are doing the right thing but are being hit by this arbitrary limit is welcome," he said.

Higher Interest Rates Likely

Although good news for pensioners, the increase will not be welcomed by the wider general public, who will feel the squeeze as income fails to keep up with inflation.

Sanlam UK investment analyst Matthew Brittain said today's announcement "piles pressure on already squeezed living standards."

He said inflation is now "confidently" outstripping wages, meaning people's disposable income is in decline and many will have to take on more debt or save less in order to maintain their living standards.

Meanwhile Aegon investment director Nick Dixon said higher inflation made a hike in interest rates more likely.

He said: "While there are signs of a slowing economy, with sterling still at risk as Brexit negotiations remain inconclusive the British economy remains vulnerable to further inflationary forces.

"These pressures could become embedded through increasing demand for higher pay - especially in the public sector - without the political will for matching tax increases. Looser government spending will force monetary policy to take the strain, meaning higher interest rates, which we believe are not currently reflected in market expectations."