

Press Release

The expenditure experience of older households

Higher energy prices between 2004 and 2007 coincided with substantially higher fuel spending and lower fuel consumption for older households, according to research published today by the Institute for Fiscal Studies (IFS) and funded by Age Concern and Help the Aged. The research found that the average price increase faced by older households over a period of approximately two years was 55% for gas and 36% for electricity. Over the same period, these households increased their fuel spending by an average of 21-22% and reduced their fuel consumption by around 10%.¹

It is not very surprising that higher prices for fuel have been associated with higher spending and reduced consumption. Interestingly, however, there appeared to be very little variation in the changes in fuel spending or consumption by age. On average, the oldest households aged 80+ reduced their fuel consumption by 9-10% whilst those aged 55-59 reduced their consumption by 10-12%. By income group, there were larger proportionate reductions in consumption (and, correspondingly, smaller proportionate increases in expenditure) for households in the middle of the distribution, whilst the richest and poorest older households reduced their consumption by less. The poorest fifth of older households reduced consumption by around 7% on average over the period, the richest fifth by 5-8% and the middle fifth by 11-12%.

Undoubtedly the higher fuel expenditures since 2004 will have put considerable pressure on some older households' budgets and lower fuel may have had significant negative effects on their well-being. However, we cannot tell from the data the extent to which some households have been able to reduce consumption without harmful effects to their welfare, for example by increasing energy efficiency, reducing waste or switching supplier or payment method.

The report also looked at wider expenditure patterns and trends for older households using data from the UK Expenditure and Food Survey between 1995 and 2007. Some key findings were:

- Total spending (excluding housing) fell slightly in real-terms for non-pensioners between 2001 and 2007, but rose for pensioners by an average 2.1% per year. Growth was particularly strong for poorer pensioners in their 60s, at 2.8% per year.
- The relative poverty rate for pensioners as measured by spending fell by 19% between 1998 and 2007, a larger fall than as measured by income where the drop was 16%.
- Between 1995 and 2007, spending on communications – stamps and telecommunications – rose by 28% for pensioners in real terms but 70% for non-pensioners, suggesting the growth of mobile phones and

¹ The research used two waves of the English Longitudinal Study of Ageing (ELSA), a large-scale survey of people aged 50+ in England in 2004/5 and 2006/7.

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internet subscriptions has been much more significant for younger households.

- In 2007, pensioners in the richest fifth of the population spent 12.5% of their budget on holidays, compared to only 3.3% for pensioners in the poorest fifth.
- Transfers out of the home – charity donations, gifts to others and so on – were a fairly important part of the budget for the oldest, richest households in 2007. Those aged 70+ in the richest third of households spent 4% of their non-housing budget here, compared to 1% for those aged under 35 in the poorest third.
- Looking at housing, the report finds that real-terms expenditures on local taxes grew by 84% between 1995 and 2007 for pensioners, and 68% for non-pensioners. Local taxes made up more than 7% of the average pensioner total budget in 2007 compared to 4% for non-pensioners. Those over 80 spent on average almost 9% of their budget on local taxes.
- By 2007, pensioners spent around 18% of their total budget on housing compared to 23% for non-pensioners. The gap was driven by mortgage interest payments, which few pensioner households make.

Commenting on these findings, Cormac O’Dea, one of the authors said “In recent years, the rapid rise in household fuel prices has been of considerable cause for concern, in particular for older and vulnerable households. This research shows there have been substantial changes in fuel spending and consumption amongst older households, with spending rising more rapidly (and consumption falling by less) for both the poorest and richest than for those in the middle of the income distribution. For some households, this could be very bad news, but others will be able to reduce fuel consumption in ways that do not substantially impact on their well-being.”

Another of the authors, Andrew Leicester, said “Looking beyond fuel, the picture of spending behaviour is very complex. Older households have seen their spending levels begin to catch up with those of younger households, particularly in recent years, which has been associated with a fall in poverty rates as measured by spending. But there are still substantial differences in the patterns of spending between older and younger households and even within the older population, with the richest pensioners spending large shares of their budget on holidays and leisure and the poorest spending most on food and fuel.”

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Notes to Editors:

1. Details on the report with link:
<http://www.ifs.org.uk/publications/4567>
2. A press release from Age Concern and Help the Aged can be viewed at:
<http://www.ageconcern.org.uk/AgeConcern/pensioners-fuel-bills-release-270809.asp> .