

Oldest, poorest pensioners hit hardest by recent increases in inflation

Recent high inflation has affected pensioner households more severely than non-pensioners. The oldest, poorest pensioner households now have an average inflation rate of 9% compared to 5.4% for non-pensioners, according to new research published by IFS.

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Contact: Emma Hyman or
Bonnie Brimstone on 020 7291
4800

Looking over longer time periods, pensioners have not experienced a *persistently* higher average inflation rate than non-pensioners. Differences tend to even out over time: for example, over the period between 1991 and 2008 average pensioner inflation was 3.2% compared to 3.1% for non-pensioners. Going back even further to 1977, inflation rates across the two groups are again very similar, at 5.8% for pensioners and 5.9% for non-pensioners.

The RPI and CPI inflation figures published each month by the Office for National Statistics (ONS) are based on an 'average' basket of goods and services. This average is unlikely to reflect the actual purchasing behaviour of any one household. Different households will face different inflation rates based on their own expenditure patterns. Using more than 30 years of data on household expenditures from the Expenditure and Food Survey, along with RPI inflation data over the same period, IFS researchers calculated household-level inflation figures and looked at how inflation varied both across and within household types, focusing on pensioner households¹.

Key findings

- Between 1993 and 2006, RPI inflation trended in a narrow range of between 1 and 4%, but it has since risen strongly as first household fuel and then food prices increased rapidly.
- Food and fuel are both much larger shares of a pensioner household's typical budget than a non-pensioner's. Food made up on average 17% of the pensioner basket in 2006 compared to 12% for non-pensioners, and household fuel 7% and 4% respectively. Rapid increases in the prices of these items therefore affected average pensioner inflation much more strongly.

¹ For purposes of this report, 'pensioner households' are those in which either the head or their spouse (or both) are of pensionable age.

- By August 2008, average pensioner inflation had reached 7.4% compared to 5.4% for non-pensioners. Both rates were at or near their highest levels since 1991. Almost 14% of pensioner households had annual inflation rates above 10% that month and only 3% of them had inflation under 2%.
- Pensioner households do not always have higher inflation than non-pensioners. During 2007 as household fuel prices fell, pensioners had an average inflation rate up to 2 percentage points lower than non-pensioners. Over longer periods, pensioner and non-pensioner inflation rates are, on average, typically quite similar but the ranking across them varies a lot.
- There is considerable variation in average inflation for different types of pensioner household. In August 2008, older, poorer, single and non-mortgage-paying pensioners faced higher inflation rates than other pensioner groups. But again, the differences are smaller over longer periods (see table).
- During 2006, inflation was largely driven by household fuel. This particularly affected older, poorer pensioners; richer and younger pensioners did not have inflation rates significantly higher than non-pensioners. By contrast, during 2008, inflation has been led by both fuel *and* food, and whilst there are still substantial differences across pensioner household types, they all have significantly higher inflation rates on average than non-pensioners.
- Since 1987, the Basic State Pension² has more than kept pace with average pensioner inflation. Had it been uprated purely in line with pensioner inflation, it would now be worth around £6.60 per week *less* than the current £90.70. This is largely due, however, to a one-off substantial real-terms increase in 2001, coming a year after the pension was increased by just 75p per week. The Basic State Pension has risen by less than average pensioner inflation in each of the last three years.
- Even the guarantee element of the Pension Credit, which rises in line with annual earnings growth, has fallen relative to pensioner inflation in both 2007 and 2008.

Table 1. Average annual inflation rate for different household groups, August 2008 and averages over longer periods

Group	August 2008	Average 1977–2008	Average 1991–2008
Non-pensioner	5.4%	5.9%	3.1%
Pensioner	7.4%	5.8%	3.2%
Pensioner aged 60 – 64	6.6%	5.7%	3.1%
Pensioner aged 80+	8.4%	5.9%	3.4%

² The Basic State Pension is currently uprated each April in line with the previous September's RPI inflation rate or by 2.5%, whichever is greater.

Pensioner in poorest 20% of households	8.3%	5.8%	3.2%
Pensioner in richest 40% of households	6.4%	5.8%	3.2%
Pensioner with mortgage	5.9%	6.0%	3.4%
Pensioner private renter	7.6%	5.8%	3.2%
Pensioner who owns outright	7.5%	5.7%	3.2%
Single male pensioner	8.0%	6.1%	3.5%
Single female pensioner	7.9%	5.8%	3.2%
Pensioner couple	7.0%	5.7%	3.2%
Pensioner 80+ in poorest third of households	9.0%	5.9%	3.4%
Pensioner under 70 in richest third of households	6.1%	5.7%	3.2%

Commenting on these findings, Andrew Leicester, one of the report’s authors, said “The RPI gives us an excellent measure of average inflation, but it is only ever just that: an average. The oldest and poorest pensioners in particular currently find themselves hardest hit by high inflation, as food and fuel make up a much bigger part of their spending than for non-pensioners. For these households, increases in the rate of the state pension and even of pension credit may not fully compensate them on average for inflation at present.”

Zoë Oldfield, another of the authors, said “Average pensioner inflation is high at the moment but pensioners have not always had the highest average inflation rates and they might not have the highest rates looking forwards. Should food and fuel price inflation fall in the months ahead, those pensioner households currently facing the highest price rises may well face lower inflation than other groups.”

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Notes

1. An embargoed copy of the report “The inflation experience of older households” by Andrew Leicester, Cormac O’Dea and Zoë Oldfield is available from the IFS press office: 020 7291 4800
2. The authors gratefully acknowledge funding for this research from Age Concern, who are also issuing a press release based on the report today, and additional funding from the ESRC Centre for the Microeconomic Analysis of Public Policy [grant no. RES-544-28-5001] at IFS.
3. IFS will be issuing a press release next Tuesday, coinciding with the release by ONS of the September inflation data, looking at inflation for other groups of households as well as pensioners.