

Press Release

Labelling matters: Households spend 40% of Winter Fuel Payment on fuel. But poor pensioners still cut back on food in cold weather

Two papers published today by the IFS and funded by the Nuffield Foundation show that:

- Households receiving the winter fuel payment are almost 14 times as likely to spend the money on fuel than would have been the case had their incomes been increased in other ways;
- But in very cold weather it remains the case that the poorest pensioners cut back on spending on food to finance the additional cost of heating their homes.

Winter fuel payment increases spending on fuel

Households receiving the Winter Fuel Payment spend 41% of it on fuel even though there is no obligation to do so. When the same households receive additional income which is not labelled in any way, they spend just 3% of it on fuel. To put it another way, simply increase the income of a pensioner household by £100 and they will increase their spending on fuel by £3. Label that increase a "Winter Fuel Payment" and £41 will go on fuel.

Contrary to the predictions of standard economic theory this suggests the name of a benefit has a significant influence how it is spent.

This link between the name of a benefit and how it is spent suggests that government is able to "nudge" people into particular spending decisions through the way it labels. Of course, if the aim of a particular transfer is not to increase spending on any particular good or service but rather to carry out straightforward redistribution then a label might actually have unintended consequences – and care should be taken in naming benefits.

Laura Blow, Senior Research Economist at IFS, said "The winter fuel payment was introduced to encourage older households to spend more on heating in the winter. Remarkably it appears to have had just that effect. The fact that it is labelled a winter fuel payment appears to mean that much more of it is spent on fuel than would have been the case had no such label been attached. This suggests that simply calling a benefit by a particular name can have a real effect on how it is spent. The potential implications for government policy are significant"

Pensioners choose heat over food in cold weather

Some households containing people over the age of 60 reduce food expenditures during unseasonably cold weather. They appear to face a "heat or eat trade-off", cutting back on food spending to finance the additional cost of keeping warm during cold shocks.

The research finds that the poorest 25% of older households increase fuel spending in response to colder weather and that the increase is of similar

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proportion to the response of other older households; on average by around 7%. But it appears that poorer households also reduce food expenditures to finance these unexpected extra heating costs. Food expenditures are reduced by a little over 7% in this group. On average over all periods this group of households has a weekly spending of around £111, 25% of which goes on food and 11% on fuel.

The reduction in food expenditure is evident only among the poorest quarter of older households and only when the temperature is substantially lower (more than 2 degrees Celsius) than would be expected for that time of year. Cold weather shocks of this magnitude occur about one in every forty winter months. This suggests that policies specifically targeted at helping families during cold weather shocks, such as the Cold Weather Payment, in conjunction with the annual Winter Fuel Payment, do not fully protect all older households from the impact of very cold weather.

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Notes to Editors:

1. The Winter Fuel Payment is an annual non-means tested benefit paid in November or December, to all households where one member is older than the female state pension age. The payment is £200 for households where the oldest person is under 80 and £300 where the oldest person is 80 or over. The Cold Weather Payment is a means tested benefit and is paid once for each seven day period of very cold weather occurring between the time period of 1 November to 31 March.
2. The papers referenced here is “Cash by any other name? Evidence on Labelling from the UK Winter Fuel Payment” by Laura Blow, Thomas Crossley and Cormac O’Dea of the IFS with Timothy Beatty of the University of Minnesota and “Is there a heat or eat trade-off in the UK”, by Laura Blow and Thomas Crossley of the IFS with Timothy Beatty of the University of Minnesota. Please contact Bonnie Brimstone on 020 7291 4818 / bonnie_b@ifs.org.uk for embargoed copies.
3. Researchers analysed data from the Living Costs and Food Survey (LCF) and used temperature data from the Met Office. The LCF is a nationally representative annual survey with a sample size of approximately 6,000 people.
4. In the past three years, the Winter Fuel Payment has been supplemented by additional “one-off” payments of £50 and £100 respectively. Total expenditure on the WFP in 2010-11 is forecast to be £2.7 billion.
5. This research has been funded by the Nuffield Foundation. The Nuffield Foundation is an endowed charitable trust that aims to improve social well-being in the widest sense. It funds research and innovation in education and social policy and also works to build capacity in education, science and social science research. More information is available at www.nuffieldfoundation.org. The views expressed here are those of the authors and not those of the Institute for Fiscal Studies or the Nuffield Foundation.
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