

# Financial Circumstances and Consumption

Ali Muriel and Zoe Oldfield

Institute for Fiscal Studies and University College London

# Background

Numerous trends affecting the financial well-being of older people in England between 2002 and 2008:

- Changing composition of the pensioner population
  - Older cohorts of poorer pensioners dying
  - Replaced by younger and (on-average) better-off cohorts
- Property price boom (and subsequent ‘bust’)
- Reforms to tax and benefit system
  - Introduction of Pension Credit (replacing the Minimum Income Guarantee) for low-income pensioners
  - Up-rated in line with earnings (usually increase faster than prices)
  - State pension continued to be up-rated in line with prices
- Inflation, particularly affecting the elderly (Leicester et al., 2009)
  - Prices of fuel and food rising faster than ‘headline’ inflation rate

# What's coming up

How has the financial well-being of ELSA respondents changed between 2002 and 2008?

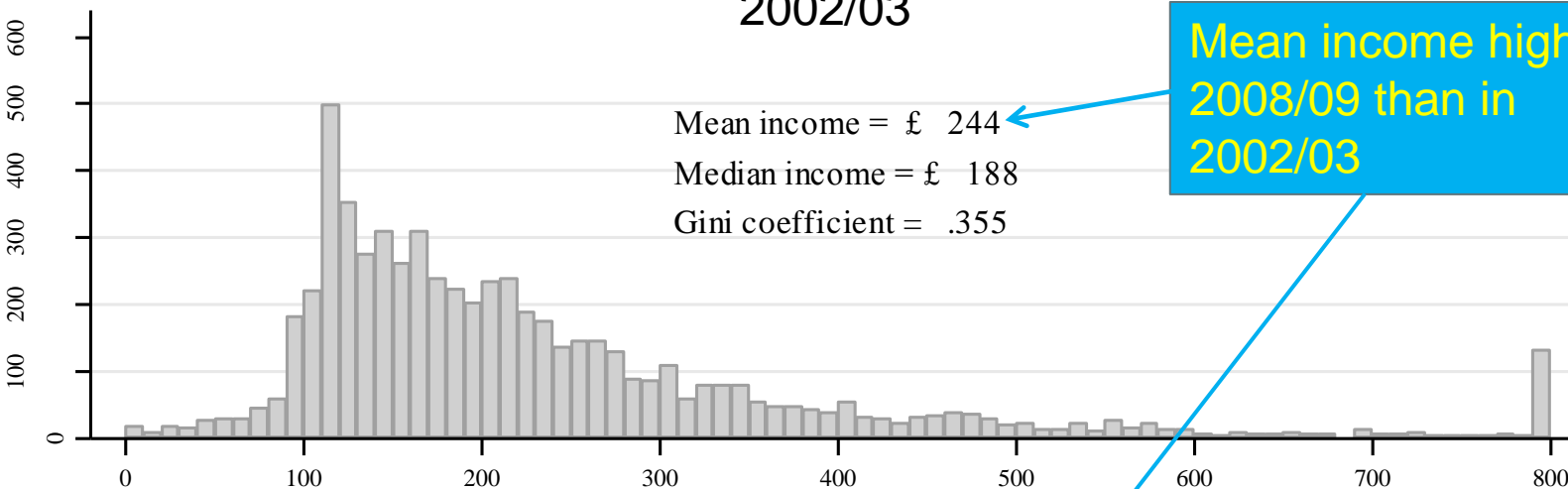
- Income
  - How has the income distribution among over 50's changed since 2002?
  - Which sources of income have become more/less important?
- Wealth
  - How has the property boom (and bust) affected the wealth distribution?
- Consumption
  - How have rising fuel and food prices affected older people's spending?

# Measuring Income and Wealth

- Total *family* (benefit unit) weekly income
  - Net of direct taxes
  - Including income from all sources
  - Adjusted to take into account family size (equivalised)
  
- Total *family* (benefit unit) wealth
  - Including financial wealth (savings & investments) plus physical assets and housing wealth
  - Net of debts (credit cards, loans, etc)
  
- Analysed at the individual level
  - All members of a benefit unit are allocated the same income or wealth
  
- Focus on results for individuals aged above the State Pension Age (SPA) – 65 for men, 60 for women
  - Chapter also contains results for individuals aged 50-SPA

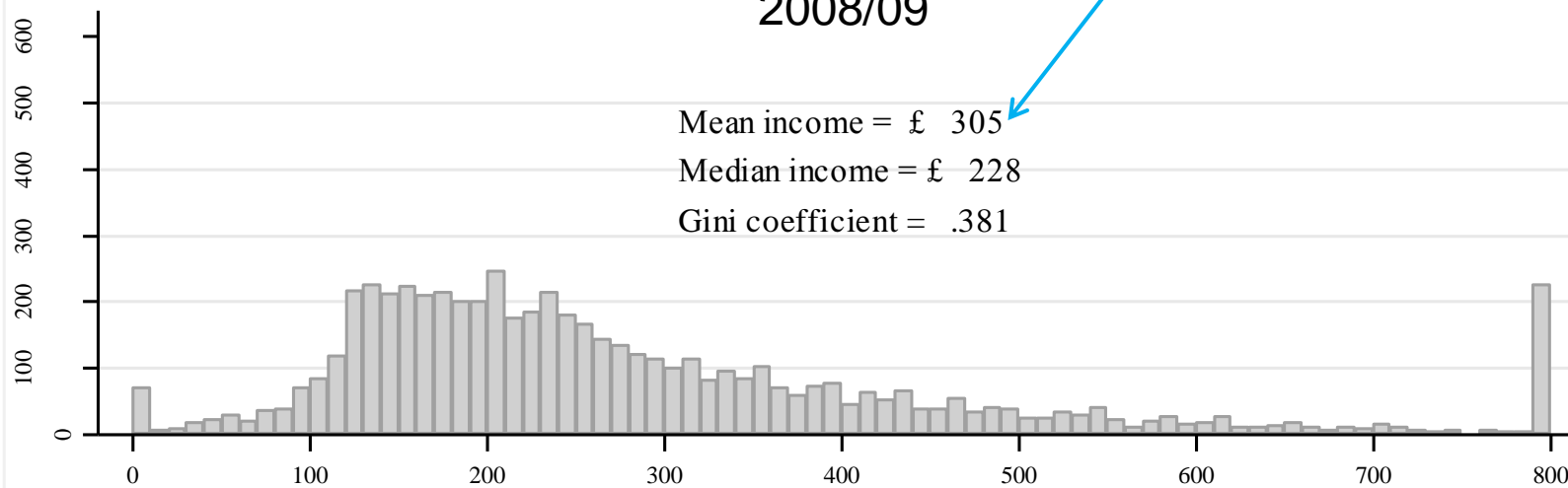
# Income distribution: respondents aged SPA+

2002/03



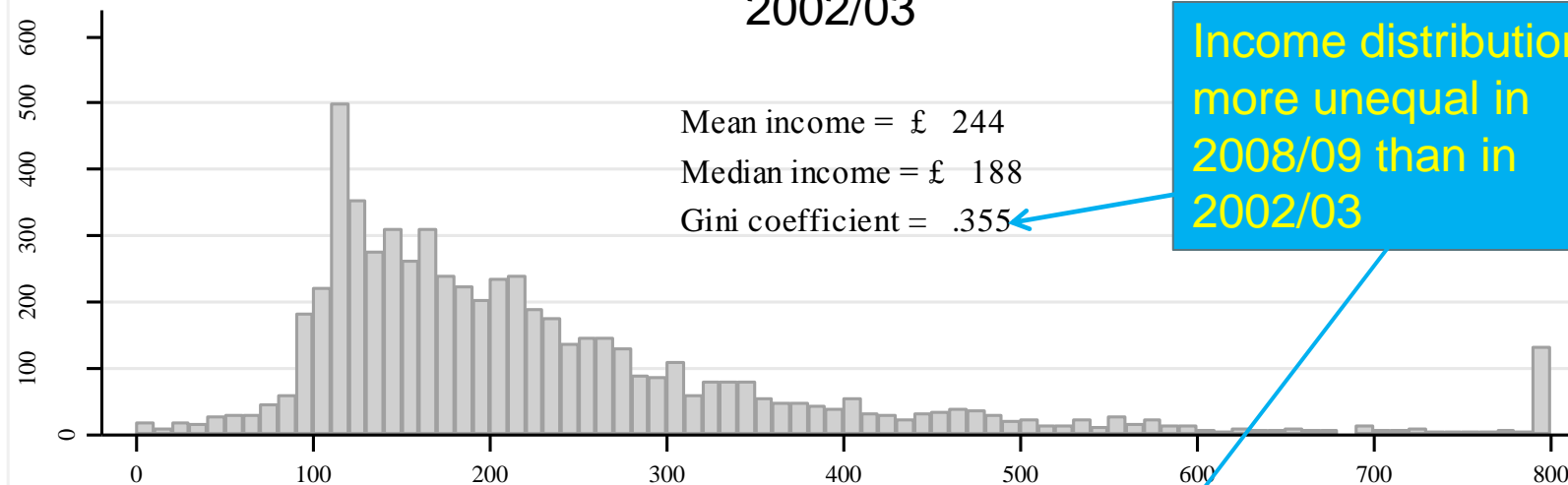
Mean income higher in 2008/09 than in 2002/03

2008/09



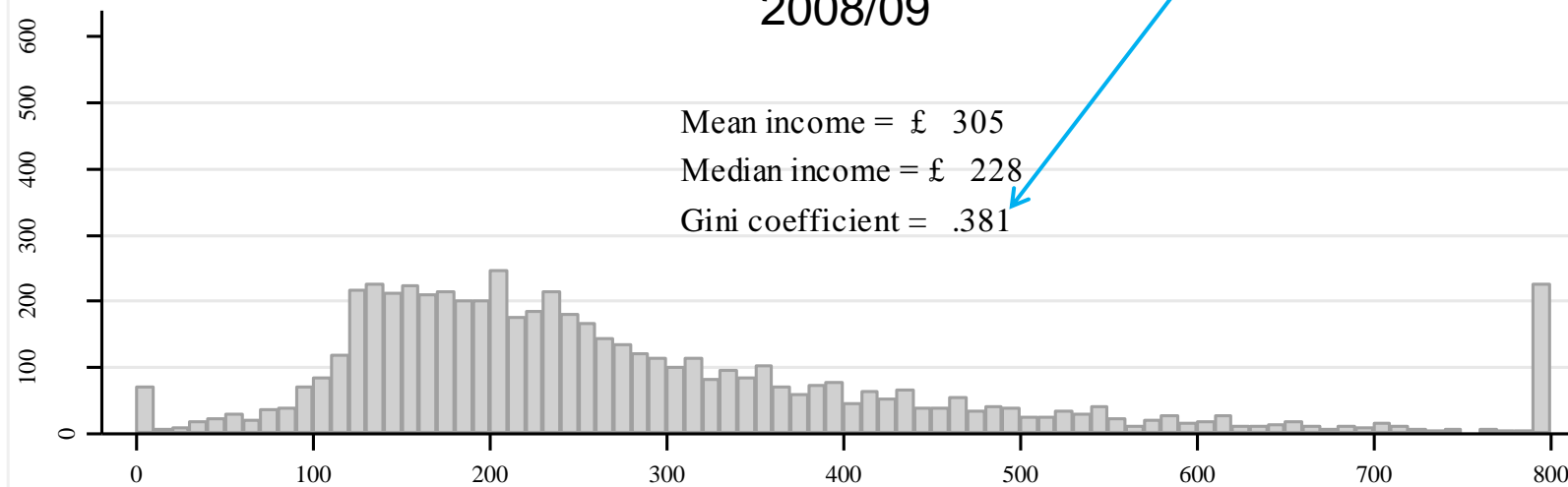
# Income distribution: respondents aged SPA+

2002/03



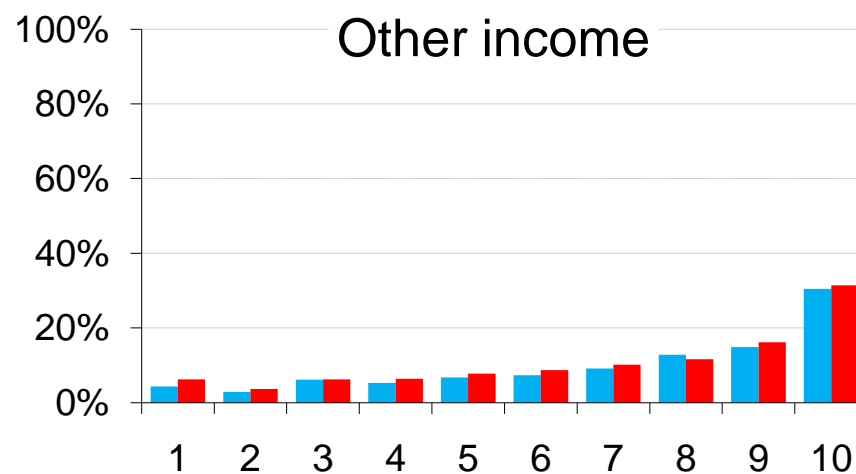
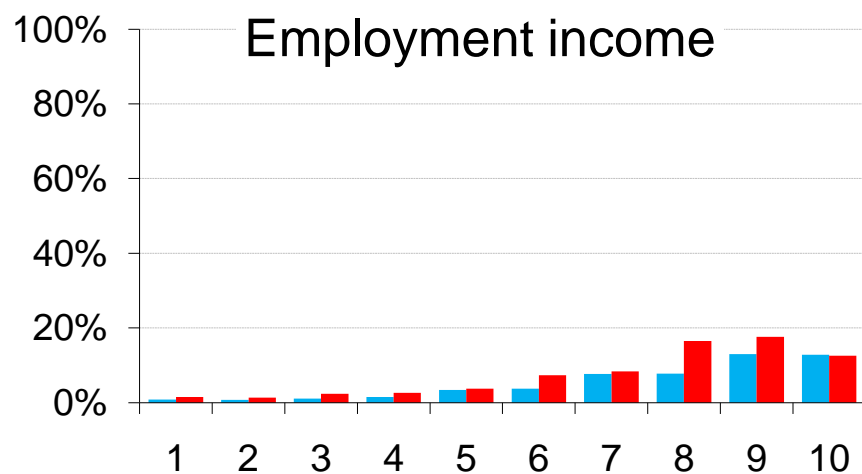
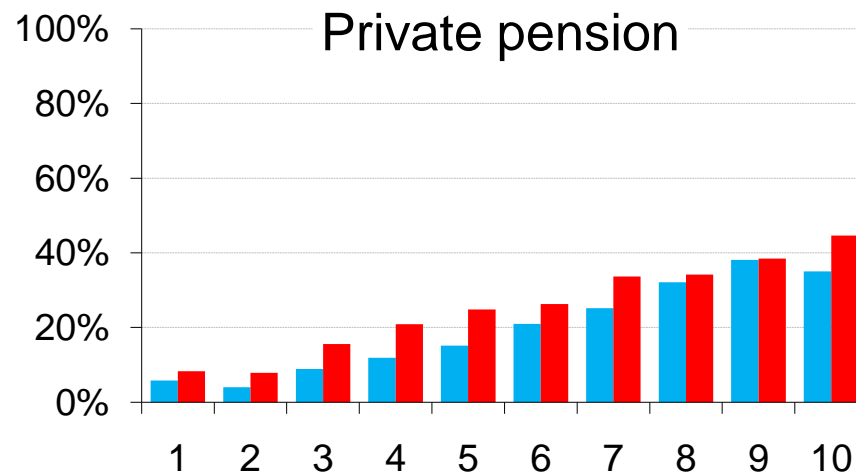
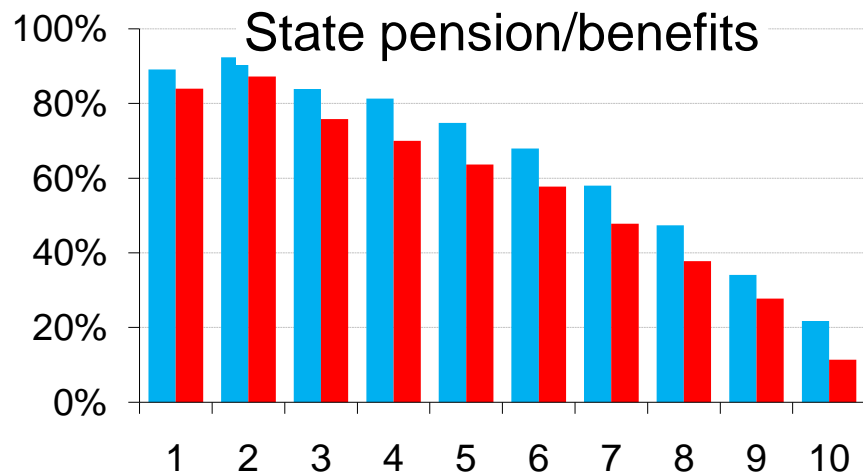
Income distribution more unequal in 2008/09 than in 2002/03

2008/09



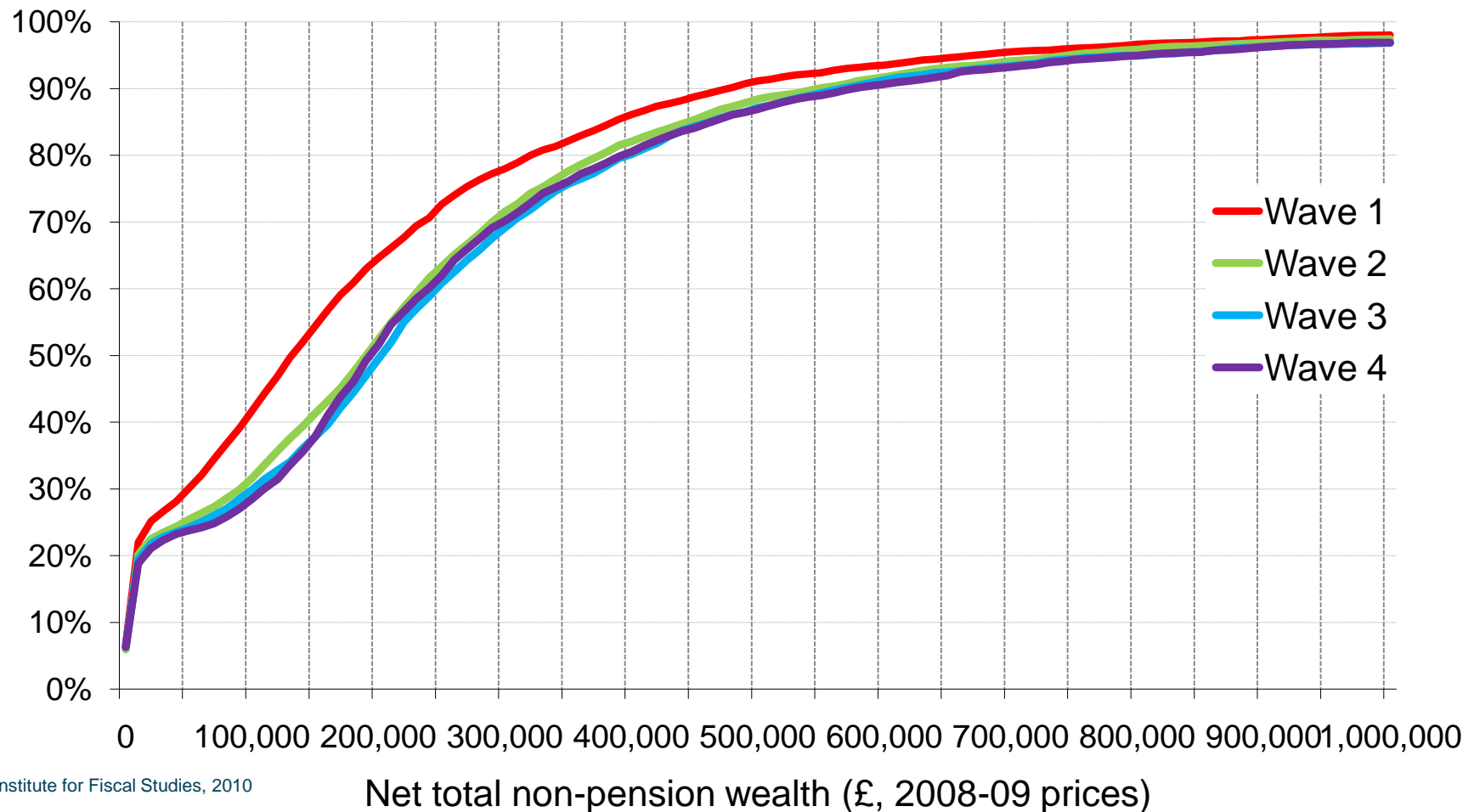
# Income composition by income decile (SPA+)

Wave 1 Wave 4



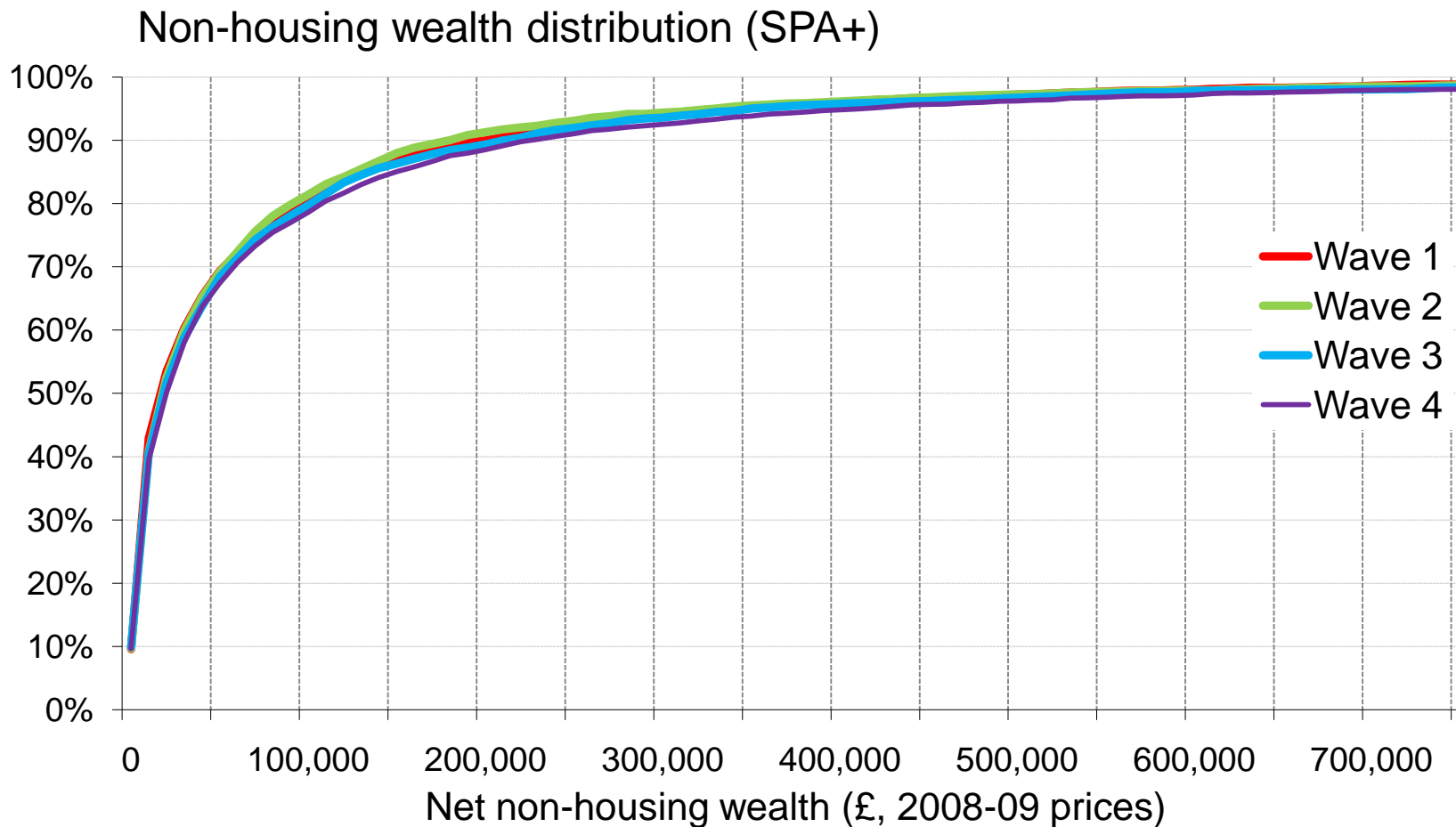
# Big increase in wealth between 2002 and 2004 but little change since..

Total wealth distribution, State Pension Age and above

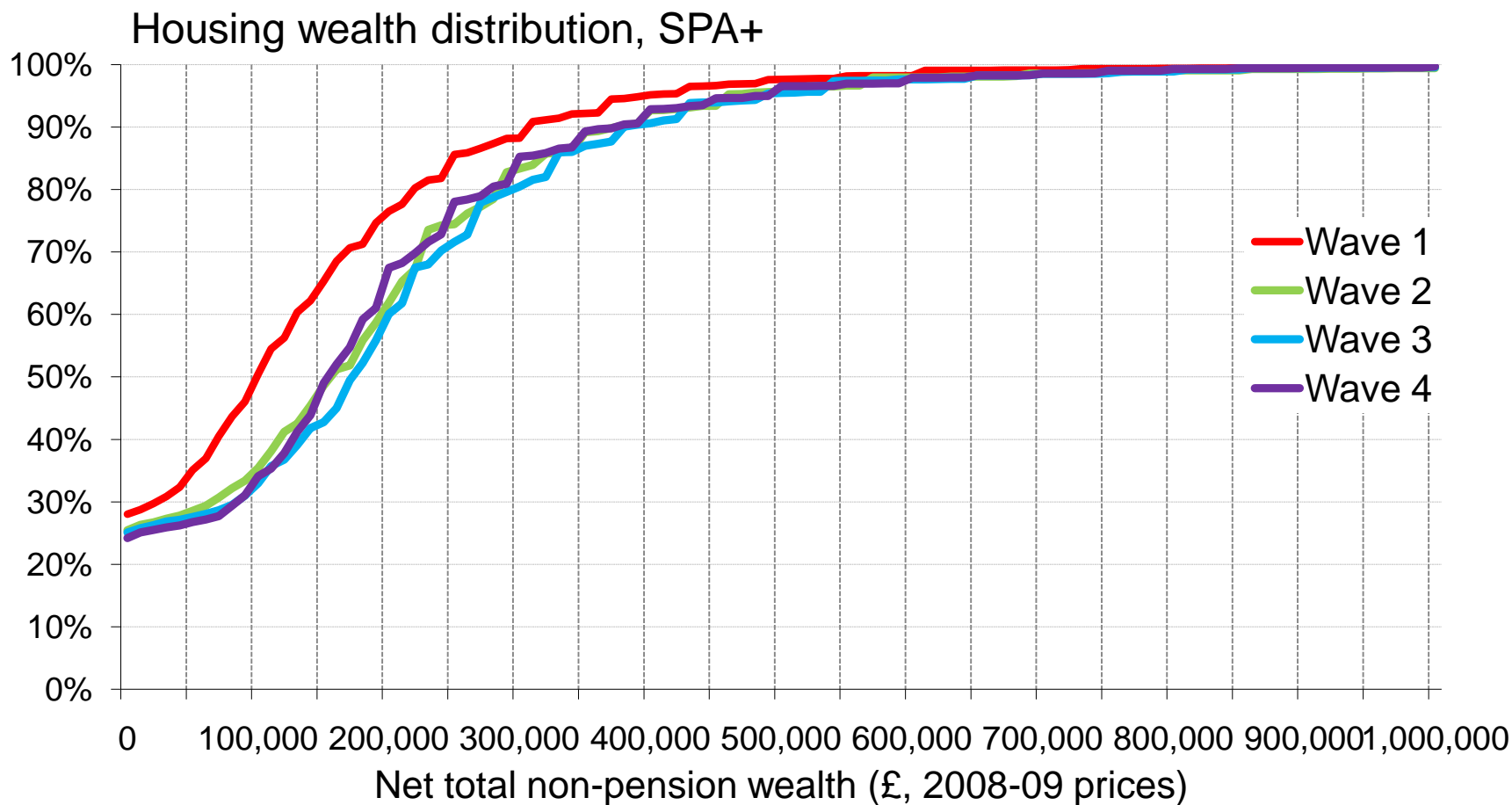




# Non-housing wealth distribution almost static..



# Housing wealth driving most of the shifts in the overall distribution



# Financial circumstances: summary

- Income distribution:
  - Pensioner population better off on average although much of this due to changing pensioner composition
  - An increasing share of pensioner income comes from private sources although the state remains hugely important for all but the highest income pensioners
  
- Wealth distribution
  - Big increases in wealth between 2002 and 2004 driven almost entirely by housing wealth
  - Recent declines in house prices have started to move this trend into reverse

# Consumption – background

- Consumption can tell us about household welfare and can give us additional information over and above income and wealth
- Consumption is a function of many different factors (demographics, tastes etc) but one very important factor is prices
- Over the last few years we have seen large increases in the prices of goods which typically make up a large portion of elderly households' budgets: food and fuel
- What has happened to spending on “basics” (food, fuel and clothing) between 2004 and 2008?

# Large increases in the prices of food and domestic fuel

- The average real increase in the prices (ONS, retail prices index data) faced by ELSA interviewees between their 2004 and 2008 interview were:
  - Food inside the home: 7%
  - Domestic fuel: 59%
  - Clothing: -20%
- Food and fuel typically make up a larger share of older households' budgets (EFS, 2007)
- This means that the impact of the price increases will be felt more strongly by the elderly

# Measuring expenditure

- Since Wave 2 (2004/5) ELSA has collected information on a number of items of expenditure
  - food inside and outside the home
  - domestic fuel
  - clothing
  - (leisure, transfers, durables)
- Expenditure measured at the household level and converted to a weekly value.
- Spending adjusted to take into account family size (equivalised)
- Sample includes only households where all individuals are eligible for an ELSA interview (~80% of the sample)
- Data analysed at the individual level (aged 55+)

# What has happened to spending since 2004/5?

	£ per week	
	2008/9	Mean % change in spending
Food in	£43.87	
Food out	£6.89	
Clothing	£11.03	
Domestic fuel	£15.71	
<b>Total basics</b>	<b>£77.66</b>	

All values expressed in July 2009 prices

# What has happened to spending since 2004/5?

	£ per week	
	2008/9	Mean % change in spending
Food in	£43.87	
Food out	£6.89	
Clothing	£11.03	
Domestic fuel	£15.71	
<b>Total basics</b>	<b>£77.66</b>	<b>+9.4%</b>

All values expressed in July 2009 prices



# What has happened to spending since 2004/5?

	£ per week	
	2008/9	Mean % change in spending
Food in	£43.87	+3.9%
Food out	£6.89	+3.2%
Clothing	£11.03	-8.8%
Domestic fuel	£15.71	+37.3%
<b>Total basics</b>	<b>£77.66</b>	<b>+9.4%</b>

All values expressed in July 2009 prices

# Spending shares

- Spending on basics as a share of total spending can be used a measure of welfare
  - We don't measure total spending so we look at spending as a proportion of income
  
- We might worry if individuals have seen a large increase in the share of their income devoted to spending on basics

# Spending on basics as % of income falls steeply with income..

Spending on basics as % of income		
	2008/9	Percentage point change in spending as % of income 2004/5-2008/9
Poorest		
2 <sup>nd</sup>		
3 <sup>rd</sup>		
4 <sup>th</sup>		
Richest		
<b>All</b>	<b>29 .7</b>	

# Spending on basics as % of income falls steeply with income..

Spending on basics as % of income		
	2008/9	Percentage point change in spending as % of income 2004/5-2008/9
Poorest	48.3	
2 <sup>nd</sup>	34.4	
3 <sup>rd</sup>	27.6	
4 <sup>th</sup>	22.6	
Richest	16.4	
<b>All</b>	<b>29.7</b>	

# Spending on basics as % of income falls steeply with income..

Spending on basics as % of income		
	2008/9	Percentage point change in spending as % of income 2004/5-2008/9
Poorest	48.3	
2 <sup>nd</sup>	34.4	
3 <sup>rd</sup>	27.6	
4 <sup>th</sup>	22.6	
Richest	16.4	
<b>All</b>	<b>29.7</b>	<b>0.7</b>

# Spending on basics as % of income falls steeply with income..

Spending on basics as % of income		
	2008/9	Percentage point change in spending as % of income 2004/5-2008/9
Poorest	48.3	12.5
2 <sup>nd</sup>	34.4	2.2
3 <sup>rd</sup>	27.6	-1.5
4 <sup>th</sup>	22.6	-4.1
Richest	16.4	-7.1
<b>All</b>	<b>29.7</b>	<b>0.7</b>

# Who is more likely to have seen a “large” increase in the share of income devoted to basics?

- Define a “large increase” to be a greater than 10 percentage point increase in the share
  - 25% of individuals fall into this group
- Control for age, income, change in income, education, change in family composition, health and work transitions
- Results show that those more likely to have experienced a “large” increase in the share of income devoted to basics are:
  - Poorest income group
  - Those who split from partner
  - Those who left work

## Multivariate analysis of “large” increase in the share of income devoted to basics

Dependent variable: > 10 percentage point increase in the share of income devoted to basics

	coefficient	t-stat
<b>Income (base: richest quintile)</b>		
Poorest	0.167	6.92
2 <sup>nd</sup>	0.025	1.14
3 <sup>rd</sup>	0.012	0.56
4 <sup>th</sup>	-0.011	-0.53
<b>Changes in household composition (base: couple-couple)</b>		
Couple-single	0.069	2.31
Single-couple	-0.007	-0.11
Single-single	-0.010	-0.77
<b>Work transitions (base: work-work)</b>		
Work – not work	0.071	3.10
Not work – not work	-0.022	-0.41
Not work – not work	0.011	0.58

Controls also included for age, change in number of children, education, health, change in income quintile



## Multivariate analysis of “large” increase in the share of income devoted to basics

Dependent variable: > 10 percentage point increase in the share of income devoted to basics

	coefficient	t-stat
<b>Income (base: richest quintile)</b>		
Poorest	0.167	6.92
2 <sup>nd</sup>	0.025	1.14
3 <sup>rd</sup>	0.012	0.56
4 <sup>th</sup>	-0.011	-0.53
<b>Changes in household composition (base: couple-couple)</b>		
Couple-single	0.069	2.31
Single-couple	-0.007	-0.11
Single-single	-0.010	-0.77
<b>Work transitions (base: work-work)</b>		
Work – not work	0.071	3.10
Not work – not work	-0.022	-0.41
Not work – not work	0.011	0.58

Controls also included for age, change in number of children, education, health, change in income quintile

## Multivariate analysis of “large” increase in the share of income devoted to basics

Dependent variable: > 10 percentage point increase in the share of income devoted to basics

	coefficient	t-stat
<b>Income (base: richest quintile)</b>		
Poorest	0.167	6.92
2 <sup>nd</sup>	0.025	1.14
3 <sup>rd</sup>	0.012	0.56
4 <sup>th</sup>	-0.011	-0.53
<b>Changes in household composition (base: couple-couple)</b>		
Couple-single	0.069	2.31
Single-couple	-0.007	-0.11
Single-single	-0.010	-0.77
<b>Work transitions (base: work-work)</b>		
Work – not work	0.071	3.10
Not work – not work	-0.022	-0.41
Not work – not work	0.011	0.58

Controls also included for age, change in number of children, education, health, change in income quintile

# Summary

- In terms of income, average incomes are higher in 2008/9 than in 2002/3
  - But income inequality is higher
- Little increase in wealth since 2006
  - Housing wealth fallen to 2004 levels, across the distribution
- Some individuals have seen a large increase in the share of their income devoted to expenditure on “basics”
  - Driven at least in part by large increases in the price of food and fuel
  - Poorer individuals more likely to have seen a large increase in the share of income devoted to basics