

Which pensioners don't spend their income and why?

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The Pensions Commission found that spending among older people appeared to decline with age, at least when those approaching retirement were compared with younger and older pensioners. Other research has shown that, compared with the general population, pensioners are more likely to be 'expenditure poor' than 'income poor'. This potentially has significant implications for the Government's strategy for tackling pensioner poverty, depending on the reasons why pensioners do not spend.

The aims of the research were to examine which pensioners do not spend a substantial share of their income and why that might be the case. In addressing the latter question, it was hoped to ascertain whether the decline in spending as a proportion of income was an ageing effect or a cohort effect that might dissolve over time as older pensioners died and were succeeded by less frugal, younger ones.

These questions were examined through secondary analysis of four survey data sets: the Expenditure and Food Survey (EFS) and its predecessor, the Family Expenditure Survey (FES), the British Household Panel Survey (BHPS), and the English Longitudinal Study of Ageing (ELSA).

For this study, pensioner households were defined as those in which at least one person was of state pension age. They were defined as spending a low share of their income if they were in the bottom quartile of expenditure as a percentage of income, when calculated for their income quintile.

Key findings

Both income and expenditure among pensioner households declined across the age groups, but expenditure declined more than income, with the result that expenditure as a proportion of income also fell.

Although the better off were more likely to spend a low share of their income than poorer pensioners, low spending was by no means the preserve only of the better off.

Other things being equal low spending pensioner households were much less likely than other pensioners to own a car and consumer durables such as a home computer and tumble dryer. They were less likely to be headed by a woman or living as part of a couple. They were more likely to own their home outright and less likely to be buying on a mortgage, than to be renting. They were less likely to have investment income but more likely to be getting disability benefits. Older women were much more likely to be low spenders than younger ones.

The reasons why spending as a proportion of income declines with age are not entirely clear, but include bequest motives and precautionary saving. It may also reflect an inter-related set of factors associated with increasing frailty and declining mobility, leading to reducing social participation and contracting social networks.

Analysis of food spending using the BHPS and ELSA highlighted having no access to a vehicle; having infrequent contact with their children; and limited participation in activities that incur costs (such as going to the cinema) increased the

chances of being a low spending household, holding other factors constant.

A comparison of pensioners in different birth cohorts revealed that the decline in spending as a proportion of income is a true ageing effect rather than a cohort effect associated with an older, more frugal generation.

Patterns of spending

The analysis of the Expenditure and Food Survey for 2001/03 confirmed the findings in the Pensions Commission's first report. While both income and expenditure among pensioner households declined across the age groups, expenditure declined more than income. The result is that expenditure as a proportion of income also fell.

It was also found that pensioner households that were spending a low proportion of their income were also spending lower absolute amounts on the different consumption categories than those that were spending a non-low share of their income. In other words, they were in general more frugal in their spending habits than other pensioners.

On average, low income pensioners tended to spend most of their income, while better off pensioners tended to spend less than their income. Nevertheless, there was a wide variation of expenditure as a proportion of income around the average. As a result, although the better off were more likely to spend a low share of their income than poorer pensioners, low spending was by no means the preserve only of the better off.

Characteristics of low spenders

Pensioners that were spending a low share of their income on food were especially likely to be in the low total spending group. Low spending pensioner households were also much less likely than other pensioners to own a car and consumer durables such as a home computer, compact disc player and tumble dryer. These differences between low spending and other pensioner

households in their expenditure on food and ownership of consumer durables were statistically significant even after controlling for age.

As well their spending habits, low spending pensioner households were different from non-low spending pensioners in other respects. Holding other factors constant, low spending pensioner households were less likely to be headed by a woman and less likely to be living as part of a couple. They were more likely to own their home outright, and less likely to be buying on a mortgage, than renting it. They were less likely to have investment income. Older women were much more likely to be low spending than younger ones.

Finally, pensioners in receipt of disability benefits (Disability Living Allowance and Attendance Allowance) were more likely to be low spenders than those who are not in receipt of such benefits. To some extent, the latter result is surprising, as many disabled people in receipt of such benefits tend to have extra costs (such as heating, bedding or transport) compared with other people. However, it may be that restricted mobility reduces the opportunity for disabled people to spend their income.¹

Among **low income** pensioner households, the factors associated with spending a low share of their income were broadly the same as for better off pensioners. The main differences were that age and receipt of disability benefits were no longer statistically significant factors associated with low spending. In addition, low income pensioner households that owned their home outright were less likely to spend a low share of their income than those renting their home, which was not the case among pensioner households as a whole.

¹ It is important to note that not all disabled people are in receipt of disability benefits. Also, follow-up research with disabled people interviewed in the Family Expenditure Survey found it very difficult to identify the extra costs of disability. It also found that disabled people spent less in relation to their incomes than non-disabled people (Matthews and Truscott, 1990). The household questionnaire used on the FES, which asks respondents about larger items purchased over the previous year, does not specifically ask about health, care and mobility expenditure.

Correlates of low spending

Analysis of data from the BHPS for 2001/03 and the ELSA for 2002/03 aimed to understand why some pensioners spend a low proportion of their income. Because neither survey contains comprehensive information on expenditure, spending on food as a percentage of income was used as a proxy measure for total spending. Low food spending was defined in the same way as low total spending.

One possible explanation of why pensioner households may be spending a low proportion of their income is that they are seeking to build up their resources. They may be doing this for a variety of reasons including bequest motives, budgeting for lumpy items of expenditure and precautionary saving.

Pensioners who spent a low proportion of their income on food were more likely than higher spending pensioners to be regular savers. However, it was not clear from the analysis that they were doing so as a result of an anticipated lack of future financial resources to meet their needs or for bequest motives.

Receiving some labour income played an important part in the chances of being a low spending pensioner household. Although pensioners may undertake paid labour beyond the state retirement age for a variety of reasons, one may be to enhance their pension and investment income. That is, they may wish to save from earnings in order to build up further financial resources past the state pension age.

The research also explored the possibility that low spending was due to constrained mobility resulting from factors such as lack of transport, disability and ill-health, or being a carer. The analysis suggested that pensioners spending a low proportion of their income on food were to some extent constrained by problems associated with mobility. Having no access to a vehicle and having infrequent contact with their children (who may be more likely to give them lifts in cars, for example) increased the chances of being a low spending household, holding other factors constant.

The third possible explanation considered whether pensioners who spent a low proportion of their income on food were more likely to experience exclusion from social relations. Certain variables were chosen as indicators of social isolation, limited social participation and negative attitudes towards social interaction. Infrequent contact with children was associated with low spending, which suggests that pensioners that spent a low proportion of their income on food were socially disengaged. Also, spending a low proportion on food was associated with limited participation in activities that incur costs, such as going to the cinema.

Pensioner households that spent a low proportion of their income on food had a different outlook on retirement from pensioners who spent a higher proportion on food, regarding it less of a time for leisure. It is not possible to know from this analysis whether limited social participation in cost-associated activities and negative attitudes towards social interaction in retirement were the product of choice or constraint – a crucial distinction for policy – and therefore qualitative analysis could usefully be undertaken to explore this.

Arguably, it is more important for policy to understand why **low-income** pensioner households (rather than pensioner households more generally) spend a low proportion of their income on food. But explanations of why low income pensioner households spent a low proportion of their income on food were less clear than for all pensioners. Being a regular saver and never going to the cinema were the only factors that increased the chances of being a low food spending household for pensioner households with a low income, holding other factors constant.

Thus, while some tentative conclusions can be drawn from this analysis of the BHPS and ELSA data to explore why pensioners spend a low proportion of their income on food, the picture is complicated and not clear cut. Qualitative research by the University of Bristol has also suggested a quite complex picture, but supports the findings of this study that access to transport is important for getting out and about and

therefore spending. It also suggests that leisure activities and hobbies become increasingly home-based. This was especially true for those experiencing severe restrictions in mobility because of their health.

Comparing birth cohorts

A comparison was undertaken of pensioner spending in 1991/93 with 2001/03. The analysis of spending for the earlier date was based on the FES while for the latter date it was based on the EFS the successor to the FES. For both surveys, households were grouped into one of four birth cohorts: pre 1919, 1919-33, 1934-43, and 1944 or later. The main conclusion is that the decline in spending as a proportion of income with age is a true ageing effect.

There was a significant growth in pensioners' real incomes between 1991/93 and 2001/03, which is likely to have affected spending. Internal analysis by the Department for Work and Pensions shows that, in real terms, the median net income before housing costs increased over that decade by 31 per cent for pensioners aged under 75 years, and by 45 per cent for pensioners aged 75 or more. However, the position of pensioners within the income distribution for the population as a whole did not change very much over this period. It was not just incomes that increased but also spending. In the decade from 1991/93 to 2001/03, the average weekly amount that pensioners spent grew by 16 per cent in real terms.

A comparison of the 1991/93 FES with the 2001/03 EFS shows that, in both surveys, spending as a proportion of income was higher among low income pensioner households than among other pensioner households. This was also the case when comparing low income and non-low income pensioners by age across the different birth cohorts.

Among households headed by someone aged 60 and above, the median percentage of income spent declined with age in both 1991/93 and 2001/03. There was also a decline in the proportion of income spent with age in the three relevant birth cohorts (pre-1919, 1919-33, 1934-43).

The proportion of pensioner households that spent a low share of their income fell with successive birth cohorts (thus, there were proportionately more low spending pensioners in the pre-1919 birth cohort than in the 1919-33 birth cohort, and so on). However, within each birth cohort, the proportion of pensioner households that was in the low spending category increased with age. This suggests that the decline in spending with age is a true ageing effect.

However, it was also found that, from age 75 onwards, the decline in spending was greater in 2001/03 than in 1991/93. Thus, in 1991/93, pensioner households aged 85 and above were spending 76 per cent of their income on average, but in 2001/03 they were spending only 64 per cent. This change may be less associated with generational differences in frugality and more with rising real incomes. On the one hand, there was little evidence that the decline in spending was a cohort effect associated with a culture of frugality among the oldest pensioners compared with younger ones. On the other, pensioners experienced substantial real increases in income between 1991/93 and 2001/03; but increases in spending did not fully match increases in income.

The full report of these research findings is published for the Department for Work and Pensions by Corporate Document Services (ISBN 1 84123 987 9. Research Report 334. March 2006).

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