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Department for Work and Pensions

Research Report No 334

Which pensioners don't spend their income and why?

Naomi Finch and Peter A. Kemp

A report of research carried out by the University of York on behalf of the Department for Work and Pensions

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Data from the Expenditure and Food Survey and the Family Expenditure Survey are crown copyright and have been made available by the Office for National Statistics through the Economic and Social Research Council (ESRC) Data Archive at the University of Essex. The British Household Panel Survey and the English Longitudinal Study of Ageing were made available by the Data Archive.

Abbreviations

BHPS	British Household Panel Survey
CSM	Core sample member
ELSA	English Longitudinal Study of Ageing
EFS	Expenditure and Food Survey
FES	Family Expenditure Survey
HoH	Head of household
HRP	Household reference person

Summary

Introduction

Research by the Pensions Commission indicates that older pensioners, on average, spend substantially less of their income than young pensioners. It has also been shown that pensioners are more likely to be 'expenditure poor' than 'income poor' when compared with the general population. This potentially has significant implications for the Government's strategy for tackling pensioner poverty, depending on the reasons why pensioners do not spend.

The Department for Work and Pensions (DWP) has commissioned the Social Policy Research Unit at the University of York to examine which pensioner households do not spend their income and why that might be. Apart from the fact that older pensioners tend to spend less than younger ones, very little is known about which pensioners do not spend substantial amounts of their income. Even less is known about why they do not spend it.

The aims of this project were to:

- examine the factors that are associated with the proportion of income that pensioners spend;
- explore factors that may help to explain why some pensioners spend substantially less than their income;
- assess whether low spending, relative to income, is an ageing or a cohort effect.

Methods

The research method used to address these questions was secondary analysis of existing survey data. The surveys analysed were the Family Expenditure Survey (FES), its successor the Expenditure and Food Survey (EFS), 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 (60 or more in the case of a female and 65 or more in the case of a male).

Households were defined as low spenders if their expenditure as a percentage of income was in the lower quartile for their income quintile group.

Patterns of spending

The analysis of the pooled data from the EFS for 2001/02 and 2002/03 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.

Low income pensioner households tended to spend a higher proportion of their income than better off ones. However, there was a wide variation around the average.

Which pensioner households are low spenders?

The analysis of data from the EFS for 2001/02 and 2002/03 found that in many respects low spending pensioner households were different from other pensioner households.

Holding other factors constant, pensioner households spending a low proportion of their income were less likely to be headed by a woman and less likely to be living as part of a couple. Older women were much more likely to be low spending than younger ones.

Low spending pensioner households were more likely to own their home outright, and less likely to be buying their home on a mortgage, than renting it. They were less likely to have investment income. The odds of being a low spending pensioner household increased with increasing income quintile.

Pensioners in receipt of disability benefits (Disability Living Allowance (DLA) and Attendance Allowance (AA)) were more likely to be low spenders than those who are not in receipt of such benefits.

Pensioner households spending a low proportion of their income were less likely to own a car, and less likely to have certain consumer durables (such as a computer,

tumble dryer or compact disc player) in their home than other pensioner households. Compact disc players require compact discs; tumble dryers consume electricity; cars require petrol, vehicle licence and insurance; all of which will be reflected in household budgets.

Pensioner households spending a low proportion of their income also tended to spend a relatively low amount on food.

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.

Exploring reasons for low spending

Analysis of the BHPS and ELSA was undertaken in order 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.

Three possible explanations for low food spending were explored: building up financial resources, lack of mobility, and exclusion from social relations.

The first possible explanation considered was whether pensioner households that were spending a low proportion of their income on food were more likely to be building up resources. Pensioners may build up resources for different reasons. These include precautionary saving, budgeting for anticipated 'lumpy' items of expenditure, and bequest motives.

It was found that pensioners who spent a low proportion of their income on food were less likely than those spending a high proportion to have built up financial resources pre-retirement. Also, holding other factors constant, earning labour income in retirement appeared to be an important indicator of low spending, although not for pensioners with a low income.

It may be that pensioners who have not built up financial resources for retirement were curbing their spending in order to ensure future financial security. Certainly, holding other factors constant, regular saving was an important indicator of low spending, especially for pensioners with a low income.

However, there was little evidence to support the premise that pensioners who spent a low proportion of their income were doing so as a result of an expectation of limited resources in the future: low spending households were marginally **less** likely

than high spending households to anticipate some chance that they will not have the finances to meet their needs. It may be that, because pensioners spending a low proportion of their income on food were able to save, they were also able to be more confident that they could meet their future needs. The evidence that pensioners were restricting their spending on food for bequest motives was unclear.

The second possible explanation considered whether factors that may reduce mobility, including lack of transport, disability and poor health, or being a caregiver[1], were related to pensioner households spending a low proportion of their income on food. As with the analysis of low total spending, holding other factors constant, not having use of a car (including as a passenger) increased the chances of a pensioner household being a low food spender, although not for pensioners with a low income.

The third possible explanation considered was whether pensioners who spent a low proportion of their income on food were more likely to experience exclusion from social relations. Various variables were chosen as indicators of social isolation, limited social participation and negative attitudes towards social interaction.

There was some evidence to support social exclusion as an explanation for low spending. Holding other factors constant, limited contact with their children, not going to the cinema, and regarding retirement as not as important as leisure time, increased the chances that pensioners spent a low proportion of their income on food. However, the only one of these three factors that increased the chances of **low income** pensioners spending a low proportion of their income on food was not going to the cinema, which is an indicator of limited social participation.

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. The qualitative research being undertaken 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. They also suggest 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:

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[1] Being a carer may limit the extent that they are able to get out and spend due to time taken up caring.

- 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 DWP 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.

The rank order of expenditure categories by amount spent per week changed very little between the two survey dates. Food remained the largest single item of expenditure and housing remained the second largest. Despite expenditure on motoring increasing by a third between the two surveys, it slipped from being the third to the fourth largest item of spending. Meanwhile, weekly expenditure on leisure increased by two-thirds between 1991/93 and 2001/03, and moved up from fourth to third in rank order as a result. The latter may well reflect the rise in real incomes over this period, which allowed pensioner households to spend more of their income on leisure.

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 and 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). And within each birth cohort, the proportion of pensioner households that was in the low spending category increased, and the proportion in the high spending

category decreased, 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 affect 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.

Conclusions

This report has shown that, on average, low income pensioner households spend more of their income, and are likely to spend a bigger share of any increase in income, than better off ones. This has potential implications for the Government's policy goal of tackling poverty among today's pensioners.

If this objective is about living standards (for which expenditure may be regarded as a proxy) rather than incomes per se, then it appears that targeting resources on the poorest pensioners is a more efficient policy instrument than across the board increases benefiting all pensioners. This is because low income pensioners are more likely to spend the money, and thereby increase their standard of living, than better off ones. However, this argument ignores the fact that many pensioners do not take up the means-tested benefit to which they are entitled.

The analysis for this report suggest that there is a true ageing effect in that median spending as a share of pensioner income did fall as age increased. This was true for both the 1991/93 and 2001/03 surveys and within each of the birth cohorts.

However, the proportion of pensioner households spending a low share of their income fell within successive birth cohorts. As noted, this decline in low spending may be less associated with generational differences in frugality and more with rising incomes.

Although the evidence has been far from conclusive, low spending amongst pensioner households appears to reflect an inter-related set of factors associated with increasing frailty and declining mobility, leading to reducing social participation and contracting social networks. This suggests that measures aimed at helping older people to remain independent and connected socially could enable them to spend more of their income and, consequently, maintain their standard of living in later life.

1 Introduction

Tackling poverty among pensioners has been an important Government objective since 1997. In order to achieve that goal, a range of measures has been introduced, of which perhaps the most important has been substantial increases in the means-tested benefit for pensioners, currently known as the Guarantee Credit component of the Pension Credit. For single pensioners, the weekly value of this benefit has been increased from £69 in 1997 to £109 in 2005, an increase of 58 per cent in just eight years. As a result of this and other measures, **income** poverty among pensioners has decreased substantially when measured after housing costs (Brewer *et al*., forthcoming).

Poverty can also be measured in terms of **expenditure** and not just income. Indeed, some experts have suggested that expenditure is in some ways a better measure of living standards than resources (Atkinson, 1989). This is because expenditure may reflect tastes as much as constraints on expenditure. But while income poverty has fallen in recent years, expenditure poverty has remained broadly stable (Brewer *et al*., forthcoming). Moreover, it has been shown that pensioners are more likely to be expenditure poor than income poor when compared with the general population (Saunders *et al*., 2002). This implies that pensioners at the lower end of the income distribution are less likely to spend their income (or less likely to borrow) than other households at the lower end of the income distribution.

However, it has also been shown that, on average, low income pensioners are spending more than their incomes, while better off pensioners are spending less than their incomes (Bradshaw and Dornan in Craig *et al*., 2003). It also seems that pensioner households, and especially older pensioners, are less likely to spend their income than younger households. Thus, the Pensions Commission (2004) has shown that, on average, pensioner households spend a lower proportion of their income than households approaching retirement (aged 50 to 64). Meanwhile, older pensioners (those aged 75 and above) spend a lower share of their income than younger pensioners (aged 65 to 74).

A number of studies have also shown that household expenditure declines significantly at around retirement, something that economists refer to as the

'retirement consumption puzzle' (Banks *et al*., 1998). It is seen as puzzling because it does not concur with the life-cycle model of consumption. This model predicts that consumption (for which expenditure may be regarded as a proxy measure) will be smoothed over the life cycle through anticipated changes in income such as generally occur when people retire (Smith, 2004). In theory, consumption will be smoothed by saving during working life and through dis-saving in retirement. Thus, although income may fall when people retire, their work-related expenses will cease and levels of non-work-related consumption may be broadly maintained by drawing on savings to supplement their lower income in retirement.

On the face of it, the fact that, on average, spending by pensioners declines with age is not consistent with the predictions of the life-cycle model of household consumption. Within this model, falling spending in retirement may be viewed as irrational behaviour on the part of households (Bernheim *et al*., 2001, cited in Smith, 2004). Irrational or not, in practice there are a number of reasons why people may **choose** to spend less than their income in later life. These include:

- bequest motives;
- precautionary saving;
- budgeting for anticipated 'lumpy' items of expenditure.

Moreover, although levels of consumption are sometimes viewed as reflecting individual tastes (Atkinson, 1989) there may also be factors that **constrain** some older people from spending their money, such as:

- ill-health;
- lack of mobility.

However, the fact that expenditure poverty is at higher levels than income poverty among pensioner households may pose a challenge to the Government's strategy for raising their living standards. It is important, therefore, to ascertain which pensioners do not spend substantial amounts of their income and why that might be the case.

1.1 Research aims

The Department for Work and Pensions (DWP) commissioned the Social Policy Research Unit at the University of York to examine which pensioner households do not spend their income and why that might be. Apart from the fact that older pensioners tend to spend less than younger ones, very little is known about which pensioners do not spend substantial amounts of their income. Even less is known about why they do not spend it.

The aims of this project are to:

- examine the factors that are associated with the proportion of income that pensioners spend;
- explore factors that may help to explain why some pensioners spend substantially less than their income;
- assess whether low spending, relative to income, is an ageing or a cohort effect.

This project is one of three research studies commissioned by the DWP to examine different aspects of pensioner poverty. The University of Essex is undertaking a quantitative study, and the Personal Finance Research Centre at the University of Bristol a qualitative study, of older people's experiences of poverty and material deprivation. The latter project is also exploring, among other things, the reasons why some pensioners do not spend substantial amounts of their income.

1.2 Research methods

In this report, 'pensioner households' are defined as households where at least one adult is above state pension age (60 or more in the case of a female and 65 or more in the case of a male). It follows from this definition that in some cases the head of household (or their equivalent) is below state pension age. This includes situations, for example, where a pensioner is living with their son or daughter (or vice versa). Using this definition, the report presents data for three types of pensioner household: single pensioners living on their own, couples living together by themselves, and other pensioner households.

1.2.1 Sources

The research for this project involved secondary analysis of three existing datasets: 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).

The EFS is the best available source of survey data on household spending. It was introduced in 2001/02 as the successor to the FES, which was conducted from 1957 up to 2000/01. The design of the EFS is based on that used for the FES (Down, 2002). The survey includes detailed information on household expenditure over a two week period, as well as information on household income. The EFS is a continuous survey, with interviews being spread across the year in order to ensure that seasonal variations are covered (Craggs, 2004). Although the BHPS does not have comprehensive data on household spending, it does include information on some categories of expenditure such as food, as well as a much wider range of data on household characteristics and circumstances than is available in the EFS. Likewise, while the ELSA contains only limited information about expenditure, it does include data on topics that are relevant to this study which are not included in either the EFS or BHPS. This includes financial planning, inheritance and bequest expectations and

questions to do with leisure. More detail about these three datasets is provided in Appendix A.

1.2.2 Analysis

The analysis had five components: First, a basic analysis of spending data from the EFS was conducted. This part of the study sought to identify which groups of pensioners are low spenders and which are high spenders. It also examines the factors that are associated with high and low spending. The analysis was based on pooled EFS data for 2001/02 and 2002/03, the only two years for the survey data that were available in the Economic and Social Research Council Data Archive at Essex University. Two years rather than one were analysed in order to maximise sample size. We refer to this two-year pooled sample as the 'EFS 2001/03'.

Second, cross-sectional analysis of BHPS data was undertaken in order to explore some of the reasons why some pensioners spend a low proportion of their income. This component of the research was based on the 2001/02 and 2002/03 waves of the BHPS, the same years as used for the analysis of the EFS. Because (unlike the EFS) expenditure information in the BHPS is not comprehensive, it was necessary to use a proxy indicator of high and low spending for this dataset. For this purpose, we used spending on food, which was also used recently by the Institute for Fiscal Studies (Smith, 2004) to explore the retirement consumption puzzle.

Third, exploratory analysis was undertaken with the ELSA. This was done in order to elicit additional clues as to why some pensioners do not spend a substantial share of their income. It was based on the first wave of ELSA, which was carried out in 2002/03, the only year that was available in the Essex Data Archive.

Fourth, the researchers conducted a quasi-cohort analysis of the EFS for 2001/03 and the FES for 1991/93. The aim of this element of the research was to assess whether the phenomenon of low spending is a feature of the current cohort of older pensioners or whether it is a characteristic that is associated with ageing across different generations. In other words, is low spending an ageing or a cohort effect? In order to explore this question, cross-sectional analysis of recent EFS data for 2001/03 was compared with similar analysis of data from the FES for a decade earlier (i.e. 1991/93). If low spending is an ageing effect, we would expect to find that, as now, older pensioners ten years ago were low spenders, but young pensioners were high spenders. In other words, if it is an ageing effect, today's generation of low spending older pensioners would have been relatively high spending, young pensioners ten years previously. If, on the other hand, low spending is a cohort effect, we would expect to find that today's generation of low spending older pensioners were also low spending young pensioners ten years ago.

Finally, longitudinal analysis of the BHPS was undertaken to further examine the question of whether low spending is an ageing or a cohort effect. It complements the cross-sectional, quasi-cohort analysis of the FES/EFS by examining expenditure over time for a panel of pensioners. This part of the research was based on data for 1991 to 2002/03.

With the exception of Chapter 5, the data have been weighted in order to make them representative of the British population (English population in the case of ELSA). Weighting is usually necessary because of differential response to the survey among the population (some types of people are less likely than others to take part in social surveys). The weights used were those supplied with the datasets that we obtained from the ESRC Data Archive. No weights were available for the FES 1991/92 and 1992/93. Chapter 5 compares results from the EFS 2001/03 with those for the FES 1991/93 and, for consistency, both are analysed on an unweighted basis in that chapter.

The definition of income used in this report is weekly disposable income before housing costs.[2] Pensioner households are described as having a low income if their weekly disposable income, before housing costs, is less than 60 per cent of the median income for the population as a whole. Income has been equivalised in order to take into account differences in household size and composition. The McClements scale was used to equivalise income as that is the one currently used in both the Households Below Average Income series (Gray *et al.*, 2005) and the pensioner income series produced by the DWP (Balchin and Bullen, 2005). All expenditure and income figures are expressed in constant prices for January 2005 using the All Items Retail Price Index.

1.2.3 Study limitations

It is important to note some important limitations of the research: First, secondary analysis of existing datasets is inevitably limited by the questions asked in the original survey. For this reason, this research method was better able to answer the 'which pensioners?' question than the 'why?' question. However, the qualitative research commissioned by the Department noted above, aims, among other things, to explore the 'why?' question in some detail.

Second, the expenditure categories and the definition of what counts as a household used in the EFS differ from those used in the FES in 1991/93. The definition of households was changed in 2001/02 as part of a shift towards a harmonized approach between different government surveys. Because of the differences in household definition, the EFS has slightly more one person and fewer 'other' households than the FES. The expenditure categories were changed in order to bring them into line with the European standard classification of individual consumption by purpose (COICOP).

Third, although it is the most reliable source of data on household spending, as with all surveys the EFS has some limitations. For example, it is thought that expenditure on a small number of items, such as alcohol and tobacco, is under-reported. It is possible that some older people may find it more difficult than other people to fully

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[2] Income is calculated net of income tax, National Insurance, council tax, maintenance paid and contributions to occupational pension schemes.

complete the two-week expenditure diary. It should be noted that the definitions of weekly household income and expenditure used in the EFS (and FES) are such that it should not be assumed that these two amounts will necessarily balance exactly or that the difference between them is necessarily an accurate measure of saving or dissaving (Craggs, 2004). Hence, if income is more than total expenditure, this does not mean that the difference is being saved; it may simply reflect differences in the way these two categories are defined[3]. In this respect, it is important to note that this study focuses on pensioners who spend very substantially less than their income. It examines the characteristics of these low spending pensioner households and how they differ from other pensioner households.

Fourth, although the research found significant associations between low spending and certain household characteristics or circumstances, correlation does not imply that there is necessarily a causal relationship between them or, where there is such a relationship, which is cause and which is effect. This limitation is not particular to this project, but applies to most quantitative social research.

1.2.4 Conventions

In this report, all differences that are discussed in the text are statistically significant (at the 95 per cent probability level of higher). In the tables, the following conventions have been used:

- <1 less than 0.5 per cent;
- 0 no observations;
- - category not applicable;
- .. data not available;
- [ ] percentages are based on fewer than 50 observations.

1.3 Outline of the report

Chapter 2 presents an overview of patterns of spending among pensioner households. It looks briefly at what they spend their money on and how much of their income they spend in total. It also presents a definition of 'low spending' households.

Chapter 3 looks at which pensioner households spend a low, medium or high proportion of their income. It also examines the characteristics of low income, low spending households.

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[3] And of course money that is not spent immediately may be spent at a later date. For example, people may save up to buy 'lumpy' items of expenditure such as beds or cookers (cf. Dominy and Kempson, forthcoming).

Chapter 4 examines why some pensioner households spend a low proportion of their income.

Chapter 5 addresses the question of whether low spending is an ageing effect or a cohort effect.

Chapter 6 presents the conclusions of the study.

2 Patterns of spending

2.1 Introduction

This chapter provides an overview of patterns of spending among pensioner households. It also briefly explores the income-expenditure relationship.

The analysis is based on data from the Expenditure and Food Survey (EFS) for the financial years 2001/02 and 2002/03, which we refer to as the 'EFS 2001/03'. Income and expenditure have been equivalised using the McClements equivalence scale, the same as is currently used in the Department for Work and Pensions' (DWP's) Households Below Average Income series and its pensioner income series. Incomes are defined as disposable incomes before housing costs. Although pensioners' incomes are often measured using an 'after housing costs' approach, 'before housing costs' has been used here because the research is focused on expenditure, which of course includes housing. All expenditure and income figures are expressed in constant prices for January 2005 using the All Items Retail Price Index. The analysis presented in this report is based on the 13 main categories of goods and services currently used for the annual EFS report, *Family Spending*.[4]

[4] The data in this chapter and the next refer to either the household as a whole or to what is known as the 'household reference person' (HRP), a concept that since 2001/02 has replaced the head of household in all Government-sponsored surveys. In brief, the HRP is the householder, that is, the person who owns the household accommodation, or is legally responsible for the rent on it, or who occupies it as an emolument or perquisite (i.e. tied accommodation), or who occupies it by virtue of some relationship with the owner who is not a member of their household. In households where there are joint householders, the HRP is the one with the higher income or, if the income is the same, the oldest (Craggs, 2002).

2.2 Expenditure by pensioner households

The Pensions Commission's (2004) analysis of the EFS data for 2003 showed that both absolute expenditure and income declined by age group. They found that, among households where the HRP was aged 65 to 74, average total expenditure per household was £271 per week, while average income was £303 per week. For households where the HRP was aged 75 or above, average total weekly expenditure was £177 and average weekly income was £234. Thus, while expenditure was £94 per week lower among the older age group, income was only £69 per week lower.

The Pensions Commission's analysis takes no account of household size or household type, both of which might be expected to affect the amount of spending per household. As noted above, however, the analysis reported here adjusts for household size using equivalised income and expenditure.

It should also be noted that the Pensions Commission analysis defined 'pensioner' households as those where the HRP was aged 65 or more (they also had a 'pre-pensioner' group comprising households where the HRP was between 50 and 64 years). By contrast, in this report, 'pensioner households' are defined as households where at least one adult is above state pension age. It follows from this definition that in some cases, the HRP will be below that age. This includes situations where, for example, the pensioner is living with their son or daughter; in some cases the pensioner is the HRP and in others the HRP is another adult in the household. We refer to these as 'other pensioner households'.

Table 2.1 Mean household expenditure and income by age of household reference person and household type (£pw)

	Age of HRP										
	Under 60			60 to 69			70 to 84			85 & over	
	Couple	Other	Single	Couple	Other	Single	Couple	Other	Single	Couple	Other
Expenditure item	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**
Food and non-alcoholic drinks	45.59	39.11	43.23	50.29	43.87	38.65	46.15	41.90	32.69	37.51	[35.68]
Alcoholic drinks and tobacco	17.82	10.29	9.70	10.21	9.62	6.65	8.25	10.79	3.97	4.12	[8.19]
Clothing and footwear	20.25	20.77	19.60	16.35	18.47	9.21	13.09	12.88	8.18	8.99	[17.24]
Housing, fuel and power	43.89	23.96	45.32	32.97	27.09	43.34	31.01	28.57	39.22	29.70	[29.14]
Household goods and services	28.00	27.77	25.93	33.59	21.01	25.82	24.67	18.56	16.20	14.75	[22.20]
Health	5.34	3.62	5.34	13.86	3.33	4.25	5.44	4.06	3.99	4.47	[2.62]
Transport	53.76	47.01	33.04	57.23	54.11	21.65	34.01	31.42	7.26	10.60	[31.23]
Communication	8.13	9.07	10.16	7.54	8.68	8.45	6.38	8.14	6.49	4.63	[5.94]
Recreation and culture	63.95	42.69	48.28	58.17	50.36	31.67	42.79	36.82	14.73	25.38	[35.19]
Education	0.10	1.99	0.21	0.40	0.31	0.43	1.39	.44	1.17	0	[0.85]
Restaurants and hotels	33.95	25.46	18.78	28.07	28.22	12.76	20.09	21.10	8.02	11.02	[24.03]
Miscellaneous goods and services	24.84	30.60	23.84	31.94	23.86	24.22	25.59	22.17	26.88	18.80	[19.65]
Other expenditure items	47.71	47.57	41.37	39.80	28.75	26.12	29.59	22.87	23.55	19.49	[23.71]
Total expenditure	393.33	329.90	324.80	380.43	317.69	253.20	288.42	259.70	192.37	189.46	[255.69]
Total income	454.72	414.27	354.23	403.24	367.92	304.87	337.70	330.46	289.52	267.61	[369.40]
Percentage of income spent	86%	80%	92%	94%	86%	83%	85%	79%	66%	71%	[69%]
Unweighted base	*80*	*160*	*547*	*805*	*231*	*1,139*	*955*	*167*	*231*	*54*	*30*

Note: There is no column for singles under 60 because by definition they are not pensioners.

Source: Expenditure and Food Survey 2001/03.

Table 2.2 Mean household expenditure and income by age of household reference person and household type (%)

	Age of HRP										
	Under 60			60 to 69			70 to 84			85 & over	
	Couple	Other	Single	Couple	Other	Single	Couple	Other	Single	Couple	Other
Expenditure item	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Food and non-alcoholic drinks	12	12	13	13	14	15	16	16	17	20	14
Alcoholic drinks and tobacco	5	3	3	3	3	3	3	4	2	2	3
Clothing and footwear	5	6	6	4	6	4	5	5	4	5	7
Housing, fuel and power	11	7	14	9	9	17	11	11	20	16	11
Household goods and services	7	8	8	9	7	10	9	7	8	8	9
Health	1	1	2	4	1	2	2	2	2	2	1
Transport	14	14	10	15	17	9	12	12	4	6	12
Communication	2	3	3	2	3	3	2	3	3	2	2
Recreation and culture	16	13	15	15	16	13	15	14	8	13	14
Education	<1	1	<1	<1	<1	<1	<1	<1	1	0	<1
Restaurants and hotels	9	8	6	7	9	5	7	8	4	6	9
Miscellaneous goods and services	6	9	7	8	8	10	9	9	14	10	8
Other expenditure items	12	14	13	10	9	10	10	9	12	10	9
Total	100	100	100	100	100	100	100	100	100	100	100

Note: There is no column for singles under 60 because by definition they are not pensioners.

The percentages in this table are based on the figures in Table 2.1.

Source: Expenditure and Food Survey 2001/03.

Table 2.1 shows mean income, total expenditure and expenditure on 13 different categories of consumption by HRP age group, based on the EFS 2001/03. It is clear from the table that, even when household size and household type are taken into account, both income and total expenditure decline as the age of the HRP rises. Moreover, for all three household types – single people, couples and others – aged 60 or more, total expenditure falls more than income as age increases. Thus, even when controlling for household size and type, Table 2.1 confirms the Pensions Commission's finding that pensioners' income and expenditure decline across age groups, but expenditure falls at a faster rate than income.

It is not just total expenditure that falls across the pensioner age groups; spending on the different categories of consumption also declines. When pensioner households aged 85 and over are compared with those aged from 60 to 69 years, average expenditure falls for the majority of the 13 categories of consumption (Table 2.1). For the few items where average expenditure does rise over this age range, the increase is very small.

For all three household types, the largest absolute falls in expenditure are on recreation and culture and on transport. For instance, for single pensioners, average expenditure on transport falls from £33.04 per week among those aged 60 to 69 years, to £7.26 per week among those aged 85 or more, a decline of £25.78 per week or four-fifths (78 per cent). Broadly similar results apply to pensioner couples and to other types of pensioner household (Table 2.1).

Expenditure on the different items of consumption does not fall exactly evenly across the different age groups, with the result that there are some changes in the rank order of individual categories of expenditure. For instance, among pensioner couples, the two largest expenditure categories among those where the HRP is aged between 60 and 69 years are recreation and culture and transport, both of which account for 15 per cent of the total. However, among pensioner couples where the HRP is aged 85 or more, recreation and culture is the third (eight per cent) and transport is only the seventh (six per cent) largest items of expenditure (Table 2.2).

Table 2.3 shows individual mean expenditure on the different categories of consumption by whether the pensioner household spends a low, medium or high proportion of their income. The way in which these categories are defined is explained in more detail in the next chapter. Suffice it to note at this stage that:

- 'low spending pensioner households' are those whose expenditure as a proportion of income is in the bottom quartile;
- 'high spending pensioner households' are those whose expenditure as a proportion of income is in the top quartile; and
- 'medium spending pensioner households' are those in between.

These three categories of low, medium and high spending pensioner households have been calculated separately for each income quintile.

With the exception of education, on which all three groups of pensioner household spend very little, the high spending pensioner households – that is, those whose expenditure as a proportion of income (adjusted for income quintile) is in the top quartile – spend substantially more than low spending pensioner households on all categories of consumption. On average, low spending pensioner households spend about £300 per week less than high spending pensioner households (Table 2.3). Expressed differently, the average weekly expenditure by low spending pensioners is only a third (34 per cent) of that of high spending pensioner households.

The difference in expenditure on individual consumption items varies between low and high spending pensioner households, both in absolute (£pw) and in relative terms. The biggest difference in absolute terms is on transport: on average, high spending pensioner households spend £59 per week more on transport than do low spending pensioners (Table 2.3).

In relative terms, the largest difference in expenditure by high and low spending pensioner households is in respect of health, on which low spending pensioners spend only 13 per cent of the amount spent by high spending pensioners (£1.66 per week compared with £13.07 per week).

Table 2.3 Mean weekly expenditure by whether pensioner households spend a high, low or medium proportion of their income

	Weekly expenditure		
Expenditure item	**Low £pw**	**Medium £pw**	**High £pw**
Food and non-alcoholic drinks	33.99	44.31	49.37
Alcoholic drinks and tobacco	4.67	9.40	10.42
Clothing and footwear	4.35	12.78	24.33
Housing, fuel and power	28.34	35.88	45.12
Household goods and services	8.16	19.36	52.39
Health	1.66	4.48	13.07
Transport	10.55	26.93	69.78
Communication	6.59	7.82	9.23
Recreation and culture	16.52	36.86	73.33
Education	0.13	0.78	0.72
Restaurants and hotels	9.60	19.15	30.35
Miscellaneous goods and services	13.93	23.37	41.58
Other expenditure items	18.93	29.08	46.64
Total expenditure	157.41	270.21	466.33
Unweighted base	*1,050*	*2,154*	*1,108*

Source: Expenditure and Food Survey 2001/03.

The relative importance of the different items of consumption also differs between pensioners that spend a low share of their income and those that spend a high share (Table 2.3). For example:

- the number one consumption category for low spending pensioner households is food and non-alcoholic drinks, but for high spending pensioners this category is only the fourth highest;
- for high spending pensioners, the consumption item ranked highest in terms of amount spent per week is recreation and culture; but for low spending pensioners, this category of consumption is ranked only fourth;
- while transport is ranked sixth for low spending pensioner households, it is ranked second for high spending pensioner households.

Thus, pensioners spending a low or high proportion of their income differ not only in the absolute amounts of money they spend each week on different categories of consumption; they also differ in the relative importance of each consumption category in their household budget. In general, low spending pensioner households devote a larger share of their income than high spending ones to basic necessities like food and housing and less to items like leisure.

Table 2.4 compares the mean weekly spending of low spending, low income households with that of low spending, non-low income households. In this context, 'low income' means having an income before housing costs that is less than 60 per cent of the median for the adult population as a whole. The rank order of expenditure items is very similar between low spending low income and non-low income households. The only item that differs significantly in rank order is expenditure on transport, which is ranked sixth for non-low income households but only eleventh for low income households.

Table 2.4 Mean weekly expenditure among households spending a *low* proportion of income by income status

	Weekly expenditure	
Expenditure item	Low income £pw	Non-low income £pw
Food and non-alcoholic drinks	27.09	37.20
Alcoholic drinks and tobacco	2.83	5.54
Clothing and footwear	2.24	5.34
Housing, fuel and power	21.28	31.62
Household goods and services	3.92	10.13
Health	0.72	2.10
Transport	2.52	14.29
Communication	5.56	7.06
Recreation and culture	9.55	19.77

Continued

Table 2.4 Continued

Expenditure item	Weekly expenditure: Low income £pw	Weekly expenditure: Non-low income £pw
Education	0	0.18
Restaurants and hotels	3.85	12.28
Miscellaneous goods and services	6.55	17.37
Other expenditure items	7.68	24.16
Total expenditure	93.8	187.04
Unweighted base	*326*	*724*

Note: 'Low income' is defined as below 60 per cent of the median before housing costs.

Source: Expenditure and Food Survey 2001/03.

2.3 Percentage of income spent

The Pensions Commission's (2004) analysis of the EFS data for 2003 showed that the percentage of income spent by households declined with age, falling from 92 per cent among households where the HRP was aged between 50 and 64 years, to 90 per cent where the HRP was aged 65 to 74, and 76 per cent where the HRP was aged 75 or more.

Table 2.5 shows median expenditure as a proportion of income by age group. It confirms that, among households where the HRP is aged 60 years or more, spending does indeed fall as age rises, even when adjusted for household size and composition. Indeed, the very elderly do not spend quite a substantial share of their income. On average, households aged 80 to 84 spend less than three-quarters of their income, while those aged 85 plus spend only about two-thirds of their income.

Table 2.5 Median expenditure as a percentage of income by age group

Age of HRP	%	Base
Under 60	81	240
60 to 64	92	552
65 to 69	87	1,031
70 to 74	85	955
75 to 79	80	775
80 to 84	73	531
85 and above	64	315
All	83	4,399

Source: Expenditure and Food Survey 2001/03.

One possible reason why the older elderly spend a lower proportion of their income than the younger elderly is that they are more likely to be disabled (because the incidence of impairment increases with age) and less mobile and hence, perhaps, have fewer opportunities to spend their income. Table 2.6 shows median expenditure as a percentage of income among those receiving and not receiving disability benefits (Attendance Allowance (AA) and Disability Living Allowance (DLA)) by age group. It is clear from the table that pensioner households in receipt of disability benefits spend less on average that those who are not in receipt of these benefits.[5] It is also evident that, for both groups of pensioners, the median proportion of income spent each week falls as age increases.

Table 2.6 Median expenditure as a percentage of income by age and receipt of disability benefits

	Receives disability benefits?	
	Yes	No
Pensioner household	Median expenditure as a % of income	
Age of HRP		
Under 60	78	81
60 to 69	85	89
70 to 79	75	84
80 and above	63	72
Unweighted base	*691*	*3,621*

Source: Expenditure and Food Survey 2001/03.

2.4 The expenditure-income relationship

We have seen that the percentage of income that pensioner households spend is related to their age: older pensioners tend to spend a lower share of their income than younger ones. On average, pensioners aged 85 or more spend only two-thirds of their income. Before looking at the other characteristics of households that spend below their income, it is helpful to examine the extent to which the share of income spent is related to the amount of income that pensioners have. It is reasonable to hypothesise, for example, that lower income pensioners will spend a higher share of their income than better off ones. This is because, other things being equal, low income pensioners are likely to have less scope for saving than pensioners with a relatively non-low income.

[5] It is important to note that, whilst the two-week diaries that individuals complete as part of the EFS includes their health, care and mobility expenditure over that period, the household questionnaire, which asks respondents about larger expenditures made over the previous year, does not specifically ask about these items. It is possible, therefore, that expenditure on health, care and mobility may be overlooked and hence, under-reported in the survey.

In examining this relationship it is important to avoid the problem of extreme values created by any measurement errors in relation to either weekly income or expenditure. It was, therefore, decided to trim the sample by one per cent at either end of the distribution of expenditure as a percentage of income. This process eliminated the small number of very extreme values without reducing, to any great extent, the number of cases left in the sample for analysis. Trimming the sample in this way affects the mean (because it is greatly affected by extreme values) but not the median, which is a more stable measure.

Figure 2.1 plots median expenditure against income in £10 bands for all pensioner households. If expenditure were equal to income, the relationship would exhibit a straight line as shown on the figure. But in fact, in the lower part of the income distribution, median expenditure **exceeds** income; while in the middle to upper end of the income distribution, median expenditure falls **below** income and increasingly does so as income rises. (The figures for the three household types – single pensioners, pensioner couples, and other pensioner households – exhibit a very similar pattern and are shown in Figures B.1 to B.3.)

Thus, on average, expenditure does not increase commensurately in line with income; the income elasticity of expenditure is therefore less than 1.0. However, it is important to note that there is a high level of dispersion of spending around the average at any income point. A simple linear regression of income on total expenditure suggests that, by itself, income explains 40 per cent of the variance in total expenditure. Hence, although income is important, other factors also affect the amount that pensioners spend.

Figure 2.1 Income versus expenditure among all pensioner households

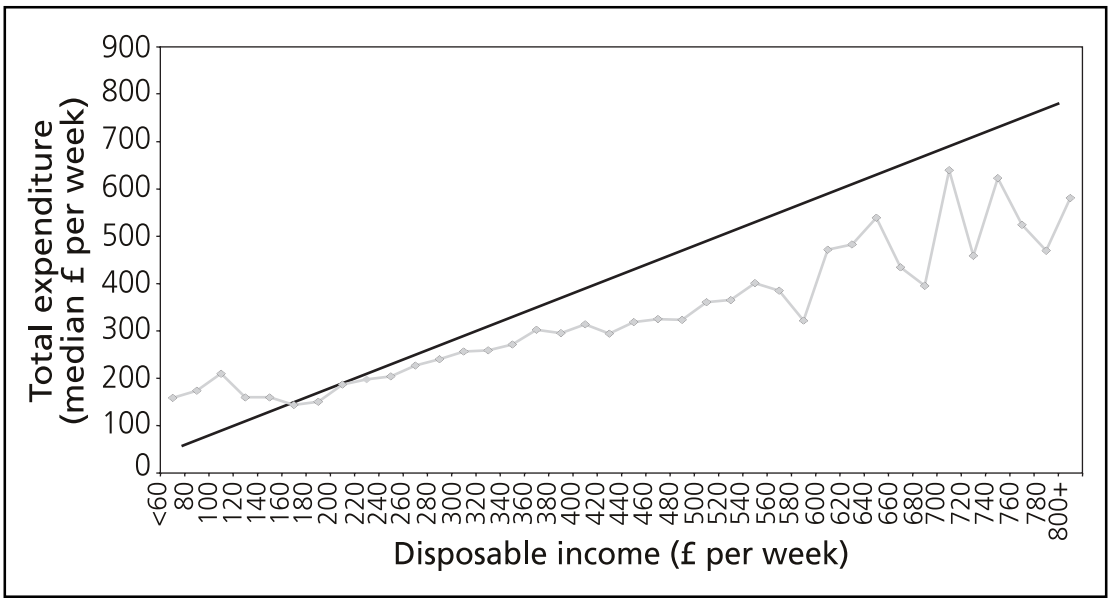

Table 2.7 shows the median, lower quartile and upper quartile points for expenditure as a percentage of income for each of the five income quintiles. For pensioner households as a whole, the lower quartile of expenditure as a percentage of income is 61.3 per cent. However, when households are sorted into income quintile groups (that is, five equal-sized groups sorted by income), the lower quartile of expenditure as a percentage of income varies inversely with income; it ranges from 67.7 per cent in the bottom income quintile to 47.5 per cent in the top income quintile. The medians and upper quartiles also decline with rising income. Thus, broadly speaking, expenditure as a percentage of income declines as income rises.

Table 2.7 Expenditure as a percentage of income by income quintile

	Income quintile					
Expenditure as a % of income	**Bottom**	**2**	**3**	**4**	**Top**	**All pensioner households**
Lower quartile	67.7	66.2	60.1	53.2	47.5	61.3
Median	92.0	86.9	79.9	70.2	68.1	82.8
Upper quartile	124.9	114.6	107.4	91.7	91.8	110.6
Unweighted base	*1,111*	*1,374*	*902*	*584*	*339*	*4,312*

Source: Expenditure and Food Survey 2001/03.

2.5 Summary

The analysis of the pooled data from the EFS for 2001/02 and 2002/03 confirms the findings in the Pensions Commission's first report (Pensions Commission, 2004). While both income and expenditure among pensioner households declines across the age groups, expenditure declines more than income. The result is that expenditure as a proportion of income also falls.

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

Finally, although low spenders are generally more frugal than other pensioners, low income pensioners tend to spend a higher proportion of their income than better off ones. This is hardly surprising as, other things being equal, low income pensioner households have less scope to save than better off pensioners.

3 Which pensioners are low spenders?

3.1 Introduction

This chapter examines the characteristics of pensioner households that spend a low share of their income and compares them with other pensioner households. It also looks at the characteristics of low income, low spending pensioner households, that is, pensioners that are both low income and spend a relatively low proportion of their income.[6] The first part of the chapter looks at bivariate relationships, that is, associations between spending levels (high, medium and low) and other characteristics one at a time. The second part of the chapter examines multivariate relationships and as such looks at each characteristic while holding all others constant.

Like Chapter 2, the analysis is based on data from the Expenditure and Food Survey (EFS) for 2001/02 and 2002/03. As before, income and expenditure have been equivalised using the McClements equivalence scale, the same as is used in the Department for Work and Pensions' (DWP's) Households Below Average Income and pensioner income series. All expenditure and income figures are expressed in constant prices for January 2005 using the All Items Retail Price Index.

3.2 Low spending pensioner households

An important aim of this study is to ascertain which pensioner households do not spend their income. In order to address this question, it is helpful to employ a threshold below which a household could be said to be spending a 'low' share of its income. For this research, households were defined as being 'low spenders' if they

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[6] It is important to note that, although a particular characteristic may be associated with low spending, it does not necessarily imply that a cause and effect relationship exists between them.

were in the bottom quartile of expenditure as a percentage of income (in the trimmed sample). For this purpose, 'quartiles' were created by sorting households into rank order by the percentage of their income that they had spent, and then dividing them into four equal-sized groups. The bottom quartile is, thus, the 25 per cent of households spending the lowest share of their income. Households were defined as 'high spenders' if they were in the top quartile, and 'medium spenders' if they were in the inter-quartile range.

As noted in Chapter 2, the proportion of income spent varies by income. In order to control for income, it was, therefore, decided to calculate separate thresholds for each income quintile (see Table 2.8).[7] Thus, for the purpose of this study, 'low spenders' are pensioner households:

- in the bottom income quintile, spending 67.7 per cent or less of their income;
- in the second income quintile, spending 66.2 per cent or less;
- in the third income quintile, spending 60.1 per cent or less;
- in the fourth quintile spending, 53.2 per cent or less; and
- in the top income quintile, spending 47.5 per cent or less of their income.

A similar approach was taken to the definition of high and medium spenders.

3.2.1 Comparing characteristics

Table 3.1 shows some key characteristics of pensioner households according to whether they were spending a low, medium or high proportion of their income. Low spending households – that is, those in the bottom quartile of spending as a percentage of income for their income quintile – were more likely to:

- be single people;
- have a female household reference person (HRP);
- have an HRP aged 80 or more years.

A third of single pensioners were low spenders, compared with a fifth of both couples and other types of pensioner household (see Table C.1). Two-fifths of pensioner households with a HRP aged 80 or more were spending a low share of their income; this compares with only one-fifth of those aged below 80 years. This is consistent with the finding in Chapter 2 that, on average, pensioner households with an HRP of this age were spending a low share of their income.

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[7] It is important to control for income because otherwise the results may be dominated by income effects.

Table 3.1 Characteristics of pensioner households by whether they spend a low or high proportion of their income

	Low %	Medium %	High %	All %	*Unweighted base*
Household type					
Single	57	40	39	44	*1,870*
Couple	31	44	45	41	*1,863*
Other	13	16	16	15	*579*
Sex of HRP					
Male	49	58	56	55	*2,455*
Female	51	42	44	45	*1,857*
Age of HRP					
Under 60	5	6	6	6	*235*
60 to 64	6	12	19	12	*539*
65 to 69	16	23	26	22	*1,016*
70 to 74	18	23	21	21	*937*
75 to 79	18	18	15	17	*767*
80 to 84	20	12	9	14	*513*
85+	16	6	5	8	*305*
Age completed full-time education					
14 or under	51	42	35	43	*1,852*
15 or 16	34	41	42	40	*1,694*
17 or over	15	17	23	18	*766*
Housing tenure					
Renter	37	30	22	30	*1,266*
Buyer	4	10	13	9	*385*
Owner	59	60	66	61	*2,661*
Location of residence					
London	11	10	9	10	*323*
Elsewhere	89	90	92	90	*3,989*

Note: Although there are more female than male pensioners, there are more male than female HRPs in pensioner households.

Sums may not add up to exactly 100 due to rounding.

Source: Expenditure and Food Survey 2001/03.

As Table 3.1 also shows, low spending pensioner households were more likely to:

- have an HRP that left school before the age of 15;
- be renting their accommodation.

Three out of ten HRPs in pensioner households who completed their education at age 14 or under were spending a low proportion of their income; this compares with

about a fifth of those who completed their education at an older age than that. Renter households were also disproportionately likely to be low spenders when compared with people owning their home outright or buying it with a mortgage (see Table C.1).

Table 3.2 identifies some key income characteristics of pensioner households according to whether they were low, medium or high spenders in 2001/03. It shows that low spending households were more likely to derive their main source of income from social security benefits (including the state retirement pension) and slightly less likely to be reliant on annuities and pensions. Low spending pensioner households were also less likely to obtain their main source of income from employment (wages or salaries).

Table 3.2 also shows the proportion of pensioner households that had investment income or were in receipt of disability benefits (Attendance Allowance (AA) or Disability Living Allowance (DLA)) in 2001/03. Low spending pensioners were significantly less likely than other pensioner households to have investment income. They were more likely to be in receipt of disability benefits than those spending a medium or high proportion of their income. In fact, three out of ten disability benefit recipients were low spenders as defined in this report (see Table C.2).

Table 3.2 Income characteristics of pensioner households by whether they spend a low or high proportion of their income

	Low %	Medium %	High %	All %	*Unweighted base*
Main source of income					
Wages and salaries	10	15	14	14	*537*
Self-employment	3	2	2	2	*85*
Investment income	4	2	3	3	*122*
Annuities and pensions	19	21	21	21	*892*
Social security benefits	65	60	60	61	*2,668*
Other sources	[<1]	[<1]	[<1]	[<1]	*8*
Investment income?					
Yes	61	68	75	68	*2,879*
No	39	32	25	32	*1,433*
Disability benefits?					
Yes	19	16	12	16	*691*
No	81	84	88	84	*3,621*

Note: Sums may not add up to exactly 100 due to rounding.

Source: Expenditure and Food Survey 2001/03.

Table 3.3 shows the proportion of pensioner households in each of the three categories of low, medium and high spending that owned or had in their household certain consumer durables. Particularly striking in the table is that only 38 per cent of low spending pensioner households owned a car or van. The percentage of pensioner households owning either kind of vehicle was higher among medium than among low spending households, and higher among high spending (74 per cent) than among medium spending ones (61 per cent). This suggests that pensioner households that were spending a low share of their income were more reliant on public transport and/or less mobile than other pensioner households.

Table 3.3 also shows that pensioner households that were spending a low proportion of their total income were less likely than medium and high spenders to have a computer in their home. Not surprisingly, therefore, they were also less likely to have an internet connection. Both home computers and internet connections cost money to obtain and maintain; and together they enable expenditure to be made in the form of purchases from home via the internet.

Table 3.3 Ownership of consumer durables by pensioner households by whether they spend a low or high proportion of their income

Households owns	Low %	Medium %	High %	All %	*Unweighted base*
Car or van	38	61	74	59	*2,562*
Home computer	14	24	31	23	*978*
Internet connection	9	18	24	17	*718*
Tumble dryer	33	45	51	43	*1,876*
Microwave oven	73	83	84	81	*3,488*
CD player	43	60	69	58	*2,494*

Source: Expenditure and Food Survey 2001/03.

Low spending pensioner households were less likely than medium or high spending pensioner households to have a tumble dryer in their home (Table 3.3). Tumble dryers are not only relatively expensive consumer durables, they also incur not insignificant electricity costs to use. How these costs compare with using a launderette is not clear, though in practice the alternative might be a clothes dryer or washing line.

Pensioner households that were spending a low proportion of their income were less likely to have a microwave oven than other pensioner households, but even so three-quarters (73 per cent) of them had one in their home. Low spending pensioner households were much less likely than medium and high spending households to have a compact disc player at home (Table 3.3). Of course, not only does a compact disc player cost money, but the purchase of compact discs also requires financial outlays.

3.2.2 Multivariate analysis

The analysis so far has indicated that there is a range of factors associated with spending a low proportion of income when considered one at a time. Multivariate statistical techniques such as logistic regression can identify the importance of each factor independently of the others. The variables discussed so far (such as age, income, car ownership) were entered into logistic regression models in order to predict the odds that pensioner households having particular characteristics were spending a low share of their income.

As before, low spending households were defined as those whose spending as a percentage of their income was in the bottom quartile for pensioners in their income quintile group. The logistic regression models were run for all pensioner households together and separately for low income and for non-low income pensioner households. Households were defined as being low income if their income before housing costs was less than 60 per cent of the median for all households.

The variables were entered into the model in two blocks, the first comprising variables for socio-economic characteristics and the second comprising the first block plus variables for ownership of consumer durables. Entering the variables in this way improved the 'fit' of the model beyond that provided by the socio-economic variables alone. In general, the results from the multivariate analysis are consistent with the evidence emerging from the cross-tabulations reported above.

Table 3.4 shows the odds of pensioner households with different characteristics spending a low proportion of their income.

Table 3.4 The odds of pensioner households spending a low share of their income

Independent variable	Odds
Sex	
Male	1.0
Female	0.5***
Household type	
Single	1.0
Couple	0.8**
Other	1.0
Age[1]	
Under 60	1.0
60 to 69	0.4***
70 to 79	0.5***
80+	0.9

Continued

Table 3.4 Continued

Independent variable	Odds
Sex by age	
Female under 60	1.0
Female aged 60 to 69	1.4
Female aged 70 to 84	1.8**
Female aged 85+	1.7*
Housing tenure	
Renting	1.0
Buying	0.5***
Owning	1.2**
Income quintile	
Bottom	1.0
2	1.5***
3	2.2***
4	3.1***
Top	4.3***
Has investment income	0.7***
Receives disability benefits	1.1*
Has consumer durables	
Car or van	0.3***
Home computer	0.8***
Tumble dryer	0.8***
CD player	0.6***
Microwave oven	0.8***
Unweighted base	*4,310*

Significance levels: * <0.05; ** <0.01; *** <0.001.

[1] It should be noted that, although these odds appear to suggest that older people are less likely to be low spenders, the reference group is the youngest age group who, as shown in Table 2.1, spend a comparatively low proportion of their income.

Source: Expenditure and Food Survey 2001/02 and 2002/03.

Holding other variables constant:

- female HRPs were less likely to spend a low share of their income;
- compared with single pensioners, couples were less likely to spend a low proportion of their income;
- older women were more likely than younger ones be in low spending pensioner households;
- compared with pensioners renting their home, those buying their accommodation were less likely, and those who owned it outright were more likely, to be low spending households;

- pensioners with investment income were less likely to be low spending households than those without this source of income;
- pensioner households owning a car were less likely to be in the low spending category;
- households having a computer and certain other consumer durables in their home were significantly less likely to be low spending pensioners than those who did not have them.

Although the low spending variable was adjusted for income, when other factors were controlled for the odds of pensioner households spending a low proportion of their income increased up the income quintiles. Thus, those in the top quintile were about four times more likely to spend a low proportion of their income, holding other factors constant, than those in the bottom quintile. This shows the importance of income as a determinant of the share of income that pensioner households spend.

Pensioner households where the HRP was aged 60 and above were less likely to spend a low share of their income than those aged under 60. To put this the other way around, households containing pensioners where the HRP was aged under 60 were more likely to spend a low proportion of their income than older ones. This age category interacts with household type, not least because two-thirds of 'other' households had a HRP aged under 60. When a variable for 'other' households was entered into the logistic regression models (so that this household type was being compared with single and couple pensioner households together), it was statistically significant. Compared with single and couple pensioner households, 'other' households were 1.2 times more likely to spend a low share of their income.

Logistic regression models were also run that included a variable for whether or not households were in the bottom quartile for spending on food as a proportion of their income. For this variable, as with the variable for low total spending, the quartiles of spending on food were calculated separately for each income quintile. This method was used because spending on food as a proportion of income is inversely related to income, falling as income rises. This logistic regression analysis indicated that low relative food spenders were significantly more likely than other households to be low total spenders.[8]

Separate logistic regression analyses were also run for pensioners with an income below 60 per cent of the median before housing costs ('low income pensioners') and those with a higher income than that ('non-low income pensioners'). Although the results for non-low income pensioners were broadly similar to those for pensioner households as a whole, the results for low income pensioners were somewhat different.

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[8] The odds of being a low spending household were about four times higher for low food spending pensioner households compared with those whose food spending was not low, holding other factors constant.

Table 3.5 shows the results for households in the low income category. Fewer variables were significant when the analysis was confined to low income pensioners than when it included pensioners as a whole.

Among low income pensioner households:

- female HRPs were less likely to spend a low share of their income;
- couples were less likely than other types of pensioner household to spend a low share of their income;
- those with investment income were significantly less likely than those without investment income to spend a low share of their income;
- pensioner households with certain consumer durables were significantly less likely to spend a low proportion of their income than those that did not have them;
- those who were buying their home or owned it outright were much less likely to spend a low proportion of their income than those that were renting their accommodation.

Table 3.5 The odds of low income pensioner households spending a low share of their income

Independent variable	Odds
Sex	
Male	1.0
Female	0.3*
Household type	
Single	1.0
Couple	0.5***
Other	1.0
Age	
Under 60	1.0
60 to 69	0.6
70 to 84	0.7
85+	1.3
Sex by age	
Female under 60	1.0
Female aged 60 to 69	1.6
Female aged 70 to 79	1.8
Female aged 80+	2.4

(Continued)

Table 3.5 Continued

Independent variable	Odds
Housing tenure	
Renting	1.0
Buying	0.4***
Owning	0.8*
Has investment income	0.7***
Receives disability benefits	1.1
Has consumer durables	
Car or van	0.3***
Home computer	0.6**
Tumble dryer	0.8*
CD player	0.7***
Microwave oven	0.8**
Unweighted base	*1,406*

Significance levels: * <0.05; ** <0.01; *** <0.001.

Source: Expenditure and Food Survey 2001/03.

3.3 Comparing high and low spending low income pensioners

Bivariate comparisons were also made among low income pensioners between those in the low spending category and those that were classified as high spenders, in order to see what distinguished them from each other (Table 3.6). This revealed that low income low spenders were rather different from low income high spenders in many respects.

Low spending low income pensioners were **more likely** than high spending low income pensioners to:

- be single;
- be female;
- be aged 80 and above;
- have left school by the age of 14;
- be renting their home.

Low spending low income pensioners were **less likely** than high spending low income pensioners to have investment income or to be in receipt of disability benefits (AA or DLA).

Table 3.6 Characteristics of low income pensioner households by whether they spend a low income or high proportion of their income

	Low spender %	High spender %	*Unweighted base*
Household type			
Single	74	50	*434*
Couple	19	39	*223*
Other	8	12	*64*
Sex of HRP			
Male	38	48	*327*
Female	62	52	*394*
Age of HRP			
Under 60	[2]	[3]	*19*
60 – 69	16	35	*204*
70 – 79	35	45	*305*
80 +	47	16	*193*
Age completed full-time education			
14 or under	68	52	*429*
15 or 16	29	38	*247*
17 +	[3]	[10]	*45*
Housing tenure			
Renter	61	34	*332*
Buyer	[1]	[10]	*42*
Owner	38	56	*347*
Location of residence			
London	[8]	[6]	*38*
Elsewhere	92	95	*683*
Has investment income			
Yes	40	60	*360*
No	60	40	*361*
Receives disability benefits			
Yes	8	11	*72*
No	92	89	*649*

Base: low income pensioner households spending a low or high share of their income.

Note: Sums may not add up to exactly 100 due to rounding.

Source: Expenditure and Food Survey 2001/03.

As Table 3.7 shows, low spending, low income pensioner households were also less likely than high spending, low income pensioners to have or own:

- car or van;
- home computer;
- internet connection at home;
- tumble dryer;
- microwave oven; or
- compact disc player.

Table 3.7 Ownership of consumer durables by low income pensioner households by whether they spend a low or high proportion of their income

Household owns	Low spender %	High spender %	*Unweighted base*
Car or van	13	60	*283*
Home computer	3	17	*73*
Internet connection	[2]	[10]	*42*
Tumble dryer	22	40	*224*
Microwave oven	66	76	*512*
CD player	27	54	*295*

Base: low income pensioner households spending a low or high share of their income.

Source: Expenditure and Food Survey 2001/03.

Table 3.8 shows the results of a logistic regression analysis based just on low and high spending, low income pensioner households. It presents the odds of low income pensioner households spending a low, rather than a high, proportion of their income, for each characteristic of interest while holding the other characteristics constant. It is noticeable that only a few of the variables were significant, especially when compared with the logistic regression results for all pensioner households, which suggests that differences **between** low income and other pensioners households are more significant than those **within** the low income group.

Table 3.8 The odds of low income pensioner households spending a low rather than a high share of their income

Independent variable	Odds
Sex	
Male	1.0
Female	0.6
Household type	
Single	1.0
Couple	1.0
Other	1.0
Age of HRP	
60 to 69	1.0
70 to 79	1.8
80+	4.8***
Sex by age	
Female aged 60 to 69	1.0
Female aged 70 to 79	0.8
Female aged 80+	0.9
Housing tenure	
Renting	1.0
Buying	[0.2]*
Owning	0.6*
Has investment income	0.5**
Receives disability benefits	1.1
Has consumer durables	
Car or van	0.1***
Home computer	0.4*
Tumble dryer	0.8
CD player	0.6*
Microwave oven	1.2
Unweighted base	*702*

Base: low income households spending a low or high share of their income.

Significance levels: * <0.05; ** <0.01; *** <0.001.

Source: Expenditure and Food Survey 2001/03.

Among low income, low and high spending pensioner households, when controlling for other variables:

- those with a HRP aged over 80 had much higher odds of spending a low share of their income than younger ones;

- low income owner-occupiers, whether buying their home on a mortgage or owning it outright, had significantly lower odds of spending a low share of their income than renters;
- pensioner households with investment income were significantly less likely to spend a low proportion of their income than those without;
- low income pensioners that owned a car or van had very much lower odds of spending a low share of their income than those without them;
- those owning a home computer or CD player had lower odds of being a low spending household than those that did not own them.

3.4 Summary

Compared with other pensioner households, those that spend a low proportion of their income were more likely to be single, aged 80 and above, to have completed their education at 14 or younger, and to be renting their accommodation. They were also more likely to rely on social security benefits as their main source of income and less likely to have investment income.

Pensioner households in receipt of disability benefits (AA and DLA) were more likely to spend a low proportion of their income than those not getting these benefits. To some extent, this result is surprising, as many disabled people tend to have extra costs (such as heating, bedding or transport) compared with other people.[9] However, it may be that restricted mobility reduces the opportunity for people with impairments to spend money their income.[10]

Pensioner households that were spending a low proportion of their income were less likely to own a car, and less likely to have certain consumer durables (such as a computer, tumble dryer or compact disc player) in their home than other pensioner households. These items not only cost money to acquire, they also require expenditure to use (and in the case of cars, to maintain). Compact disc players require compact discs, tumble dryers consume electricity, cars require petrol, all of which will be reflected in household budgets.

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[9] 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). However, as noted in Chapter 2, whilst the two-week diaries that individuals complete as part of the EFS includes their health, care and mobility expenditure over that period, the household questionnaire, which asks respondents about larger items purchased over the previous year, does not specifically ask about these items.

[10] Matthews and Truscott (1990) found that disabled people spent less in relation to their incomes than non-disabled people.

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.

4 Exploring reasons for low spending

4.1 Introduction

This chapter uses quantitative analysis to attempt to identify reasons **why** pensioners spend a low proportion of their income on food. Quantitative analysis, unlike qualitative, does not enable in-depth examination of the reasons for low spending. Nevertheless, it is able to highlight factors that are significantly related to low spending. To complement the analysis undertaken using the Expenditure and Food Survey (EFS), this chapter undertakes analysis using the British Household Panel Survey (BHPS) and the English Longitudinal Study of Ageing (ELSA). Whilst the EFS provides a comprehensive picture of expenditure, it lacks variables which may explain why some pensioner households spend a low proportion of their income. The BHPS and ELSA, however, include a range of additional variables which may shed light on this issue. On the other hand, the measure of expenditure that these surveys include is far less comprehensive (see Section 4.1.1).

In this chapter, data is more often presented for ELSA than for the BHPS. An advantage that ELSA has over the BHPS is that it is a survey of people aged over 50 (and their younger partners) living in private households and thus has as its focus what it means to grow old. Also, it is a relatively large sample of older people over 50, including 6,606 pensioner households. The sample of pensioner households in the BHPS is small by comparison, but this problem was partially overcome by pooling two years' data. The analysis in this chapter is based on pooled data from the BHPS for the financial years 2001/02 and 2002/03. This is referred to in the text as the BHPS 2001/03. ELSA data is for 2002/03.

Pensioner households were defined as those with at least one adult of pensionable age (60 years or over for a female and 65 years or over for a male). With the BHPS and EFS we focused on the household reference person. In ELSA, the equivalent was the core sample member (CSM), who were individuals fulfilling the sample criteria.

Income and expenditure have been equivalised using the McClements equivalence scale. All expenditure and income figures are expressed in constant prices for January 2005 using the All Items Retail Price Index.

4.1.1 Low spending pensioner households

In contrast with the EFS, expenditure data in the BHPS and ELSA are not comprehensive. Thus, for this chapter it has been necessary to use a proxy of low spending. The chosen proxy measure was household weekly expenditure on food and groceries. Smith (2004) has demonstrated that food expenditure falls around retirement using panel data from the BHPS.[11] Also, analysis of the EFS shows that the amount households spent on food as a proportion of their income is significantly associated with their overall expenditure as a proportion of their income. Using the EFS data, Table 4.1 shows low food spending households by whether they spent a low or high proportion of their income. Households spending a low proportion of their income were significantly more likely (44 per cent) than all pensioners (25 per cent) to spend a low proportion of their income on food (adjusted by income quintile). But also households spending a high proportion of their income were less likely (16 per cent) to spend a low proportion of their income on food.

Table 4.1 Relative low food spending households (adjusted by income quintile) by whether they spend a low, medium or high proportion of their income

Column percentages

	Low %	Medium %	High %	All %
Relative low food spending	44	20	16	25
Unweighted base	*453*	*434*	*167*	*1,054*

Source: Expenditure and Food Survey 2001/03.

In the BHPS, households were asked 'approximately how much does your household usually spend each week in total on food and groceries'. This included all food, bread, milk, soft drinks, etc., but excluded pet food, alcohol, cigarettes and meals out. Take-aways eaten in the home were, however, included. They were asked to report in which band (out of 12) their weekly food spending lies. To obtain a weekly spending figure, each household has been assigned the mid-point of their reported band.[12] In ELSA, households were asked 'how much do you usually spend in total on

[11] Table 2.1 shows that the amount that pensioners spend on food decreases with age. However, as Table 2.2 shows, as a proportion of total expenditure, food increases with age.

[12] The band widths were 'under 10'; '10 to 19'; '20 to 29' and so on through to '160 or over'. Since there was no upper limit for the upper band, those reporting expenditure in the upper band were assigned the lower limit.

food and groceries – include all food, bread, milk, soft drinks, and meals on wheels'. Unlike the BHPS, however, this was a continuous variable, enabling respondents to give a weekly sum to the nearest pound, rather than to be constrained by bands.

To avoid the problem of extreme values created by any measurement errors in relation to either weekly income or expenditure, the samples were trimmed by one per cent at either end of the distribution of expenditure as a percentage of income. This process eliminated the small number of very extreme values without reducing, to any great extent, the number of cases left in the sample for analysis.

Replicating the process used in Chapter 3, spending (in this case, the amount spent on food) was then calculated as a proportion of household income. Households were defined as spending a low proportion of their income on food if they fell in the bottom quartile of relative food spenders. Households were defined as spending a high proportion of their income on food if they fell in the top quartile of relative food spenders and a medium proportion on food if they fell in the middle two quartiles. As shown in Table 4.2, the proportion of income spent on food according to quartile differed according to income quintile. Therefore, the quartile was adjusted according to income quintile. Thus, for the purpose of this study, in the ELSA, pensioner households were considered to be low spending in the:

- bottom income quintile if they spent 29.0 per cent or less of their income on food;
- second income quintile if they spent 20.4 per cent or less;
- third income quintile if they spent 14.9 per cent or less;
- fourth income quintile if they spent 12.0 per cent or less;
- top income quintile if they spent 6.5 per cent or less of their income on food.

This is the same procedure as used in Chapter 3 to analyse the EFS.

Compared to the ELSA analysis, pensioner households in the BHPS generally spent a lower proportion of their income on food (See Table D.1). But it seems that the lower the income quintile, the greater the difference in relative food spending between the two surveys. Thus, pensioners in the bottom income quintile were considered to spend a low proportion on food if they spent 29.0 per cent of their income in ELSA but 24.0 per cent in the BHPS. The cut off point for those in the top income quintile were, however, relatively similar, with those in this income quintile considered to spend a low proportion if they spent below 6.5 per cent of their income on food in ELSA and 7.6 per cent in the BHPS analysis.

Table 4.2 Expenditure as a percentage of income by income quintile

Column percentages

Expenditure as a % of income	Income quintile: Bottom	2	3	4	Top	All pensioner households
Lower quartile	29.0	20.4	14.9	12.0	6.5	13.9
Median	38.4	25.5	19.6	15.0	9.0	20.6
Upper quartile	52.1	32.2	24.7	18.4	12.3	30.2
Unweighted base	*1,210*	*1,688*	*1,493*	*1,245*	*970*	*6,606*

Source: English Longitudinal Study of Ageing 2002/03.

The remainder of this chapter examines three general hypotheses why pensioners might be spending a low proportion of their income on food. These are building up of financial resources pre- and post-retirement, decreased mobility and exclusion from social relations. These hypotheses have been analysed for all pensioner households, but comparisons have also been made between young (defined as younger than aged 75 years old) and old (75 years and over) pensioners, low income (defined as below 60 per cent of the median income of the total population) and non-low-income (defined as 60 per cent or above of the median of the total population) pensioner households, and male and female headed households. In the text **and the tables** that follow, only those differences that are statistically significant are presented.

4.2 Building up finances

For a variety of reasons, pensioner households may spend a low proportion of their income in order to build up financial resources. These include bequest motives, precautionary saving, and budgeting for anticipated 'lumpy' items of expenditure.

4.2.1 Saving in retirement

Saving in retirement suggests that pensioners were building up resources for the future. First, analysis was undertaken to explore whether spending patterns were associated with saving patterns. Table 4.3 shows that low spending pensioner households (27 per cent) were more likely to be regular savers than high spending pensioners (18 per cent). It is not possible, however, to know from the BHPS why pensioners save, and whether regular saving is simply a default of persistent low spending. But it may be that pensioner households spending a low proportion of their income on food curb spending in order to save and build up financial resources for the future as a result of current limited financial resources. Indeed, the association was significant for low income, but not for non-low income, pensioners; 23 per cent of low income pensioner households who spent a low proportion of

their income on food were regular savers compared to only six per cent who spent a high proportion.

Table 4.3 Whether saves from current income by whether household is a low, medium or high spender

Column percentages

	Low %	Medium %	High %	All %	*Unweighted base*
All					
Does not save	65	67	73	68	*3,076*
Regularly	27	22	18	22	*1,125*
Not regularly	8	11	9	10	*450*
Low income					
Does not save	69	74	87	76	*711*
Regularly	23	17	6	16	*151*
Not regularly	8	9	8	8	*77*
Under 75					
Does not save	65	66	73	68	*1,795*
Regularly	27	23	20	23	*690*
Not regularly	9	11	7	10	*250*
75 and over					
Does not save	66	68	73	68	*1,281*
Regularly	26	22	15	22	*435*
Not regularly	8	10	12	10	*200*

Source: British Household Panel Survey 2001/02 (imputed from 2000/01) and 2002/03.

4.2.2 Forward planning

The assumption that low spending is related to building up future financial resources suggests that pensioner households spending a low proportion of their income on food may be more likely to plan financially. Analysis was undertaken to explore the relationship between financial planning and low spending on food as a proportion of income. Respondents were asked about the different financial planning periods they think about in relation to spending and saving. Table 4.4 shows that pensioner households spending a low proportion of their income on food were slightly **less** likely (56 per cent) than high spenders (61 per cent) to be longer-term (planning for next year or further) financial planners.

Table 4.4 Whether household does not plan, is a short-term planner or a long-term planner by whether a low, medium or high spender

	Low %	Medium %	High %	All %	*Unweighted base*
All					
Does not plan	10	10	7	9	*544*
Shorter-term planner	34	30	32	32	*1,971*
Longer-term	56	60	61	59	*3,801*
Non low income					
Does not plan	10	9	6	8	*410*
Shorter-term	33	28	30	30	*1,503*
Longer-term	57	63	64	62	*3,184*
Aged 75 and over					
Does not plan	16	17	9	15	*304*
Shorter-term	37	35	36	36	*721*
Longer-term	47	48	55	49	*1,014*

Shorter-term = next few weeks/months; Longer-term = next year or longer.

Source: English Longitudinal Study of Ageing 2002/03.

Table 4.5 shows that financial planning was associated with receiving interest from savings accounts. Long-term planners were more likely to be receiving interest from savings accounts, whereas pensioners who reported that they did not plan or were shorter-term planners were more likely to have no income from interest. Since pensioner households spending a low proportion of their income on food were less likely to be long-term financial planners, this perhaps suggests that either people without savings have less scope to plan ahead or that pensioner households who were shorter-term planners had not built up enough resources for retirement.

Table 4.5 Interest received by whether household does not plan, is a short-term planner or a long-term planner (all pensioner households)

Receives interest	Doesn't plan %	Shorter %	Longer %	All %	*Unweighted base*
All	50	53	72	65	*2,118*
Low income	40	42	57	49	*289*
Non-low income	54	56	75	68	*1,829*
Under 75	47	52	72	65	*1,496*
75 years and over	54	53	74	65	*622*

Shorter-term = next few weeks/months.

Longer-term = next year or longer.

Source: English Longitudinal Study of Ageing 2002/03.

4.2.3 Financial resources

It may be that pensioners who have not built up financial resources for retirement were curbing their spending to ensure future financial security. Income received in retirement reflects the kind of financial resources built up pre-retirement. Table 4.6 shows the type of income received by low, medium or high spenders. Analysis was undertaken to explore the association between spending and income from pensions, investment income and income from labour.

People with interrupted work histories are likely to have accrued lower levels of private, occupational or state pensions. This may lead to low spending in retirement in an attempt to build up resources. Using the BHPS, analysis was undertaken in terms of whether the Household Reference Person (HRP) had received a pension from a previous employer themselves or jointly with others since 2001, and whether the household had received any pension income in the month before interview. These were not significantly related to low food spending for all pensioners. However, low spending pensioners with a non-low income were significantly more likely to have no occupational pension or any pension income compared to high spenders.

- Female high spenders were more likely to have any pension income and to have some income from an occupational pension than female low and medium spenders.

Women may be more likely than men to have broken work histories due to caring responsibilities, and thus, less likely than males to build up financial resources for retirement. Indeed, female HRPs were less likely to have any occupational pension income (31 per cent compared to 67 per cent) and less likely than males to have any household pension income (62 per cent compared to 79 per cent). Next, analysis of the association between pension income and low spending was undertaken according to sex. Receiving an occupational pension and having no pension income was significantly related to spending for females but not for males. Female pensioners spending a high proportion of their income on food were less likely to have no income from an occupational pension compared to low and medium spending pensioners (64 per cent compared to 69 per cent and 72 per cent). They were also less likely to have no income from any pensions compared to low and medium spending pensioners (33 per cent compared to 38 per cent and 42 per cent).

- Pensioner households spending a low and medium percentage of their income on food were slightly less likely than high spending pensioners to have investment income over £1,000 (24 per cent compared to 29 per cent).

However, low income pensioner households that spent a low proportion of their income on food were **more** likely to have investment income over £1,000 compared to high spending pensioners with a low income (24 per cent compared to 15 per cent).

People work after state pension age for a variety of reasons, but one reason may be because they were less likely to have built up financial resources over their working lives.

Indeed, pensioner households spending a low proportion of their income on food were slightly more likely to receive some labour income; 23 per cent compared to 18 per cent of high spending pensioner households. Moreover, this association was significant for low income but not for non-low income pensioners.

Table 4.6 Financial resources according to income and age by whether the household is a low, medium or high relative spender on food

	Low %	Medium %	High %	All %	*Unweighted base*
All pensioners					
Labour income	23	19	18	20	*964*
Over £1,000 investment income	24	24	29	25	*831*
Female HRP					
No occupational pension	69	72	64	69	*1,733*
No HH pension income	38	42	33	39	*1,029*
Low Income					
Labour income	[9]	[3]	[4]	[4]	*46*
Over £1,000 investment income	24	14	15	17	*103*
Non low income					
No HH pension income	28	26	20	25	*1,115*
No HRP occupational pension	51	49	42	47	*1,929*
Over £1,000 investment income	23	26	33	27	*728*
Under 75					
Labour income	40	34	28	33	*824*
No HRP occupational pension	54	53	45	51	*1,506*
Over 75					
Labour income	10	5	5	7	*140*

Source: British Household Panel Survey 2001/03.

4.2.4 Anticipated future low resources and bequest motives

Next, analysis was undertaken to examine some reasons why pensioners may be curbing their spending, including anticipated future low resources and bequest motives. Rowlingson and McKay (2005) showed that, holding other factors constant, those aged 80 and over were nearly three times more likely than those aged 40 to 49 to say they would be careful with money in order leave an inheritance. ELSA asked respondents their chances on a scale of 0 to 100, with zero being no chance and 100 being absolutely certain, that the household will not have the

finances to meet their needs in the future, and that they or their partner will leave or receive an inheritance in the next ten years. Variables were collapsed into binary variables: no chance (0)/some chance (1-100). The analysis does not present a clear picture about the relationship between spending and financial expectations.

Table 4.7 shows that:

- the minority of pensioners predicted no chance that they will not have the finances to meet their needs (27 per cent). In other words, the majority of pensioners predicted some change that they will not have the finances to meet their needs;
- low spending pensioner households were more likely than high spending households to anticipate no chance that they will not have the finances to meet their needs, although the difference was only marginal (30 per cent compared to 27 per cent);
- the majority of pensioners (64 per cent) expected to leave an inheritance in the next ten years;
- low spending households were more likely than high spending pensioners to anticipate some chance of leaving an inheritance in the next ten years (69 per cent compared to 61 per cent);
- there was an association between leaving an inheritance and low spending for low income (but not non-low income) pensioners, which suggests that maybe only those with a low income were curbing their spending with bequest motives in mind; however
- low spending households were **more** likely than high spending pensioners to anticipate **no chance** of leaving an inheritance of £50,000 more in the next ten years (32 per cent compared to 24 per cent).

Table 4.7 Expectations about finances by whether a low, medium or higher relative food spender

	Low %	Medium %	High %	All %	*Unweighted base*
All pensioners					
No chance will lack finances to meet needs	30	26	27	27	*1,665*
Some chance will leave inheritance in next ten years	69	63	61	64	*1,097*
No chance will leave £50,000 inheritance in next ten years	32	28	24	28	*1,698*
Low Income					
Some chance will leave inheritance	69	57	55	60	*305*
No chance will leave £50,000 inheritance in next ten years	28	25	20	24	*499*

Continued

Table 4.7 Continued

	Low %	Medium %	High %	All %	*Unweighted base*
Non low income					
No chance will lack financial resources	31	27	28	28	*1,396*
No chance will leave £50,000 inheritance in next ten years	49	39	41	42	*1,199*
Aged 75 and over					
Some chance will leave inheritance	71	63	62	66	*499*
No chance will leave £50,000 inheritance in next ten years	42	38	31	38	*749*

0 = no chance 1 to100 = some chance.

Source: English Longitudinal Study of Ageing 2002/03.

4.3 Mobility

Reduced mobility may limit spending if it inhibits or prevents pensioners from getting out to buy things or bring them back home (Whetstone, 2002). Mobility can be reduced by a number of different factors. This chapter examines three: transport difficulties, ill-health and disability, receiving care and being a carer.

4.3.1 Transport

Limited private and public transport may reduce the extent to which pensioners can access shopping centres, supermarkets, and leisure and other facilities where they may spend their money, especially pensioners in rural areas for whom amenities may not be within walking distance. Analysis of the EFS in Chapter 3 found that pensioner households spending a low proportion of their income were less likely than households that spent a high proportion of their income, to own a car or van (39 per cent compared to 74 per cent). Table 4.8 shows that owning a car was not significantly related to food spending for younger pensioners under the age of 75, but having access to the **use** of a car or van was significant for both younger and older pensioners. Also a much higher proportion of younger pensioners had access to a car (including as a passenger) than older pensioners (84 per cent compared to 61 per cent).

Never using public transport was not significantly related to low spending. Likewise, not using public transport more often as a result of expense or ill-health was not significantly related to low or high spending.

Table 4.8 Whether the pensioner household owns and has use of a car by whether the household is a low, medium or high relative spender on food

	Low %	Medium %	High %	All %	*Unweighted base*
Under 75					
CSM has use of a car/van	80	85	84	84	*3,645*
Aged 75 or over					
Household owns car/van	39	47	49	45	*116*
CSM has use of a car/van	54	64	64	61	*1,316*

Source: English Longitudinal Study of Ageing 2002/03.

4.3.2 Ill-health and disability

Older age is associated with an increased risk of poor health and impairment, which could potentially impact upon spending. On the one hand, it could lead to higher spending as a result of additional costs such as specialized equipment, but on the other it could result in lower spending by reducing the pensioner's mobility and capability to spend money. This section explores whether low spending was associated with having a disability; receiving disability benefits; indicators of general health; and receiving care and support (which reflects disability).

Food spending was not significantly associated with the HRP reporting a long-term limiting illness, or poor heath status over the last 12 months. The EFS analysis found, however, that low spending pensioners households were more likely than high spending pensioner households to be receiving disability benefits (Attendance Allowance (AA) or Disability Living Allowance (DLA)): 19 per cent compared to 12 per cent.

In ELSA, respondents were asked questions concerning their general health and well-being (Table 4.9). These included the extent to which they '*felt full of energy these days*,' the extent that '*health prevents me from doing the things I want to do*' , the extent '*age prevents me from doing the things I want to do*' and '*feeling what happens to me is out of my control*' . Spending was not related to whether the CSM felt that health inhibited their activity. Although the differences were relatively small, Table 4.10 shows that low spending pensioner households were more likely than high spending pensioner households to have an CSM feel:

- **full of energy** 'not often' or 'never' (32 per cent compared to 27 per cent);
- that *'age prevents me from doing the things I want to do'* 'often or sometimes' (52 per cent compared to 49 per cent);
- that *'what happens to me is out of my control'* 'often or sometimes' (31 per cent compared to 26 per cent).

Interestingly, however, pensioners under the age of 75 who spent a low proportion of their income were slightly **less** likely than pensioners spending a high proportion to feel that '*age prevents them from doing the things they want to do*' 'often or sometimes'.

Table 4.9 CSM reporting general well-being issues by whether the household is a low, medium or high relative spender on food

	Low %	Medium %	High %	All %	*Unweighted base*
All pensioners					
Not often/never feeling full of energy	32	28	27	29	*1,656*
Age prevents me often/sometimes	52	48	49	49	*2,833*
Out of control often/sometimes	31	28	26	28	*1,576*
Lower income					
Not often/never feeling full of energy	40	29	33	33	*351*
Age prevents me often/sometimes	63	53	58	57	*599*
Non-low income					
Out of control often/sometimes	30	27	24	27	*1,242*
Under 75					
Age prevents me often/sometimes	38	37	42	38	*1,549*

Source: English Longitudinal Study of Ageing 2002/03.

4.3.3 Receiving care or support

ELSA enables exploration into whether respondents received help with various activities with which they had problems (see Table D.2 for a list of activities). Respondents were asked to identify who helped them with these activities including social services; private paid help; voluntary unpaid help; their own children; their partner; friends and neighbours and other relatives (Table 4.10). Receiving help from social services indicates that the pensioner has a disability.

If they received help, pensioner households who spent a low proportion of their income on food were slightly **more** likely than high spenders to be receiving help from:

- a social service/health worker (seven per cent compared to three per cent);
- private paid help (eight per cent compared to five per cent).

Low income pensioner households spending a low proportion of their income on food were much **less** likely than high spenders to be receiving help from other relatives (56 per cent compared to 70 per cent).

Also, younger pensioner households spending a low proportion of their income on food were **less** likely than younger high spenders to be receiving help from children (ten per cent compared to 15 per cent).

The different direction of the associations for different people perhaps reflects the kind of help that pensioners received, with children and relatives possibly more likely to help pensioners with activities such as shopping which could lead to higher spending, but social services and private paid help being more likely to help with non-spending activities such as getting dressed or using the toilet.

Table 4.10 From whom the CSM received help by whether the household is a low, medium or high relative spender on food

	Low %	Medium %	High %	All %	*Unweighted base*
All pensioners					
Social services help	7	4	3	4	*157*
Private paid help	8	5	5	6	*225*
Partner	19	24	20	22	*922*
Low income					
Social services help	7	3	1	4	*73*
Other relatives	56	62	70	62	*807*
Non-low income					
Social services help	7	4	3	4	*129*
Private paid help	8	5	5	6	*180*
Partner	20	26	22	23	*787*
Friends/ neighbours	8	6	5	6	*202*
Under 75					
Children	10	11	15	12	*322*
Aged 75 or over					
Social services help	13	8	4	9	*120*
Partner	16	23	19	20	*292*

Source: English Longitudinal Study of Ageing 2002/03.

Using a home help or meals on wheels also indicates that pensioners have sufficient difficulty undertaking certain activities. Analysis undertaken with the BHPS (Table 4.11) showed that low spending households were more likely than pensioners spending a high proportion of income to use:

- a home help (11 per cent compared to six per cent);
- meals on wheels, although the differences were marginal, (five per cent compared to one per cent).

Table 4.11 Whether the HRP has used certain welfare services by whether the household is a low, medium or high relative spender on food

	Low %	Medium %	High %	All %	*Unweighted base*
All pensioners					
Used home help	11	8	6	8	*399*
Used meals on wheels	5	3	1	3	*116*
Non-low income					
Used home help	11	9	5	8	*325*
Used meals on wheels	5	3	1	3	*96*
Aged 75 or over					
Used home help	19	15	12	15	*320*
Used meals on wheels	9	6	2	6	*97*

Source: British Household Panel Survey 2001/03.

4.3.4 Being a carer

Being a carer may limit the extent that pensioners are able to get out and spend due to time taken up caring. ELSA asked whether the respondent cared for anyone, and, if so, who they cared for. Excluding children, the analysis distinguished between whether the CSM cared for a partner or spouse or other people. No significant association was found between caring for a partner or spouse or caring for others and high or low relative food spending. However, caring for anyone (excluding children) was associated with low spending. As shown in Table 4.12, pensioner households spending a low proportion of their income on food (15 per cent) were slightly less likely than high spenders (19 per cent) to be a carer.

Table 4.12 Whether CSM is a carer by whether the household is a low, medium or high relative spender on food

	Low %	Medium %	High %	All %	*Unweighted base*
All pensioners	15	19	19	18	1,198
Low income	10	18	16	16	33

Source: English Longitudinal Study of Ageing 2002/03.

4.4 Exclusion from social relations

Social exclusion includes a variety of issues. In this section we are concerned with exclusion from social relations. Scharf *et al*. (2005) identified exclusion from social relations as the most common form of social exclusion experienced by a sub-sample of older people over 60 years old experiencing multiple social exclusion. They

identified three aspects of exclusion from social relations. These were social isolation, loneliness and non-participation in social activities. Social relations may be related to low spending since social participation, depending on the activity, may have a cost attached. Exclusion from such activities may therefore reduce spending.

This section examines pensioners' social support networks and their participation in a range of activities and organisations. It also examines attitudes towards social relations, including whether retirement is viewed as a time to relax or a time for leisure. As in the previous sections of this chapter, these issues were examined according to age and income. Research has demonstrated that low income and social exclusion are closely related (Scharf *et al.*, 2005; Gordon *et al.*, 2000; Townsend, 1979).

4.4.1 Social isolation

Having children, family and friends and meeting up with, speaking to and/or writing to them are likely to impact upon social isolation. Generally, Table 4.13 shows that low spending is related to a lack of social support networks and social isolation, with lack of contact with children, but also other family, being factors in low spending. However, for low income pensioners, infrequent contact with friends was the important factor; pensioner households who spent a low proportion of their income on food were more likely than high spending households to write to friends less than once a month. Low spending pensioners households with an HRP over 75 were more likely than high spending households to have no children.

Table 4.13 Whether CSM has immediate family and how often CSM speaks on the phone to children and family member by whether a low, medium or higher relative food spender

	Low %	Medium %	High %	All %	*Unweighted base*
All pensioners					
Has no children	18	12	10	13	*760*
Has no other immediate family	12	10	11	11	*594*
Speaks to children less than once a week	16	11	10	12	*592*
Meets up with children less than one a week	41	40	36	39	*1,894*
Low income					
Writes to friends less than once a month	94	86	83	87	*580*

Continued

Table 4.13 Continued

	Low %	Medium %	High %	All %	*Unweighted base*
Non-low income					
Has no children	18	12	9	13	*145*
Has no other immediate family	13	9	10	10	*481*
Speaks to children less than once a week	16	12	10	12	*101*
Meet ups with children less than one a week	42	40	37	40	*1,587*
Under 75					
Has no children	15	11	10	12	*463*
Speaks to children less than once a week	16	12	10	12	*401*
Aged 75 or over					
Has no children	22	15	10	16	*297*

Source: English Longitudinal Study of Ageing 2002/03.

4.4.2 Social participation

The analysis also found that pensioner households who spent a low proportion of their income on food were less likely to take part in certain social activities (Table 4.14). A CSM who was low spending was slightly more likely than high spenders to 'never' go to the cinema (71 per cent compared to 62 per cent), and 'never' go to the theatre, opera or a concert (52 per cent compared to 47 per cent), although it is important to account for the cultural bias of these activities.

Low income pensioner households spending a low proportion of their income on food were more likely to 'never' attend an education/art/music group or evening class (97 per cent compared to 92 per cent), as well as to never go to the cinema.

Older pensioners (aged 75 and over) who spent a low proportion of their income on food were also more likely than high spenders to 'never' eat out (19 per cent compared to 13 per cent) and to 'never' attend a tenant/residents or neighbourhood watch group (83 per cent compared to 76 per cent), as well as 'never' going to the cinema or the theatre.

Table 4.14 also shows that pensioner households spending a low proportion of their income on food were **less** likely than high spenders to 'never' attend a church or other religious group (71 per cent compared to 74 per cent), and 'never' attend a social club (75 per cent compared to 80 per cent). Perhaps this kind of social interaction is less likely to attract a cost compared to the other activities and groups presented in Table 4.14? It is possible that pensioner households spending a low proportion of their income on food are not necessarily disengaged with their community, but that the kind of social activities in which they take part cost relatively little.

Table 4.14 Whether the CSM does certain activities by whether the household is a low, medium or high relative spender on food

	Low %	Medium %	High %	All %	*Unweighted base*
All pensioners					
Never go to the theatre/concert	52	48	47	49	*4,162*
Never go to the cinema	71	64	62	65	*3,090*
Never attend church/religious group	71	77	74	75	*4,237*
Never attend charitable association	81	84	81	82	*4,648*
Never attend social club	75	78	80	77	*4,388*
Lower income					
Never go to the cinema	81	74	72	76	*943*
Never go to education/art/music group or evening class	97	90	92	93	*942*
Non-low income					
Never go to the theatre/concert	49	44	45	45	*2,306*
Never go to the cinema	69	61	60	63	*3,219*
Never attend church/religious group	70	78	74	75	*3,478*
Under 75					
Never go to the cinema	62	56	57	57	*2,484*
Never attend church/religious group	74	79	75	77	*794*
Aged 75 or over					
Never go to the theatre/concert	65	62	57	62	*1,302*
Never go to the cinema	83	78	75	79	*1,678*
Never eat out	19	15	13	16	*337*
Never attend tenant/residents groups	83	82	76	81	*1,404*

Source: English Longitudinal Study of Ageing 2002/03.

4.4.3 Attitudes towards social interaction

Attitudes towards social interaction may indicate a lower propensity to socialise and, therefore, to spend money. In ELSA, respondents were asked the extent to which they '*enjoy being in the company of others; choose to do new things, and feel left out of things'.* Table 4.15 shows the relationship of these attitudes with spending. Although the differences were small, low spending pensioners were more likely to: *'enjoy being in the company of others'* 'not often/never' or *'choose to do new things'* 'not often/never'. They were also more likely to *'feel left out of things'* 'often/sometimes'. In other words, low spending pensioners appear to have a slightly lower propensity to socialise.

Table 4.15 Well-being issues reported by HRP by whether the household is a low, medium or high relative spender on food

	Low %	Medium %	High %	All %	*Unweighted base*
All pensioners					
Enjoys being in the company of others not often/never	4	3	2	3	*165*
Chooses to do new things not often/never	52	48	46	49	*2,787*
Feel left out of things often/ sometimes	29	23	26	25	*1,439*
Lower income					
Feel left out of things often/ sometimes	35	26	33	30	*304*
Non-low income					
Enjoys being in the company of others not often/ never	4	3	2	3	*129*
Chooses to do new things not often/ never	51	47	45	48	*2,239*
Feel left out of things often/ sometimes	27	23	24	24	*1,135*
Aged 75 or over					
Enjoys being in the company of others not often/never	6	4	2	4	*73*
Feel left out of things often/ sometimes	35	29	30	31	*1,771*

Source: English Longitudinal Study of Ageing 2002/03.

Certain views about retirement were also significantly associated with low or high spending. The results are presented in Table 4.16.

For the vast majority of pensioners, retirement was a time to take it easy but also a time for leisure. However, pensioner households spending a low proportion of their income on food were less likely than high spenders to think that being able **to take it easy in retirement** was 'not important' to them (nine per cent compared to 14 per cent).

And, pensioner households who spent a low proportion of their income on food, were **more** likely than high spenders to find it 'not important' for retirement to give them **more time for leisure**, although the difference was small (but statistically significant) (13 per cent compared to 11 per cent) and to be not 'at all' concerned that retirement would **not be productive or useful** (63 per cent compared to 57 per cent).

Interestingly, low income pensioner households that spent a low proportion of their income on food were more likely than high spenders to be not 'at all' concerned about feeling **lonely or isolated**.

Table 4.16 Reasons for retirement being good by whether the household is a low, medium or high relative spender on food

	Low %	Medium %	High %	All %	*Unweighted base*
All pensioners					
Retirement not important for:					
being able to take it easy	9	10	14	11	*289*
more time for leisure	13	9	11	11	*279*
Does not worry at all about:					
Retirement being not productive or useful	63	57	57	58	*1,475*
Lower income					
Does not worry at all about:					
retirement being not productive or useful	70	59	53	60	*294*
being lonely/isolated in retirement	69	59	53	60	*301*
Non-low income					
Retirement not important for:					
being able to take it easy	10	10	15	11	*237*
more time for leisure	13	8	12	11	*226*
Aged 75 or over					
Retirement not important for:					
being able to take it easy	7	8	16	9	*111*
more time for leisure	15	9	13	12	*140*

Source: British Household Panel Survey 2001/01and 2002/03 imputed.

4.5 The odds of spending a low proportion of income on food

Logistic regression analysis was undertaken to understand the factors that affect the odds of a household being a low relative spender on food, holding other factors constant. Separate analysis was undertaken using the BHPS and ELSA, since both include different variables that may explain low spending. We also undertook separate analysis for low income pensioners.

Variables were chosen that were hypothesised to explain low spending. Variables were entered into the model in four blocks:

- socio-demographic variables;
- financial resources variables;
- mobility variables;
- exclusion from social relations variables.

The variables chosen were indicators of each of the possible explanation of low spending. So, for example, for exclusion from social relations, the variables chosen were indicators of social isolation, limited social participation and negative attitudes towards social interaction. All variables were included in the model, whether or not they significantly added to the model's explanatory power.

Table 4.17 shows the variables that increased or decreased the odds of being a low spending household for all pensioner households using the BHPS.

4.5.1 Socio-demographic variables

In the BHPS regression, inclusion of the socio-demographic resources block significantly improved the 'fit' of the model, and the ability to predict low spending pensioner households (Log likelihood 1316.71 and Nagelkerke R-square: 0.073).

4.5.2 Financial resources

Inclusion of the financial resources block significantly improved the 'fit' of the model, and the ability to predict low spending pensioner households, beyond that provided by the socio-economic variables alone (Log likelihood 1287.86 and Nagelkerke R-square: 0.106).

Holding other factors constant, pensioners households were more likely to be pensioner households spending a low proportion of their income on food if they:

- **had some labour income**, being 2.2 times more likely to spend a low proportion of their income on food compared to those without any labour income;
- **regularly saved**, regular savers were 1.7 times more likely than those who did not save to be low spending households.

4.5.3 Mobility

In the BHPS, inclusion of the mobility block did **not** significantly improve the 'fit' of the model, and the ability to predict low spending pensioner households (Log likelihood 1284.681 and Nagelkerke R-square: 0.109). None of the variables significantly increased or decreased the odds of being a pensioner household who spent a low proportion of their income on food.

4.5.4 Exclusion from social relations

Inclusion of the exclusion from social relations block significantly improved the 'fit' of the model, and the ability to predict low spending pensioner household (Log likelihood 1266.45 and Nagelkerke R-square: 0.129).

Holding other factors constant, pensioners households were less likely to be low spending pensioner households if they:

- **went to the cinema once a year**, being 0.5 times less likely to be low spending pensioner households than those who never went to the cinema;
- **thought retirement was important for leisure**, being 0.5 times less likely to be low spending pensioner households than those who thought it was not important at all.

Table 4.17 The odds of being a low spending household

Independent variable	Odds
Sex	
Male	1.0
Female	3.7
Household type	
Single	1.0
Couple	0.3***
Other	0.5*
Age of HRP	
Under 60	1.0
60 to 69	1.1
70 to 84	2.5
85+	3.5
Sex by age	
Female by age under 60	1.0
Female by age 60 to 69	0.4
Female by age 70 to 84	0.2
Female by age 85+	0.3
Region	
Not London	1.0
London	0.8
Housing tenure	
Renting	1.0
Buying	0.6*
Owning	0.4**
Educational qualifications	
None	1.0
O level/CSE	1.1
A level	0.8
Higher qualification	0.9

Continued

Table 4.17 Continued

Independent variable	Odds
Income quintile	
Bottom	1.0
2	0.8
3	0.7
4	0.4***
Top	0.8
Income from labour in last month	
None	1.0
Some	2.2***
Saving patterns	
Does not save	1.0
Regular saver	1.7**
Saves but not regularly	1.4
Investment income	
Under £1,000	1.0
Over £1,000	1.1
Change in financial position next year	
About the same	1.0
Better than now	1.1
Worse than now	0.7
Owns a car	
No	1.0
Yes	1.2
Receives disability benefits	
No	1.0
Yes	0.8
Has a home help	
No	1.0
Yes	1.3
Carer	
No	1.0
Yes	0.8
Goes to the cinema	
Never	1.0
Yes	0.5**

Conitnued

Table 4.17 Continued

Independent variable	Odds
Retirement good: More time for leisure	
Not important at all	1.0
Important	0.5**
Retirement bad: Feeling lonely or isolated	
Not at all worried	1.0
Worried	1.1
Unweighted base	*1,000*

Significance levels: * < 0.05 ** < 0.01; *** < 0.001.

Source: British Household Panel Survey 2001/03.

Table 4.18 shows the variables that increased or decreased the odds of being a low spending household for **low income** pensioner households using the BHPS. The same variables were entered into the model as for all pensioner households[13].

4.5.5 Socio-demographic variables

Inclusion of the socio-demographic resources block significantly improved the 'fit' of the model, and the ability to predict being a low spending pensioner household (Log likelihood 210.30 and Nagelkerke R-square: 0.185).

4.5.6 Financial resources

Inclusion of the financial resources block did **not** significantly improve the 'fit' of the model, and the ability to predict low spending pensioner households, beyond that provided by the socio-economic variables alone (Log likelihood 199.05 and Nagelkerke R-square: 0.252).

Holding other factors constant, low income pensioner households were more likely to spend a low proportion of their income on food if they **regularly saved**; regular savers were 3.4 times more likely than those who did not save to be a low spending household.

4.5.7 Mobility

Inclusion of the mobility block did **not** significantly improve the 'fit' of the model, and the ability to predict being a low spending pensioner household (Log likelihood 196.22 and Nagelkerke R-square: 0.269). However, none of the variables significantly

[13] The small number of cases (163) in this in this analysis should be noted; the analysis did not control for 'use of a home help', as it did for the logistic regression for all pensioners due to small numbers. Also, because the analysis only includes the bottom income quintile, it does not control for income quintile.

increased or decreased the odds of low income pensioner households being pensioner households spending a low proportion of their income on food.

4.5.8 Exclusion from social relations

Inclusion of the social exclusion block did **not** significantly improve the 'fit' of the model, and the ability to predict low spending pensioner households (Log likelihood 189.51 and Nagelkerke R-square: 0.307). Holding other factors constant, low income pensioner households that **went to the cinema** were 0.1 times less likely to be spending a low proportion of their income on food compared to those who 'never' went to the cinema.

Table 4.18 The odds of being a low spending household: low income pensioners

Independent variable	Odds
Sex	
Male	1.0
Female	0.2*
Household type	
Single	1.0
Couple	0.1**
Other	0.2
Age of HRP	
Under 75	1.0
Over 75	0.7
Sex by age	
Female by age under 75	1.0
Female by age over 75	2.3
Region	
Not London	1.0
London	0.7*
Housing tenure	
Renting	1.0
Buying	0.6
Owning	0.3
Educational qualifications	
None	1.0
O level/CSE	0.8
A level or higher	0.7
Income from labour in last month	
None	1.0
Some	2.8

Continued

Table 4.18 Continued

Independent variable	Odds
Saving patterns	
Does not save	1.0
Regular saver	3.4*
Saves but not regularly	2.8
Investment income	
Under £1000	1.0
Over £1000	1.4
Change in financial position next year	
About the same	1.0
Better than now	0.4
Worse than now	0.8
Owns a car	
No	1.0
Yes	0.8
Receives disability benefits	
No	1.0
Yes	0.4
Carer	
No	1.0
Yes	0.4
Goes to the cinema	
Never	1.0
Yes	0.1*
Retirement good: More time for leisure	
Important	1.0
Not important at all	0.8
Retirement bad: Feeling lonely or isolated	
Worried	1.0
Not at all worried	0.7
Unweighted base	*163*

Significance levels: * < 0.05 ** < 0.01; *** < 0.001.

Source: British Household Panel Survey 2001/03.

Table 4.19 shows the variables that increased or decreased the odds of being a low spending household for all pensioner households using ESLA.

4.5.9 Socio-demographic variables

In the ELSA logistic regression model, inclusion of the socio-demographic resources block significantly improved the 'fit' of the model, and the ability to predict low spending pensioner households (Log likelihood 4810.73 and Nagelkerke R-square: 0.026).

4.5.10 Financial resources

In the ELSA model, inclusion of the financial resources block did **not** significantly improve the 'fit' of the model, and the ability to predict low spending pensioner households, beyond that provided by the socio-economic variables alone (Log likelihood 4801.22 and Nagelkerke R-square: 0.029).

Holding other factors constant, pensioners households were more likely to be pensioner households spending a low proportion of their income on food if labour income was their main source of income, being 1.4 times more likely be a pensioner households spending a low proportion of their income on food compared to those who did not have labour income as the main source of income.

4.5.11 Mobility

Inclusion of the mobility block did **not** significantly improve the 'fit' of the model, and the ability to predict low spending pensioner households (Log likelihood 4790.73 and Nagelkerke R-square: 0.033).

Holding other factors constant, pensioner households were less likely to be spending a low proportion of their income on food if the CSM **had use of a car, including as a passenger**, being 0.8 times less likely to be spending a low proportion of their income on food than pensioner households where the CSM did not have use of a car, either as a driver or passenger.

4.5.12 Exclusion from social relations

In the ELSA model, inclusion of the social exclusion block significantly improved the 'fit' of the model, and the ability to predict low spending pensioner households (Log likelihood 4768.21 and Nagelkerke R-square: 0.040).

Holding other factors constant, pensioner households were 0.7 times less likely to be pensioner households spending a low proportion of their income on food if the CSM spoke to their children 'more than once a week' compared to those who spoke to their children 'less than once a week'.

Table 4.19 The odds of being a low spending household

Independent variable	Odds
Sex	
Male	1.0
Female	1.5
Household type	
Single	1.0
Couple	0.8*
Other	1.0
Age of HRP	
Under 60	1.0
60 to 69	1.7
70 to 84	2.2
85+	4.9***
Sex by age	
Female by age under 60	1.0
Female by age 60 to 69	0.7
Female by age 70 to 84	0.7
Female by age 85+	0.5
Housing tenure	
Renting	1.0
Owning	0.9
Buying	0.8
Other	0.8
Educational qualifications	
None	1.0
O level/CSE	1.2
A level	1.2
Higher qualification	1.0
Other	1.2
Income quintile	
Bottom	1.0
2	0.9
3	1.1
4	1.0
Top	1.1
Labour income	
Not main source	1.0
Main source of income	1.4**

Continued

Table 4.19 Continued

Independent variable	Odds
Chance leave £50 000 inheritance	
None	1.0
Some	1.0
Chance will lack finances to meet needs	
None	1.0
Some	1.0
Financial planning	
Does not plan	1.0
Shorter-term	1.1
Longer-term	1.0
Use of a car	
No	1.0
Yes	0.8*
Uses public transport	
Never	1.0
Yes	1.1
Receives disability benefits	
No	1.0
Yes	0.9
Receives help from social services	
No	1.0
Yes	1.1
Carer?	
No	1.0
Yes	0.9
Feels full of energy	
Not often/never	1.0
Often/sometimes	1.0
Goes to the cinema	
Never	1.0
Yes	0.8
Speaks to children	
Less than once a week	1.0
More than once a week	0.7***
Enjoys being in the company of others	
Sometimes/not often	1.0
Often	0.9
Unweighted base	*4,608*

Significance levels: * < 0.05 ** < 0.01; *** < 0.001

Source: English Longitudinal Study of Ageing 2002/03.

Table 4.20 shows the variables that increased or decreased the odds of being a low spending household for **low income** pensioner households using ESLA. The same variables were entered into the model as for all pensioner households.

4.5.13 Socio-demographic variables

Inclusion of the socio-demographic resources block significantly improved the 'fit' of the model, and the ability to predict low spending pensioner households (Log likelihood 859.70 and Nagelkerke R-square: 0.093).

4.5.14 Financial resources

Inclusion of the financial resources block did **not** significantly improve the 'fit' of the model, and the ability to predict low spending pensioner households, beyond that provided by the socio-economic variables alone (Log likelihood 857.29 and Nagelkerke R-square: 0.097). None of the variables significantly increased or decreased the odds of low income pensioner households spending a low proportion of their income on food.

4.5.15 Mobility

Inclusion of the mobility block did **not** significantly improve the 'fit' of the model, and the ability to predict low spending pensioner households (Log likelihood 846.72 and Nagelkerke R-square: 0.115).

Holding other factors constant, low income pensioners households were 0.5 times less likely to spend a low proportion of their income on food if the CSM **was a carer**, compared to pensioner households whose CSM was **not** a carer.

4.5.16 Exclusion from social relations

Inclusion of the social exclusion block did **not** significantly improve the 'fit' of the model, and the ability to predict low spending pensioner households (Log likelihood 843.37 and Nagelkerke R-square: 0.121). None of the variables significantly increased or decreased the odds of low income pensioner households spending a low proportion of their income on food.

Table 4.20 The odds of being a low spending household: low income pensioners

Independent variable	Odds
Sex	
Male	1.0
Female	1.5
Household type	
Single	1.0
Couple	0.8
Other	0.9
Age of HRP	
Under 75	1.0
Over 75	3.0**
Sex by age	
Female by age under 75	1.0
Female by age over 75	0.5
Housing tenure	
Renting	1.0
Owning	0.6*
Buying	0.6
Other	0.1*
Educational qualifications	
None	1.0
O level/CSE	1.1
A level or higher	0.4*
Other	1.2
Labour income	
Not main source	1.0
Main source	0.9
Chance leave £50 000 inheritance	
None	1.0
Some	1.1
Chance will lack finances to meet needs	
None	1.0
Some	1.1
Financial planning	
Does not plan	1.0
Shorter-term	1.6
Longer-term	1.4

Continued

Table 4.20 Continued

Independent variable	Odds
Use of a car	
No	1.0
Yes	0.8
Uses public transport	
Never	1.0
Yes	0.9
Receives disability benefits	
No	1.0
Yes	0.7
Social services help	
No	1.0
Yes	1.2
Carer	
No	1.0
Yes	0.5*
Feels full of energy	
Not often/never	1.0
Often/sometimes	0.9
Goes to the cinema	
Never	1.0
Yes	0.7
Speaks to children	
Less than once a week	1.0
More than once a week	0.9
Enjoys being in the company of others	
Sometimes/not often	1.0
Often	0.9
Unweighted base	*800*

Significance levels: * < 0.05 ** < 0.01; *** < 0.001.

Source: English Longitudinal Study of Ageing 2002/3.

4.6 Summary

This chapter aimed to understand why some pensioners spend a low proportion of their income. It did so by looking at three possible explanations: building up financial resources, lack of mobility and social exclusion.

That fact that many pensioner households were (contrary to the life-cycle model of consumption) saving in retirement suggests that, for whatever reason, they were building up resources for the future. Holding other factors constant, regularly saving was an important indicator of low spending, especially for pensioner households with a low income. Pensioners may build up resources for different reasons. These include bequest motives, precautionary saving, and budgeting for anticipated 'lumpy' items of expenditure.

The first possible explanation considered whether pensioner households spending a low proportion of their income on food were more likely to be building up resources. It was found that pensioners who spent a low proportion of their income were less likely than those spending a high proportion to have built up financial resources before retirement (as indicated by, for example, income from occupational pensions). Also, holding other factors constant, receiving labour income in retirement appeared to be an important indicator of low spending, although not for pensioners with a low income. It may be that pensioners who have not built up financial resources for retirement were curbing their spending to ensure future financial security.

However, there was little evidence to support the premise that pensioners who spent a low proportion of their income were doing so as a result of an expectation of limited resources in the future: low spending households were marginally **less** likely than high spending households to anticipate some chance that they will not have the finances to meet their needs. It may be that, because pensioners spending a low proportion of their income on food were able to save, they were also able to be more confident that they could meet their future needs. The evidence that pensioners were restricting their spending on food for bequests motives was unclear.

The second possible explanation considered whether factors that may reduce mobility – including lack of transport, disability and health, and being a carer – were related to pensioner households spending a low proportion of their income on food. As with the analysis of low total spending, holding other factors constant, not having use of a car (including as a passenger) increased the chances of a pensioner household being a low food spender, although not for pensioners with a low income.

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. Various variables were chosen as indicators of social isolation, limited social participation and negative attitudes towards social interaction. There was some evidence to support social exclusion as an explanation for low spending. Holding other factors constant, limited contact with their children; not going to the cinema; and regarding retirement as not important as a time for leisure increased the chances that pensioners spent a low proportion of their income on food. However, holding other factors constant, not going not to the cinema (an indicator of limited social participation) was the only variable that increased the chances of **low income** pensioners spending a low proportion of their income on food.

5 Comparing cohorts of pensioners

5.1 Introduction

The analysis in Chapter 2 showed, among other things, that spending as a proportion of income decreased with age in 2001/03. This raises the question of whether the decline of spending as a proportion of income across the age groups is an ageing or a cohort effect.

On the one hand, it could be that, on average, as people age they tend to spend a lower proportion of their income. Chapter 4 investigated some of the possible reasons why this ageing effect may occur. On the other hand, it may be that the decline reflects the different experiences and expectations of different cohorts of people. For example, it may be that low spending pensioners now in their 80s spent a low proportion of their income when they were younger too, perhaps because they were brought up to be more frugal or to save more than people born in subsequent generations. Likewise, people in their 70s may always have spent a larger share of their income than people who are now in their 80s. Thus, it is possible that the ageing effect may in reality be a cohort effect.

The aim of this chapter is to investigate this question. The analysis is based on data from the Expenditure and Food Surveys (EFS) for 2001/02 and 2002/03 and from the Family Expenditure Surveys (FES) for 1991/92 and 1992/93. The FES was the predecessor of the EFS and shares many common features with it. One difference, though, is that the data on household expenditure in the published reports from the two surveys is grouped into somewhat different categories. However, the dataset for the EFS includes variables for both the old and the new spending categories, thus making it possible to compare across the surveys.

It should also be noted that the FES household data is based on 'heads of household' (HoH) while the EFS is based on the slightly different concept of the 'household reference person' (HRP). The practical effect of this difference is likely to be small.

Where both surveys are being referred to in the same sentence, the term 'heads of household' should be taken to mean the HRP in relation to the EFS. In addition, as previously noted in Chapter 1, the definition of what counts as a household used in the EFS differs from that used in the FES in 1991/93. The definition was changed in 2001/02 as part of a shift towards a harmonized approach between different Government surveys. Because of the differences in household definition, the EFS has slightly more one person and fewer 'other' households than the FES.

Prior to 1995/96, the FES data in the published reports on **family spending** was not weighted (that is, adjusted) to take into account response bias resulting, for example, from the fact that some types of household have a higher propensity to participate in the survey than others. To ensure consistency between them, the analysis of both of these datasets in this chapter is not weighted (whereas in Chapters 2 and 3 the analysis of the EFS data was weighted). As a result, there are some differences in the EFS results between this chapter and Chapters 2 and 3, though in most cases they are relatively small.

As before, income and expenditure have been equivalised using the McClements equivalence scale. All expenditure and income figures are expressed in constant prices for January 2005 using the All Items Retail Price Index.

5.2 Birth cohorts

Comparing the data for the two expenditure surveys one decade apart makes it possible to undertake a quasi-cohort analysis of spending. Although, unlike panel datasets such as the BHPS, the individuals who are interviewed are not the same, comparison of the FES/EFS at two different dates makes it possible to examine the spending behaviour of people that are of the same chronological age in the different birth cohorts.

The birth cohorts used in this analysis are:

- pre-1919;
- 1919 to 1933;
- 1934 to 1943;
- 1944 or later.

These birth cohorts were chosen because they reflect the four basic age categories that we have used in much of our analysis. They are calculated on age in the year 2003. Thus, people aged 85 or older in 2003 were born before 1919; those aged between 70 and 84 were born between 1919 and 1933; those aged between 60 and 69 were born between 1934 and 1943; and those aged under 60 in 2003 were born in 1944 or later (see Appendix E for more details).

Table 5.1 shows the four birth cohorts and the approximate age groups for each cohort for the two surveys. Obviously, for each birth cohort, the age groups for the FES 1991/93 are ten years younger than those for the EFS 2001/03.

Table 5.1 Birth cohort and age group of head of household (FES) or household reference person (EFS)

	Birth cohort			
Survey	**Pre-1919**	**1919-33**	**1934-43**	**1944+**
FES 1991/92 and 1992/93	75+	60-74	50-59	49 or under
EFS 2001/02 and 2002/03	85+	70-84	60-69	59 & under

Note: Age groups are calculated on the final year of each survey (FES = 1993, EFS = 2003).

Before comparing the results for the two surveys, it is worthwhile to compare the sample characteristics. Because of demographic, social and economic trends (such as population ageing, for example) there may be differences between the samples for people of the same age groups, quite apart from any changes in spending behaviour that may have occurred between 1991/93 and 2001/03. Appendix E compares the socio-economic characteristics of pensioner households between the two surveys.

The proportion of pensioner households headed by a woman was slightly higher in 2001/03 than in 1991/93. Although the proportion of single pensioners living alone is more or less the same, the proportion of pensioner couples living on their own increased, while the proportion of other types of pensioner household decreased. The latter finding reflects the fact that pensioners are now less likely to live with their grown up children than they were a decade ago. It may also be due to the change in the definition of a household between the two surveys, referred to above. In 2001/03, fewer people had left school under the age of 14 than was the case among pensioner households in 1991/93. More pensioner households were living in homes that were owned outright and less were renting in 2001/03 than in 1991/93. There was also an increase over the decade in the proportion of pensioner households that owned a car or van and other consumer durables.

Finally, it is important to note that there was a significant growth in real incomes between 1991/93 and 2001/03. This growth reflects higher occupational and private pension incomes and increases in state pensions, especially the means-tested benefit (now called the Guarantee Credit component of the Pension Credit). Internal analysis undertaken by the Department for Work and Pensions (DWP) 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.

5.2.1 Percentage of income spent

Comparing the two surveys, the median expenditure as a percentage of income was 84 per cent among pensioner households interviewed in the FES in 1991/93 and 83 per cent for those interviewed in the EFS 2001/03. The mean expenditure figures were 93 per cent and 92 per cent respectively, a difference that is not statistically significant.

Table 5.2 shows the median percentage of income spent by pensioner households according to the age of the head of household for the FES in 1991/93 and HRP for the EFS in 2001/03.

It is immediately apparent from Table 5.2 that the median percentage of income spent declines with age in both 1991/93 and 2001/03. From 60 to 64 years onwards, the percentage of income spent falls with each successive age group. However, the decline from age 75 to 79 onwards is noticeably faster in 2001/03 than in 1991/93. Whereas in the FES, the median proportion of income spent is 76 per cent among pensioner households headed by some aged 85 and above, in the EFS it is only 64 per cent. As a proportion of their income, those aged 85 and above in 2001/03 were spending only 84 per cent of the amount being spent by those of in that age group in 1991/93.

Table 5.2 Median expenditure as percentage of income by age group

Age	1991/93 %	2001/03 %
Under 60	81	81
60 – 64	88	92
65 – 69	87	88
70 – 74	85	85
75 – 79	82	80
80 – 84	80	73
85+	76	64
All	84	83
Unweighted base	*4,634*	*4,399*

Base: all respondents (FES and EFS combined).

Sources: Family Expenditure Survey 1991/93 and Expenditure and Food Survey 2001/03.

These results suggest that, while the decline in spending as a proportion of income may to some extent be an ageing effect, it is not the full story. It may also be an income effect, reflecting the fact that real incomes among pensioners increased substantially between these two dates, especially among older pensioners. A simple linear regression of income on total expenditure, taking no account of any other factors, indicates that, in 1991/93, a £1 increase in income would lead to a 67p increase in spending; but in 2001/03, it would lead to an increase of only 52p.

As one might expect, when this regression is run separately for low income and non-low income households, the implied increase in spending is higher for the former than the latter. Thus, the results suggest that, in 1991/93, a £1 increase in income would lead to an 80p increase in spending among low income pensioner households, but only a 64p increase among non-low income pensioner households. The figures for 2001/03 are 58p and 48p respectively.

In other words, ignoring other factors:

- low income pensioners households were likely to spend a larger proportion of an increase in income than other pensioner households;
- pensioner households were likely to spend a lower proportion of an increase in income in 2001/03 than they were in 1991/93.

Table 5.3 shows median spending as a proportion of income by birth cohort, using pooled data from both surveys. In other words, the data from both surveys has been combined into a single dataset and the joint sample classified according to their birth cohort and age group.[14] The first column in the table shows expenditure as a percentage of income for each of the relevant age groups in the cohort of pensioners that was born before 1919. Likewise, the second column shows the median percentage of income spent by each of the relevant age groups of pensioner households born between 1919 and 1933.

For pensioner households headed by some aged 60 or older, there is a decline in the proportion of income spent with age in the three relevant birth cohorts. However, for pensioner households aged 75 and above, the rate of decline increases in the 1919 to 1933 birth cohort relative to the pre-1919 cohort. Again, this may reflect the increase in real incomes between the two survey dates, which as noted above increased disproportionately for pensioners aged 75 and over.

[14] Evandrou and Glaser (2002) used a similar approach for their quasi cohort analysis of middle life individuals, in which they pooled four years of General Household Survey data (1985, 1990, 1995 and 2000).

Table 5.3 Median spending as a percentage of income by age and birth cohort

	Birth cohort			
Age group	**Pre 1919**	**1919-33**	**1934-43**	**1944+**
Under 60		79	81	81
60 – 64		88	91	
65 – 69		87	87	
70 – 74	85	85		
75 – 79	83	80		
80 – 84	80	73		
85 +	70			
Unweighted base	*2,179*	*4,956*	*1,413*	*306*

Base: All pensioner households (FES and EFS combined).

Sources: Family Expenditure Survey 1991/93 and Expenditure and Food Survey 2001/03 (pooled data).

Table 5.4 shows median expenditure as a percentage of income by age group and poverty status for both 1991/93 and 2001/03. The table once again confirms that spending declines with age and this is the case for all four groups.

It is also clear from Table 5.4 that, for both surveys, spending as a proportion of income was higher among low income pensioner households than among other pensioner households. The median spending for low income pensioner households is 92 per cent in 1991/93 and 95 per cent in 2001/03. This compares with 80 per cent and 78 per cent respectively among non-low income pensioner households. This is hardly surprising: low income pensioners tend to spend more of their income than non-low income pensioners.

Table 5.4 Median expenditure as a percentage of income by age and income status

	1991/93		2001/03	
Age group	**Low income %**	**Non-low income %**	**Low income %**	**Non-low income %**
Under 60	116	78	114	78
60 – 64	107	83	118	87
65 – 69	97	83	98	85
70 – 74	92	79	101	81
75 – 79	88	79	93	74
80 – 84	86	73	87	68

Continued

Table 5.4 Continued

Age group	1991/93 Low income %	1991/93 Non-low income %	2001/03 Low income %	2001/03 Non-low income %
85+	80	68	72	55
All	92	80	95	78
Unweighted base	*1,660*	*2,974*	*1,347*	*3,052*

Base: All pensioner households (FES and EFS combined).

Sources: Family Expenditure Survey 1991/93; Expenditure and Food Survey 2001/03.

Table 5.4 also suggests that low income pensioner households were spending as much, and possibly more, of their income, and non-low income pensioner households were spending less of their income, in 2001/03 than was the case in 1991/03. The exception to this generalisation is those aged 85 and older, among whom spending is lower among low income pensioner households in 2001/03 than in 1991/93. Thus, among low income pensioner households aged 85 and above, the median percentage of income spent was 80 per cent in 1991/93 compared with 72 per cent in 2001/03. The same is also true when comparing non-low income pensioner households between the two surveys, except that the switch occurs from age 75. Among non-low income pensioners aged 85 and above, the median percentage of income spent was 68 per cent in 1991/93 compared with 55 per cent in 2001/03 (Table 5.4), which explains the results in Table 5.2.

Table 5.5 shows median spending as a percentage of income by age group of the head of household and income status by birth cohort. The data from the two surveys have been combined and grouped according to their birth cohort, their age group and their income status at the time of the survey. Thus, the first column shows, for low income households, the median percentage of income spent by each of the relevant age groups for people born before 1919.

Table 5.5 Median spending as percentage of income by age, birth cohort and income status

	Low income				Non-low income			
Age	**Pre 1919**	**1919-33**	**1934-43**	**1944 or later**	**Pre 1919**	**1919-33**	**1934-43**	**1944 or later**
Under 60		[157]	115	108		69	78	78
60 – 64		106	113			83	86	
65 – 69		96	98			83	84	
70 – 74	94	95			79	80		
75 – 79	87	92			80	74		
80 – 84	86	85			72	69		
85 +	79				62			
Unweighted base	*1,031*	*1,595*	*334*	*47*	*1,205*	*3,449*	*1,109*	*263*

Base: All pensioner households (FES and EFS combined).

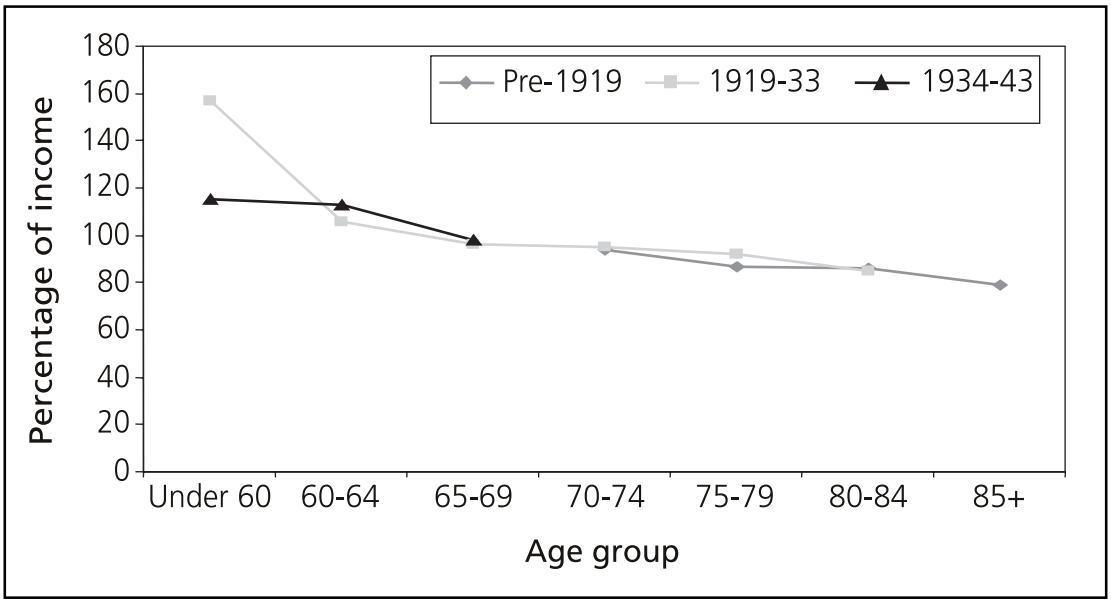
Note: [ ] based on four cases.

Sources: Family Expenditure Survey 1991/93 and Expenditure and Food Survey 2001/03 (pooled data).

It is clear from Table 5.5 that expenditure as a percentage of income declines with age and is higher for low income pensioners than for non-low income pensioners in each age group. Figure 5.1 provides a graphical illustration of the decline in spending by age for the three birth cohorts.

However, it appears that the lower level of spending among pensioner households aged 75 and above in the 1919 to 1933 birth cohort compared with those born before 1919 (referred to above) applies only to non-low income pensioners and not those who had a low income. Thus suggests that this cohort effect reflects income rather than frugality per se.

Figure 5.1 Median spending as a percentage of income for low income households by age within each birth cohort



5.2.2 Low spending pensioner households

Using the same methods as in Chapter 3, for each survey, pensioner households were classified as low, medium or high spending as a proportion of income. Thus:

- low spending pensioner households were defined as those in the bottom quartile of expenditure as a percentage of income for their income quintile;
- high spending pensioners were defined as those in the top quartile of expenditure as a percentage of income for their income quintile; and
- medium spending pensioner households were defined as those in the inter-quartile range of spending for their income quintile.

This classification of pensioner households was performed separately for the FES and the EFS, using the spending quartile and income quintile data specific to each survey. As before, in order to ensure that the results were not distorted by very extreme cases, the sample was trimmed to exclude the top and the bottom one per

cent of households defined in terms of spending as a proportion of income. In each of the two surveys, by definition, 25 per cent of pensioner households were low spending, 25 per cent were high spending and the remaining 50 per cent were medium spending.

As Table 5.6 shows, the proportion of pensioner households that were in the low spending and high spending categories varied across the four birth cohorts. In particular, the proportion that was low spending fell as birth cohorts got younger. Thus, 35 per cent of pensioner households in the pre-1919 birth cohort were low spending, compared with only 20 per cent in the 1944 and later birth cohort.

Table 5.6 Whether pensioner households spend a high or low proportion of their income by birth cohort

	Pre 1919 %	1919-33 %	1934-43 %	1944 or later %	All %
Low	35	23	18	20	25
Medium	46	52	50	55	50
High	19	26	32	26	25
Total	100	100	100	100	100
Unweighted base	*2,179*	*4,956*	*1,413*	*306*	*8,854*

Base: All pensioner households (FES and EFS combined).

Sources: Family Expenditure Survey 1991/93 and Expenditure and Food Survey 2001/03 (pooled data).

Although these results appear to suggest that there is a cohort effect, a slightly different picture emerges when the results are controlled for age (Table 5.7):

- when the distribution of pensioner households in these three categories of spending was compared across the birth cohorts for each age group, no statistically significant differences were found. Thus, there were no differences between birth cohorts when controlling for age; but
- there were differences between age groups when controlling for birth cohort. Within each birth cohort, the proportion of pensioner households that was in the low spending category increased, and the proportion in the high spending category decreased, with age.

These results suggest that the decline in spending with age is to some extent a true ageing effect. For example, in the pre-1919 birth cohort of pensioners, the proportion classified as low spending increased from 27 per cent among those aged between 70 and 74, to 45 per cent among those aged 85 and above (Table 5.7). This is also illustrated quite clearly in Figure 5.2.

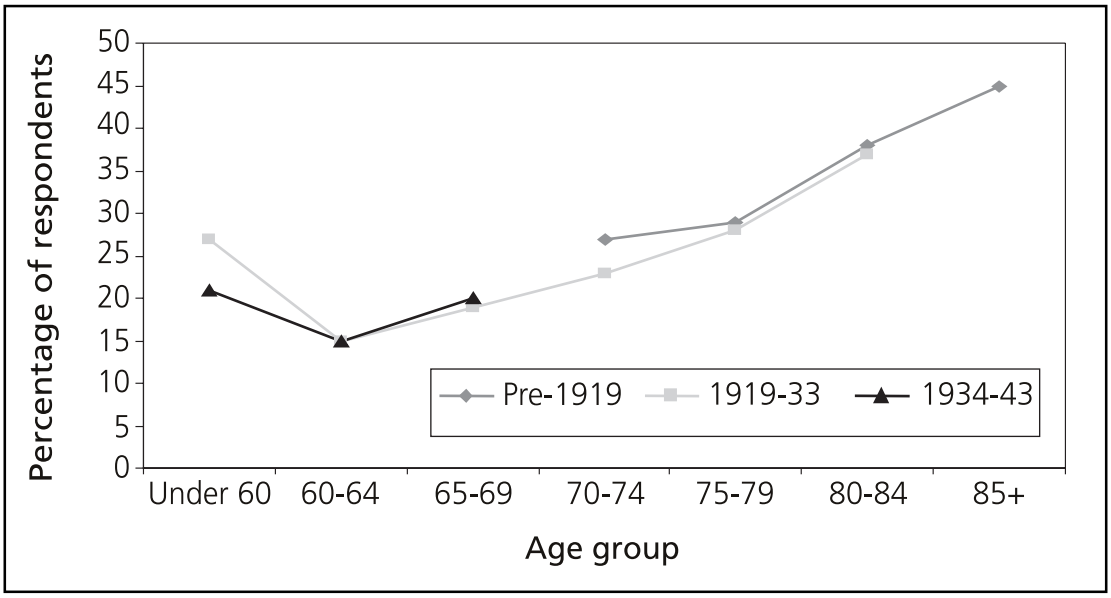
Table 5.7 Low, medium and high spending by birth cohort and age

	Age group						
Birth cohort	**Under 60 %**	**60-64 %**	**65-69 %**	**70-74 %**	**75-79 %**	**80-84 %**	**85+ %**
Pre 1919							
Low				27	29	38	45
Medium				49	49	44	42
High				24	22	18	14
Base				*203*	*807*	*598*	*571*
1919 – 1933							
Low	[27]	15	19	23	28	37	
Medium	[41]	50	54	52	51	45	
High	[32]	35	27	25	21	18	
Base	*34*	*590*	*1,414*	*1,724*	*767*	*427*	
1934 – 1943							
Low	21	15	20				
Medium	55	49	49				
High	24	36	31				
Base	*115*	*539*	*759*				
1944 or later							
Low	20						
Medium	55						
High	26						
Base	*306*						

Base: All respondents (FES and EFS combined).

Sources: Family Expenditure Survey 1991/93 and Expenditure and Food Survey 2001/03 (pooled data).

Figure 5.2 Percentage of respondents spending a low proportion of their income, by birth cohort and age



Logistic regression models were run in order to predict the odds that pensioner households having particular characteristics were spending a low share of their income. As before, low spending was defined as spending in the bottom quartile of the distribution of expenditure as a percentage of income, as calculated for pensioners in each of the five income quintiles. Thus, within each survey, low spending was adjusted for income.

The logistic regression analyses were run both for households as a whole and separately for low income households. Households were defined as low income if their equivalised income before housing costs was less than 60 per cent of the median for all households. The variables were entered into the models in two blocks. The first block contained socio-economic variables and the second contained variables for low spending on food and various consumer durables.

Table 5.8 shows the results of the logistic regressions separately for the FES 1991/93 and EFS 2001/03. The findings are broadly similar for both surveys. The discussion here is focused on the findings for the FES data. (The weighted EFS results were discussed in Chapter 3.)

Table 5.8 The odds of pensioner households spending a low share of their income, 1991/93 and 2001/03

Independent variable	1991/93 Odds	2001/03 Odds
Sex		
Male	1.0	1.0
Female	0.9	0.5
Age		
Under 60	1.0	1.0
60 – 69	1.0	0.6**
70 – 79	1.6*	0.7
80 +	1.8*	1.3
Sex by age		
Female by age under 60	1.0	1.0
Female by 60 – 69	0.8	1.3
Female by age 70 – 79	0.7	1.6
Female by age 80+	1.2	1.6
Household type		
Single	1.0	1.0
Couple	1.0	0.8
Other	1.6**	1.1
Housing tenure		
Renting	1.0	1.0
Buying	0.8	0.4***
Owning	0.9	1.2
Income quintile		
Bottom	1.0	1.0
2	1.2	1.4**
3	1.6*	1.9***
4	2.0***	2.5***
Top	2.3***	3.1***
Receives disability benefits	1.2	1.2*
Has investment income	0.9	0.7***
Has consumer durables		
Car or van	0.5***	0.3***
Fridge freezer	0.8*	0.9
Video	0.7**	0.7***
Unweighted base	*3,848*	*4,312*

Base: All pensioner households (FES and EFS combined).

Significance levels: * <0.05; ** <0.01; *** <0.001.

Sources: Family Expenditure Survey 1991/93 and Expenditure and Food Survey 2001/03 (pooled data).

Table 5.8 indicates the odds of pensioner households having particular characteristics spending a low proportion of their income. In 1991/93:

- households headed by someone aged 70 and above were significantly more likely to be low spending than those headed by someone aged under 60 years;
- 'other' pensioner households were about one and a half times more likely than single pensioners to spend a low proportion of their income;
- pensioner households owning a car or van were less likely to be low spenders than those without such vehicles.

Table 5.8 also suggests that the decline in spending is, to some extent, an income effect. The table shows, for each survey, the importance of relative income:

- compared with pensioner households in the bottom income quintile, the odds of being a low spending household progressively increased across the top three income quintiles;
- for example, in 1991/93, the odds of being a low spending household for pensioners in the top income quintile were over twice as high as pensioners in the bottom income quintile;
- for each income quintile, the odds of being a low spending pensioner household were higher in 2001/03 than in 1991/93, which may reflect the rise in absolute real incomes over the decade.

Table 5.9 shows the findings of the logistic regression analysis of low spending pensioner households by birth cohort for low income households only. There were too few low income pensioner households in the 1944 and later birth cohort for the analysis to be reliable, so the results have been excluded from the table. Although many of the results of the logistic regressions are broadly the same across the three birth cohorts for which analysis could be conducted, there are some differences:

- in the 1919-33 birth cohort, pensioner households aged 80 and above were three times more likely than those aged between 60 and 69 to spend a low proportion of their income, whereas among the pre-1919 cohort, this was true only for women;
- in the pre-1919 birth cohort, pensioner households in receipt of disability benefits were about twice as likely to spend a low share of their income, whereas among the other two birth cohorts the odds were not statistically different.

Table 5.9 The odds of low income pensioner households being low spenders

Independent variable	Birth cohort		
	Pre 1919	1919-33	1934-43
Sex			
Male	1.0	1.0	1.0
Female	0.5	0.7	0.6
Age			
Under 60			
60 – 69		1.0	
70 – 79	1.0	1.6	
80 +	0.7	3.0**	
Sex by age			
Female under 60			
Female 60 – 69		1.0	
Female 70 – 80	1.0	0.9	
Female 80 +	2.7**	1.3	
Household type			
Single	1.0	1.0	1.0
Couple	1.0	0.9	0.6
Other	1.4	1.4	0.9
Housing tenure			
Renting	1.0	1.0	1.0
Buying	0.8	0.2*	0.2
Owning	1.2	0.6**	1.8
Receives disability benefits	2.3*	1.4	1.3
Has investment income	0.8	0.9	0.5
Low food spender	5.5***	5.9***	6.4***
Has consumer durables			
Car or van	0.3***	0.2***	0.3**
Fridge freezer	0.5**	0.8	0.4
Video	1.4	0.7	0.9
Unweighted base	*743*	*1,396*	*300*

Base: All pensioner households (FES and EFS combined.

Significance levels: * <0.05; ** <0.01; *** <0.001.

Sources: Family Expenditure Survey 1991/93 and Expenditure and Food Survey 2001/03 (pooled data).

5.3 Summary

This chapter has shown that the decline in spending by age is a true ageing effect. In both surveys, the median percentage of income spent by pensioner households declined with age. Meanwhile, there was little evidence to suggest that the decline in spending was a cohort effect. In all four birth cohorts of pensioners, spending declined with age.

However, older pensioners interviewed in the 2001/03 EFS tended to spend a lower proportion of their income than those interviewed in the 1991/93 FES. This may be explained by the fact that expenditure is affected by income and real incomes were substantially higher in 2001/03 than in 1991/93. This suggests that, in addition to ageing, the rise in real incomes has also affected the share of incomes spent by pensioner households. Pensioners were better off at the later date than at the earlier one and, consequently, were spending a lower proportion of their income.

6 Conclusions

The Pensions Commission (2004) found that spending among older people appeared to decline with age, at least when those approaching retirement were compared with younger and older pensioners. The research reported here has confirmed that, on average, spending among pensioner households does indeed decline with age, and especially so among those aged 80 or more. The research also sought 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.

For this report, pensioner households were defined as spending a low share of their income if they were in the bottom quartile of expenditure as a percentage of income for their income quintile.

6.1 Which pensioner households are low spenders?

On average, low income pensioners tended to spend more than 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. Indeed, Saunders *et al*. (2002) found that, compared with the general population, pensioners were more likely to be expenditure poor than income poor.

It is clear from the analysis of their spending patterns in Chapter 2 that low spending pensioner households were generally more frugal in their spending habits than other pensioner households. This was true not only of low income pensioner households, but also of better off ones spending a low proportion of their income. Pensioners that were spending a low share of their income on food were especially likely to be in the low total spending group. It was also the case that low spending pensioner households were 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 items not only cost money to acquire, they also require expenditure to use (and in the case of cars, to maintain). Compact disc players require compact discs, tumble dryers consume electricity, and cars necessitate expenditure on fuel, road tax and insurance; all of which will be reflected in household budgets. 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. Older women were much more likely to be low spending than younger ones. 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. The odds of being a low spending pensioner household increased with increasing income quintile. Finally, pensioners in receipt of disability benefits (Disability Living Allowance (DLA) and Attendance Allowance (AA)) 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.

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.

6.2 What factors are associated with low spending?

Analysis of data from the British Household Panel Survey (BHPS) for 2001/03 and the English Longitudinal Study of Ageing (ELSA) for 2002/03 aimed to understand why some pensioners spend a low proportion of their income. Because expenditure data in the BHPS and ELSA are not comprehensive, it was not possible to explore why pensioners spend a low proportion of their income. This chapter, therefore, used a proxy of low spending, and explored why some pensioners spent a low proportion of their income **on food**. It explored three possible explanations: building up financial resources; lack of mobility; and exclusion from social relations.

The first possible explanation considered whether pensioner households spending a low proportion of their income on food were more likely to be building up resources. Making regular savings implies that people were building up resources in retirement. They may be doing this for a variety of reasons including bequest motives 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 impact on disposable resources of working beyond state pension age is something that deserves further research.

The second possible explanation considered whether factors that may constrain mobility, including lack of transport; disability and health; and being a carer, were related to pensioner households spending a low proportion of their income on food. It appeared that pensioners who spent 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) increased the chances of being a low spending household, holding other factors constant. Expenditure and Food Survey (EFS) analysis also highlighted disability as a constraining factor in relation to spending. It may be that spending by disabled and frail pensioners is constrained if they have limited access to transport and/or help from children in this respect. This is an issue that would benefit from further research.

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. That infrequent contact with children was associated with low spending could suggest that pensioners who 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 with an associated cost; holding other factors constant, never going to the cinema increased the chances of being a low spending household. In addition, it appears that pensioners who 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. The qualitative research being undertaken 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. They also suggest that leisure activities and hobbies become increasingly home-based. This was especially true for those experiencing severe restrictions in mobility because of their health.

6.3 Is low spending an ageing or a cohort effect?

A comparison of the 1991/93 Family Expenditure Survey (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). And within each birth cohort, the proportion of pensioner households that was in the low spending category increased, and the proportion in the high spending category decreased, 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 affect 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.

6.4 Implications for policy

This report has shown that, on average, low income pensioner households spend more of their income, and are likely to spend a larger share of any increase in income, than better off ones. This has potential implications for the Government's policy goal of tackling poverty among today's pensioners. If this objective is about living standards (for which expenditure may be regarded as a proxy) rather than incomes per se, then it appears that targeting resources on the poorest pensioners is a more efficient policy instrument than across the board increases benefiting all pensioners. This is because low income pensioners are more likely to spend the money, and thereby increase their standard of living, than better off ones. However, this argument ignores the fact that many pensioners do not take up the means-tested benefit to which they are entitled.

This report has also confirmed the Pensions Commission's finding that spending as a proportion of income declines as pensioners age, even when account is taken of household size and composition. It has also been shown that this is a true ageing effect and not a cohort effect associated with an earlier, more frugal generation.

This decline in spending as a proportion of income does not appear to be consistent with the life-cycle model of household consumption. While the reasons why spending as a proportion of income declines with age are not entirely clear, they are likely to include bequest motives and precautionary saving. However, the research reported here suggests that, to some extent, the ageing effect 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.

Thus, the amount that pensioners (and especially older pensioners) spend may be less than they would spend in the absence of those constraints. Thus, if the policy goal of tackling poverty among today's pensioners is about living standards rather than resources, then the possibility that some pensioners may be constrained from spending income is a cause for concern. Simply increasing Pension Credit may not be sufficient and hence, additional support may be required to tackle pensioner poverty.

It is not just low income, older pensioners who could benefit from such support. Other things being equal, pensioners in the higher income quintiles are more likely to spend a low proportion of their income. While many of them will be able to maintain an adequate standard of living standard despite spending a low proportion of their income, others may not be able to do so. Measures aimed at helping older pensioners to remain independent and connected socially could enable them to spend more of their income and, consequently, better maintain their standard of living in later life.

Appendix A
Data sources

A.1 The British Household Panel Survey

The British Household Panel Survey (BHPS) is carried out by the Institute for Social and Economic Research (ISER). The main objective of the survey is to further understanding of social and economic change at the individual and household level in Britain (the United Kingdom from Wave 11 onwards), to identify, model and forecast such changes, their causes and consequences in relation to a range of socio-economic variables. The BHPS is composed of certain core questions and rotating questions. The rotating questions are mostly on attitudes, values and opinions but additional topics also include, for example, ageing and retirement.

The BHPS was designed as an annual survey of each adult (16+) member of a nationally representative sample of more than 5,000 households, making a total of approximately 10,000 individual interviews in England, Scotland and Wales. The first interview wave was in 1991. Every individual enumerated in 1991 remains in the panel and is followed up every year. If they split off from original households, all adult members of their new households will also be interviewed. However, if they enter an institution they are not followed up. The sample for each Wave consists of all original sample members plus their natural descendants plus any other adult members of their households. It is, therefore, possible to define the group of interest in one Wave and follow it over subsequent years. It is also possible to look at all individuals who experience a certain event such as becoming ill or disabled.

A.2 English Longitudinal Study of Ageing

The English Longitudinal Study of Ageing (ELSA) aims to study a sample of people over the age of 50 every two years in order to see how people's health, economic and social circumstances change over time. It is a study of people's quality of life as they age beyond 50 and of the factors associated with it. The ELSA sample was

selected from three survey years of the Health Survey for England (1998, 1999 and 2001). Households were included in ELSA if they contained at least one adult of 50 years or older in the household who had agreed to be re-contacted at some time in the future.

Wave One, conducted March 2002 to March 2003, achieved a sample of around 8,000 households and 12,000 individual interviews. The interviews covered questions about health, work, family and social networks, income and benefit receipts, quality of life, cognitive functioning, daily activities, housing, retirement and pensions.

A.3 Expenditure and Food Survey

The Expenditure and Food Survey (EFS) is a continuous survey of household expenditure, income and food consumption. It was introduced in 2001/02 and is based largely on its predecessor, the Family Expenditure Survey (FES). The main purposes for which the data are collected are to provide information about spending patterns for the Retail Price Index, to help in the production of estimates of consumer expenditure in the National Accounts, and to provide information about food consumption and nutrition. The FES was used for the first two of these three purposes. The data are also used by the Office for National Statistics to study the impact of government taxes and benefits on household income.

Currently, over 6,000 households are interviewed for the survey each year. There are four components to the information collected from households: (1) a household questionnaire which asks questions about regular household bills and expenditure on major but infrequent purchases; (2) an individual questionnaire for each adult aged 16 and over, which asks about income; (3) a diary of personal expenditure kept by each adult for two weeks; and (4) a simplified diary kept for two weeks by children in the household aged seven to 15 years (Craggs, 2004).

In the EFS, expenditure is defined as current expenditure on goods and services. It excludes payments that are made in respect of savings and investments (such as life assurance premiums and pension contributions), income tax payments, National Insurance contributions, and mortgage capital repayments. It includes frequent as well as irregular expenditures (such as season tickets, furniture and holidays). Income includes earnings from employment and self-employment, investments (including interest received, dividends on shares, and rental income from property), pensions, social security benefits and tax credits, and maintenance received. It excludes intra-household transfers of money (other than payment to resident domestic servants), withdrawals of savings, loans and money received in repayment of loans, the value of income in kind (e.g. from goods received free), proceeds from the sale of assets, and financial windfalls such as legacies and winnings from betting (see Craggs, 2004).

Appendix B Supplementary figures for Chapter 2

Figure B.1 Income versus expenditure among single pensioner households

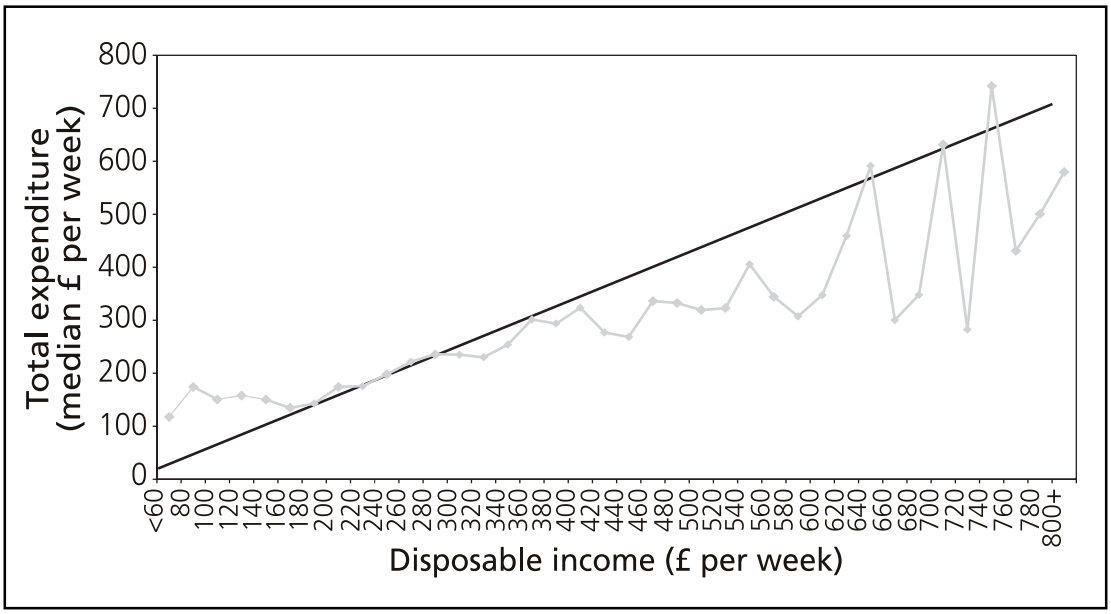


Figure B.2 Income versus expenditure among couple pensioner households

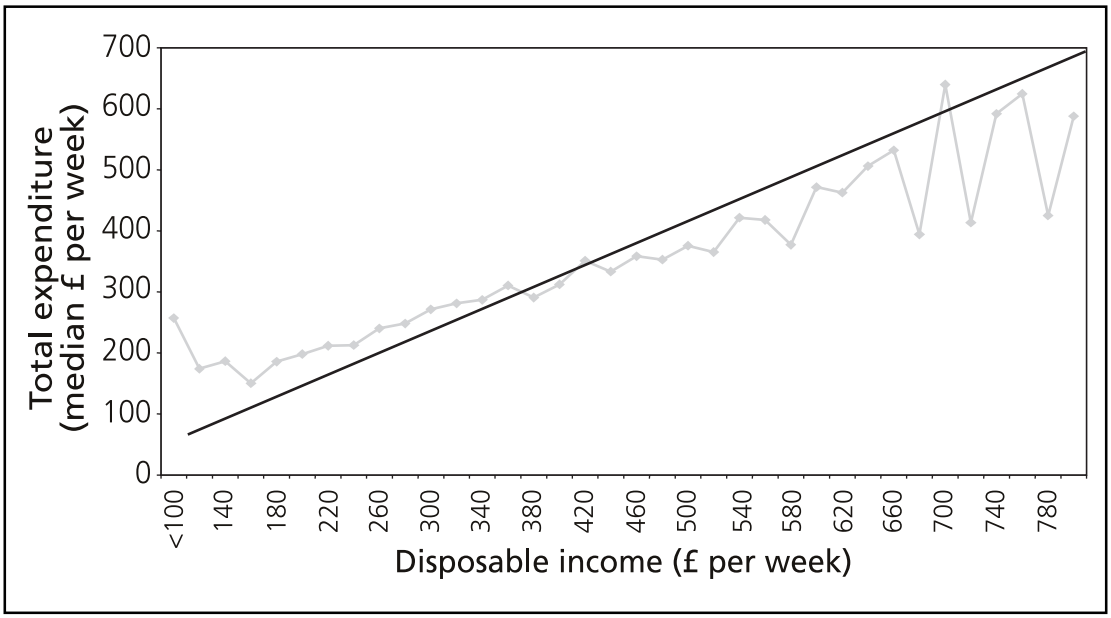
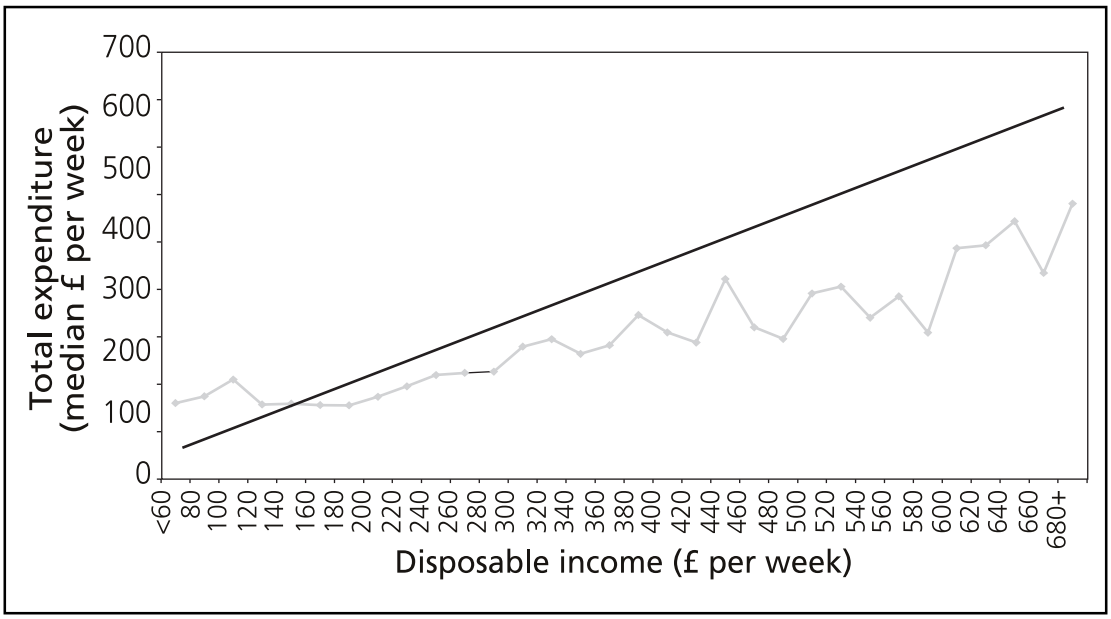


Figure B.3 Income versus expenditure among other pensioner households



Appendix C Supplementary tables for Chapter 3

Table C.1 Characteristics of pensioner households by whether they spend a low or high proportion of their income

Row percentages

	Low	Medium	High	All	*Unweighted base*
Household type					
Single	32	45	22	100	*1,870*
Couple	19	54	27	100	*1,863*
Other	21	52	27	100	*579*
Sex of HRP					
Male	22	53	25	100	*2,455*
Female	29	47	25	100	*1,857*
Age of HRP					
Under 60	23	53	24	100	*235*
60 to 64	13	49	38	100	*539*
65 to 69	19	52	30	100	*1,016*
70 to 74	21	54	25	100	*937*
75 to 79	27	52	22	100	*767*
80 to 84	38	45	17	100	*513*
85+	48	38	14	100	*303*

Continued

Table C.1 Continued

Row percentages

	Low	Medium	High	All	*Unweighted base*
Age completed full-time education					
14 or under	30	50	21	100	*1,852*
15 or 16	22	52	27	100	*1,694*
17 or over	21	48	32	100	*766*
Housing tenure					
Renter	31	51	18	100	*1,266*
Buyer	12	53	35	100	*385*
Owner	24	47	27	100	*2,661*
Location of residence					
London	28	51	22	100	*323*
Elsewhere	25	50	25	100	*3,989*

Source: Expenditure and Food Survey 2001/03.

Table C.2 Income characteristics of pensioner households by whether they spend a low or high proportion of their income

Row percentages

	Low	Medium	High	All	*Unweighted base*
Main source of income					
Wages and salaries	18	55	27	100	*537*
Self-employment	33	44	23	100	*85*
Investment income	31	42	27	100	*122*
Annuities and pensions	24	49	26	100	*892*
Social security benefits	27	50	24	100	*2,668*
Other sources	[16]	[75]	[9]	100	*8*
Investment income?					
Yes	22	50	28	100	*2,879*
No	31	50	20	100	*1,433*
Disability benefits					
Yes	30	51	19	100	*691*
No	24	50	26	100	*3,621*

Source: Expenditure and Food Survey 2001/03.

Appendix D Supplementary tables for Chapter 4

Table D.1 Expenditure as a percentage of income by income quintile

Column percentages

	Income quintile					
Expenditure as a percentage of income	**Bottom**	**2**	**3**	**4**	**Top**	**All pensioner households**
Lower quartile	24.1	17.2	13.6	10.4	7.6	13.2
Median	31.5	21.3	16.9	13.5	9.9	18.8
Upper quartile	42.1	27.8	20.9	17.5	13.1	26.6
Unweighted base	*971*	*1,546*	*1,175*	*704*	*484*	*4,880*

Source: British Household Panel Survey 2001/03.

Table D.2 Activities respondents may have had problems with

Walking 100 yards
Sitting for about two hours
Getting up from a chair after sitting for long periods
Climbing several flights of stairs without resting
Climbing one flight of stairs without resting
Stooping, kneeling, or crouching
Reaching or extending your arms above shoulder level
Pulling or pushing large objects like a living room chair
Lifting or carrying weights over 10 pounds, like a heavy bag of groceries
Picking up a 5p coin from a table
Dressing, including putting on shoes and socks
Walking across a room
Bathing or showering
Eating, such as cutting up your food
Getting in or out of bed
Using the toilet, including getting up or down
Using a map to figure out how to get around in a strange place
Preparing a hot meal
Shopping for groceries
Making telephone calls
Taking medications
Doing work around the house or garden
Managing money, such as paying bills and keeping track of expenses

Appendix E Supplementary data for Chapter 5

This appendix has two parts. The first provides additional data to supplement and inform the quasi-cohort analysis in Chapter 5. It is based on the Family Expenditure Survey (FES) for 1991/93 and the Expenditure and Food Survey (EFS) for 2001/03. The second presents a summary of the findings of a longitudinal analysis of pensioner spending over time, based on 11 years of the British Household Panel Survey (BHPS).

E.1 Quasi-cohort analysis

E.1.1 Birth cohorts

Although we have calculated the cohorts on age in 2003, in practice some respondents to the EFS were interviewed in 2001 and others in 2002. Consequently, some respondents who would have been aged 85 in 2003, but were interviewed in 2001 or 2002, would actually have been under that age at the time of their interview. A similar point applied to the FES 1991/93. Table E.1 shows the actual age group of the head of household (FES) or household reference person (EFS) by birth cohort for both surveys pooled together.

Table E.1 Age group by birth cohort

Age group of HRP	Birth cohort of HRP: Pre 1919 %	1919-33 %	1934-43 %	1944 or later %
FES				
Up to 59		1	100	100
60 – 64		23		
65 – 69		45		
70 – 74	11	31		
75 – 79	45			
80 – 84	29			
85 +	15			
Total	100	100	100	100
Base	*1,787*	*2,569*	*95*	*91*
EFS				
Up to 59			2	100
60 – 64			41	
65 – 69		11	58	
70 – 74		39		
75 – 79		32		
80 – 84	22	18		
85 +	78			
Total	100	100	100	100
Unweighted base	*392*	*2,387*	*1,318*	*215*

Base: All pensioner households.

Sources: FES 1991/93 and EFS 2001/03.

E.1.2 Comparing sample characteristics

Table E.2 shows selected socio-demographic information for pensioner households in each of the two surveys. The proportion of pensioner households headed by a woman was slightly higher in 2001/03 than in 1991/93. Although the proportion of single pensioners living alone is more or less the same, the proportion of pensioner couples living on their own increased, while the proportion of other types of pensioner household decreased. The latter finding reflects the fact that pensioners are now less likely to live with their grown up children than they were a decade ago. Also, in 2001/03, fewer people left school under the age of 14 than was the case among pensioner households in 1991/93. Finally, more pensioner households were living in homes that were owned outright and less were renting in 2001/03 than in 1991/93.

Table E.2 Socio-demographic characteristics of pensioner households

	FES 1991/93 %	EFS 2001/03 %
Household type***		
Single	45	43
Couple	39	43
Other	16	14
Sex*		
Male	60	57
Female	40	43
Age		
Under 60	5	6
60 – 64	13	13
65 – 69	25	23
70 – 74	22	22
75 – 79	18	18
80 – 84	11	12
85+	6	7
Age completed full-time education***		
14 or under	66	43
15 or 16	21	39
17 or over	13	18
Housing tenure***		
Renter	39	29
Buyer	10	9
Owner	52	62
Location of residence*		
London	9	8
Elsewhere	91	93
Unweighted base	*4,634*	*4,399*

Base: All pensioner households.

Significance levels: * <0.05; ** <0.01; *** <0.001.

Sources: Family Expenditure Survey 1991/93 and Expenditure and Food Survey 2001/03.

Table E.3 shows income and benefit data for pensioner households in each of the two surveys. The most notable change in the main source of income was an increase in the proportion of pensioner households reporting that annuities and pensions were their main income source and a decline in those saying it was investment income. There was also a significant increase in the proportion of pensioner households reporting that they were in receipt of disability benefits (Attendance Allowance (AA) and Disability Living Allowance (DLA)) between 1991/93 and 2001/03.

Table E.3 Income characteristics of pensioner households

	FES %	EFS %
Main source of income ***		
Wages and salaries	13	12
Self-employment	2	2
Investment income	7	3
Annuities and pensions	15	21
Social security benefits	63	62
Other sources	1	+
Investment income? ***		
Yes	78	67
No	22	33
Disability benefits? ***		
Yes	9	16
No	91	84
Unweighted base	*4,634*	*4,399*

Base: All pensioner households.

Significance levels: + <0.5; * <0.05; ** <0.01; *** <0.001;

Source: Family Expenditure Survey 1991/93; Expenditure and Food Survey 2001/03.

Finally, as Table E.4 shows, there was an increase over the decade in the proportion of pensioner households that owned a car or van. The proportion owning a fridge freezer or deep freezer also increased. Meanwhile, the proportion of pensioner households owning a video doubled over this period.

Table E.4 Ownership of consumer durables by survey

Household owns	FES %	EFS %
Car or van	46	59
Fridge freezer or deep freezer	87	94
Video	40	82
Unweighted base	*4,634*	*4,399*

Base: All pensioner households.

Sources: Family Expenditure Survey 1991/93; Expenditure and Food Survey 2001/03.

E.1.3 Expenditure patterns

Table E.5 compares mean weekly expenditure across different items of consumption between the two surveys. Total expenditure went up by £40.63, rising from £255.57 per week in 1991/93 to £296.20 per week in 2001/03, an increase of 16 per cent in a decade. Spending on fuel, light and power declined by £4.47, and fell very slightly on tobacco and on miscellaneous items, between the two survey dates. However, expenditure increased on all other individual categories of consumption to a greater or lesser extent. In absolute terms, the largest increases were on leisure services (+£16.69), motoring (+£9.93), and household goods (+£5.68).

The rank order of expenditure categories by amount spent per week changed very little between the two survey dates. Food remained the largest single item of expenditure and housing remained the second largest. Despite expenditure on motoring increasing by a third (36 per cent) between the two surveys, it slipped from being the third to the fourth largest item of spending. Meanwhile, weekly expenditure on leisure increased by two-thirds (69 per cent) between 1991/93 and 2001/03, and moved up from fourth to third in rank order as a result.

Table E.5 Mean household expenditure by survey

	FES 1991/93 £pw	EFS 2001/03 £pw
Alcoholic drink	8.18	8.90
Clothing and footwear	13.19	13.92
Fares and other travel costs	4.35	5.51
Food	51.86	54.68
Fuel, light and power	18.93	14.46
Household goods	21.87	27.55
Household services	16.42	18.04
Housing (net)	40.73	43.09
Leisure goods	11.66	12.94
Leisure services	24.28	40.97
Motoring	27.60	37.13
Personal goods and services	11.20	14.53
Tobacco	4.49	3.85
Miscellaneous	0.82	0.64
Total	255.57	296.20
Unweighted base	*4,634*	*4,399*

Base: All pensioner households.

Sources: Family Expenditure Survey 1991/93; Expenditure and Food Survey 2001/03.

E.2 Pensioner spending over time

In addition to the quasi-cohort approach reported in Chapter 5, longitudinal analysis was undertaken to investigate whether a decrease in spending by very old pensioners was the result of an ageing effect. The BHPS enables longitudinal analysis to follow individuals over an 11 year time period, from 1990/01 to 2002/03. Analysis here focused on pensioners that appeared in all 11 survey years. As pointed out in Chapter 4, expenditure data is limited in the BHPS. Therefore, median household food spending as a proportion of household income was used as the proxy measure to understand whether household expenditure declines with age. The analysis was undertaken according to birth cohort, focusing on the middle (born 1919-1933) and oldest birth cohort (born pre-1919) because both these cohorts were pensioners throughout the 11 year period. This enabled investigation of whether spending decreased as pensioners aged for different birth cohorts.

The analysis found that evidence of an ageing effect was inconclusive. When each birth cohort was followed over time, it was found that median expenditure on food as a proportion of income was lower at the end of the period than at the beginning. For the older cohort, median expenditure on food was 22 per cent in 1990/01 compared to 16 per cent in 2002/03. However, for the middle cohort, the difference in spending between the two years was small (21 per cent in 1990/01 compared to 19 in 2002/03 per cent). Also, examining the difference between the beginning and end years hides fluctuations in between. For both cohorts a smooth declining trend was only apparent from 1998/99 (See Figure E.1).

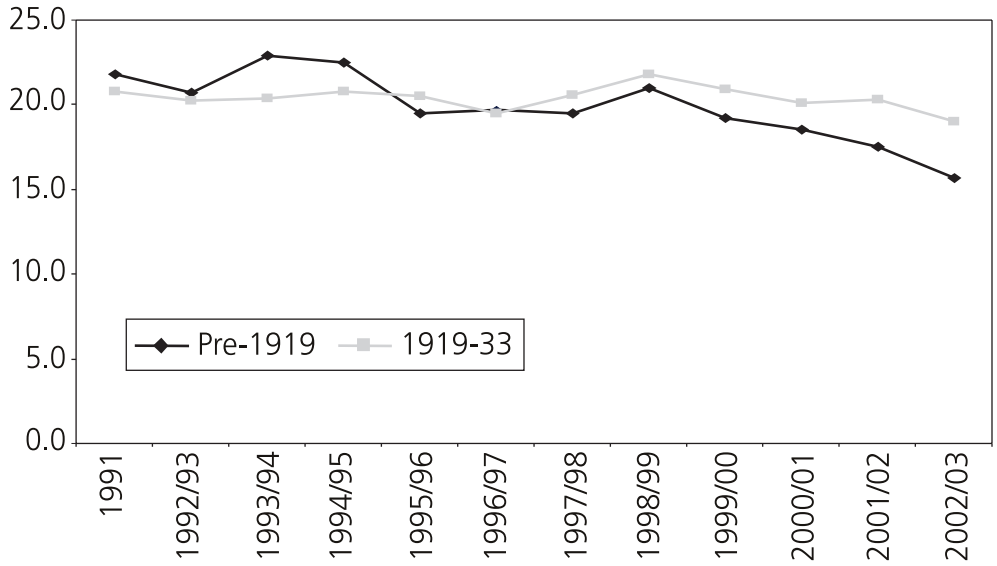
Next, the food expenditure share of respondents with an income below 60 per cent of median income (low incomes) was compared with that of respondents with an income at or above this threshold (higher incomes) (see Figure E.2). Again, evidence of an ageing effect was not conclusive. For low income pensioners there was some evidence of a decline in food spending: median expenditure on food was 32 per cent in 1990/91 compared to 27 per cent of income in 2002/03. Higher income pensioners spent a noticeably lower proportion of their income on food compared to those with lower incomes and the slope over time was relatively flat (18 per cent in 1990/91 compared to 16 per cent in 2002/03).

Tracing median expenditure on food amongst lower income pensioners for each cohort (See Figure E.3) showed little sign of an ageing effect for either birth cohorts. Food spending as a proportion of income remained relatively stable throughout the period. For higher income pensioners, the trend followed that of all pensioners, with no evidence of an ageing effect for the middle cohort and some evidence for the oldest cohort, (median expenditure on food for the older cohort was 19 per cent in 1990/01 and 14 per cent in 2002/03). Again, there was fluctuating expenditure on food as a proportion of income between the two years (See Figure E.4).

In summary, using the BHPS to trace food expenditure as a proportion of income over time, the evidence of an ageing effect was inconclusive. There was some evidence of an ageing effect for the oldest cohort and for low income pensioners,

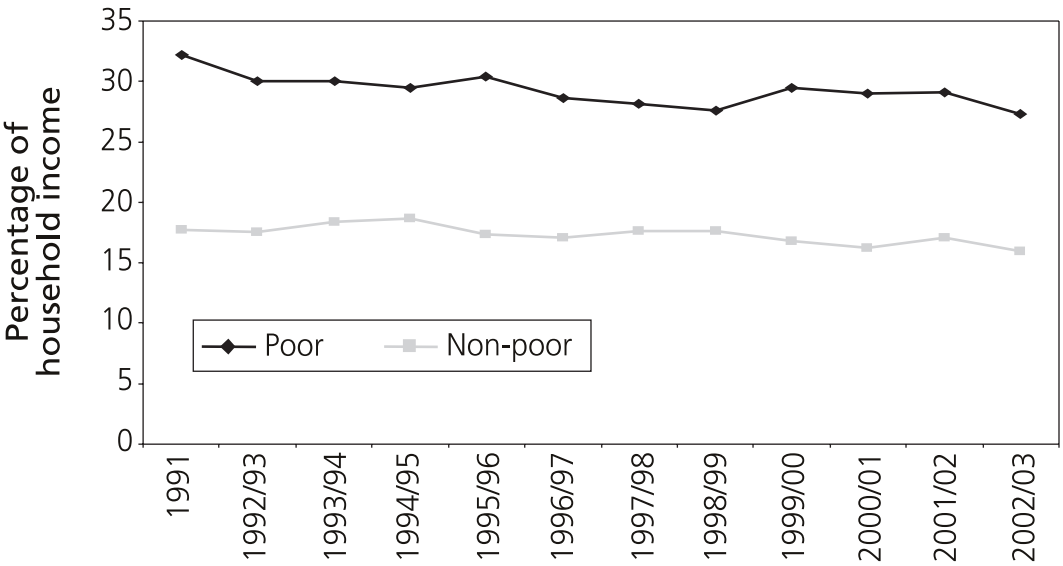
but little evidence of one for the middle cohort and higher income pensioners. Also, the decline in food expenditure share over time was relatively small, especially when compared to the EFS quasi-cohort analysis, which found strong evidence of an ageing effect for all birth cohorts and for both poor and non-poor households. The weak evidence of an ageing effect using the BHPS appears to be because food spending is not a useful proxy for overall spending for longitudinal analysis. Indeed, EFS analysis confirmed this, demonstrating that median food expenditure as a proportion of income does not show a clear decline by age group (see Table E.6).

Figure E.1 Median weekly expenditure on food as a proportion of household income by cohort



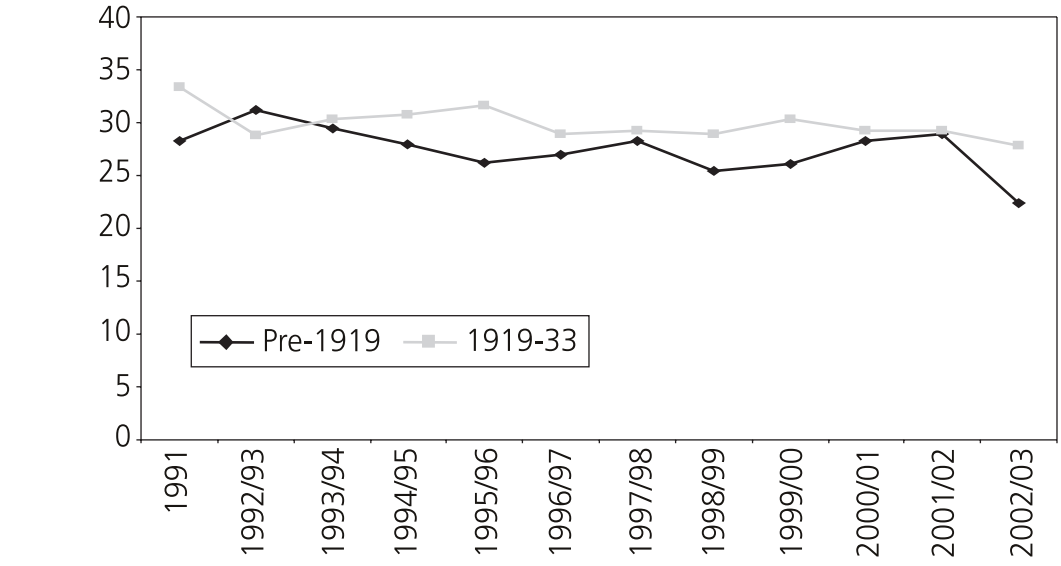
Source: British Household Panel Survey, respondents in all waves.

Figure E.2 Median expenditure on food among low income[15] and higher income[16] pensioners as a proportion of household income by cohort



Source: British Household Panel Survey, respondents in all waves.

Figure E.3 Median expenditure on food among low income[17] pensioners as a proportion of household income by cohort



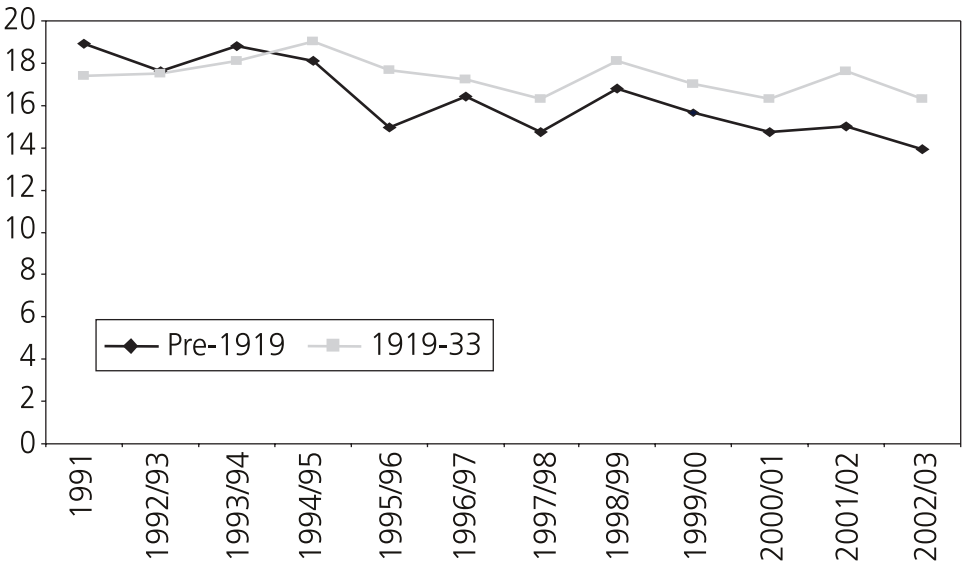
Source: British Household Panel Survey, respondents in all waves.

[15] Income below 60 per cent of the median.

[16] Income at or above 60 per cent of the median.

[17] Income below 60 per cent of the median.

Figure E.4 Median expenditure on food among higher income[18] pensioners as a proportion of household income by cohort



Source: British Household Panel Survey, respondents in all waves.

Table E.6 Median household food expenditure as a proportion of household income by age

Age group	Median food expenditure as a percentage of income
Under 60	10.9
60 – 64	13.1
65 – 69	13.7
70 – 74	14.2
75 – 79	14.6
80 – 84	13.3
85 +	12.3
All	13.5
Unweighted base	*4,312*

Source: Expenditure and Food Survey 2001/03.

[18] Income at or above 60 per cent of the median.

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