

The spending habits of the elderly

July 2007

Research Centre

Analysis

Those aged 75 and over currently make up almost 8% of the UK population, an increase from only 6% in 1981. It is projected that by 2025 this figure will have risen to almost 11% of the population, indicating that the elderly will account for a much larger share of the future population of the UK.

We have identified key features of the spending patterns of the elderly who we classify as pensioners aged 75 and over.

- 'Older' pensioners allocate the largest proportion of their spending to financial items, closely followed by basics such as food, housing and power.
- Council tax accounts for 6% of spending by elderly households, making these particularly vulnerable to increases in council tax payments.
- Only 73% of spending by this age group is captured in the national measure of inflation.

Introduction

The UK population has been ageing for some time, and people are now expected to spend a relatively long period of time in retirement. The number of people aged 75 and over is estimated to rise by almost 53% by 2025. It is, therefore, important to obtain an understanding of the needs and preferences of the elderly. Retirees range from the 'younger' pensioners aged 65 to 74 who still spend a relatively large amount on holidays and eating out to the 'older' pensioners who are different. We decided to study this age group, to establish where these households allocate their spending.

Our analysis of the spending of those aged 75 and over, in 2005-06, confirms

that the major items of expenditure include financial items and basics such as food, housing and power.

Spending pattern of 'older' pensioner households

We classify 'older' pensioner households as those in which the reference person is aged 75 or over. We estimate that, on average, total spending by these households amounted to £12,896 over the year. This is equivalent to expenditure of £9,211 per person.

In general these retired households spent the largest proportion of their budgets on financial items. Financial expenditure captures spending on the purchase or alterations of dwellings, mortgages and

Contact

Shona Dobbie
Head of Research Centre

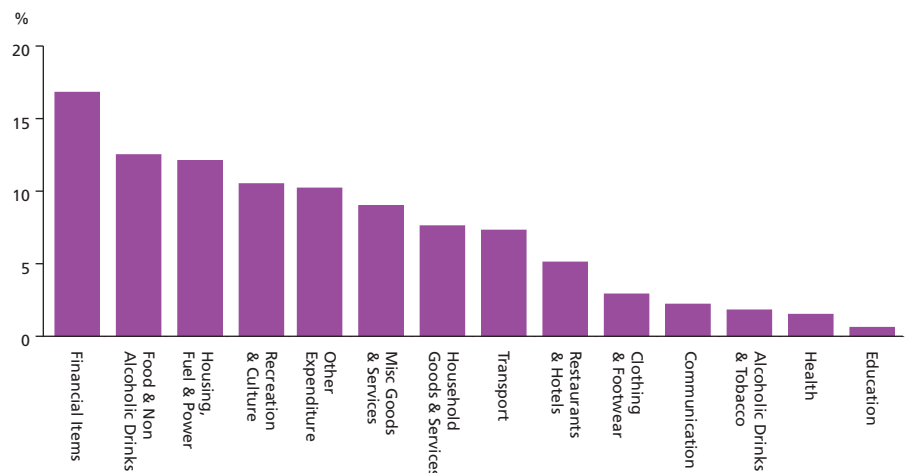
Alliance Trust PLC, Meadow House,
64 Reform Street, Dundee DD1 1TJ

Tel +44 (0)1382 201700
Fax +44 (0)1382 225133
Email contact@alliancetrust.co.uk
Web www.alliancetrust.co.uk

Alliance Trust PLC is the largest generalist investment trust company listed on the London Stock Exchange. The Research Centre is part of Alliance Trust and was formed to carry out economic and social analysis to deepen our understanding of economies, markets and socio-economic issues.

The views, information and data in this publication are those of the Research Centre and this publication is not a financial promotion or recommendation to make any particular investment. Alliance Trust is not authorised to give financial advice.

How the over 75s allocate their spending

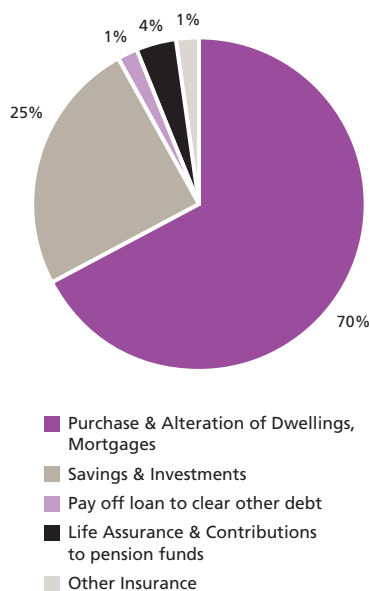


The spending habits of pensioners

savings & investments. We have excluded income tax payments less refunds and national insurance contributions from our calculations as these are deducted at source and not part of the elderly's decision making process.

Our model shows that these households spent on average £2,163 over the year on financial items, which was equivalent to 17% of their annual expenditure. More than £1,500 was spent on the purchase of or improvement to dwellings and capital repayment of mortgages. Around £925 of this was spent on the outright purchase of dwellings, including deposits, and £400 was spent on contract payments for alterations and improvements to dwellings. A further £536 was allocated to savings and investments.

Breakdown of spending on Financial Items

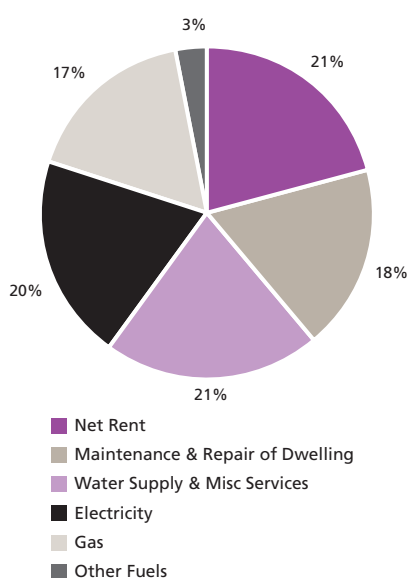


The second largest category of spending for the 75 and over households was food and non-alcoholic drinks. Our model shows that these households spent an average of £1,617 on this category, which was equivalent to 13% of their total expenditure compared with the UK average of 9%. The breakdown of spending on food and non alcoholic drinks shows that the oldest households spent almost 15% of their allocated budget for this category on fresh fruit and vegetables. A further 8% was allocated to bread, rice and cereals and another 8% was spent on buns, cakes and biscuits. On average £234 was spent on alcohol and tobacco.

The third largest category of spending for the older retired households was housing, fuel and power. Our model shows that these households spent an average of £1,560 on this category, which

was equivalent to 12% of their total spending. The average UK household allocated 8% to housing, fuel and power. The bulk of this spending pays for water, electricity, gas and other fuels. We estimate that annual spending by households aged 75 and over on these items amounted to £957. Spending on maintenance and repair of the dwelling amounted to less than £300.

Breakdown of spending on Housing, Fuel and Power



The fourth largest category of spending for the over-75s households is recreation and culture, which accounted for 11% of total spending. The largest share of spending in this category was on package holidays abroad to which households allocated just over £300. In comparison the 'younger' retirees spent over £700 on this category. Other areas of importance for the 'older retirees' include spending on newspapers, gardening goods & equipment and books & stationary. Older retirees on average spent just under £3 per week on gambling.

Households with a reference person aged 75 or over spent 10% of their annual expenditure on miscellaneous items, which amounted to £1,310. Over half of this was spent on council tax, which accounts for almost 6% of total spending of the eldest age group, proving that they are particularly vulnerable to increases in council tax payments.

Ranking	75 and over households
1	Financial Items (17%)
2	Food & Non Alcoholic Drinks (13%)
3	Housing, Fuel & Power (12%)
4	Recreation & Culture (11%)
5	Other Expenditure (10%)

For the purpose of this research we have included 'other' and 'financial' expenditure in our calculations of total expenditure. Such groups are not included in the Consumer Prices Index and are therefore not taken into consideration within the national measure of inflation. The exclusion of these categories from the national gauge of inflation means that only around 73% of spending by the 75 and over age group is being picked up in this measure. Spending on council tax and mortgage interest payments are not included in the Consumer Prices Index basket which forms the basis for the government's inflation target and to which pension increases are linked. Our inflation and age study has identified that the inflation rate of the 75 and over age group is already substantially more elevated than the official measures. If council tax etc had been included, this group's inflation rate would have been pushed even higher.

Conclusion

Our analysis of the spending patterns of 75 and over households paints an accurate picture of how pensioners allocate their spending as we have included all areas of spending. We have identified that the UK's elderly allocate the largest proportion of their spending to financial items, with basics such as food, housing and power following closely, exposing these households to inflation in basic goods and services.

Sources: Family Spending, Key Population and Vital Statistics, Population Estimates (All ONS), Government Actuary's Department, In-house Analysis

Our Analysis

We used data from the Family Spending survey (2005/2006) which is produced by the Office for National Statistics. This survey identifies detailed average household expenditure, on a weekly basis, in terms of the age of the household reference person. This is generally the person who either owns the household accommodation, or who is legally responsible for the rent of the accommodation. If there are any joint householders then the reference person is the one with the highest income. If incomes are identical, then the eldest householder becomes the household reference person.

The analysis is done on a household basis, rather than for individuals. Households with a reference person aged 75 or over have a weighted average of 1.4 persons per household.