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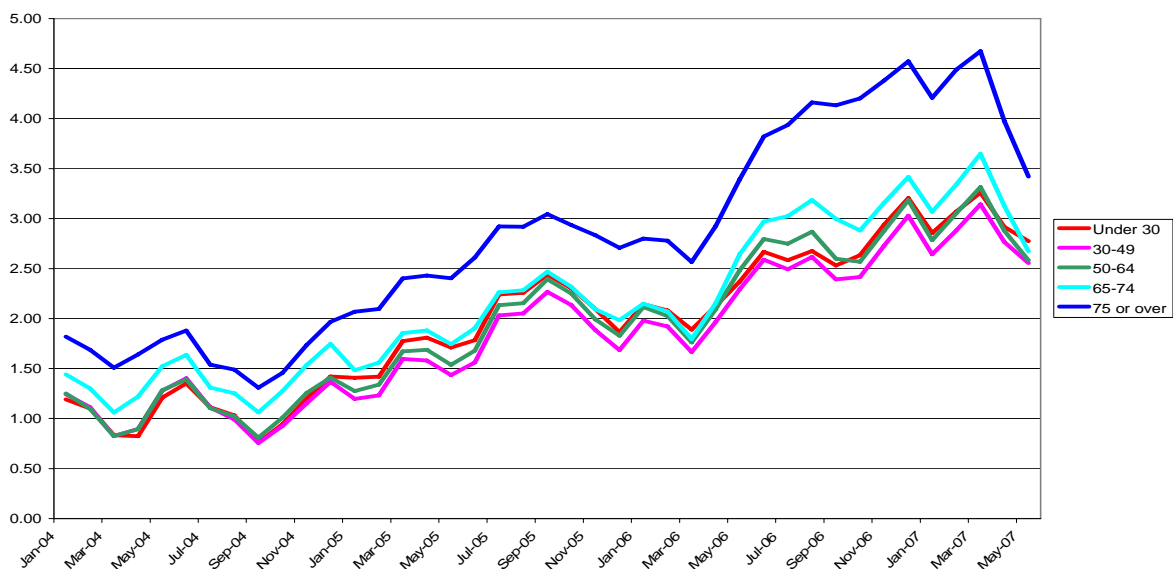
ELDERLY INFLATION RATE 36% ABOVE HEADLINE RATE

While the official rate of headline inflation fell back to 2.5% in May, an independent study reveals that the inflation rate facing the over-75s is 36% higher. The Alliance Trust Research Centre's monthly 'Age and Inflation' alert shows the rate of inflation facing the over-75s has declined over the month, from 4.0% to 3.4%, but remains well in excess of the inflation rate facing other age groups. Households headed by someone aged over 75 have consistently faced inflation of more than 3% since May 2006.

The headline findings, based on the updated spending patterns of different age groups and analysis of official May inflation figures are:

- **The inflation rates facing all age groups have declined for a second consecutive month as gas and electricity prices fell sharply. Gas prices fell more than 3% over the month and electricity prices declined by over 1%. However, the youngest age group have benefited least and the under-30s now face the second highest rate of inflation.**
- **Inflation for the over 75s remains high at 3.4%, that's 36% higher than headline inflation of 2.5%.**
- **Despite food price inflation easing from 6.0% to 4.9%, elderly households are still hit harder, as food and beverages typically account for 17% of their spending but has a weighting of just 10% in the Consumer Prices Index.**
- **Alliance Trust maintains call for pensions to be linked to rise in retired cost of living**

Inflation and Age (Jan 2004 to May 2007)



The Alliance Trust's model of age-related inflation has been updated using official price data for May. Our results show that the rate of inflation facing every identified age group declined during the month, as electricity and gas prices decreased. However, the impact of inflation continues to differ for different age groups. The rate of inflation facing the over 75s remains by far the highest, at 3.4%, as price inflation for basic necessities remains elevated. Gas price inflation is now running at over 11%, electricity price inflation at 10% and food price inflation at close to 5%. Elderly households have been facing a rate of inflation in excess of 3% since May 2006.

The under 30s now have the second highest rate of inflation, falling over the month from 2.9% to 2.8%. Young people spend a large proportion of their budgets on basic goods and services, such as gas, electricity and food. In addition, they face the burden of higher rents and education costs which have increased by 14% over the last year.

Shona Dobbie, Head of the Alliance Trust Research Centre said, "Our four-year study continues to highlight the extent to which the UK's elderly are the group hit hardest by current high levels of inflation. Headline inflation has fallen back to 2.5% this month, but the elderly are facing a much higher rate of inflation of 3.4%. Any household which spends a large proportion of its budget on basic goods and services is currently facing a higher rate of inflation than the headline CPI suggests. Falling gas and electricity prices are helping, but gas price inflation is still running at 11% and electricity price inflation at 10%, which adds to the cost of running a home. Food price inflation eased over the month to 4.9%. However, over the last year fish prices have increased by almost 13%, dairy prices by 7% and vegetable prices by almost 10%, keeping up the pressure on pensioners' budgets".

"The impact of higher prices for basic goods and services, such as heating and food, almost always falls most heavily on the elderly and those on low incomes, as these households spend a larger proportion of their budgets on these necessities. In recent years, low income and elderly households have been forced to allocate their budgets to the goods and services which have experienced the highest price changes, leaving little disposable income left over to spend on discretionary goods, such as clothing, footwear and audio visual products, where prices have declined over the last 12 months."

Alliance Trust's full latest report on 'Inflation and Age' is available on www.alliancetrust.co.uk
You can obtain a copy of the report by emailing contact@alliancetrust.co.uk or phoning 08000 326323.

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Notes to editors

1. Alliance Trust is an international investment and financial services group. It is headed by Alliance Trust PLC, the largest generalist investment trust company listed on the London Stock Exchange. Through its subsidiaries, Alliance Trust offers investment dealing, self-invested personal pensions and a choice of investment wrappers.
2. 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.
3. Photographs of Shona Dobbie are available.