

Dominant patterns of expenditure among older people: Segmenting the older consumer using the Living Costs and Food Survey



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Policy-makers and practitioners need a good understanding of older people's expenditure and consumption to inform the design of policies and services that affect their lives. This study uses data from the 2010 Living Costs and Food Survey (LCFS) to examine and explain levels and patterns of expenditure among households headed by someone aged 50 and over. Expenditure is defined using 12 broad categories, which reflect the international standard "COICOP" classification, and is equivalised to control for household size. We report the results of cluster analysis which segments older households depending on their predominant patterns of expenditure. CHAID (decision tree) analysis and bivariate analysis are then used to understand the profile of each cluster in relation to their demographic, socio-economic and other characteristics. Based on their patterns of expenditure, six distinct clusters of older households emerge from the analysis. The findings raise important questions for policy-making in relation to the extent and nature of expenditure poverty among older consumers.

AIMS

- Describe average expenditure by age group and other key variables of interest;
- Segment older households based on their patterns of expenditure (cluster analysis);
- Interpret the clusters (descriptive/CHAID analysis).

DATA

The LCFS is a national survey of private households undertaken across the United Kingdom.

It "collects information on spending patterns and the cost of living that reflects household budgets across the country" (Office for National Statistics, 2010).

EXPENDITURE GROUPS

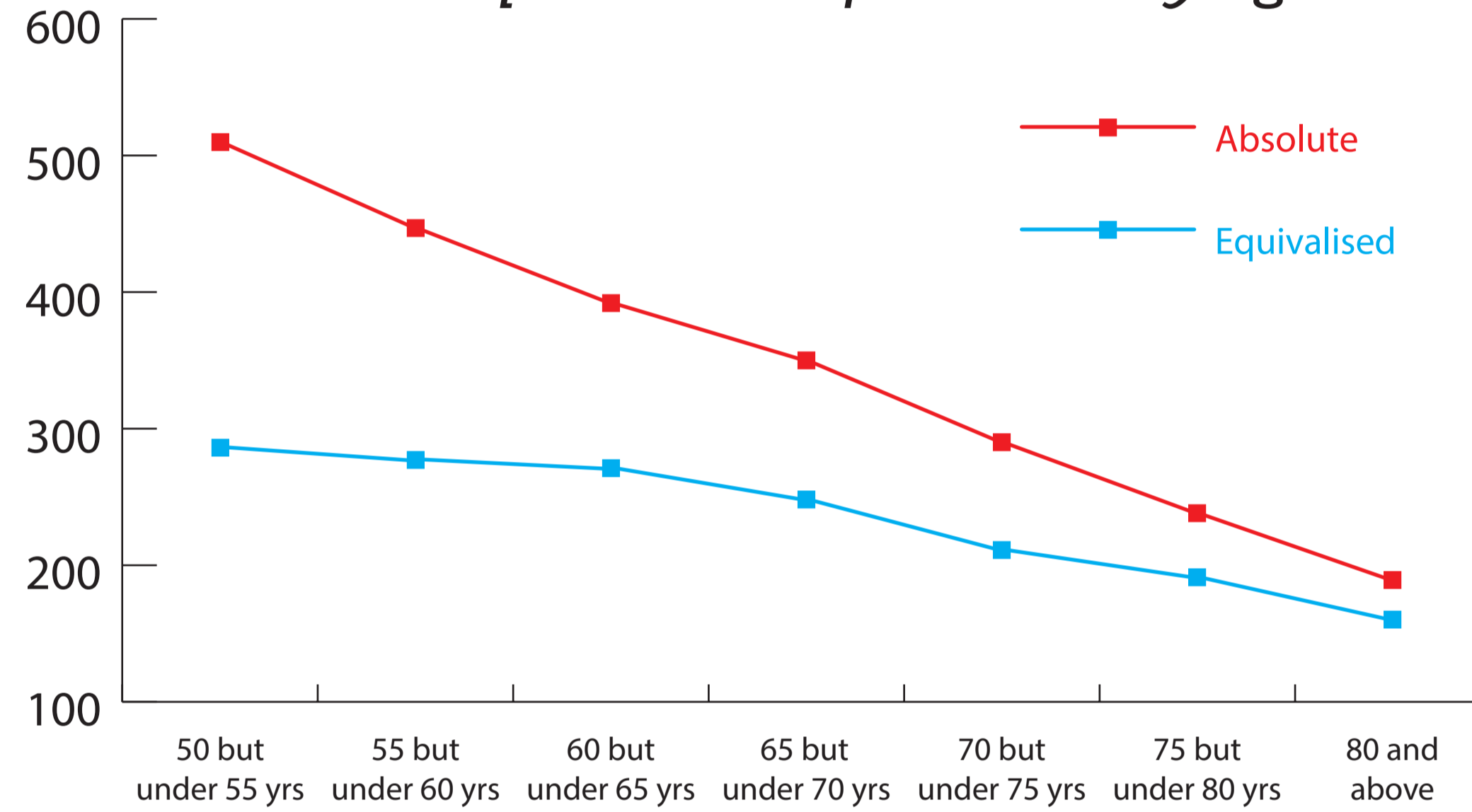
- Alcohol & tobacco
- Clothing & footwear
- Communication
 - Education
- Food & non-alcoholic drinks
- Health
- Household goods & services
 - Housing, fuel & power
- Miscellaneous goods & services
 - Recreation & culture
 - Restaurants & hotels
 - Transport

DATA CONSIDERATIONS

- Detail of expenditure unique to LCFS
- Using the 12 expenditure groups
- Household level equivalised expenditure to account for household composition
- Good sample of households aged 50+ (n = 2,931)
- Good distribution of age groups (even 80+ ~ 12% of the sample)

STEP 1: DESCRIPTIVE STATISTICS

Absolute and equivalised expenditure by age



Proportion of weekly expenditure by age (comparing 50-54 age group with 80+ group)

- Food & non-alc. drink increases: 12% to 19%
- Housing, fuel & power doubles: 12% to 24%
- Communication constant: 3%
- Clothing & footwear halves: 6% to 3%
- Transport decreases: 18% to 7%
- Recreation drops: 16% to 11%

STEP 2: CLUSTER ANALYSIS

- Explores how types of expenditure co-vary
- Identifies dominant patterns and classifies people into segments based on these
- Cluster variate are the 12 expenditure groups
- Outliers removed
- Two stages – hierarchical/k-means cluster

The optimal solution contained 6 clusters:

Cluster (C)	Percentage in cluster (%)	Mean weekly expenditure
Cluster 1	4.6	138
Cluster 2	19	228
Cluster 3	9	245
Cluster 4	11	231
Cluster 5	12	405
Cluster 6	4	392

Grand mean = £217. n = 2,769.

Drivers of cluster membership

- Highly statistically significant variations in expenditure for all 12 categories
- Three categories were particularly strong (alcohol and tobacco; clothing and footwear; housing, fuel and power)

STEP 3: INTERPRETING THE CLUSTERS

Cluster one – Conservative Consumers

Spend far below average on non-essentials (such as recreation and hotels)

- Spend £138 on average
- Transport (£18) much lower than average (£32)
- Only 47% connected to the internet
- 38% in the lowest income quartile; 60% retired
- 56% gave benefits as main source of income

Cluster two - Foodies

Very high expenditure on food (£56 compared to the average of £34)

- Spend £228 on average
- Close to average expenditure in most categories
- Half (54%) live in two-adult households
- Very few households are renting (12%, cf. 25%)
- Only 18% in lowest income quartile

Cluster three - Burdened by Bills

Very high proportion of expenditure on housing costs (£4 in every £10 - twice the average)

- Spend £231 on average
- All other expenditure is relatively low
- Low transport costs (lowest petrol expenditure)
- 70% in rented accommodation (cf. 24%)
- Including 45% from a social landlord

Cluster four - Smokers

Spend £28 per week on tobacco products

- Spend £245 on average
- Very high spend on alcohol and tobacco (£36 per week/15% of total expenditure, cf. 3%)
- One of the 'younger' clusters (62% under 65)
- Home-ownership is relatively low (42% cf. 54%)

Cluster five - Recreation and Clothing (R&C)

At £65 each week, these fashionistas spend more on clothing than all the other groups combined!

- One of the two high-spending clusters (£392)
- High spend on recreation (£65) & transport (£53)
- Only 21 per cent of this cluster are 70 and above
- Two-thirds live in larger houses (6+ rooms)
- Half of cluster in highest income quartile

Cluster six - The Socialites

Enjoy the finer things in life, spending £131 per week on eating out, holidays and recreation

- One of the two high-spending clusters (£405)
- Spend £96 on transport costs (24% cf. 15%)
- Three quarters under 65; 41% working full time

- More than half in highest income quartile
- 90% of households connected to the internet

KEY DETERMINANTS

CHAID analysis identified three important characteristics of cluster membership

- Tenure: 97% of Socialites were homeowners
- Compared with 29% of Burdened by Bills
- Age: 40% of Smokers aged under 60
- Compared with just 26% of Conservative Consumers
- Income: 7% of R&C in lowest income quartile
- Compared with 39% of Burdened by Bills

WHAT DOES THIS RESEARCH TELL US?

Equivalised expenditure decreases with age but other factors such as tenure and income are important. As a result, there appear to be six dominant patterns of expenditure across the categories of expenditure which do not neatly map by age. It demonstrates clearly that there is no such thing as 'the older consumer' but that older consumers are characterised differently depending on their preferences, their resources and other factors such as their mobility and independence.

Even so, the steady decrease in expenditure with age tells us that there are some age-related factors. The younger profile of the smokers and, conversely, the finding that high spending on smoking did not persist into later life suggests that the smokers as a group will not age, either because they stop being smokers or because of poor morbidity. Also, housing costs and housing poverty is a key factor in the wellbeing of older households, distinguishing the 'haves' from the 'have nots'.

However, Conservative Consumers are a diverse group and need unpacking further to understand why they spend comparatively little, and whether these constraints are positive or negative. The true effect of ageing vs. generational effects also remains unclear from this analysis.

Endnotes

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