Exploring patterns of expenditure among older people and what explains these

David Hayes and Andrea Finney

Personal Finance Research Centre

University of Bristol

Who we are

- Independent social research centre

- Credit use and overindebtedness; financial exclusion; financial capability and wellbeing

- Quantitative and qualitative research

- Research *usually* funded by government, charities and industry

Today

- The analysis in context

- The analysis process

- Data considerations

- Findings:

  - Structured around three stages of analysis

The bigger project: Financial dimensions of wellbeing among older people

- Funded by Economic and Social Research Council

  - Secondary Data Analysis Initiative

- Collaboration with ILC-UK (think tank); and Prof. Kelvyn Jones (methodological expertise)

- Using nine datasets: BSFC; ELSA; EU-SILC; LCF; US; WAS; and WVS; and two qualitative datasets

Research Questions

1. What are the dominant patterns of expenditure among older people and what explains these?

2. How do patterns of consumer borrowing, over-indebtedness and financial inclusion vary into and beyond retirement?

3. What are the main components of wealth among older people and how do these vary into and beyond retirement?

4. What is the relationship between financial well-being and quality of life among older people?

Three steps to addressing Research Question 1

- Describe average expenditure by age group and other key variables of interest (descriptive);

- Segment older households based on their patterns of expenditure (cluster analysis);

- Interpret the clusters (descriptive/*multinomial logistic regression analysis*).

University of BRISTOL
Personal Finance Research Centre

Data Considerations

- Detail of expenditure unique to LCF
  - Using the 12 COICOP classifications

- Using *household* level expenditure

- Good sample of *HRPs* aged 50+ (n = 2,931)
  - To cover transition into and beyond retirement
  - Good distribution of age groups (even 80+ ~ 12%)

COICOP Classifications

- Alcohol & tobacco

- Clothing & footwear

- Communication

- Education

- Food & non-alc. drinks

- Health

- Household goods & services

- Housing, fuel & power

- Miscellaneous goods & services

- Recreation & culture

- Restaurants & hotels

- Transport

Step one: Descriptive statistics

Absolute expenditure by age

- Overall expenditure decreases with age
  - From £510 (50-54s) to £190 (80+)

- Proportion spent on
  - Food & non-alcoholic drink increases with age
  - Housing, fuel & power doubles over the age range
  - Communication remains constant

Equivalising expenditure

- Abs. expenditure influenced by household size

- Equivalising adjusts for household size

  - And is commonly used to adjust income

- Used OECD scale in favour of McClements

  - EUROSTAT and UK government standard

University of BRISTOL
Personal Finance Research Centre

ILC

Equivalised expenditure by age

- Overall expenditure decreases with age
  - From £286 (50-54s) to £160 (80+)

- Proportion spent on
  - Food & non-alc. drink increases with age (12-19%)
  - Housing, fuel & power doubles (12-24%)
  - Communication remains constant (3%)

Further findings

- The *proportion* spent on:
  - Clothing & footwear halves from 6% to 3%
  - Transport decreases from 18% to 7%
  - Recreation drops from 16% to 11%

- Little variation in expenditure on alcohol & tobacco and household goods & services

Step two: Cluster analysis

The cluster analysis process

- Exploring how types of expenditure co-vary
  - Identifies dominant patterns
  - Classifies people into segments based on these
- Cluster variate are the 12 COICOP exp. categories
- Removed outliers (5 SDs) – leaving an n of 2,769
- A two stage process – hierarchical/quick cluster

Six cluster solution

	Percentage in cluster (%)	Mean weekly expenditure (£)
Cluster one	46	138
Cluster two	19	228
Cluster three	12	405
Cluster four	9	245
Cluster five	4	392
Cluster six	11	231

The average equivalised expenditure across the sample is £217.

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 three: Interpreting the clusters

Cluster one – *Older Owners*

- Lower than average expenditure (£138, cf. £217)

- Spend less on non-essentials such as recreation (£20, cf. £33),and eating out (£10, cf. £19)

- Largest group, predominantly oldest-old

- Many homeowners retired (60%, cf. 50%)

- 38% in the lowest income quartile

University of
BRISTOL
**Personal Finance
Research Centre**

ILC

Cluster two – *The Foodies*

- Very high expenditure on food (£58 to £34 ave)

- Close to average expenditure in other categories

- Mostly couples

- Very few households are renting (12%, cf.25%)

- Only 18% in lowest income quartile

Cluster three – *The Socialites*

- Highest expenditure at £405 per week

- Enjoy eating out, holidays and recreation (£76)

- 24% (cf.15%) on transport

- Three quarters under 65; 41% working full time

- Only three per cent of households rented

- More than half in highest income quartile

University of
BRISTOL
Personal Finance
Research Centre

Cluster four - *The Smokers*

- Very high spend on tobacco (£36 per week/15% of total expenditure, cf. 3%)

- Otherwise, about average expenditure

- One of the 'younger' clusters (62% under 65)

- Almost a third still in full-time employment

- Home-ownership is relatively low (42%, cf. 54%)

Cluster five - *Recreation and Rags*

- Along with cluster 3, the other high-spenders

- High spend on clothing, transport and recreation

- Only 21 per cent of this cluster are 70 and above

- 22 per cent multiple adult households (cf. 11%)

- A high percentage of self-employed (15% cf. 8%)

- Half of the cluster in the highest income quartile

Cluster six - *The Renters*

- Very high housing costs (39%; 16% average)

- 72% in rented accommodation (cf. 25%)

- All other expenditure is relatively low

- More single households

- Low transport costs (lowest petrol expenditure)

Summing up

- *Equivalised* expenditure decreases with age

- Six clusters of older people emerge

- Key correlates: age, income and tenure

- Next steps:

  - Multinomial regression to aid interpretation

  - Review and refine

  - Consider implications for policy

Questions and further discussion

- http://www.bris.ac.uk/geography/research/pfrc/esrc/

- david.hayes@bristol.ac.uk

- @PFRC_David