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How does spending change through retirement?



Economic
and Social
Research Council

How does spending change through retirement?

1. Patterns of spending, income and saving for current retirees

- How does the **level** of spending, income and saving change through retirement?
 - How does this differ between different types of households?
- How does the **composition** of spending change through retirement?

2. What are the implications of these findings in the current pension saving environment?

- For people planning their DC pot drawdowns
- For adequate saving during working life



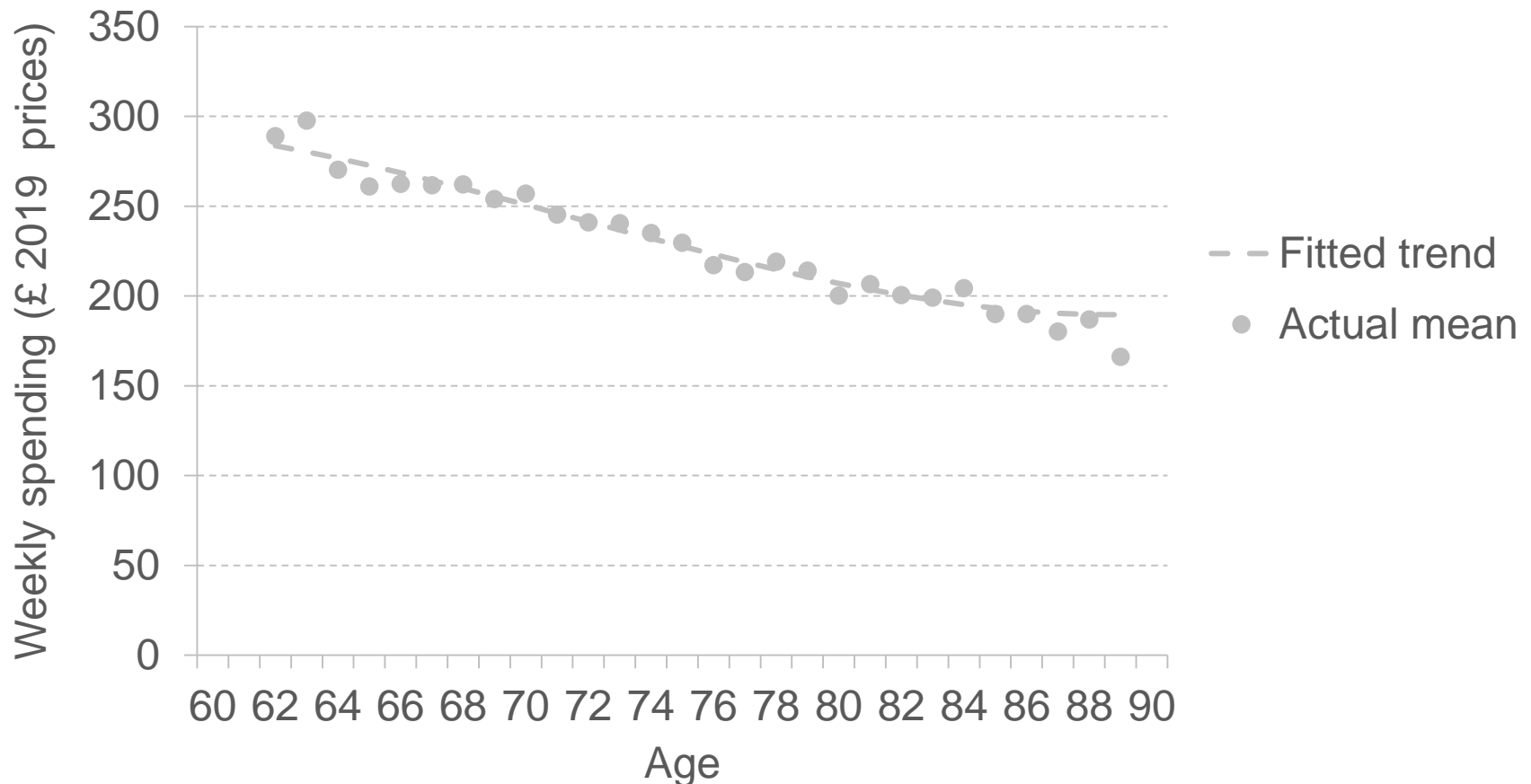
Age profiles of spending and income

Data and sample

- Living Costs and Food Survey 2006-18 (LCFS)
 - Detailed information on (non-institutional) household expenditure
 - We focus on households of retirees
- We use measures of weekly expenditure and income that are:
 - Per-person
 - Real-terms, adjusted for CPI inflation
- We also draw on the English Longitudinal Study of Ageing (ELSA)
 - Adjust for differential mortality

Average spending appears to fall with age...

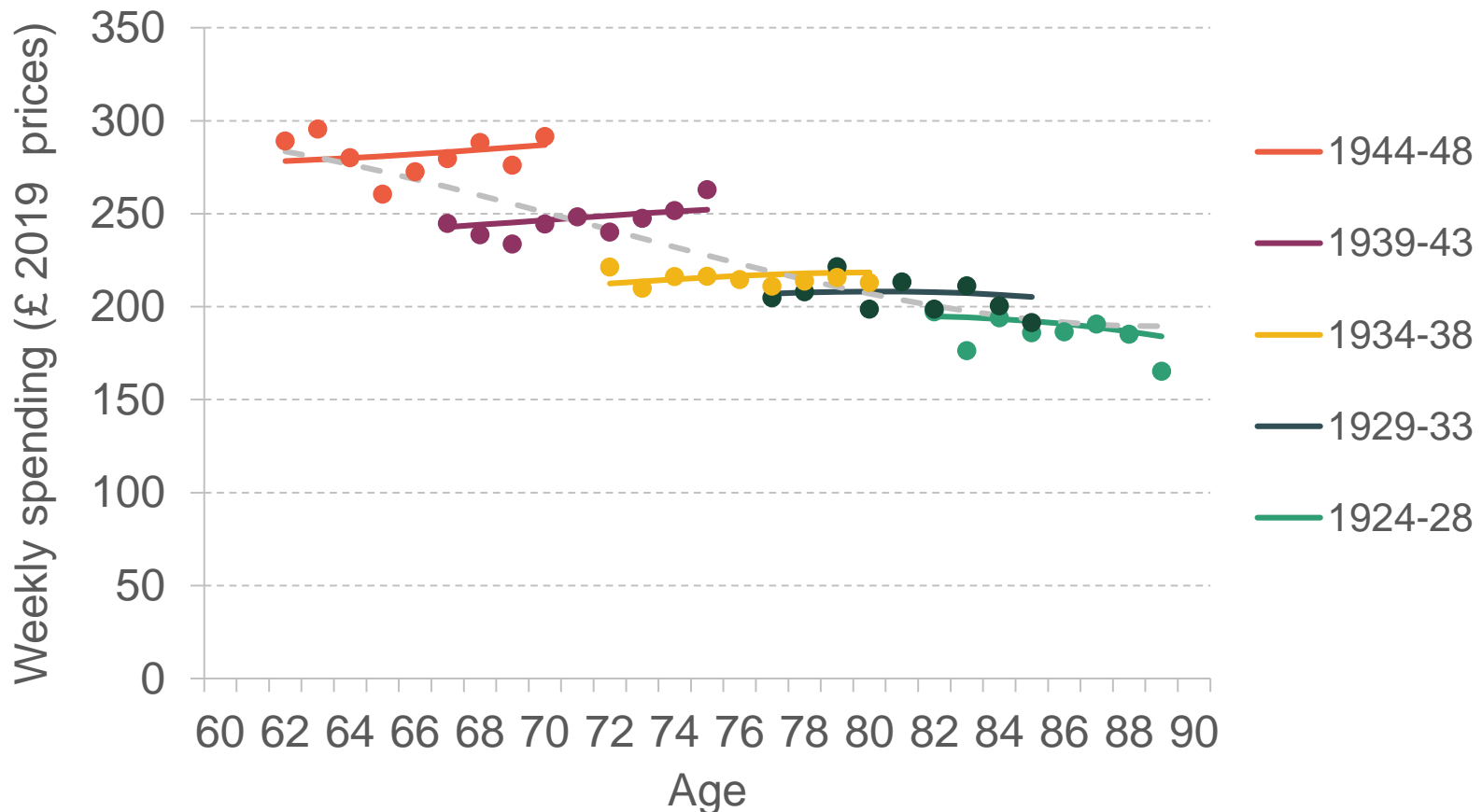
Average weekly household spending per person, pooled



Notes: Living Costs and Food Survey 2006-2018. Figure 3.1 in Crawford et al. (2022).

...but this is driven by generational differences – within-generation age-profile is flatter

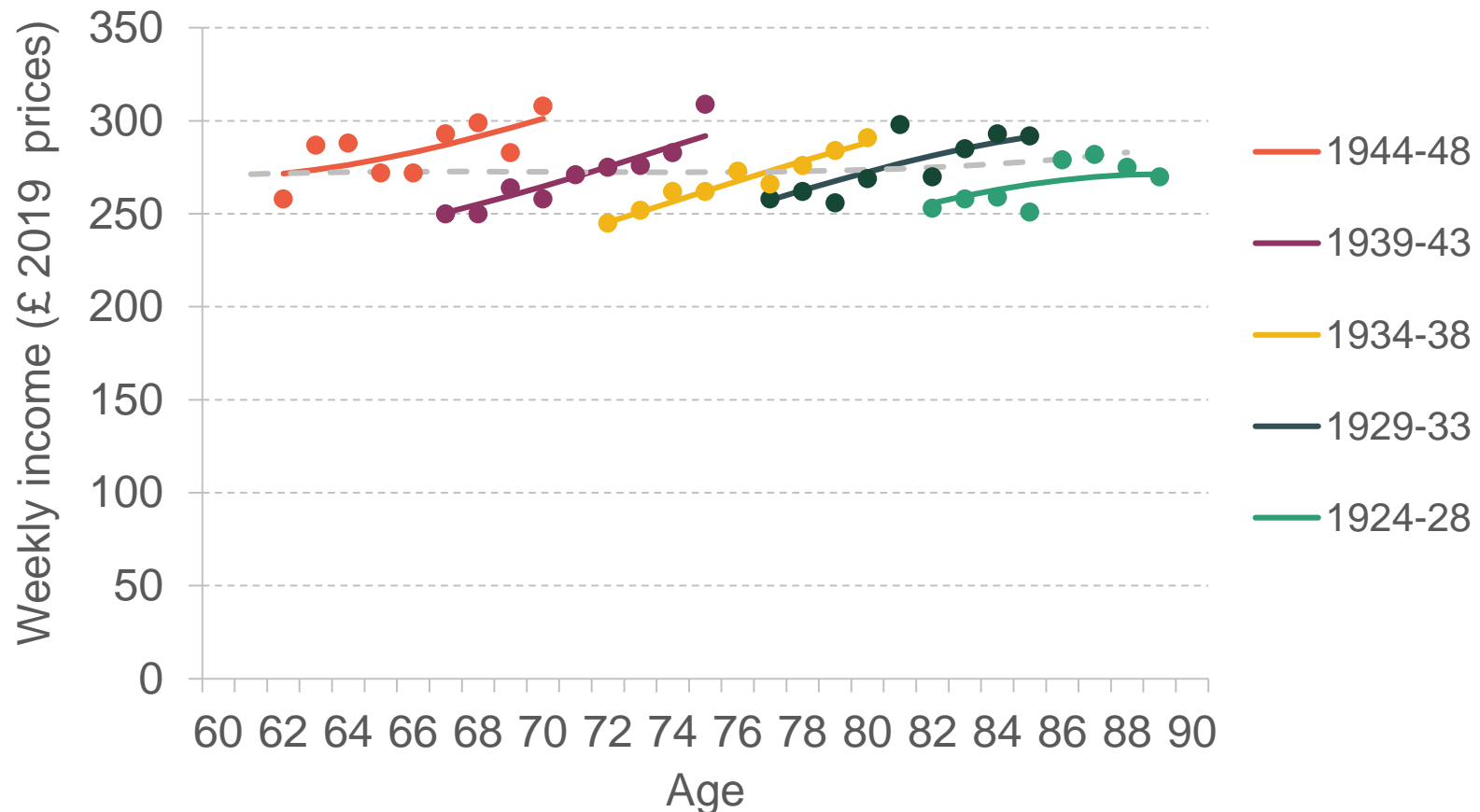
Average weekly household spending per person, by birth cohort



Notes: Living Costs and Food Survey 2006-2018. Figure 3.2 in Crawford et al. (2022).

Average incomes are increasing with age...

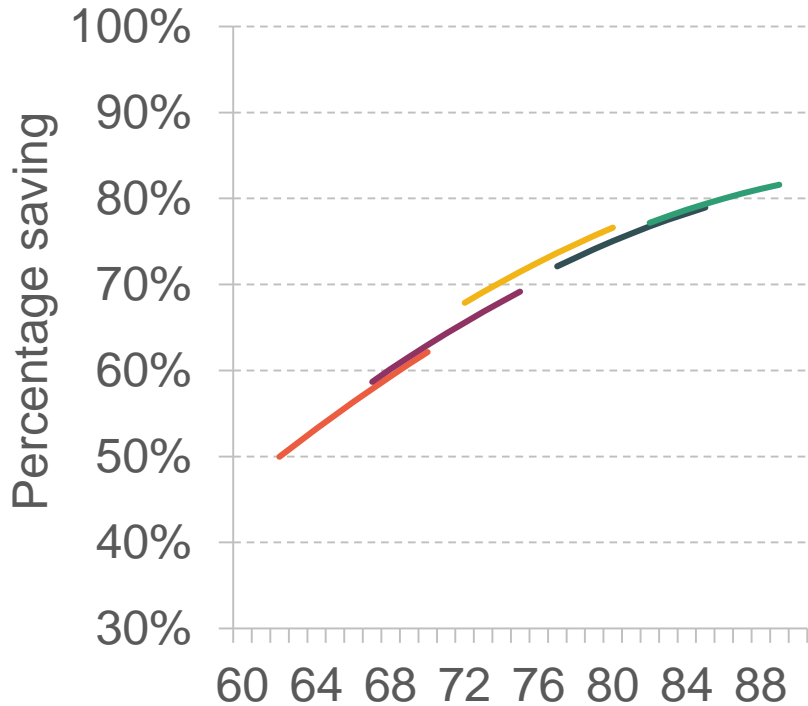
Average weekly household income per person



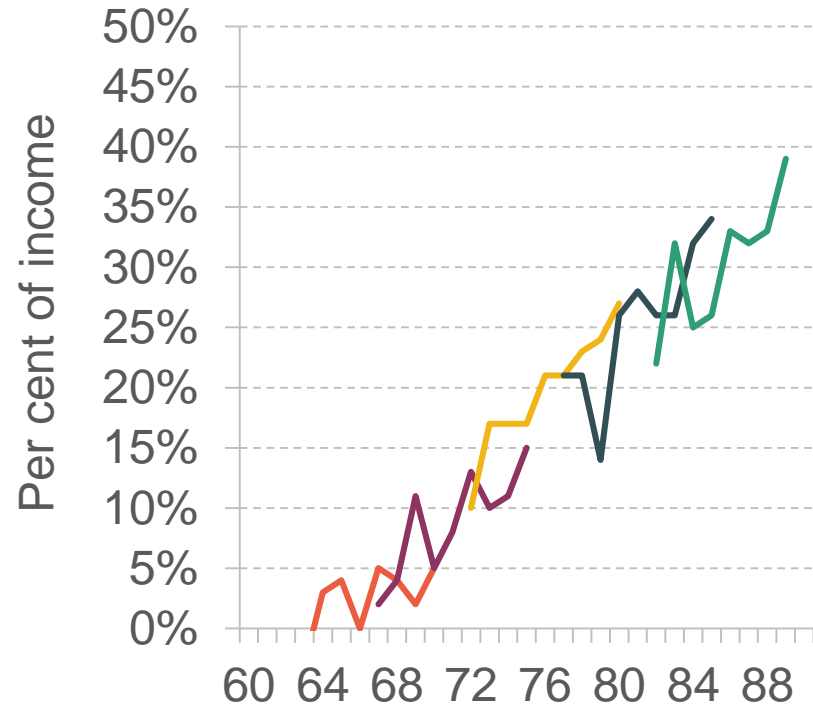
Notes: Living Costs and Food Survey 2006-2018. Figure 3.3 in Crawford et al. (2022).

...resulting in increasing saving with age

Proportion of households saving



Proportion of income saved



- Age
- 1944-48
 - 1939-43
 - 1934-38
 - 1929-33
 - 1924-28

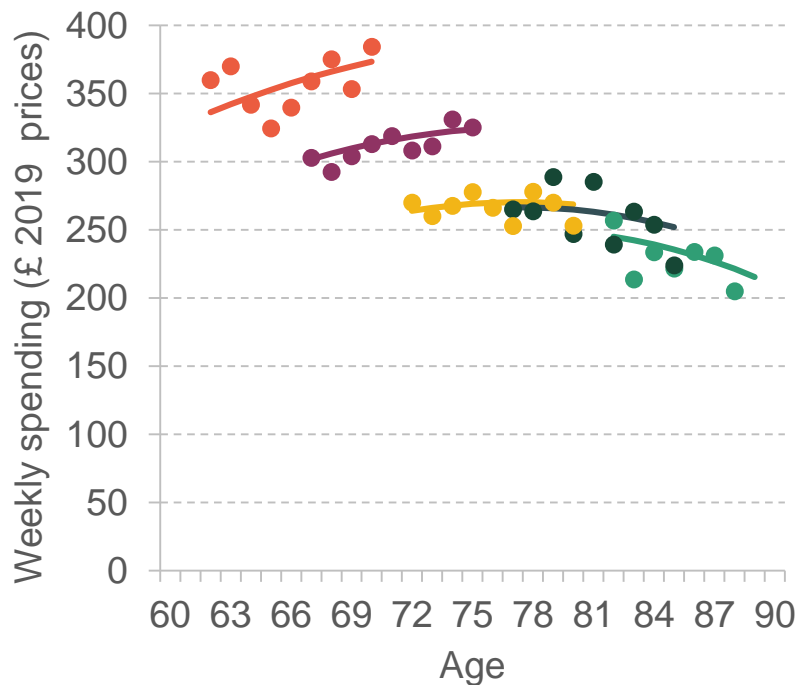
- Age
- 1944-48
 - 1939-43
 - 1934-38
 - 1929-33
 - 1924-28

Notes: Living Costs and Food Survey 2006-2018. Figures 3.6 and 3.7 in Crawford et al. (2022).

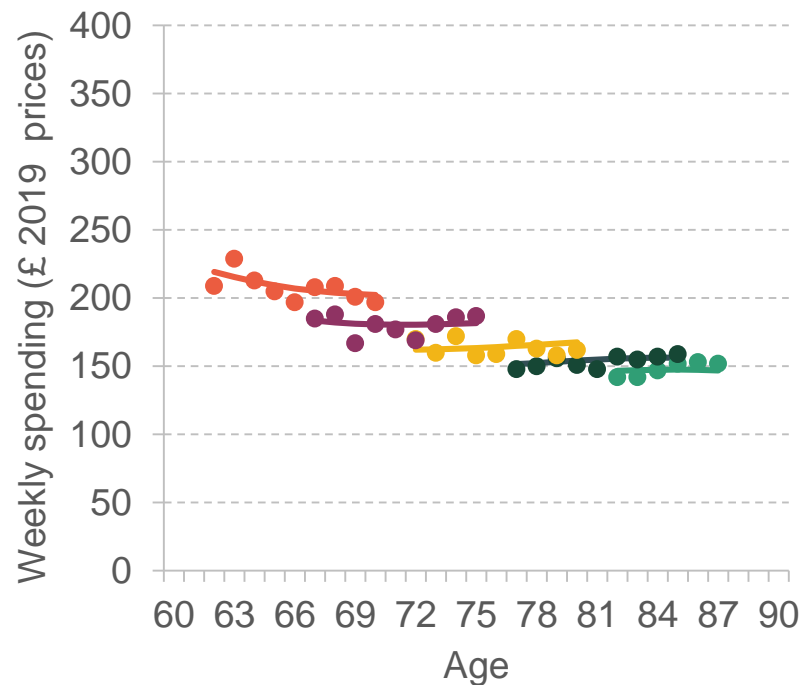
Average spending is 'flatter' for lower-income households

Average weekly household spending per person

Households above median income



Households below median income



— 1944-48 — 1939-43 — 1934-38
 — 1929-33 — 1924-28

— 1944-48 — 1939-43 — 1934-38
 — 1929-33 — 1924-28

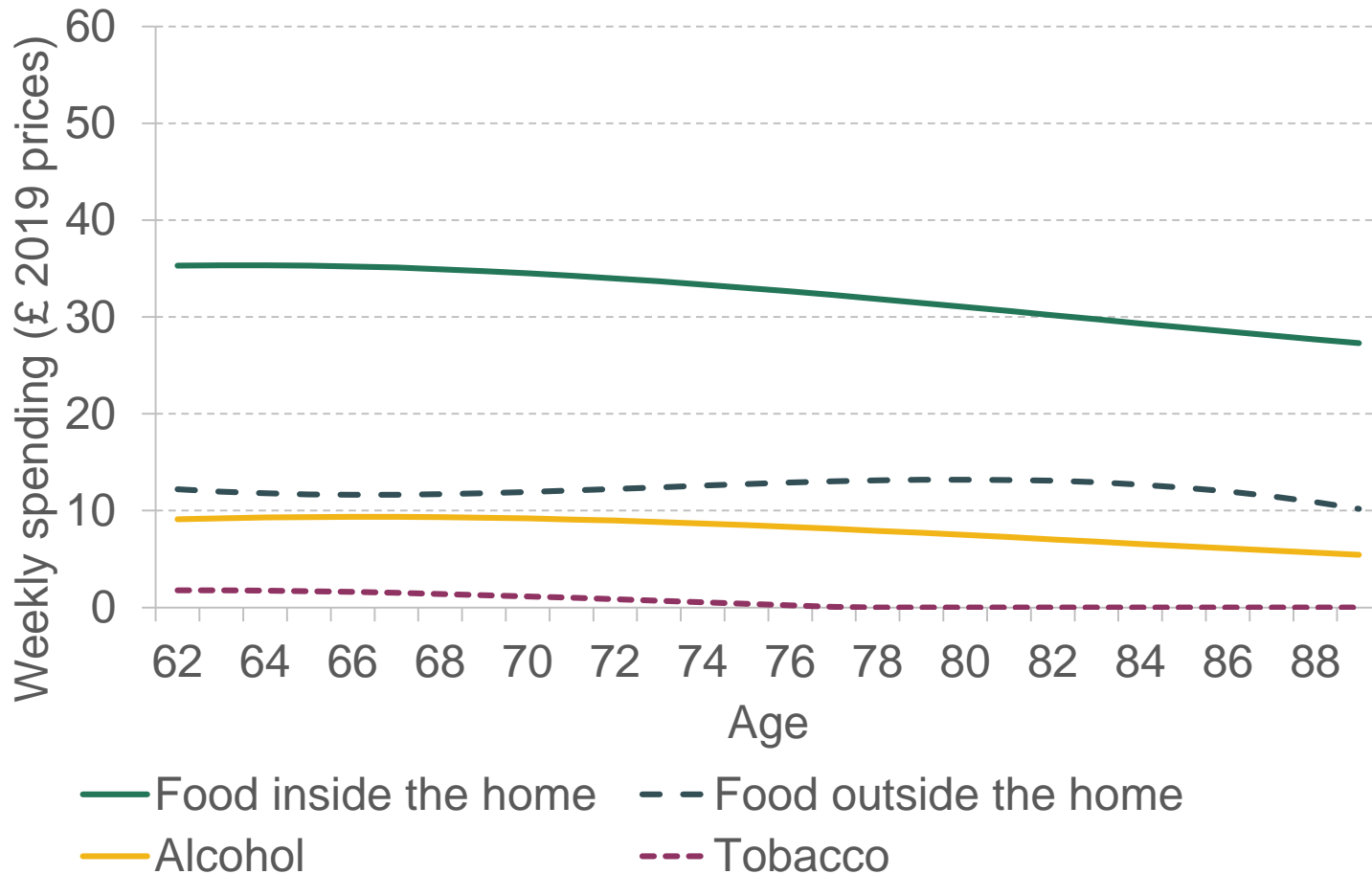
Notes: Living Costs and Food Survey 2006-2018. Households above and below the median income for their age and birth cohort. Figure 4.8.A and 4.9.A in Crawford et al. (2022).



Composition of spending

Spending on food inside the home falls with age

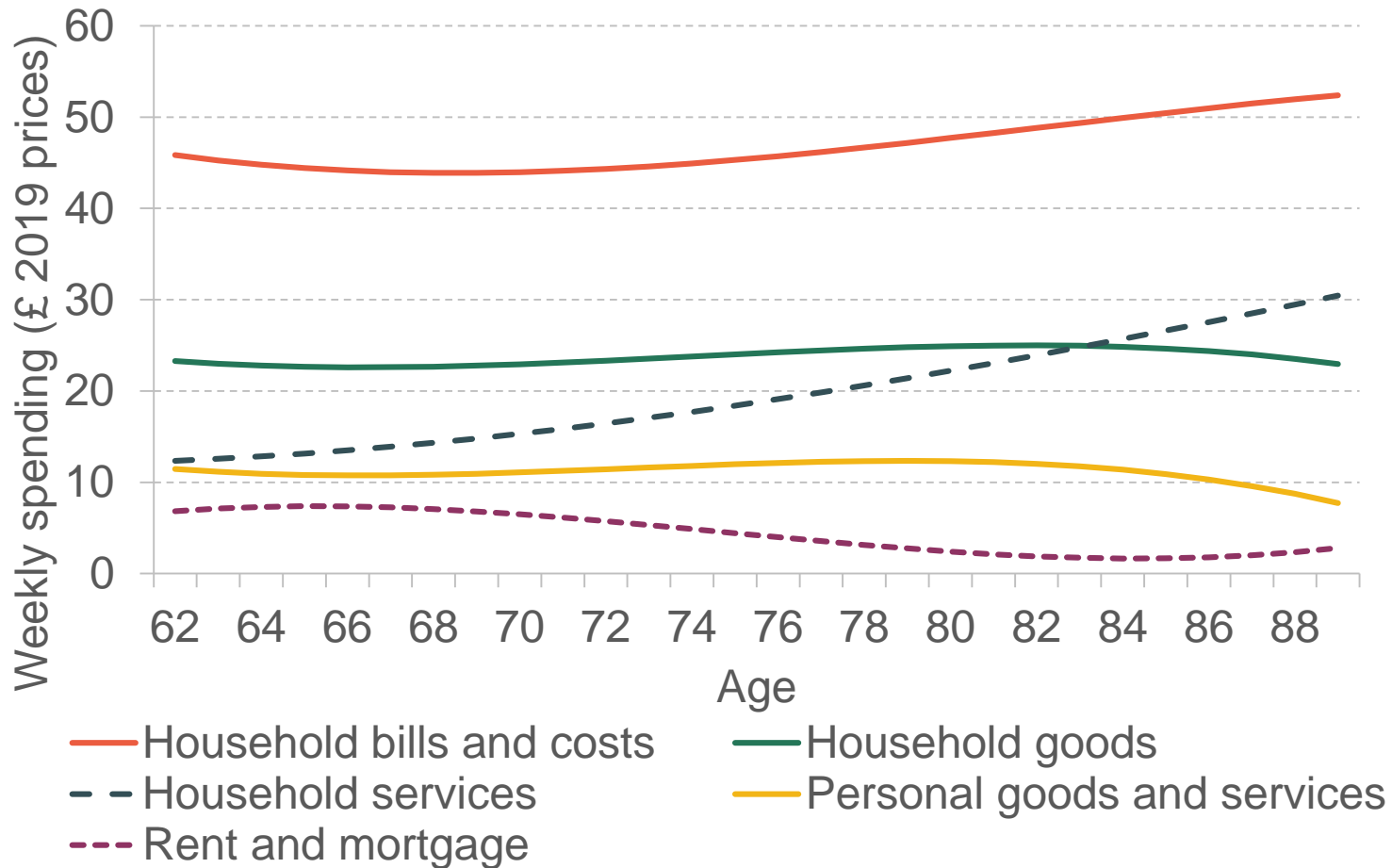
Fitted age profiles for mean spending on food, catering, alcohol and tobacco



Notes: Living Costs and Food Survey 2006-2018. Figure 4.1 in Crawford et al. (2022).

Household bills and services increase with age

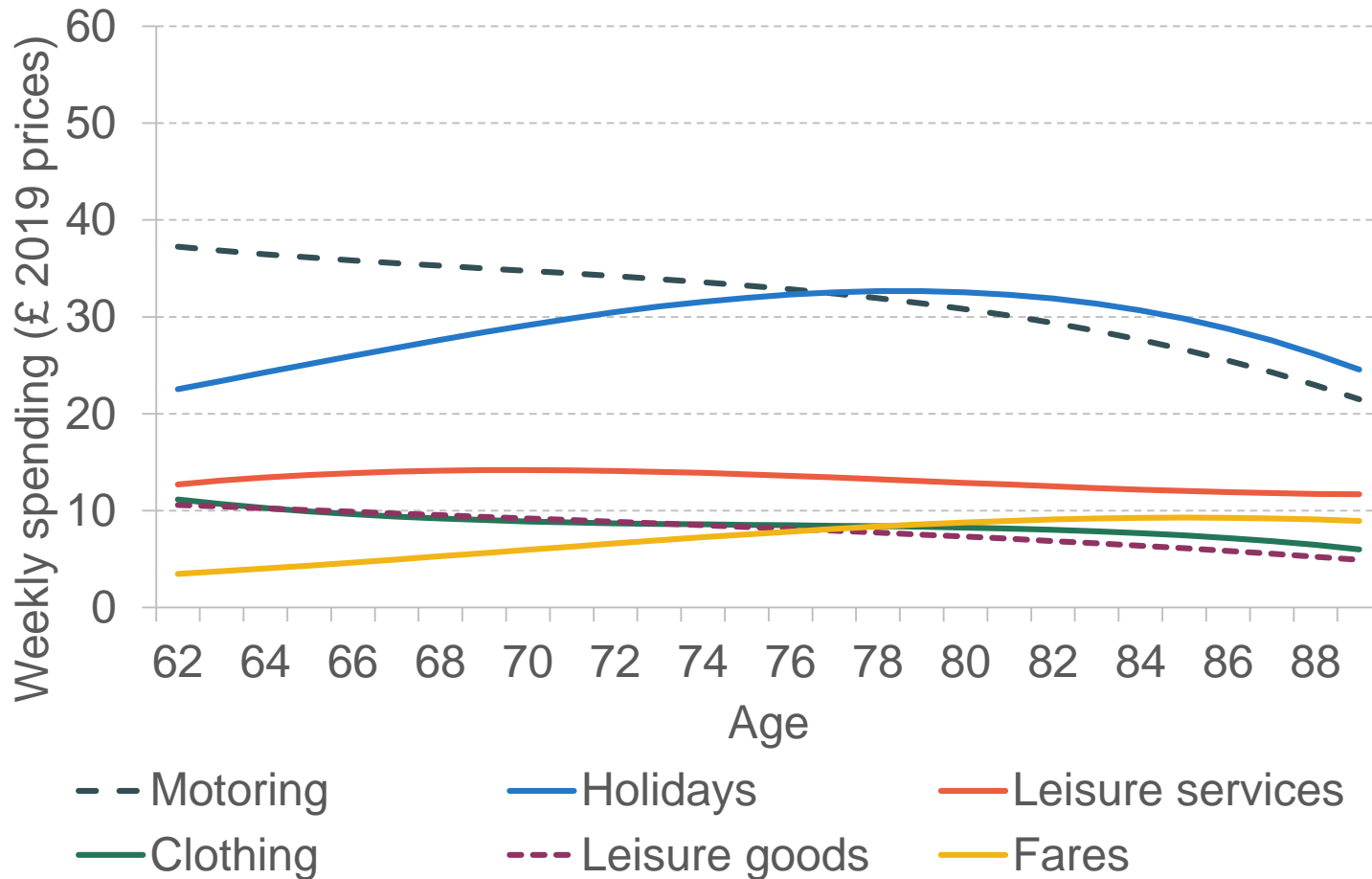
Fitted age profiles for mean spending on household spending categories



Notes: Living Costs and Food Survey 2006-2018. Figure 4.2 in Crawford et al. (2022).

Holiday spend peaks in the late 70s, motoring spend declines with age

Fitted age profiles for mean spending on other categories





Implications

- For those planning drawdowns; what kind of income profile would match age profile of spending through retirement?
 - Flat profile in real (CPI adjusted) terms – no evidence for average spending falling after a certain age
 - Need to also consider how changes in circumstances, in particular death of spouse, will affect income and spending
- Implications for Pension Freedoms:
 - Flat income profile can be achieved with Pension Freedoms but no strong evidence that people wanting to front-load spending
 - Although averages may hide differences between households
- Current savers need to take expected spending profiles into account when planning retirement saving

Summary and conclusion

- Average age-profile of spending within generations is relatively flat
- Incomes and saving are on average increasing with age
- Composition of spending changes with age:
 - Spending on food inside the home and motoring fall
 - Spending on holidays rises
 - Spending on shareable items like household bills rises
- Based on these results, people should plan their drawdowns and saving in anticipation of constant real-terms spending in retirement
 - But there will be differences in spending patterns between different types of households
 - Dependent upon past patterns being a guide to future desires

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