# Expenditure and Consumption

**James Banks (UCL, IFS)**
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ELSA English Longitudinal Study of Ageing

UCL NatCen National Centre for Social Research IFS

# Motivation

- Utility / welfare depends on consumption rather than income
- Particularly important distinction for the elderly:
  - Permanent Income Hypothesis – spending above income?
  - Or spending below income?
    - Uncertain lifespan / healthcare needs
    - Bequests
  - Retirement-Savings Puzzle
- Key policy interest
  - Pensioner spending poverty higher than income poverty
  - Fuel poverty
- Broad range of welfare indicators in ELSA

# Measurement

- Spending not consumption
  - Information on durable ownership / replacement / expenditures

- Selected sample
  - Each benefit unit contains an eligible ELSA sample member
  - Full reporting of all expenditure items
  - 6,557 people (2,908 males, 3,649 females) in 4,295 households
  - Adjust for inflation and household composition
  - No weighting

# Spending on what?

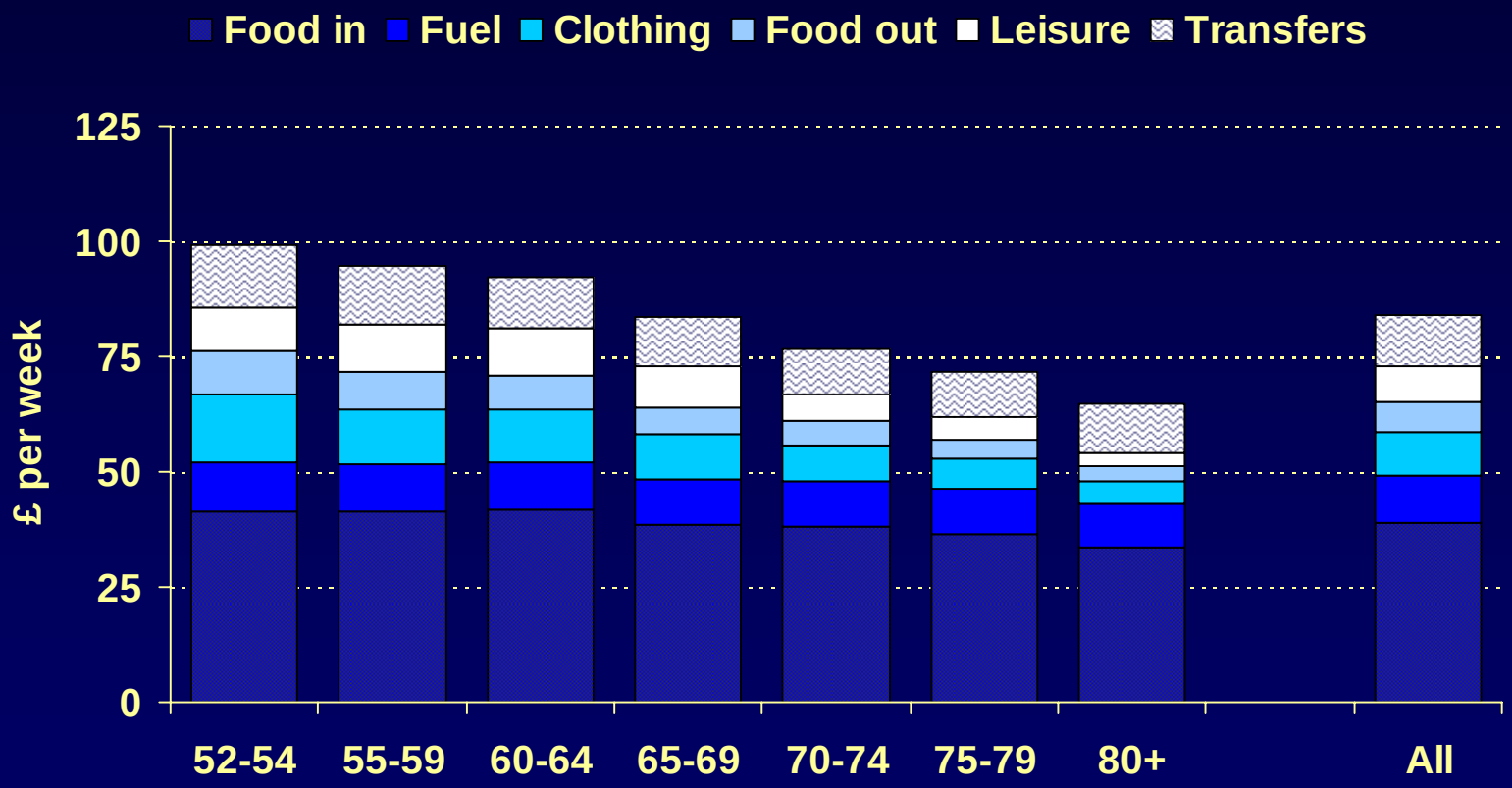
- Food In
- Clothing
- Fuel

} Key ‘necessities’

- Food Out
  - Restaurant meals, takeaway, canteens
- Leisure
  - e.g. cinema, sport, fees/subscriptions, internet/cable, TV licence
- Cash transfers

- Incomplete measure of total spending

# Expenditure by age

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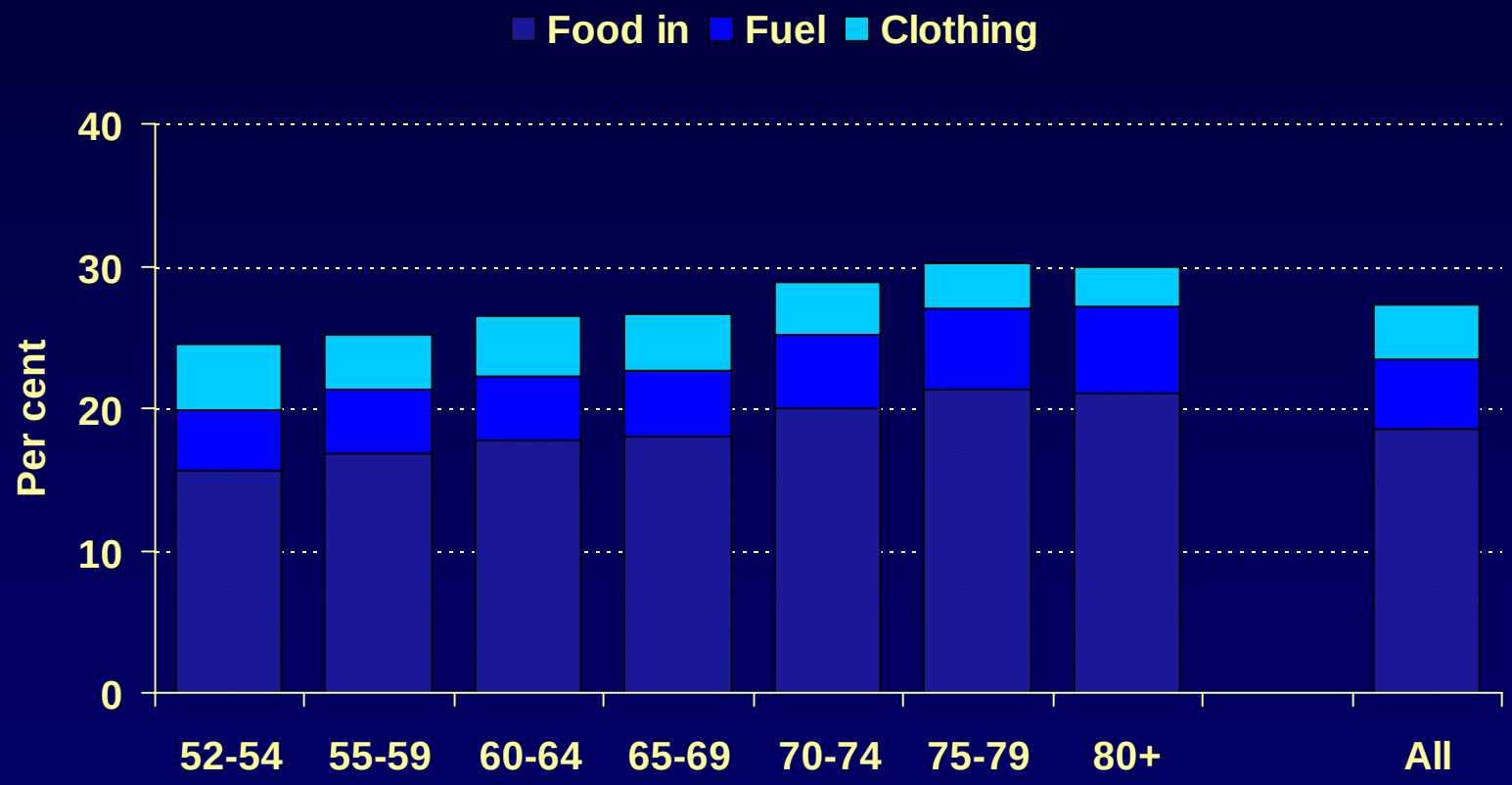
# Necessities budget share by age

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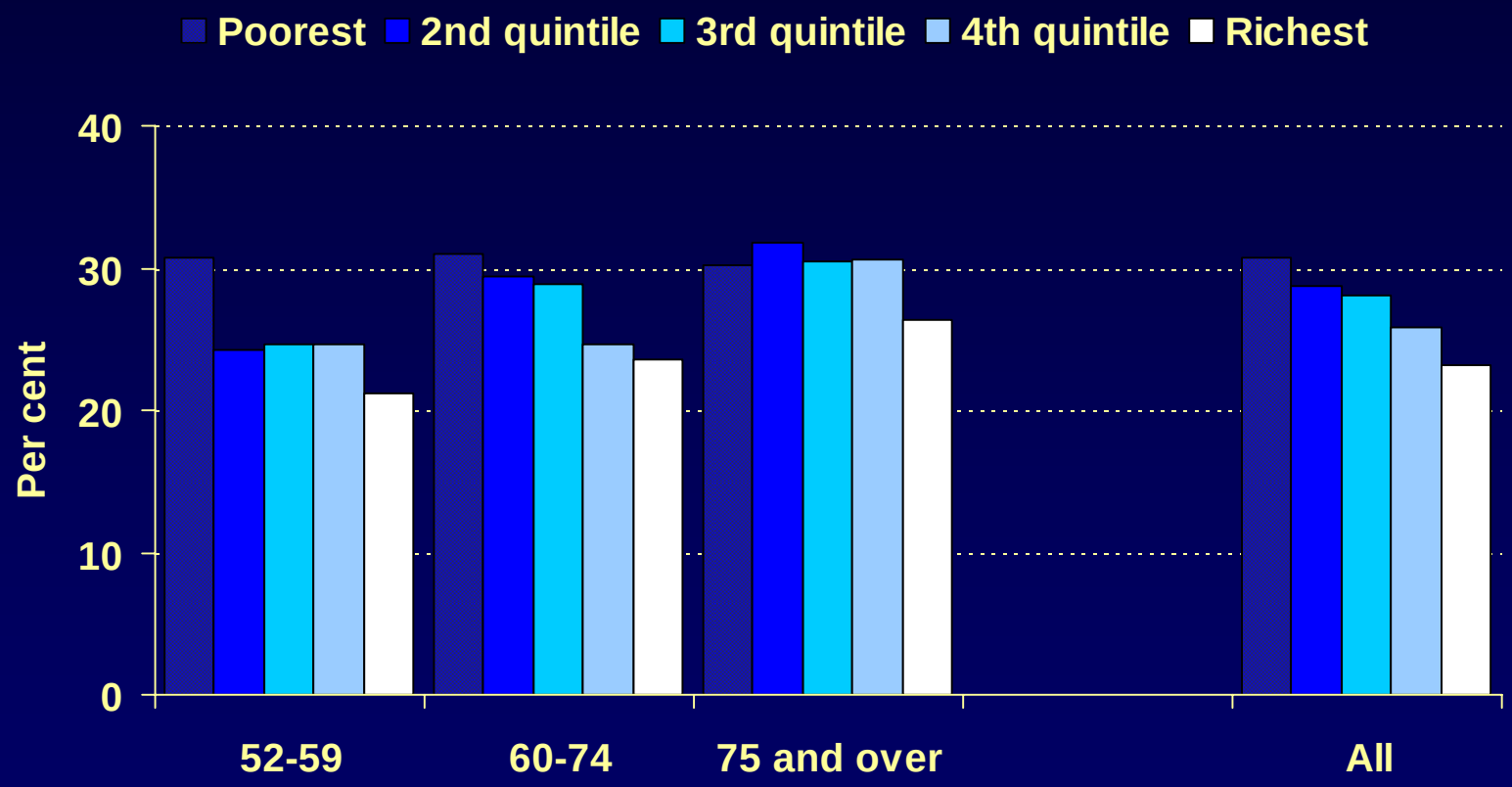
# Necessities budget share by age / wealth

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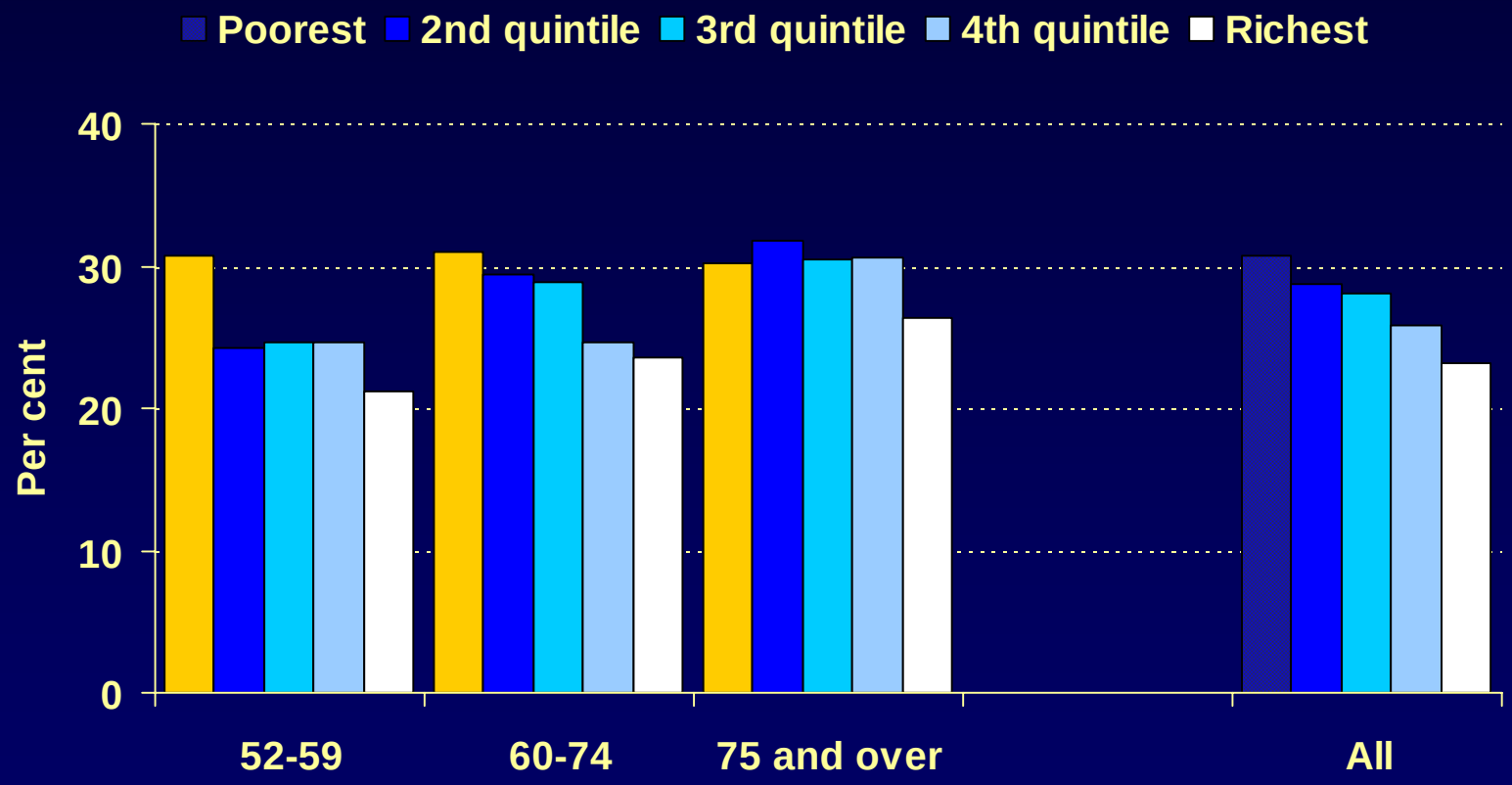


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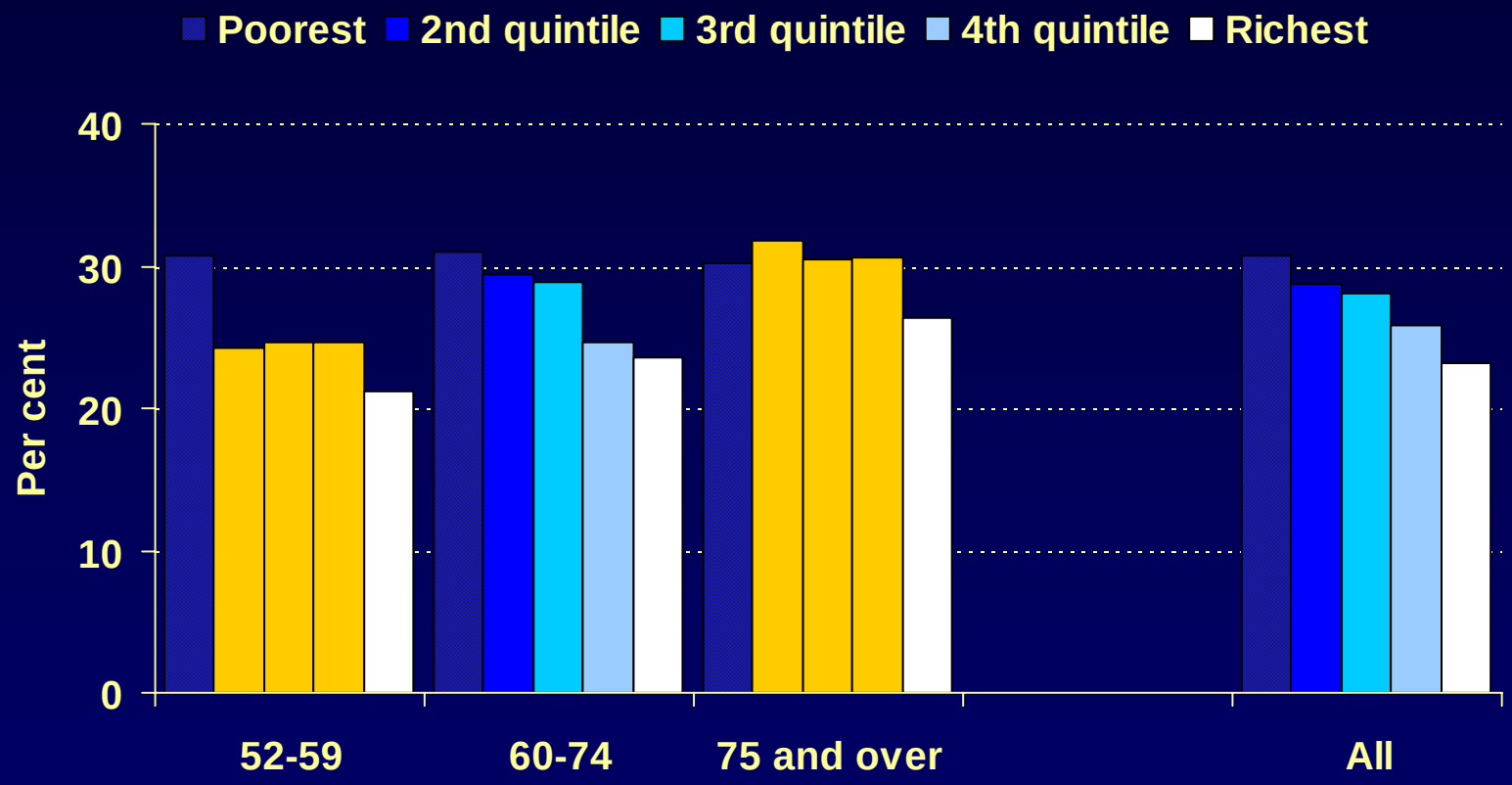


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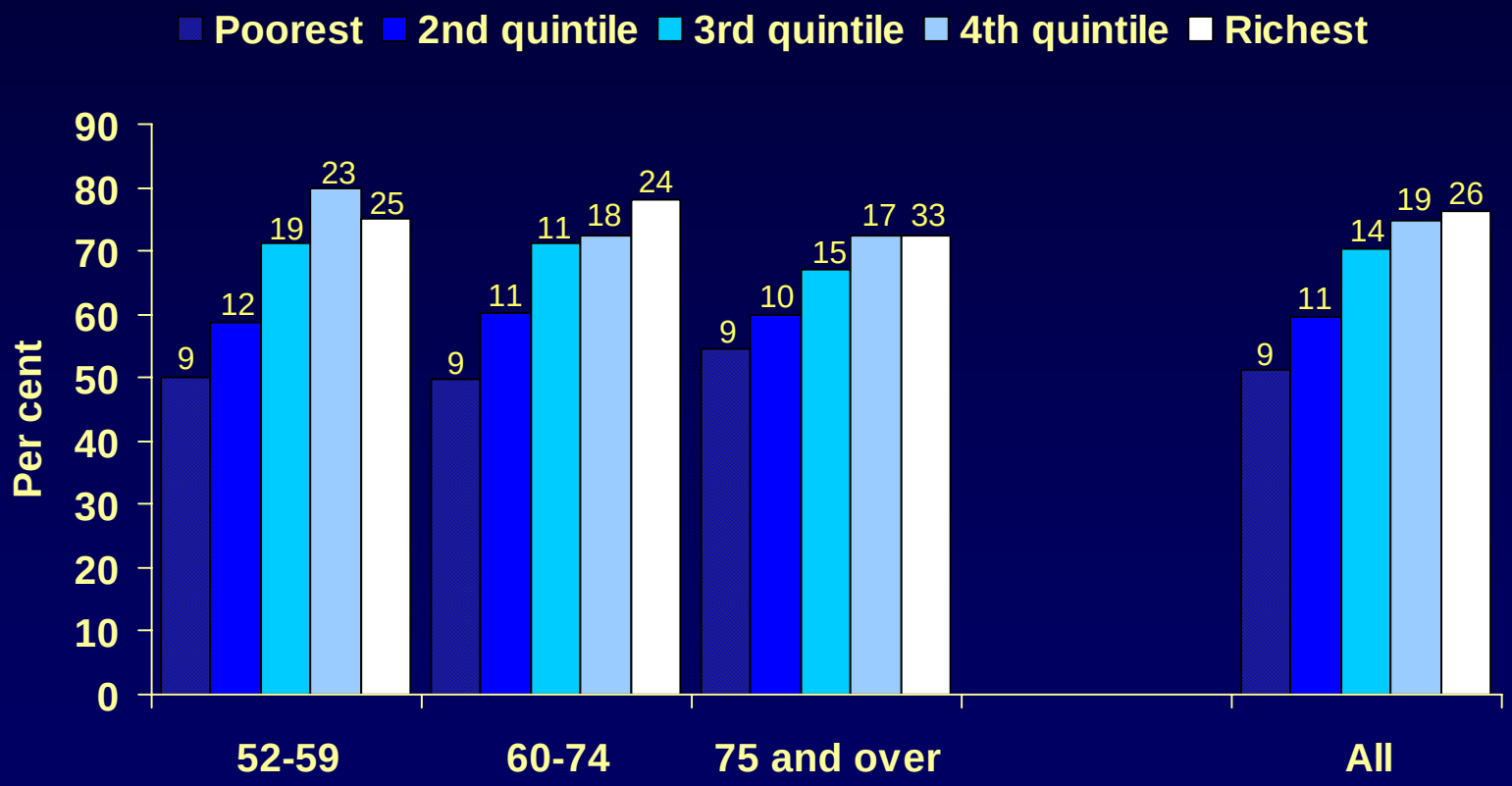
# Proportion of people making transfers, by age / wealth

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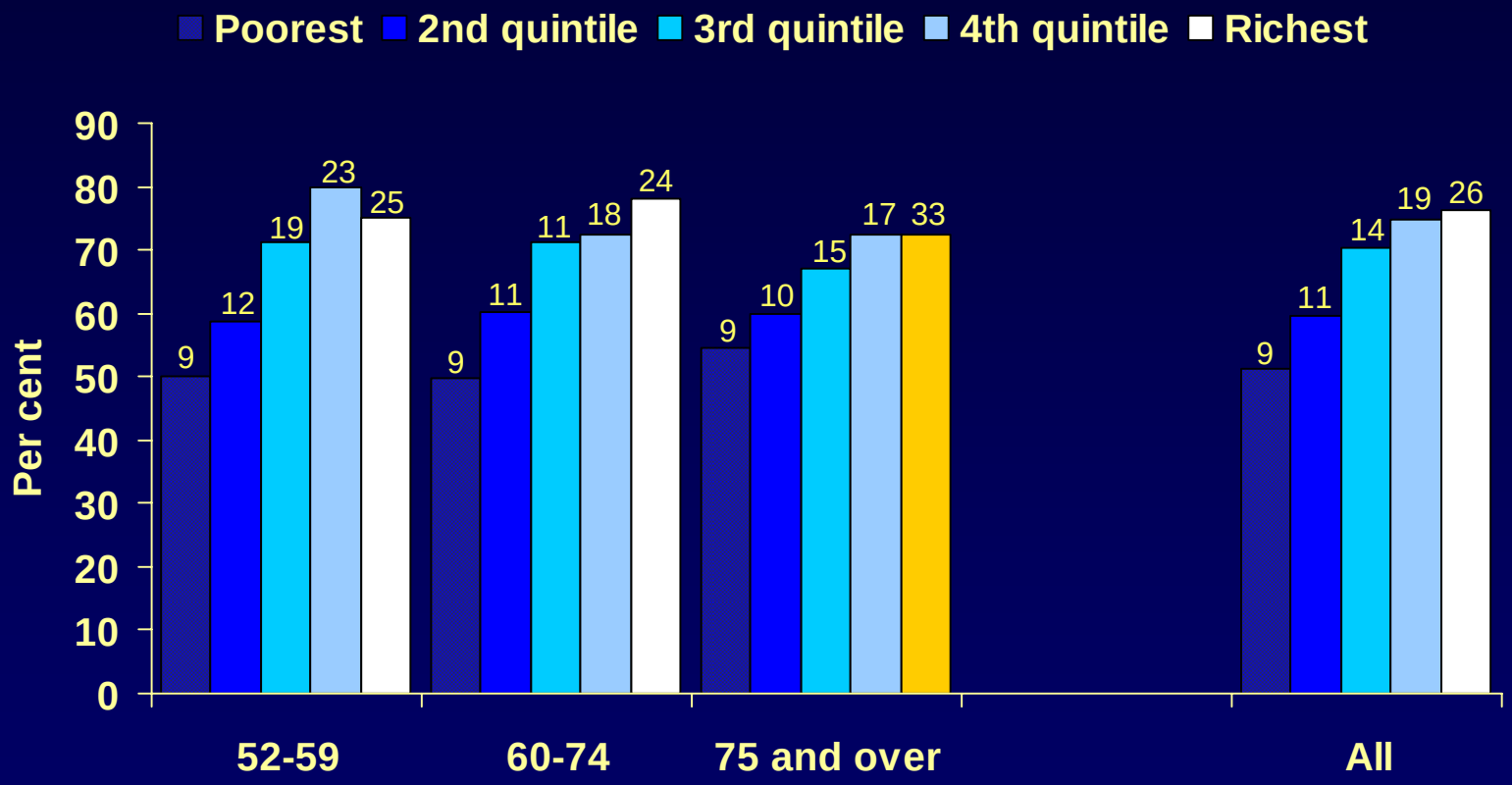


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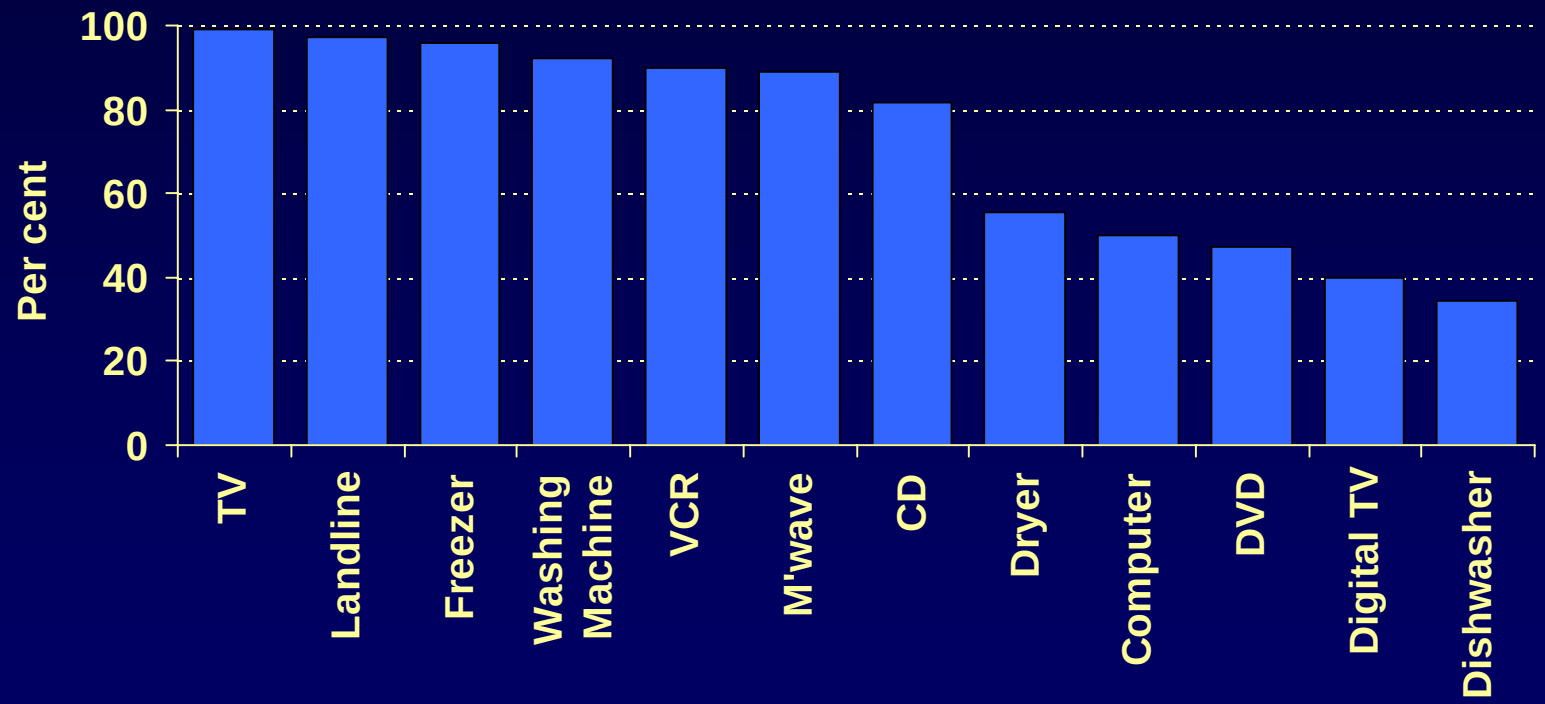
# Consumer durable ownership rates

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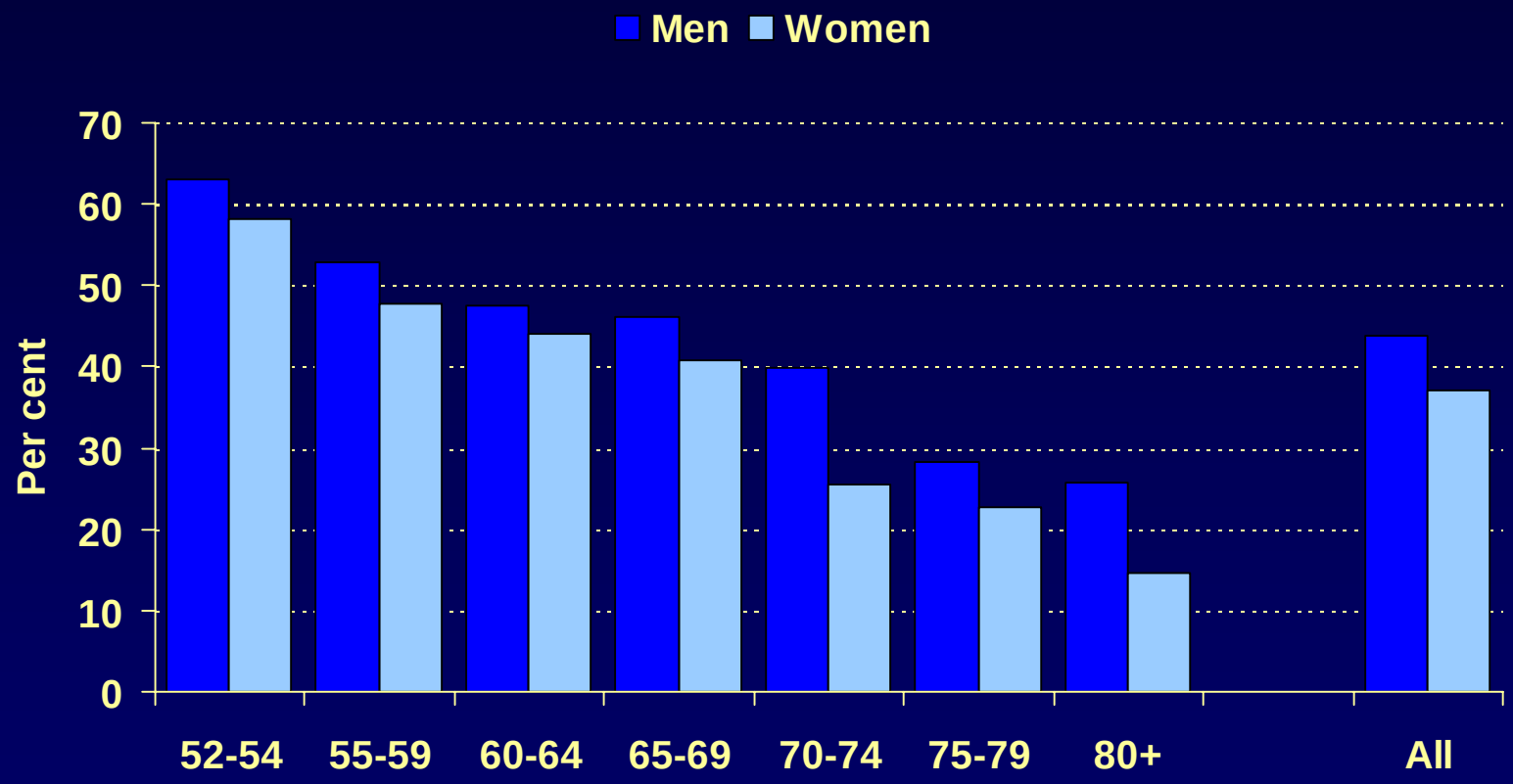
# Consumer durables

- Younger sample members more likely to own
- Little difference by wealth for TV, video, freezer, washing machine, microwave, landline phone, DVD player
- High replacement / purchase rates during previous 2 years for recent innovations or goods where technology changes
  - Television (23%)
  - Computer (23%)
  - Digital TV (15%)
  - DVD player (44%)
- Replacement rate invariant to wealth
- Wealthier households buy more expensive models

# Digital TV adoption, by age/sex

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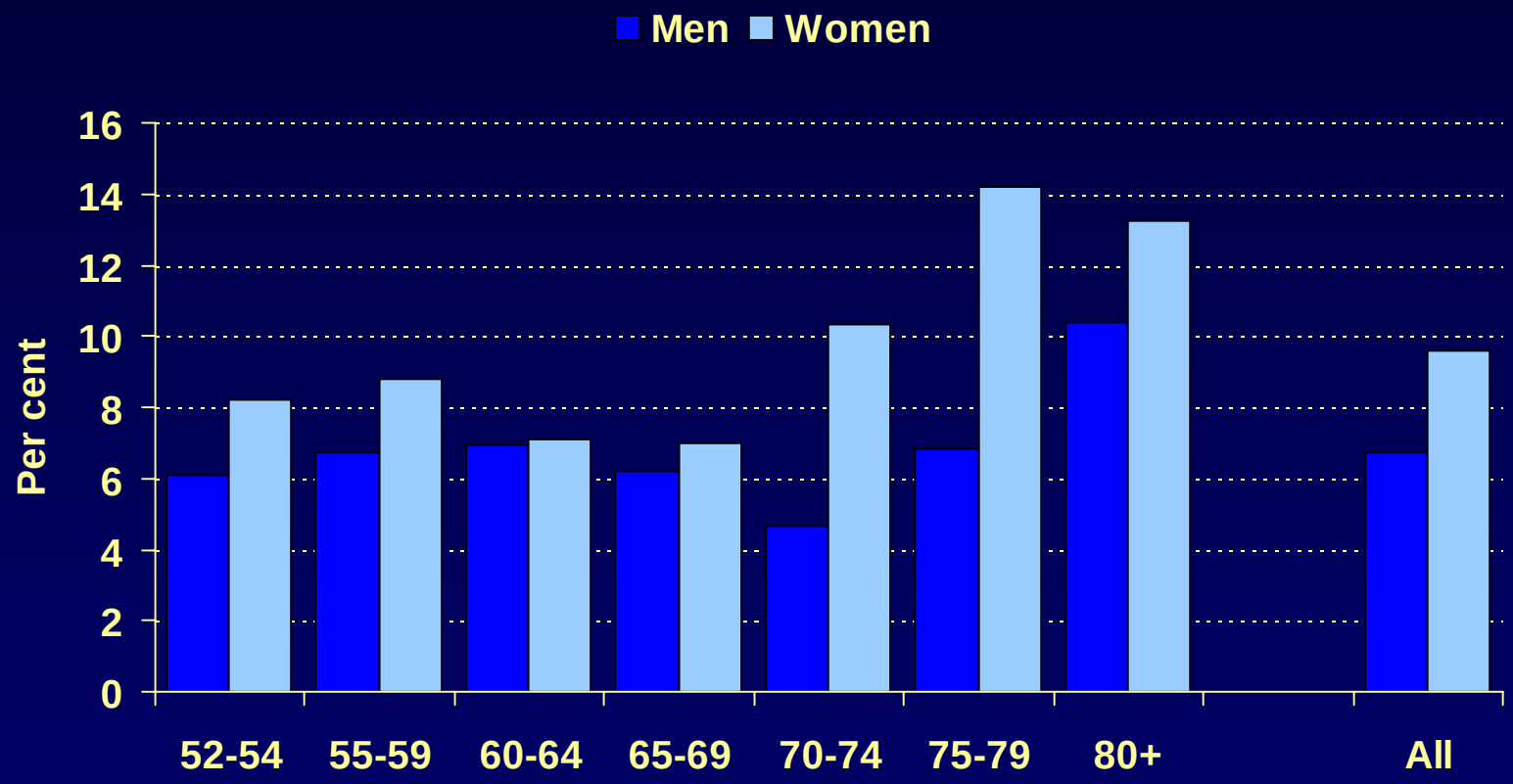
# “Fuel Poverty”, by age / sex

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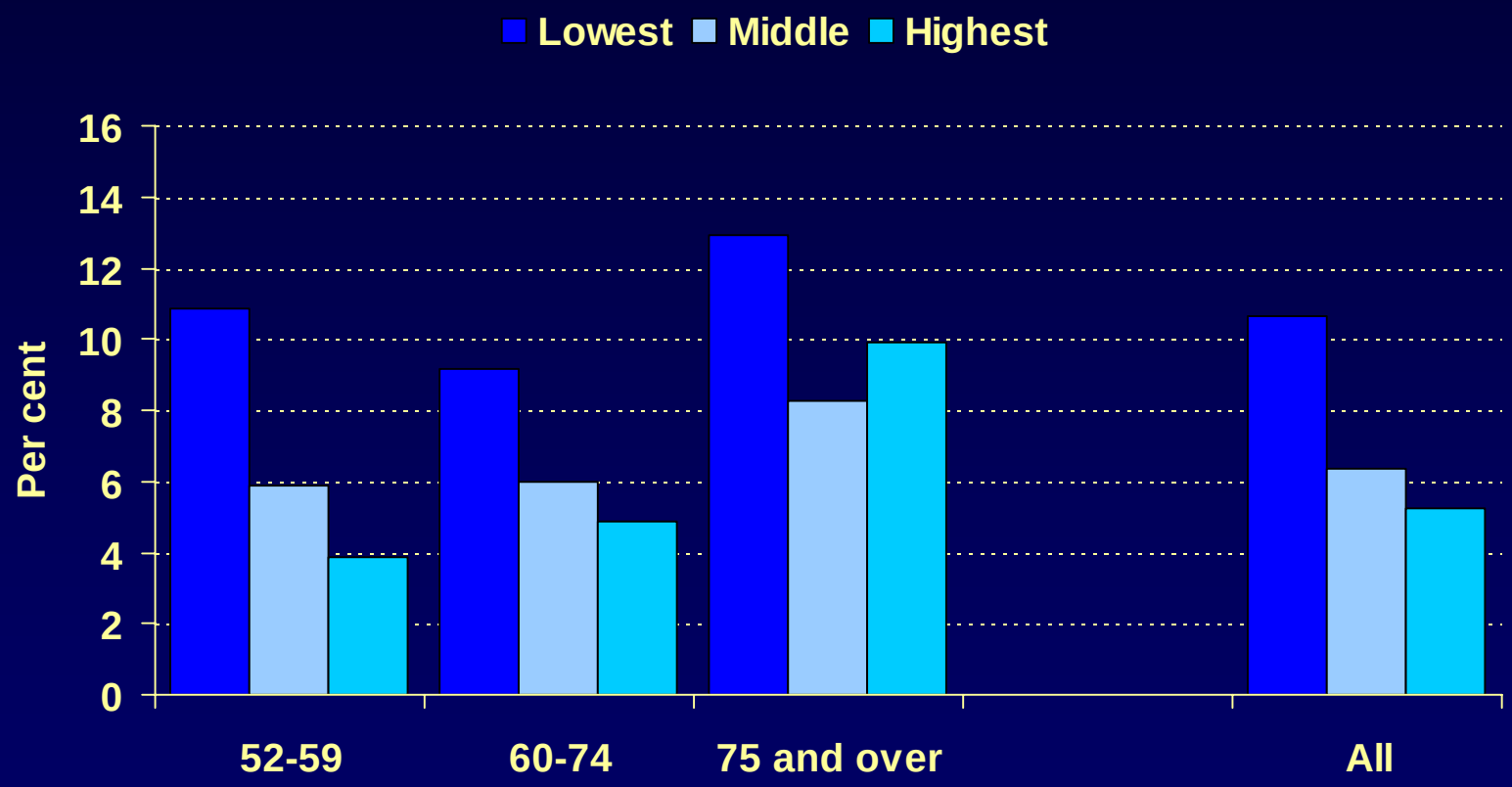
# “Fuel Poverty”, by age / CASP-19 tertile

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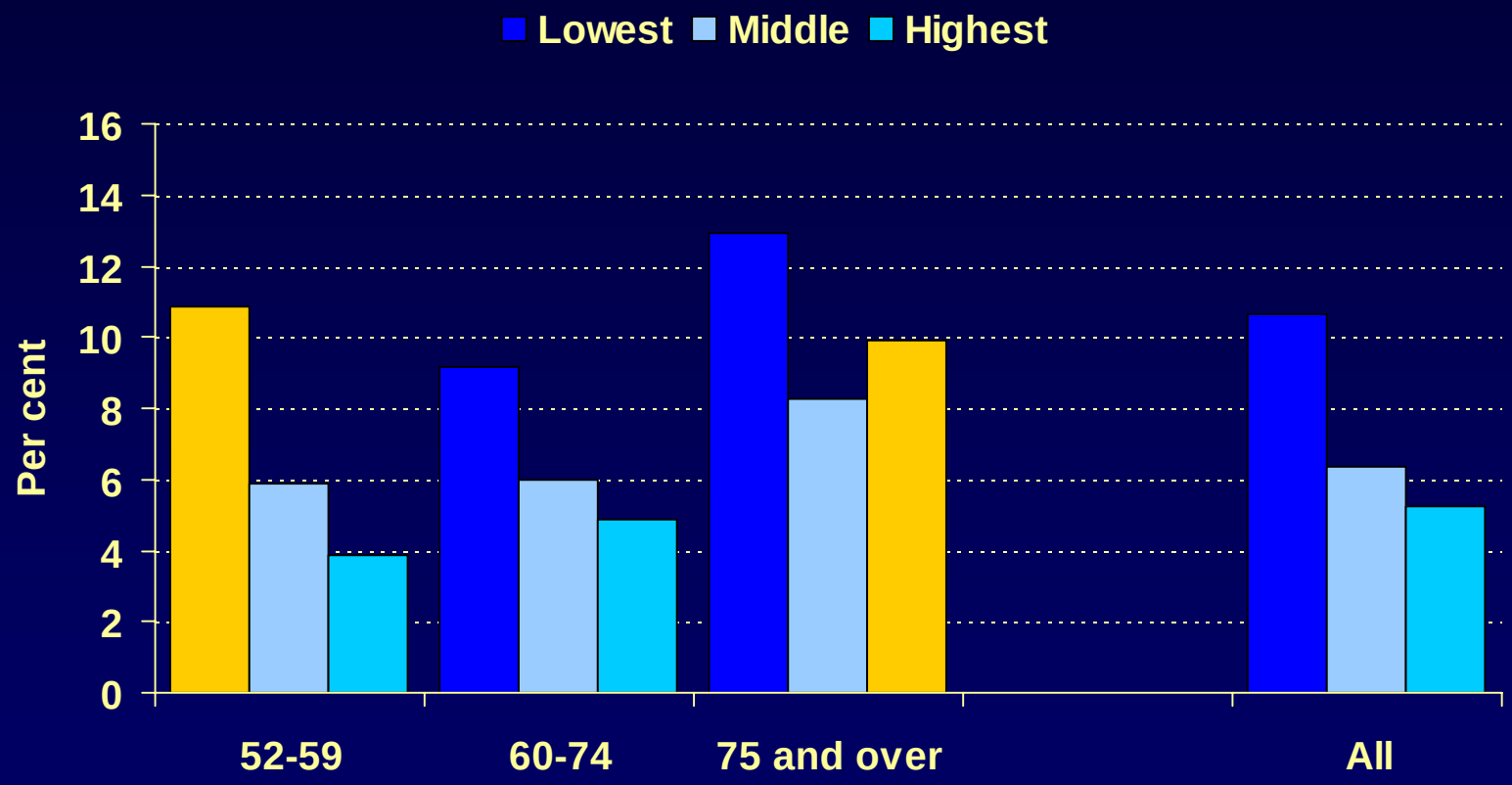


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# Putting It Together …

- What are the key factors that influence spending? Need multivariate analysis …

- Lots of interesting questions we can ask
  - Is there an independent role for wealth once we control for health?
  - Does age matter once we control for labour market status?

# Low-spending pensioner households

- Why do pensioners spend less than their income:
  - Uncertain longevity?
    - Simple model controlling for wealth, health, age
    - Pensioners who say they expect to live until old age spend same share of their income than those who say they are unlikely
    - 1% increase in spending raises expectation of living to age 80 by more than 2 percentage points
  - Bequest motive?
    - Probability of leaving a bequest of £50,000 + has no independent effect on share of income spent

- Both very early findings but interesting (and puzzling!)

# Conclusions

- Expenditure / durables provide insight into economic well-being
- ‘Luxury’ spending items diminish strongly with age, ‘necessities’ less so
- Transfers to others an important part of the budget of many elderly households
- Spending positively correlated with other dimensions of well-being
- Danger of older / poorer pensioners being left behind in terms of new technologies
- Much interesting work that can be done!
- Key interest in collecting longitudinal data on spending: changing patterns around retirement and as pensioners age

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