Research briefing:

Estimating the impact of rising prices on older households in the UK in 2022-23

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Briefing Author: Vinal K Karania, Research Manager

Introduction

The United Kingdom is experiencing a cost of living crisis with household incomes not keeping pace with a relatively high and increasing rate of inflation. The situation is expected to worsen over the coming months and not improve for a couple of years.

The latest data shows in the 12 months to April 2022, inflation measured by the Consumer Price Index, was 9.0%[1]. The Bank of England projects inflation to average at 9.1% in 2022 Q2 and 10.25% in 2022 Q4, and not reach its 2% target until the third quarter of 2024[2]. The Bank of England also projects that real household incomes (after-tax) will fall by 1¾% in 2022. Many households in the UK will therefore feel a squeeze in their living standards, especially those on low and fixed incomes.

This paper presents the impact of the cost of living crisis on older households. It shows how older households in the UK, defined to be those with at least one person aged 60 or over, will be required to spend a greater proportion of their household income in 2022-23 to maintain their preferred level of spend on essential goods & services. This paper will also present information on the number of households whose household income (after-tax) will not be sufficient to cover the cost of essential goods and services in 2022-23.

The appendix describes the calculations for the analysis presented in this paper.

[1] Office for National Statistics. May 2022. *Consumer Price Inflation, UK: April 2022*. [online] Available at https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/latest [accessed 19 May 2022]
[2] Bank of England. May 2022. *Monetary Policy Report – May 2022*. [online] Available at https://www.bankofengland.co.uk/monetary-policy-report/2022/may-2022 [accessed 5 May 2022]

Impact on older households in the UK – essential spending as a proportion of household income (after-tax)

In 2021-22, older households in the UK spent an average of 42% of their household income (after-tax) on essential goods & services. This expenditure covers the cost of food & drink, housing costs and utilities, communications and transport[3]. In 2022-23, as average prices rise substantially relative to household income, the proportion of household income (after-tax) spent on essential goods & services by older households in the UK is projected to increase to 48%. This will be a six percentage point increase, meaning older households in the UK will be spending on average almost half of their household income (after-tax) on essential goods & services.

Table 1 presents these figures and shows that the impact of price rises will be felt more by older households with lower household incomes:

- In 2021-22, older households in the first (lowest) income decile spent an average of 65% of their household income (after-tax) on essential goods & services, and this is projected rise to 78% in 2022-23 – a thirteen percentage point increase, meaning that these households will be spending on average almost four-fifths of their household income (after-tax) on essential goods & services.

- In 2021-22, older households in the second income decile spent an average of 48% of their household income (after-tax) on essential goods & services, and this is projected to rise to 56% in 2022-23 – a eight percentage point increase, meaning that these households will be spending on average more than half of their household income (after-tax) on essential goods & services.

- In 2021-22, older households in the third income decile spent an average of 47% of their household income (after-tax) on essential goods & services, and this is projected to rise to 54% in 2022-23 – a seven percentage point increase, meaning that these households will be spending on average more than half of their household income (after-tax) on essential goods & services.

- In 2021-22, older households in the fourth income decile spent an average of 42% of their household income (after-tax) on essential goods & services, and this is projected to rise to 48% in 2022-23 – a six percentage point increase, meaning that these households will be spending on average almost half of their household income (after-tax) on essential goods & services.

[3] More detail on the items that constitute essential goods and services is provided in the appendix

Table 1: Proportion of household income (after-tax) spent on essential good & services by older households in the UK by income decile

Income Decile	2021-22	2022-23	Change
1	65%	78%	13% points
2	48%	56%	8% points
3	47%	54%	7% points
4	42%	48%	6% points
5	41%	46%	5% points
6	40%	43%	3% points
7	37%	41%	3% points
8	36%	37%	1% points
9	30%	32%	2% points
10	25%	26%	2% points
All	42%	48%	6% points

Figures may not sum due to rounding

Source: Author's analysis of Living Costs & Food Survey 2019-20; Bank of England; ONS

- In 2021-22, older households in the fifth income decile spent an average of 41% of their household income (after-tax) on essential goods & services, and this is projected to rise to 46% in 2022-23 – a five percentage point increase, meaning that these households will be spending on average almost half of their household income (after-tax) on essential goods & services.

- In 2021-22, older households in the sixth income decile spent an average of 40% of their household income (after-tax) on essential goods & services, and this is projected to rise to 43% in 2022-23 – a three percentage point increase, meaning that these households will be spending on average more than two-fifths of their household income (after-tax) on essential goods & services.

- In 2021-22, older households in the seventh income decile spent an average of 37% of their household income (after-tax) on essential goods & services, and this is projected to rise to 41% in 2022-23 – a three percentage point increase, meaning that these households will be spending on average two-fifths of their household income (after-tax) on essential goods & services.

- In 2021-22, older households in the eighth income decile spent an average of 36% of their household income (after-tax) on essential goods & services, and this is projected to rise to 37% in 2022-23 – a one percentage point increase, meaning that these households will be spending on average almost two-fifths of their household income (after-tax) on essential goods & services.

- In 2021-22, older households in the ninth income decile spent an average of 30% of their household income (after-tax) on essential goods & services, and this is projected to rise to 32% in 2022-23 – a two percentage point increase, meaning that these households will be spending on average one-third of their household income (after-tax) on essential goods & services.

- In 2021-22, older households in the tenth income decile spent an average of 25% of their household income (after-tax) on essential goods & services, and this is projected to rise to 26% in 2022-23 – a two percentage point increase, meaning that these households will be spending on average one-quarter of their household income (after-tax) on essential goods & services.

Impact on older households in the UK – spending more than household income (after-tax) on essential goods & services

In 2022-23, around 2 million older households are projected to have insufficient household income (after-tax) to cover their spending on essential goods & services. Almost half (47%) of these households, around 920,000, will be living in poverty or just above the poverty line and/or be in receipt of income-related benefits.

Table 2 presents these figures and shows that a greater number of older households with lower household income will have insufficient household income (after-tax) to cover their spending on essential goods services:

- In 2022-23, around 970,000 older households in the first (lowest) income decile are projected to have insufficient household income (after-tax) to cover their spending on essential goods & services. Almost three-in-five (57%) of these households, around 550,000, will be living in poverty or just above the poverty line and/or be in receipt of income-related benefits.

- In 2022-23, around 275,000 older households in the second income decile are projected to have insufficient household income (after-tax) to cover their spending on essential goods & services. Around three-in-five (61%) of these households, around 165,000, will be living in poverty or just above the poverty line and/or be in receipt of income-related benefits.

- In 2022-23, around 235,000 older households in the third income decile are projected to have insufficient household income (after-tax) to cover their spending on essential goods & services. More than half (54%) of these households, around 125,000, will be living in poverty or just above the poverty line and/or be in receipt of income-related benefits.

- In 2022-23, around 195,000 older households in the fourth income decile are projected to have insufficient household income (after-tax) to cover their spending on essential goods & services. Almost one-in-four (23%) of these households, around 45,000, will be living in poverty or just above the poverty line and/or be in receipt of income-related benefits.

- In 2022-23, around 65,000 older households in the fifth income decile are projected to have insufficient household income (after-tax) to cover their spending on essential goods & services. Almost two-in-five (37%) of these households, around 25,000, will be living in poverty or just above the poverty line and/or be in receipt of income-related benefits.

- In 2022-23, around 70,000 older households in the sixth income decile are projected to have insufficient household income (after-tax) to cover their spending on essential goods & services. Around one-in-eight (12%) of these households, around 10,000, will be living in poverty or just above the poverty line and/or be in receipt of income-related benefits.

Table 2: Number of older households spending more than household income (after-tax) on essential good & services in the UK by income decile

Income Decile	Older Households with insufficient household income (after-tax) to cover essential spending	of which in poverty or just above the poverty line and/or in receipt of benefits	
1	970,000	550,000	57%
2	275,000	165,000	61%
3	235,000	125,000	54%
4	195,000	45,000	23%
5	65,000	25,000	37%
6	70,000	10,000	12%
7	65,000	0	0%
8	45,000	0	0%
9	0	0	0%
10	30,000	0	0%
All	1,950,000	920,000	47%

Figures may not sum due to rounding

Source: Author's analysis of Living Costs & Food Survey 2019-20; Bank of England; ONS

- In 2022-23, around 65,000 older households in the seventh income decile are projected to have insufficient household income (after-tax) to cover their spending on essential goods & services.

- In 2022-23, around 45,000 older households in the eighth income decile are projected to have insufficient household income (after-tax) to cover their spending on essential goods & services.

- In 2022-23, no households in the ninth income decile are projected to have insufficient household income (after-tax) to cover their spending on essential goods & services[4].

- In 2022-23, around 30,000 older households in the tenth income decile are projected to have insufficient household income (after-tax) to cover their spending on essential goods & services.

[4] The figure for the ninth decile is zero because in the LFC survey none of the responding households in this income decile had insufficient household income (after-tax) to cover their spending on essential goods & services. For the other higher income decile bands, single-digit number of households had insufficient household income (after-tax) and that is why for those income deciles the estimate is non-zero.

Discussion

The United Kingdom is experiencing a cost of living crisis with household incomes not keeping pace with a relatively high and increasing rate of inflation. The situation is expected to worsen over the coming months and not improve for a couple of years.

In 2022-23 it is projected that this crisis will mean household income (after-tax) spent on essential goods & services will increase on average for older households in all deciles of the income distribution, with those households in lower income deciles impacted more:

- older households with 40% of lowest household incomes (after-tax) are on average projected to spend more than half of their disposable income on essential goods & services, whereas in the previous year this was the situation for older households with the 10% lowest household income (after-tax)

- older households in the lowest income decile are projected to spend on average 78% of their household income (after-tax) on essential goods & services, a rise from 65% in the previous year

In 2022-23, it is projected that this crisis will mean around 2 million older households are projected to have insufficient household income (after-tax) to cover their spending on essential goods & services, with almost half of these households (around 920,000) living in poverty or just above the poverty line and/or be in receipt of income-related benefits.

These figures are based on older households' composition of spending in 2019-20, and therefore reflect the period before the Covid-19 pandemic. Whilst there is uncertainty on the composition of household spending as we move beyond the restrictions and behaviours of the last two years, it is reasonable until further data emerges, to assume that spending on essential goods & services will be similar to 2019-20.

These figures are also based on prices of essential goods & services (excluding energy) rising by an annual average of 9.5% in 2022-23. Whilst rises in energy prices are the key driver of pushing inflation towards double-digits, which would suggest the rise in prices of non-energy goods & services will tend to be below the average annual rate of inflation, recent inflation figures and the views of some commenters suggest the prices of non-energy essential goods & services (especially food) could over the course of the year reach towards double-digits. Based on the current situation it is therefore reasonable to assume that the prices of essential goods & services (excluding energy) will average around 9.5% higher in 2022-23.

Appendix – Methodology

This appendix presents the assumptions, calculations and datasets used to estimate the impact of the cost of living crisis on older households in the UK. For the purposes of this analysis, older households are defined as households where the oldest person is aged 60 or over.

The starting point for the analysis was the Living Costs and Food Survey (LCF) 2019-20. At the time of analysis, the LCF 2019-20 database was the latest available. The LCF is a UK household survey designed to provide information on household expenditure patterns and food consumption. Everyone in the sampled household is asked to complete a household interview and then an expenditure diary for two weeks. The fieldwork was carried out between April 2019 and March 2020, with the survey spread evenly over the year to ensure that seasonal effects are covered.

We identified and took information on household income (after-tax) and spending on goods & services that we defined as essential expenditure. These essential goods & services included[5]:

- Food & Drink (including alcoholic beverages & tobacco)
- Housing – Rent/Mortgage, Council Tax, structural insurance, content & appliance insurance, maintenance & repair
- Utilities – Water, Electricity, Gas
- Communications – Telephone / Mobile, Internet, Fax, Postage
- Transport – car, van, motorcycle, tube/train, bus/coach, taxi, bicycle, repairs/maintenance, running costs, purchase/hiring costs, air fares

The next step was to project these expenditure and household income (after-tax) figures into future years for each of the sampled households. We made these projections as follows:

[5] The available data limited our ability to define essential goods & services and that is why, for example, air fares are included as we were unable to exclude them.

Expenditure:

- ONS inflation output data[6] for expenditure items for the years 2020 and 2021 were used to project prices for expenditure items from 2019-20 to 2021-22.

- Prices of all expenditure items, other than energy prices, were projected to 2022-23 using Bank of England inflation forecast for 2022-23. The Bank of England forecasts inflation to average at 9.1% in 2022 Q2 and 10.25% in 2022 Q4. The mid-point of these two points is around 9.5%, and this is the forecasted inflation rate, on which the figures presented in this paper are based[7].

- Prices for energy expenditure were projected to 2022-23 by increasing them by 54% and then a further 40% to reflect the increase in the energy price cap (April 2022) and the projected further increase in the cap during the year (October 2022)[8].

- We then assumed household spending patterns are the same as in 2019-20, and applying the 2022-23 projected prices for expenditure items, we calculated expenditure on essential goods & services for each household in each of the years from 2019-20 to 2022-23.

Household Income (after-tax):

- Office for Budget Responsibility (OBR) output data[9] for the year 2020-21 were used to project that household income (after-tax) would increase from 2019-20 to 2020-21 by 3.98%

- OBR forecast figures[9] were used to further project that household income (after-tax) would increase from 2020-21 to 2021-22 by 4.23%

- To project figures to 2022-23, household income (after-tax) among households whose main source of income was benefits was increased by 3.1% (benefits uprating policy[10]) increase) and for all other households by 5.98% (OBR forecast[9]).

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[6] Office for National Statistics. April 2022. *Consumer price inflation tables, Table 24.* [online] Available at https://www.ons.gov.uk/economy/inflationandpriceindices/datasets/consumerpriceinflation [accessed 5 May 2022]

[7] We also ran analysis with a forecasted inflation rate of 9.1% and 10.25% and found these produced similar results by which we mean that the figures were in the same ballpark when rounded.

[8] Office for Budget Responsibility. March 2022. *Economic and fiscal outlook – March 2022, para 1.2*. [online] Available at https://www.bankofengland.co.uk/monetary-policy-report/2022/may-2022 [accessed 5 May 2022]

[9] Office for Budget Responsibility. March 2022. *Economic and fiscal outlook – March 2022, table 2.5*. [online] Available at https://www.bankofengland.co.uk/monetary-policy-report/2022/may-2022 [accessed 5 May 2022]. The *CPI* figure was added to the *real household disposable income* to calculate the annual average increase in household income (after-tax).

[10] House of Commons Library. February 2022. *Benefits Uprating 2022/23*. Online. Available at https://commonslibrary.parliament.uk/research-briefings/cbp-9439/ [Accessed on 5 May 2022]

The next steps were to:

- split all households into equal 10 groups based on their household income (after-tax) to create household income deciles

- calculate whether households had equivalised household income (after-tax & after housing costs) below 70% of the weighted median of all equivalised household income (after-tax & after housing cost) to flag which households are in poverty or just above the poverty

- identify households in receipt of income-related benefits (which included Universal Credit, Tax Credits, Employment Support Allowance, Job Seekers Allowance, Income Support, Incapacity Benefit and Pension Credit)

The final step was to calculate weighted figures as presented in this paper. The weighting factor provided in the LCF dataset is applied to each household to adjust for non-responses and to ensure a match with population totals.

About Age UK

Age UK is the country's largest charity dedicated to helping everyone make the most of later life. Our vision is to make the UK a great place to grow older. Our ambition is that all 12.5 million older people across the UK can:

- Have enough money to live without the fear of poverty in later life
- Enjoy life and feel well
- Receive high quality health and care
- Be comfortable and secure at home
- Feel valued and able to participate

Age UK includes the charity, its charitable and trading subsidiaries, and national charities (Age Cymru, Age Scotland and Age NI). Age UK is a charitable company limited by guarantee and registered in England (registered charity no. 1128267 and registered company no. 6825798). The registered address is 7th Floor, One America Square, 17 Crosswall, London, EC3N 2LB