

# **The Age UK Enterprises Silver RPI**

## **Measuring the true impact of inflation price rises on those in later life**

**11 November 2010**

## **Introduction from Gordon Morris, Managing Director, Age UK Enterprises**

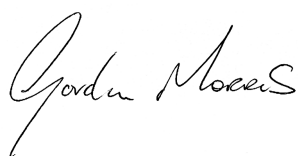
At the very heart of our organisation is the understanding that those in later life face different financial pressures to the general population. For too long, existing measures of cost change have failed to adequately capture this by treating those in later life as one homogenous group with identical behaviours who experience money (and inflation) in the same way.

We commissioned the Silver RPI to address this and, in the process, better understand how finances change in later life. Based on data for all income bands and later-life age bands, it will become the most complete and timely measure of inflation affecting those aged over 55.

The Silver RPI was developed with former Bank of England inflation specialists, Fathom Consulting. It shows that in the last two years, over 55s have experienced price rises at almost two per cent above the headline RPI rate. This rises to almost four per cent for those over 75. It also reveals the significant variation in inflation as you age and by product. For example, the proportion of household income spent on electricity doubles between the 55 to 59 and over 75 age groups.

The findings of this report makes clear the need for the financial services industry to stop considering those in later life as a single entity who can be treated with a one-size-fits-all approach. Unlike other financial services providers, our ethos has always been to put the financial needs of those in later life first. This model has sustained us for more than a quarter of a century and relationships with more than 1.1 million customers.

I hope you enjoy reading the results of this inaugural Silver RPI which will become a quarterly measure of how inflation affects people as they age. My ambition is that it will change the perception of finance in later life and support consumers in planning more effectively for their financial future.



## Why understanding inflation is so important

**Erik Britton, Director, Fathom Consulting**

Age UK Enterprises' Silver RPI represents a valuable addition to current UK economic data because it provides a comprehensive measure of the cost increases faced by those in later life. It is representative of all households where the head of household is over 55, regardless of income, and includes changes in the prices of all goods and services within the RPI basket, including housing costs. It therefore is more comprehensive than the headline measure of RPI inflation, published each month by the ONS, which does not measure price increases faced by pensioner households that receive more than 75 per cent of their income in the form of state benefits. It also is more complete than the pensioner price indices constructed by the ONS, which include only those pensioner households that receive more than 75 per cent of their income in the form of state benefits and exclude all housing costs.

The Silver RPI basket contains exactly the same set of goods and services as the headline RPI basket, but in different proportions, reflecting the different expenditure patterns of those in later life. More specifically, the Silver RPI is based on a re-weighting of changes in the prices of 78 different items - such as bread, footwear, electricity and rail fares - that together make up the headline RPI. The weights are derived from average weekly expenditure figures published in the annual Living Costs and Food survey. This is the same survey that the ONS uses to construct weights for the headline RPI. The difference is that we use information on expenditure by five different age bands, and we do not rule out expenditure by any group according to their income.

The Silver RPI is important because, more than any other age group, those in or approaching retirement need an accurate measure of how costs are changing year-on-year so they can form a view on how much money they need to get by. In order to do this, it is important that they have access to reliable information on changes in the cost of living faced by people of their own age group, rather than the population as a whole.



## Executive Summary

The Silver RPI reveals that, since the beginning of 2008, over 55s have experienced price rises almost two per cent greater than that suggested by the official RPI measures – and this gap widens as people age.

Since January 2003, prices for those aged over 75 have risen by 30 per cent, compared to the 26 per cent rise experienced by the UK population as a whole. In the early part of 2009, the gap between headline inflation and real inflation experienced by those aged over 75 peaked at almost five per cent.

The widening of the gap between price increases for those in later life and headline inflation since 2008 can be largely attributed to the impact of low interest rates. These have had minimal impact on those aged over 55 who are less likely to carry mortgage debt. This means that overall costs for those in later life have not reduced as greatly as for the population as a whole and, in addition, they have faced cost increases on items where they spend proportionally more income such as utilities.

This discrepancy translates into a significant impact on the budgets of those in later life. To understand the direct impact on each age group, we have multiplied the difference in percentage price changes faced by each age band and that faced by the population as a whole since January 2008. This is then multiplied by the average weekly expenditure for that age band and finally multiplied by the number of weeks in a year to establish the annual cost of this extra inflation. It proves that the gap between real and headline inflation has cost the average 60 year old £620 a year, rising to over £700 for someone aged between 65 and 69.

<b>Age band</b>	<b>Percentage difference between real and headline RPI</b>	<b>Cost/year**</b>
55-59	1.8%	£500
60-64	2.6%	£640
65-69	3.3%	£710
70-74	3.8%	£690
75+	4.1%	£440

The Silver RPI also highlights that the impact of inflation varies with age and by product. For example, those over 75 spend twice as high a proportion of their income on energy compared to those in the 55 to 59 age cohort.

## Methodology

Age UK Enterprises approached former Bank of England inflation specialists, Fathom Consulting, to develop a measure of inflation that would be more comprehensive and accurate for over 55s. Fathom created the Silver RPI, a measure of Retail Price Index (RPI) inflations that has been revised and includes all income bands and housing costs for five distinct age cohorts: 55-59; 60-64; 65-69; 70-74 and 75+.

In constructing the Silver RPI, Fathom re-weighted the RPI basket of goods to better reflect the expenditure patterns of those in later life. This is done by re-assessing the 14 sections with broad headings such as food, housing etc. Each of the 14 sections is further subdivided into items such as bread, cereals and biscuits and cakes with a total of 78 items in all.

Each item is given a weight reflecting the proportion of household income spent on the item and therefore its importance in household expenditure for each age group. The weights themselves were derived from the Living Costs and Food Survey (LCF, formerly the Family Expenditure Survey) an annual survey of around 5,000 households who provide detailed account of their expenditure over time.

The additional costs faced by consumers in later life are calculated by multiplying the difference between the percentage change in prices faced by each age band and that faced by the population as a whole. This is then multiplied by the average weekly expenditure for that age band and finally multiplied by the number of weeks in a year (52) to establish the annual cost of inflation to the age cohort.

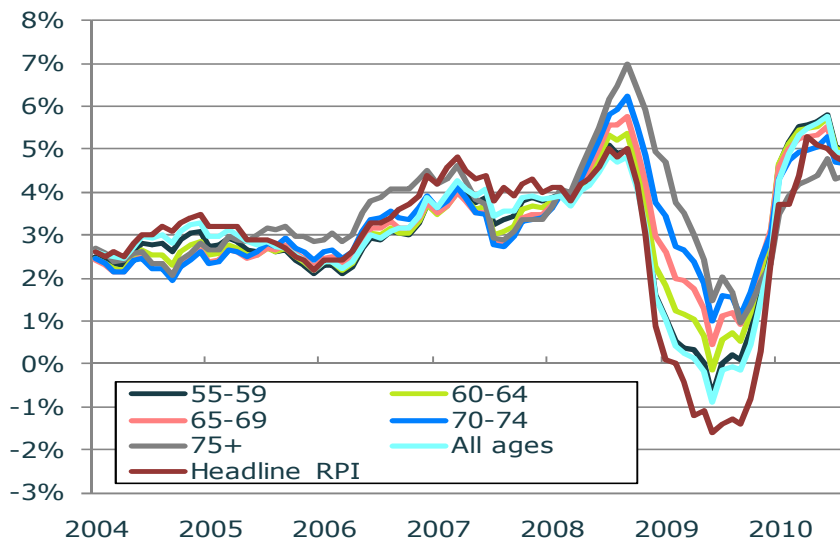
The research was calculated in October 2010 for publication on 11 November 2010. Data will be refreshed monthly and the Silver RPI updated for quarterly publication.

## Detailed findings

The Silver RPI shows that inflation has adversely affected those in later life compared to the rest of the population with the impact worsening with age. In the last two years, those in later life have faced a considerably higher inflation rate than suggested by official measures, with the gap at its greatest for those aged over 75.

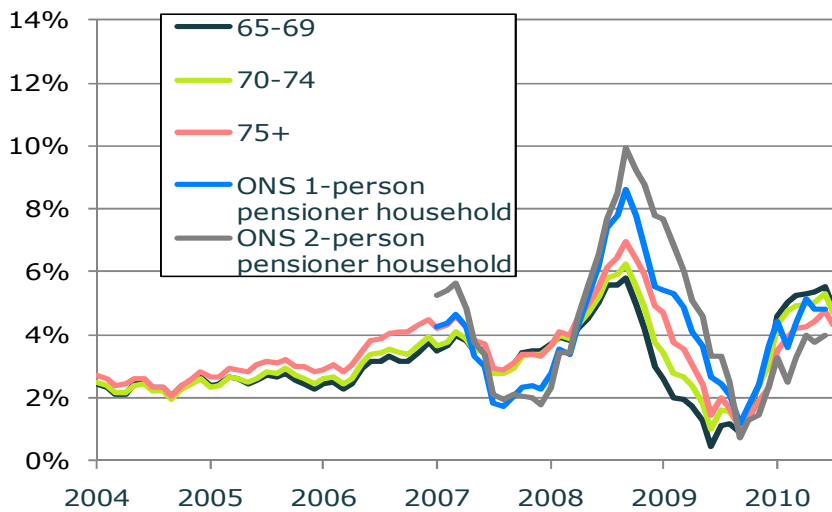
The overall variation between inflation experienced in later life and the UK population in general is illustrated in the graphs below, which compare the Silver RPI with the headline RPI and the ONS pensioner price indices.

**RPI by Age Group**  
Twelve-month percentage changes



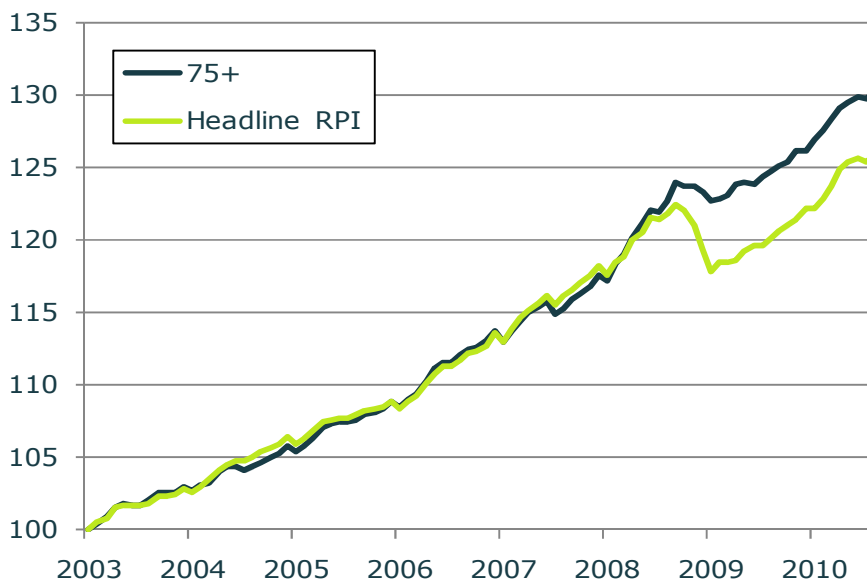
The following graph highlights the variation between the Silver RPI and the ONS pensioner price indices, which consider the impact of inflation on households where the head of the household is over 65 and more than 75 per cent of income is derived from state benefits. It shows that inflation for those in later life as a group has been far higher than estimated.

## RPI by Age Group and ONS Pensioner Indices Twelve-month percentage changes

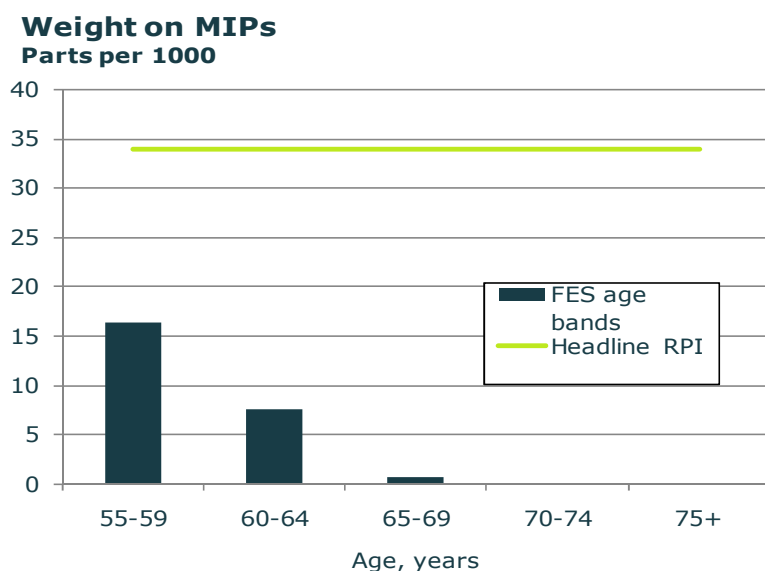


Focusing on the variation between actual and official measures of prices for over 75s, the graph below shows how dramatically the gap has opened up since 2008. In this period, over 75s have faced price increases that peaked at almost five percentage points higher than those experienced by the wider population.

## RPI by Age Group Index, Jan 2003 = 100



The gap between those cost increases experienced in later life and the general population is due to a number of factors including their relative expenditure on key items. Since 2008, a key driver of the gap between Silver RPI inflation and headline inflation has been the impact of low mortgage interest rates, which have had a minimal effect on over 55s. This is because, as illustrated in the following graph from the Silver RPI, the proportion of household income spent on Mortgage Interest Payments (MIPs) decreases significantly with age.



The Silver RPI also reveals how inflation differs both by age and by product.

### Holidays

Over 55s spend a higher proportion of income on holidays both home and away, and this increases as people age. Over 75s spend on average more than two per cent more of household income on holidays than the general population.

### Household Insurance

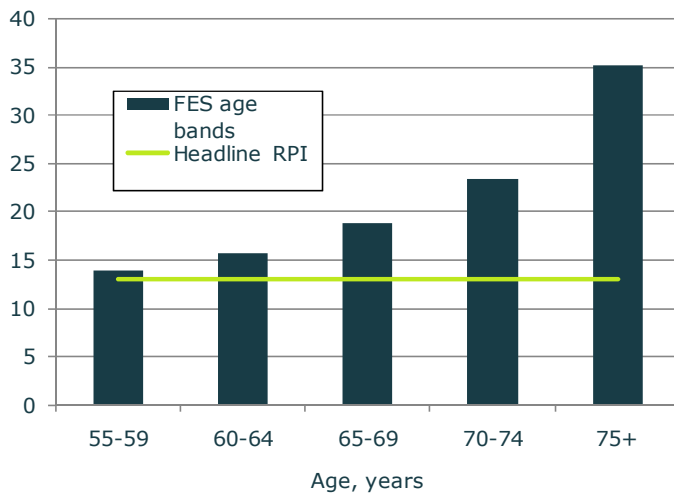
Over 55s spend an average of nine per cent of total income on insurance premiums, compared to seven per cent across the rest of the population.

### Utilities

Utilities are also a major spend for those in later life. The combined spend on water, electricity and gas by a typical over 60 year old is more than two per cent more as a proportion of total income than for the average consumer. Over 75s spend more than double the amount accounted for by headline RPI.



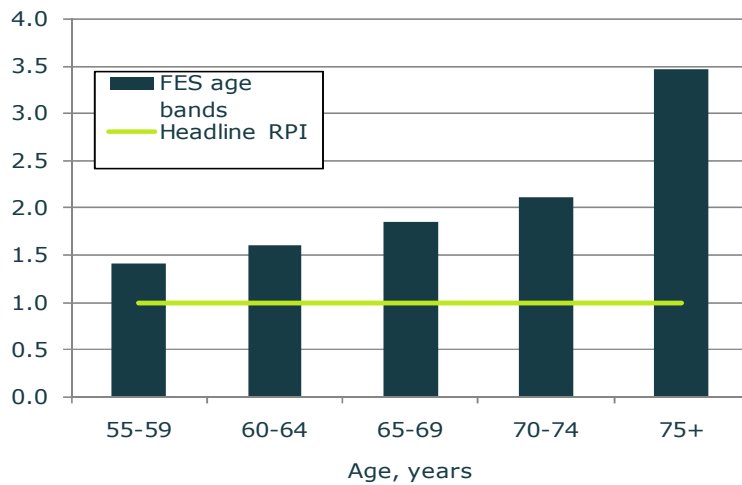
### Weight on 'water and other charges' Parts per 1000



### Sugar and preserves

Interestingly, the Silver RPI reveals that the proportion of income spent on sugar and preserves increases with age to almost triple the amount implied by headline RPI.

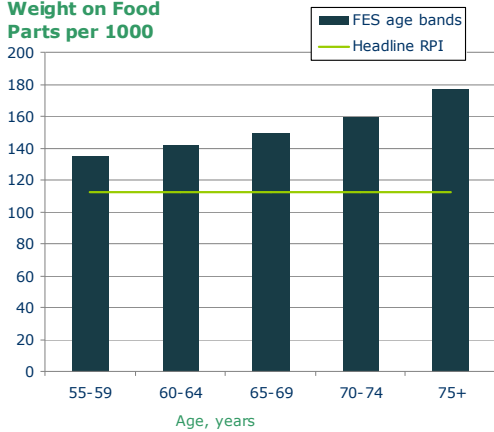
### Weight on 'sugar and preserves' Parts per 1000



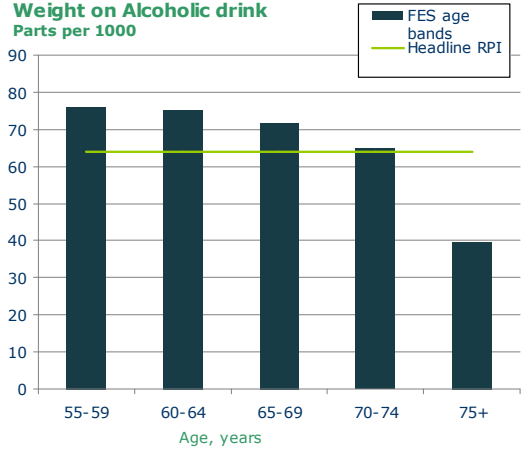
## Detailed findings

Graphs to show how the weights vary on individual items between Silver RPI and headline RPI

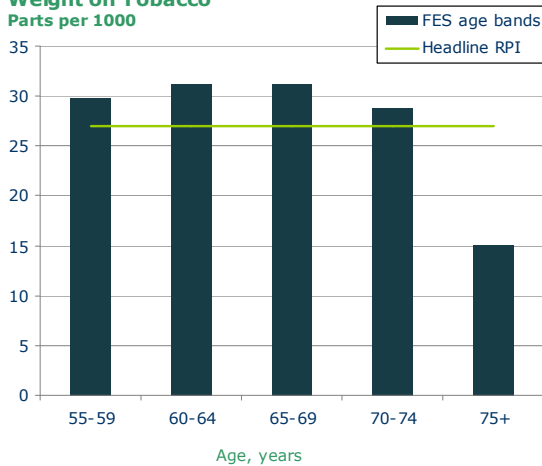
**Weight on Food**  
Parts per 1000



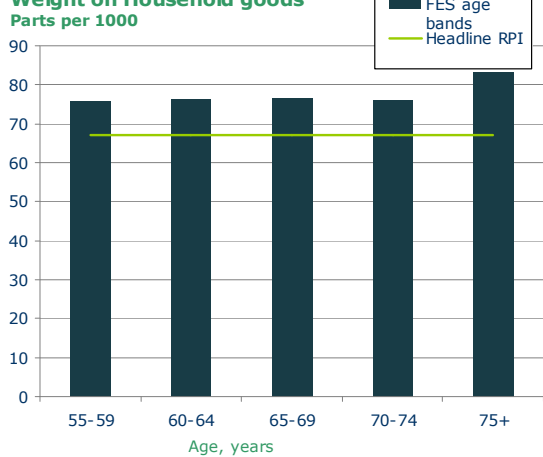
**Weight on Alcoholic drink**  
Parts per 1000



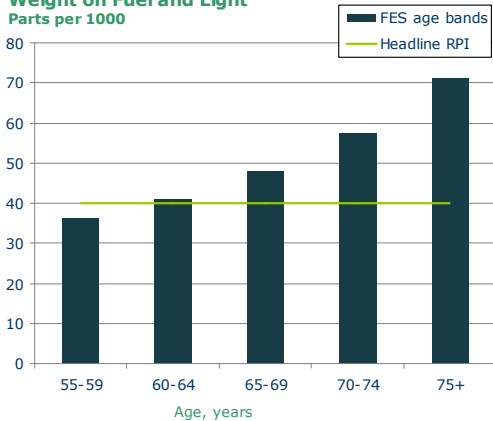
**Weight on Tobacco**  
Parts per 1000



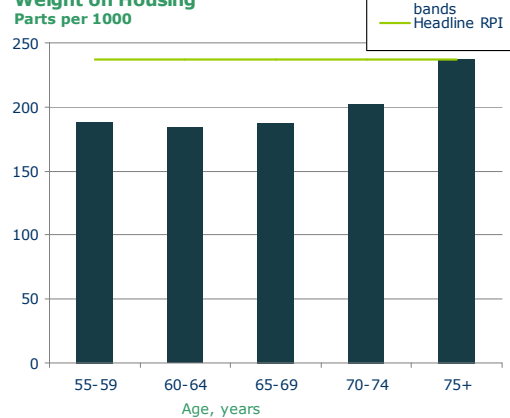
**Weight on Household goods**  
Parts per 1000



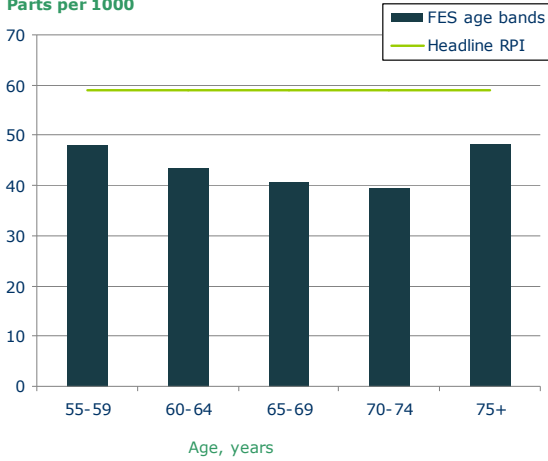
**Weight on Fuel and Light**  
Parts per 1000



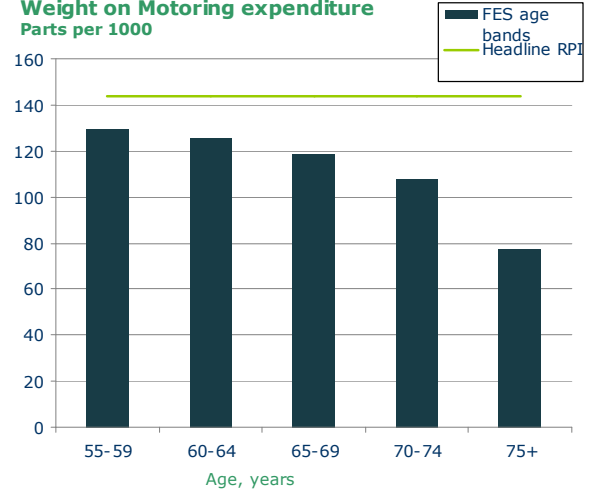
**Weight on Housing**  
Parts per 1000



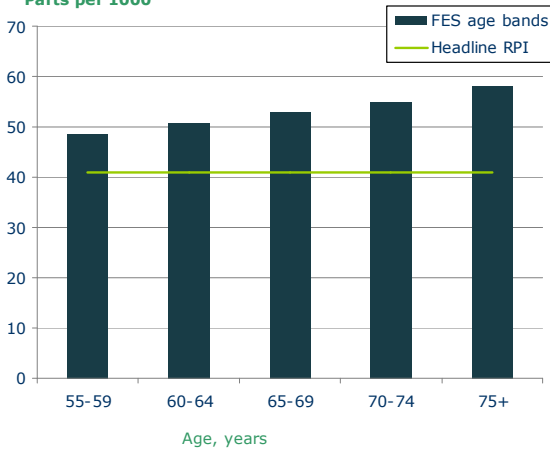
**Weight on Household Services**  
Parts per 1000



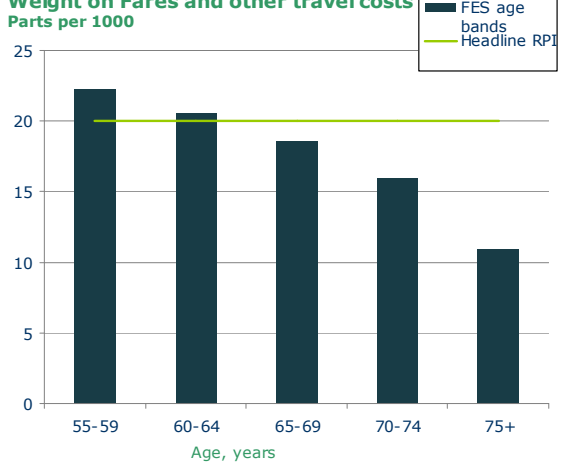
**Weight on Motoring expenditure**  
Parts per 1000



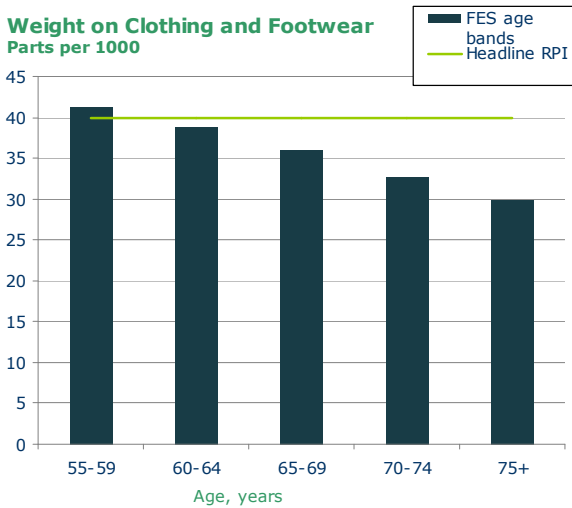
**Weight on Personal goods and services**  
Parts per 1000



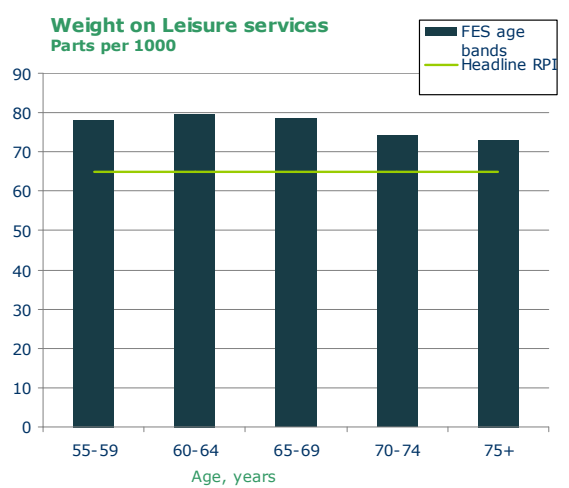
**Weight on Fares and other travel costs**  
Parts per 1000



**Weight on Clothing and Footwear**  
Parts per 1000



**Weight on Leisure services**  
Parts per 1000



## CONCLUSION

The Silver RPI shows that those in later life have experienced far higher inflation than the general population, with the gap widening dramatically in the last two years.

This discrepancy has not been properly accounted for by official measures that have consistently misrepresented how finances look for those in later life by considering over 55s as one single group who experience money (and inflation) in the same way. Furthermore, the time lag between the publication of headline RPI figures and the ONS pensioner price indices reduces further the accuracy of official data.

The Silver RPI has been developed to correct this. It will be published to coincide with the publication of headline data, becoming the most up to date and accurate measure of inflation for those in later life.

The failure of existing measures to capture the reality of inflation is particularly damaging for those in or approaching retirement who must plan to provide for their long term future. To do so properly, they must have access to accurate information on the cost of living they face as they age, rather than being considered as part of the general population.

The Silver RPI makes clear the need for greater recognition of the reality of money for those in later life. It is time the financial services industry moves from its 'one size fits all' approach to develop, as Age UK Enterprises does, products and services tailored for this section of the population.

The challenge of recognising and meeting the diverse needs of those in later life will only become more important in the future. The financial services industry ignores the needs of this growing market at its peril.

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