

The Age UK Enterprises Silver RPI
Measuring the true impact of inflation on
those in later life

11 May 2011

Introduction from Gordon Morris, Managing Director, Age UK Enterprises

Six months after we launched the Silver RPI, our measure of inflation for the over 55s, latest results suggest that inflation is slowing for those in later life in the UK. This is welcome news but does not prevent rising costs from remaining an issue for those in later life. We must continue to do more to help people manage their money as they age.

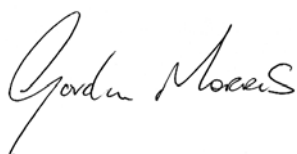
During the first three months of 2011, the rate of inflation experienced by the over 55s has been very similar to that recorded by the Headline RPI. However, over the past three years those in later life have been impacted by price rises that were felt to a greater extent than those felt by the population as a whole, leaving them comparatively worse off in real terms.

At Age UK Enterprises, we recognise the specific financial pressures on those in later life. To better understand this, we developed the Silver RPI with former Bank of England inflation specialists Fathom Consulting that measures inflation at five-year age bands starting at age 55. It is a more comprehensive measure than Headline RPI that better reflects the financial reality of those in later life and demonstrates why financial products need to be tailored for over 55s.

The Silver RPI reinforces our view that the financial services industry must stop treating those in later life as a homogenous group that require identical products and services. Unlike other financial services providers, at Age UK Enterprises our ethos has always been to address the unique financial needs of those in later life. This model has sustained us for more than a quarter of a century and relationships with more than 1.1 million customers.

We believe more has to be done to help those in later life deal with rising costs. That is why in April Age UK launched our campaign, "Let's Talk Money" and published the booklet, "Making your money go further". The campaign shows how people in later life can make cost savings and provides useful information about shopping around with advice on how to maximise income in retirement – and reduce poverty.

Our aim is that the Silver RPI will change the perception of finance in later life and encourage the financial services industry to support consumers in planning more effectively for their future. In these constrained times, we want to empower consumers in later life to demand solutions for their specific financial needs.



Why understanding inflation is so important

Erik Britton, Director, Fathom Consulting

More than any other age group, those in later life who are retiring or approaching retirement must have a reliable measure of how their costs will change year-on-year so they can accurately plan for their financial future. For too long, official measures have been inadequate for this group by not considering the differing impact of inflation on those over 55.

Age UK Enterprises' Silver RPI was the first index to consider those in later life at five-year age bands, rather than as one homogenous group, when it was launched in November 2010. Six months on and it continues to be the most comprehensive measure of the cost of increases faced by those in later life. It is based on the RPI basket of goods, reweighted to better reflect the spending patterns of those in later life. It is compiled using information from the Living Costs and Food Survey (LCF) which surveys over 5,000 households to establish their expenditure patterns over a period of time.

The Silver RPI demonstrates that, over the past three years, those over 55 have experienced a significantly larger increase in the cost of living than is suggested by the Headline RPI. In real terms, this gap costs an average over 55 year old almost £1000 per year. The good news is that in the first quarter of 2011, the rate of increase in prices experienced by the over 55s was slightly less than that felt by the population as a whole.

The Silver RPI will continue to be published on a quarterly basis in line with the Bank of England Inflation Report. Into the future, it will provide those people over the age of 55 with a more accurate view on how their day-to-day costs fluctuate and help this ever more important demographic better plan for their financial future.



Executive Summary

Latest figures from the Silver RPI show that, in the first quarter of 2011, the increase in prices measured by the Silver RPI was broadly similar to that implied by the Headline RPI. Between January and March 2011, over 55s on average experienced inflation at 0.03 percent below Headline RPI, in cost terms suggesting they are £2.63 a year better off. This changes with age with a typical over 75 year old experiencing price rises at 0.2 percent less than Headline RPI suggesting they are £24.14 a year better off.

The smaller increase in prices experience by a typical over 75 year old in the first quarter of 2011 can be attributed to this age group spending a greater share of their income on products that are either falling in price, or rising only modestly. For example, over 75s spend a great proportion of their income on food than the population at large, and food prices fell by 1.0 percent in March 2011. These combined factors mean during the first part of 2011 the rate of inflation slowed for those in later life.

Changes in cost of living January – March 2011

Age band	Increase in the cost of Silver RPI basket	Change relative to Headline RPI	Extra annual expenditure due to % cost rise
55-59	1.58%	0.05%	£13.56
60-64	1.56%	0.04%	£8.70
65-69	1.53%	0.00%	- £0.45
70-74	1.47%	- 0.06%	- £10.82
75 +	1.35%	- 0.18%	- £24.14
Over 55s	1.5%	-0.03%	-£2.63
Headline RPI	1.53%		

This trend must however be seen in a wider context. Despite the inflation slowing in the first quarter of 2011, since 2008 the extra increase in prices measured by the Silver RPI, relative to Headline RPI, is now costing the average over 55 year old an additional £918 per year.. This rises for older age groups with an average 65-69 year old facing additional costs each year of £1,054 since 2008.

Part of the reason for this gap between inflation experienced by the general population and those in later life since 2008 is the impact of the continued low interest rate environment, which has kept mortgage payments lower for many homeowners. Those in later life are less likely to carry significant mortgage debt and therefore do not benefit from the savings that lower mortgage rates offer.

Increases in petrol costs remain a significant burden on over 55s. The average 60-64 year old, according to the Silver RPI, spends £136 a year more on petrol than they did a year ago. This has squeezed expenditure on other items, for example, over the same period 60 to 64 year olds spending £148 a year less on foreign holidays.

Changes in cost of living since January 2008

Age band	Increase in the cost of Silver RPI basket	Change relative to Headline RPI	Extra annual expenditure due to % cost rise
55-59	14.33%	3.51%	£933.45
60-64	15.14%	4.32%	£1,040.78
65-69	15.83%	5.01%	£1,053.54
70-74	16.10%	5.28%	£926.29
75 +	15.59%	4.77%	£635.96
Over 55s	15.40%	4.58%	£918
Headline	10.82%		

Methodology

Age UK Enterprises partnered with former Bank of England inflation specialists, Fathom Consulting, to develop an index of inflation that would become the most comprehensive and accurate measure for those in later life. The Silver RPI was first published in November 2010 and is updated on a quarterly basis.

The Silver RPI is the only measure representative of all households where the head of household is over 55, regardless of income and including 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 expenditure patterns of those in later life. It is the only measure to consider five-year age bands over age 55 and is based on monthly data.

The Silver RPI is therefore more comprehensive than the Headline measure of RPI inflation, 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 is also more complete than the pensioner price indices from the ONS, which only includes those pensioner households where the head of the household is older than 65 and receive more than 75 per cent of their income in the form of state benefits, and excludes all housing costs.

The reweighted basket of goods for the Silver RPI has been constructed by reassessing expenditure on 14 categories with broad headings such as 'food' and 'housing'. Each of the 14 categories is further subdivided into specific 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 relative importance to 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 older consumers, over and above that experienced by the population at large, are calculated in the following way. First, we calculate the difference between Silver RPI inflation for each age band and Headline RPI inflation. Second, this difference is then multiplied by average weekly expenditure on the RPI basket by each Silver RPI age band in the base period. Finally, this pound sterling figure is multiplied by 52 to give an annual amount.

Detailed findings

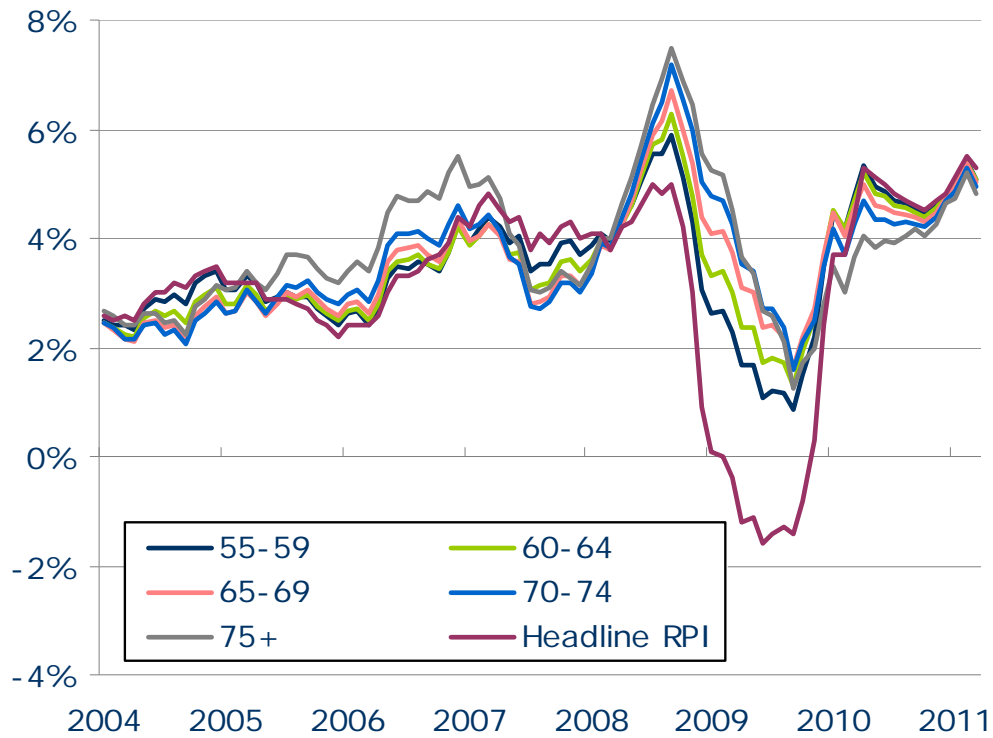
Launched in November 2010, the Silver RPI demonstrates how inflation affects those at five-year age bands from age 55 compared to the general population and official measures of inflation. The Silver RPI shows that in the first quarter of 2011, those in later life have experienced a lower rate of inflation than Headline RPI.

This changes with age: between January and March 2011, a typical over 75 year old experienced inflation at 0.2 percent below Headline RPI which suggests in cost terms, they are £24.14 a year better off.

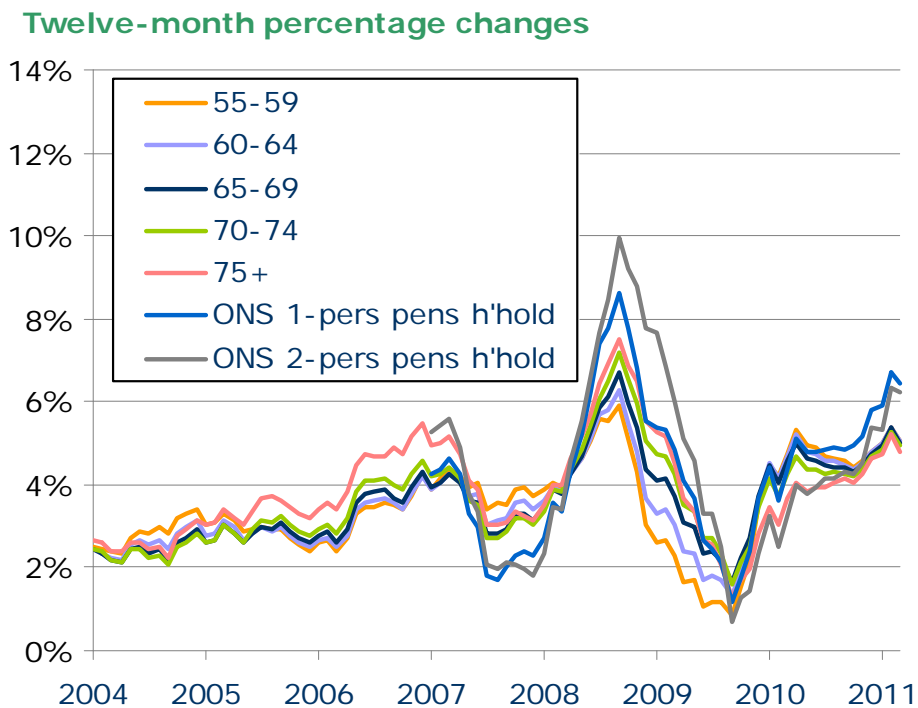
However, while inflation has slowed for those in later life since the start of 2011, this trend must be seen in the context of the past three years. The variations between inflation experienced by the general population compared with those in later life since 2008 is illustrated in the charts below, which compare the Silver RPI with the ONS pensioner price indices and the Headline RPI.

In 2008, a significant gap opened up between the cost rises experienced by the general population and those aged over 55. In cost terms, this gap equates to an additional annual expenditure for a typical over 55 year of just under £1,000 per year since 2008. Primarily the gap between Headline RPI and Silver RPI was due to the low interest rate environment, which did not benefit those in later life less because they are less likely to carry mortgage debt, and over 55s spending proportionally more on products and services that increased significantly in price during that period – such as food and fuel.

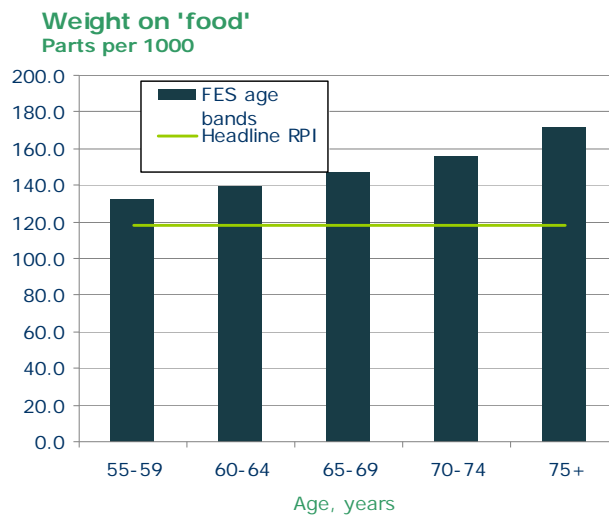
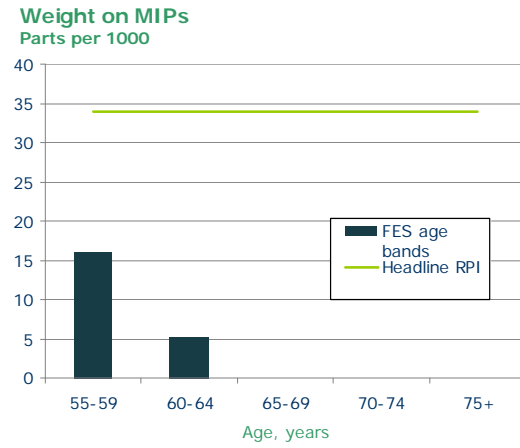
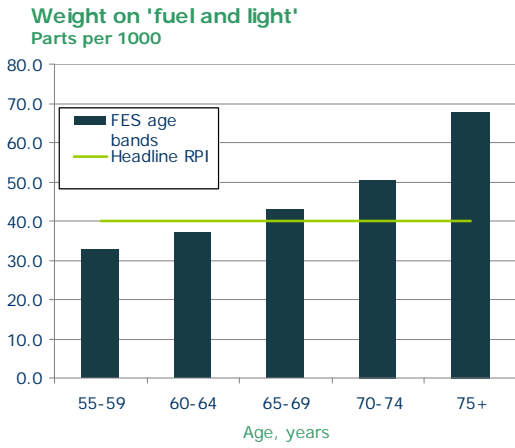
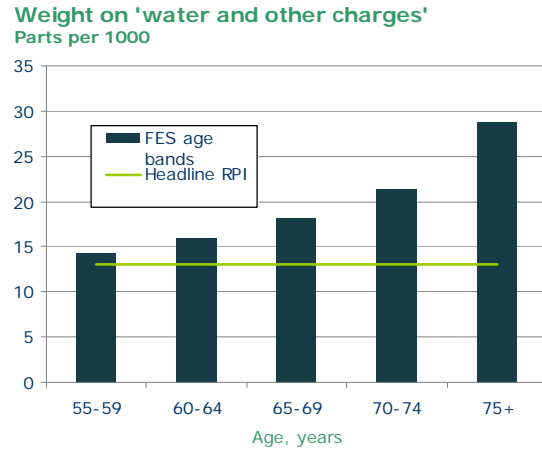
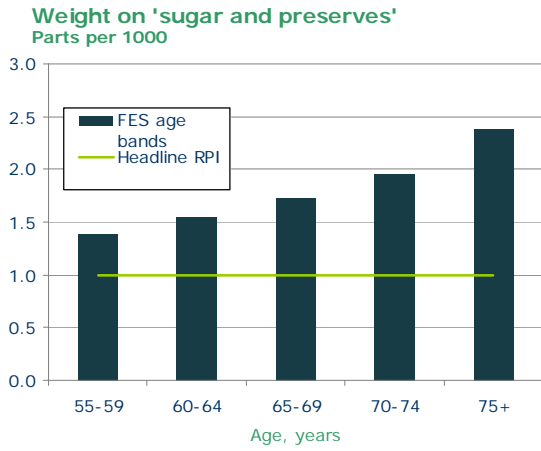
RPI by Age Group Twelve-month percentage changes



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



Graphs to show how the weights vary on individual items between Silver RPI and Headline RPI during 2011



Conclusion

The Silver RPI shows that during the first quarter of 2011 those in later life have fared marginally better than the general population in their experience of inflation. However, over the past three years, those over 55s have had a significantly greater increase in their cost of living than the general population. This is in part due to the continued impact of a low interest rate environment which has less effect on those in later life as they are less likely to carry mortgage debt and because those in later life spend proportionally more on products that have increased significantly in price in the last three years.

Petrol costs continue to be a significant burden to those in later life with the average 60-64 year old now estimated to spend £136 a year more on petrol than in 2010. This has meant spending on non-essential items has decreased with for example, spending on foreign holidays by 60-64 year olds down by £148 year on year.

When it was first created in November 2010, the Silver RPI highlighted the fact that those in later life cannot be considered as one single group in financial terms. Over 55s experience money and changes in prices in a different way to the general population, but also as they age. At a time when many crucial financial decisions are made, the Silver RPI will help those in later life better predict how their costs of living will change.

The Silver RPI report makes clear the need for the financial services industry to stop viewing those in later life as a single consumer group who can be treated with a one-size-fits-all approach. As well as developing products and services specifically designed for those in later life, the financial services industry has to do more to help consumers in later life manage their costs.

Unlike other financial services providers, the ethos of Age UK Enterprises has always been to put the financial needs of those in later life first. That is why we encourage consumers to shop around to ensure they get the best value for money and only buy products appropriate for their needs. This April Age UK launched our campaign, "Let's Talk Money" and published an information booklet, "Making Your Money Go Further", which provides people with the tools and knowledge to maximise income in retirement and reduce poverty.

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