A squeeze on spending?

An update on household living costs for senior Australians

October 2013

Productive Ageing Centre
National Seniors Australia

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Foreword

In 2011, National Seniors Productive Ageing Centre published a report, entitled *Are older Australians being short changed? An analysis of household living costs*, which investigated how sharp increases in the prices of key essential items impacted senior households' living costs. That report revealed increasing numbers of seniors, in particular pensioners, devoted large proportions of their weekly income to cover essential items.

Over the past two years there has been continued large rises in the price of essential items such as utilities, which has generated significant discussion within the community and policymaking circles. It is therefore timely to update the previous analysis with the latest available data. This report, entitled *A squeeze on spending? An update on household living costs for senior Australians*, explores differences in household cost of living pressures across the diverse groups of over 50s in the population. It also examines the changes in spending behaviour caused by higher prices in essential items.

The report shows that in the five years to March 2013 several essential items increased at more than double the inflation rate, in particular electricity which rose by 83%. Certain population groups are struggling with the higher costs of essential items. Households in the lowest income group are spending over 80% of their disposable income on essentials. For higher income and younger households, closer to one-quarter of disposable income is being spent on essentials. The majority of items that have declined in price in the past five years are non-essential items, such as audio, visual and computing equipment.

These higher prices result in greater difficulty in paying utility bills; almost a quarter of a million senior households said they have been unable to pay their bills on time. Findings also indicate that many households have cut back on essential and non-essential items because of increased spending on some key essential items.

The report is a timely reminder of the difficulties faced by many senior Australians in covering daily living costs and their vulnerability to price shocks that we have seen in recent years.

Dr Tim Adair
Director
National Seniors Productive Ageing Centre

October 2013

About National Seniors Productive Ageing Centre

National Seniors Australia (National Seniors) is a not-for-profit organisation that gives voice to issues that affect Australians aged 50 years and over. It is the largest membership organisation of its type in Australia with more than 200,000 members and is the fourth largest in the world.

National Seniors Productive Ageing Centre (NSPAC) is an initiative of National Seniors Australia and the Australian Government. The Centre's aim is to improve quality of life for people aged 50 and over by advancing knowledge and understanding of all aspects of productive ageing.

NSPAC's key objectives are to:

- Support quality consumer-oriented research informed by the experience of people aged 50 and over
- Inform government, business and the community on productive ageing across the life course
- Raise awareness of research findings that are useful for older people
- Be a leading centre for research, education and information on productive ageing in Australia.

For more information visit www.productiveageing.com.au or call 03 9650 6144.

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This report uses data from the Household, Income and Labour Dynamics in Australia (HILDA) survey.[1] The HILDA Project was initiated and is funded by the Australian Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) and is managed by the Melbourne Institute of Applied Economic and Social Research (Melbourne Institute). The findings and views reported in this paper, however, are those of the author and should not be attributed to either FaHCSIA or the Melbourne Institute.

[1] www.melbourneinstitute.com/hilda

Executive Summary

Background and purpose

A 2011 National Seniors Productive Ageing Centre (NSPAC) research report into the costs of living found that water, electricity, gas, medical services and rent had all risen at more than double the inflation rate over the previous five years.[2] This report follows up on that previous report by updating the price increases and examining their impact on the spending patterns of Australia's 2.9 million senior households.[3] It focuses on findings for three senior age groups: households aged 75 years and over (75+ households), households aged 65–74 years, and households aged 50–64 years.

Key findings

Prices and household spending

- Over the five years to March 2013, the majority of the top ten price rises were for essential household goods or services. The biggest price increase was for electricity, which rose by 83% – more than six times the overall rate of inflation.
- Other non-discretionary (essential) items, such as water, gas, insurance, medical services, and rates, all rose by more than double the inflation rate.
- Between 2006 and 2011, Australian households spent a smaller proportion of their income on groceries, alcohol and cigarettes, petrol, clothing and footwear, and car maintenance.
- Over the same time period, all age groups increased the proportion of their income spent on utilities.
- The increased proportion spent on utilities reflects the large increase in energy prices.

Senior households

Expenditure by income

- Households in the lowest income group (over half a million households that make up the 20% with the lowest income) spent an average of four-fifths of their income on essentials.
- Some lowest-income households offset increased spending on essentials, such as utilities, by reducing spending on clothing, car maintenance, and groceries.
- Almost half of these lowest-income households were 75+ households. In 2011, the lowest-income bracket included a higher proportion of older people, a higher proportion of renters, a lower proportion of married people, and a lower proportion of employed people than in 2006.

Expenditure by source of income (employed, self-funded or pensioner)

- Between 2006 and 2011, the number of households reliant on the pension grew by 55,000 (6.5%) while those in employment grew by only 35,000 (2.8%).
- Pensioner households spent, on average, over half (55%) of their income on essentials, compared with one-quarter for employed households.

[2] Kelly S. *Are senior Australians being short changed? An analysis of household living costs*. Canberra: National Seniors Productive Ageing Centre; 2011.
[3] In households that included a couple, the age of the household was defined as the age of the oldest male. For households with no couple, the age of the household was defined as the age of the oldest adult.

Expenditure by age

- The largest average expenditure for all senior households is groceries ($7,000–10,000 per year). Grocery spending represented 11–19% of disposable income.
- On average, the proportion of disposable income spent on essentials (groceries, public transport, petrol, communication, health insurance, other insurance, medical, pharmaceutical, utilities and rent) was:
  - almost half (44%) for 75+ households
  - one-third for households aged 65–74 years
  - one-quarter for households aged 50–64 years.
- Between 2006 and 2011, the percentage of income spent on essentials increased for 75+ households. This group already spent the highest proportion of income on essentials. During the same period, the proportion of income spent on essentials decreased for households aged 50–64 years and households aged 65–74 years.

Changed spending behaviour

- To cope with the higher prices for essentials, households have changed their spending patterns.
- A significant proportion (up to 15%) of households – particularly pensioner households – are no longer spending any money on cigarettes and alcohol, public transport, eating out, clothing, medical fees or on car and home maintenance.
- Many households also reduced their consumption. For example, a large proportion of pensioner households reduced their real spending (i.e. spending that has been adjusted for inflation) on petrol, clothing and footwear, medical, and car maintenance by more than one-quarter.

Income

- Between 2006 and 2011, income grew by 30% for households aged 50–64 years, and by only 19% for 75+ households.
- For the average 75+ household, private income is only around one-third of private income for the average 50–64 years household. In 2011 average income after tax was $36,200 for 75+ households, $58,300 for households aged 64–74 years, and $93,400 for households aged 50–64 years.

Financial Stress

- In 2011, almost a quarter of a million (245,000) senior households said they had been unable to pay their utility (electricity, gas or telephone) bills on time.
- The proportion of senior households unable to pay utility bills increased slightly from 2006 (from 8.1% to 8.5%).
- Almost 14% of senior households in the lowest income bracket were unable to pay their utilities bills on time.
- The proportion of 75+ households that were unable to pay their utility bills grew by 40% between 2006 and 2011 (from 4.6% to 6.5%).

Conclusions

The higher prices for essential household items clearly caused considerable financial stress to many senior households over 2006–2011. Cost-of-living pressure resulted in many seniors going without some types of goods and services and reducing spending on others. Some trends were worrying: reduced spending on medical expenses could mean some seniors are receiving less health care, and an increase in the proportion of low-income seniors living in rented homes makes them vulnerable to rent increases.

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Introduction

QLD'S ELECTRIC SHOCK - 22.6% RISE

Queensland households will pay an extra $268 a year for electricity from July 1 - the most significant increase since 2009. The Queensland Competition Authority (QCA) announced the higher than expected 22.6% hike on Friday.[4]

(The Courier Mail, 31 May 2013)

Background

The most recent report on electricity price trends by the Australian Energy Market Commission (AEMC) acknowledged that Australian households had experienced large increases in electricity costs over the last few years.[5] Only two months after the AEMC report, the Queensland Competition Authority announced a 22.6% increase for 2013–2014.[6] It is likely that other states and territories of Australia will also announce large increases in coming months.

It is not just electricity costs that are increasing much faster than inflation. The previous NSPAC report on costs of living[7] found that the cost of water, gas, medical services and rent, as well as electricity, have all risen at more than double the inflation rate over the previous five years. The Queensland electricity price increases and other price increases, such as a rise in Australian Capital Territory residential rates by more than three times the inflation rate in 2013–2014, suggest that these large increases in the cost of living will probably continue.

Most Australian households have to change their spending patterns to budget for such large cost of living increases. For middle-income and high-income households, spending more on essentials means slightly less will be saved or some non-essential (discretionary) spending will have to be delayed or even cancelled. However, for low-income households, the picture is much bleaker. This report found that these households are spending 80% of their income on essential (non-discretionary) living costs.[8] Spending more on electricity or other essentials means reducing spending on items like groceries, clothing, and car maintenance.

Purpose

In this report, we use the latest data to update the cost of living, and we examine how these essential living cost increases are being accommodated. In particular, we focus on the spending patterns of senior Australian households (aged 50 years and over).[9] The report examines the latest Consumer Price Index (CPI) trends and then examines changes in household spending between 2006 and 2011, as reported by households in the Household, Income and Labour Dynamics in Australia (HILDA) survey.[10]

[4] Berry P. Qld's electricity shock – 22.6 per cent rise, Courier Mail, 31 May. Available at: http://www.couriermail.com.au/news/breaking-news/electricity-price-hike-for-qld/story-e6freono-1226654213521

[5] Australian Energy Market Commission. *Possible future retail electricity price movements: 1 July 2012 to 30 June 2015. Electricity price trends report* [released 22 March]. Sydney: AEMC; 2013.

[6] Queensland Competition Authority. *Final determination. Regulated retail electricity prices 2013–14*. Brisbane: Queensland Competition Authority; May 2013.

[7] Kelly S. *Are senior Australians being short changed? An analysis of household living costs*. Canberra: National Seniors Productive Ageing Centre; 2011.

[8] 'Non-discretionary' (essential) spending refers to the total of household spending on groceries, public transport, petrol, communication, health insurance, other insurance, medical, pharmaceutical, utilities and rent.

[9] In this report, the age of the household is based on the age of the 'head' of the household. In households that included a couple, the head of the household was defined as the oldest male. For households with no couple, the head was defined as the oldest adult.

[10] www.melbourneinstitute.com/hilda

Data and Methods

Design

This report analyses trends in senior households' income and spending patterns between 2006 and 2011.

Survey participants

This report uses information from the Household, Income and Labour Dynamics in Australia (HILDA) survey, which interviews adults in more than 2000 Australian households yearly. The HILDA survey has been tracking the same households every year since 2001.

Households were included in this analysis if their responses to the HILDA survey were available for both 2006 and 2011 (see *Appendix A: Technical Notes and Definitions* for more information on HILDA and definitions of the expenditure items).

This report investigates income and expenditure of typical Australian households and focuses mainly on senior households. For this reason, households classified as *Multi-family, Group, Other or Not able to be Classified* were not included. Households with negative household disposable income were also excluded from the analysis, in line with most other similar research.

Measures and procedures

This report used the latest available Consumer Price Index (CPI) data (March 2013),[11] and CPI data from 2006 to 2011. The CPI monitors changes in the cost of living by measuring the price of a 'basket' of goods and services. The items in the basket and their weightings are updated every six years to reflect current household spending. The contents of the basket were last updated in 2011.[12]

Each wave of the HILDA survey covers a range of subjects including questions on employment, household income and usual weekly spending on a range of items. The expenditure classes are not as detailed or comprehensive as those of the CPI, but they do cover the major areas of spending. This report used the responses to questions about income and expenditure in wave 6 (2006) and wave 11 (2011).

In this report, the age of the household depended on whether the household included a couple or a single adult. If the household contained a couple, then the age of the oldest male was assigned to the household. If the household did not include a couple, then the age of the oldest adult was assigned to the household.

[11] Australian Bureau of Statistics. Consumer Price Index, Australia, March 2013. Cat no. 6401.0 [released 24 April 2013]. Canberra: ABS; 2013.

[12] Australian Bureau of Statistics. Consumer Price Index: concepts, sources and methods 2011. Cat no. 6461.0. Canberra: ABS, 2011. Available at: http://www.abs.gov.au/ausstats/abs@.nsf/mf/6461.0

Methods of analysis

We analysed CPI data alongside data from the HILDA survey to see how changes in the cost of living are affecting senior households.

We used March 2013 CPI data[13] to analyse trends in prices of various expenditure groups and classes (see Appendix B). In addition, we used changes in a range of CPI expenditure sub-groups and classes between September 2006 and September 2011 to estimate price inflation over the same five year period for which HILDA spending data is available. Price inflation data was used to adjust prices for inflation and make comparison with household spending as recorded on HILDA.

HILDA collects information about usual weekly expenditure, but we converted this to the total annual expenditure so that we could compare with annual disposable income.

To compare senior households in different income brackets, we ranked all households over 50 years by income and then divided them into five quintiles: quintile 1 (Q1) is the 20% of households with the lowest disposable income, Q3 is the middle 20%, and Q5 is the 20% of households with the highest incomes. Each of the quintiles represents 525,000 senior households in 2011.

To examine financial stress, we evaluated the responses to a question from the HILDA survey, which asks households whether they were able to pay their utility bills on time.

We used the CPI and HILDA data to:

- Analyse price trends
- Analyse income and expenditure across all Australian households
- Analyse differences in household spending between age groups of Australian households
- Analyse income and spending patterns in senior households
- Compare income and spending in different senior age-groups
- Analyse the proportion of income spent on essentials, and compare this between age groups
- Analyse whether senior households are changing their spending patterns to be able to afford essentials as the cost of living changes, and what kinds of changes they are making.

[13] Australian Bureau of Statistics. Consumer Price Index, Australia, March 2013. Cat no. 6401.0 [released 24 April 2013]. Canberra: ABS; 2013.

Findings

Price trends

For many classes of items, a household has no choice about whether to spend money, because these goods or services are essential things that households must purchase to function ('non-discretionary' items). For example, a household can generally delay the purchase of new clothing or can choose not to eat out, but a household cannot function without using electricity and paying the electricity bill.

According to the CPI, prices rose by 13.4% between March 2008 and March 2013. This means that, over the last five years, inflation has averaged 2.5% per year. This is at the mid-point of the Reserve Bank of Australia's target inflation range of 2–3%.[14] However, not all of the classes of items in the basket have changed by the same amount: 31 classes expenditure rose faster than the overall rate and 55 expenditure classes either rose less than overall rate or fall in price over the last five years. Unfortunately, many of items that rose at rates over the average were non-discretionary items, like electricity.

Of the 86[15] CPI expenditure classes, the 10 classes that increased the most are shown in Table 1. Of the 10 classes of expenditure that increased most (Table 1), the majority are non-discretionary. As these items must be purchased for the household to function, there is no option to delay spending on money on these items or to not spend money on these items. This lack of flexibility can make the households feel financially stressed, despite inflation overall being modest.

***Table 1:** Top 10 increases in expenditure classes, 2008–2013*

Type	Expenditure class	Index March 2008	Index March 2013	Change (%)	Rate (x CPI)
N	Electricity	65.1	119.2	+83.1	6.2
N	Water and sewerage	63.1	102.9	+63.1	4.7
	Tobacco	67.7	108.4	+60.1	4.5
N	Gas and other household fuels	74.3	117.0	+57.5	4.3
N	Insurance	77.0	109.8	+42.6	3.2
N	Medical and hospital services	79.1	109.6	+38.6	2.9
	Secondary education	79.3	109.3	+37.8	2.8
	Other services for motor vehicles	80.5	107.0	+32.9	2.5
N	Property rates and charges	79.8	105.8	+32.6	2.4
	Preschool and primary education	83.1	107.8	+29.7	2.2
	All groups CPI	90.3	102.4	+13.4	

N: non-discretionary item

Note: Index reference period: 2011–2012 = 100.0.

Source: Australian Bureau of Statistics 2013 Table 11

[14] Reserve Bank of Australia. Inflation target [Web page]. RBA [Cited August 2013]. Available at: http://www.rba.gov.au/inflation/inflation-target.html

[15] There are 87 expenditure classes in the CPI, however, only 86 were used in this analysis. The expenditure class 'deposit and loan facilities (direct charges)' was not included because it was only introduced in 2011, and therefore five years of data are not available for comparison.

Electricity showed the highest price increase of all the classes measured by the CPI. Its price has risen by 83% over the last five years – more than six times the overall rate of inflation (Table 1). Analysis of the top 10 shows that over the last five years, other household-related classes also increased significantly faster than inflation:

- Gas (4.3 times the CPI)
- Water and sewerage (4.7 times the CPI)
- Insurance (3.2 times the CPI)
- Property rates and charges (2.4 times the CPI).

The cost of raising children also rose. Education increased at more than twice the rate of inflation.

In contrast to the top 10 expenditure classes, which rose by between 30% and 80% over the five years, there were 21 classes that fell in value (see Appendix Table B-1). Table 2 shows the ten with the largest decreases. Audio, visual and computing equipment fell by the biggest percentage, due to the high Australian dollar, changing consumer demand, falls in the wholesale prices of electronics and strong competition. On average, the prices in this class reduced to less than half the amount they were five years ago.

Table 2: *Top 10 decreases in expenditure classes, 2008 to 2013*

Type	Expenditure class	Index March 2008	Index March 2013	Change (%)
	Audio, visual and computing equipment	194.2	84.0	-56.7
N	Milk	112.5	97.6	-13.2
	Major household appliances	108.1	94.6	-12.5
	Garments for infants and children	106.2	93.9	-11.6
	Games, toys and hobbies	106.1	95.0	-10.5
	Footwear for men	103.6	93.0	-10.2
	Equipment for sports, camping, etc	107.2	98.3	-8.3
	Motor vehicles	105.2	97.1	-7.7
	Footwear for women	102.9	95.4	-7.3
	Garments for women	103.7	96.9	-6.6
	All groups CPI	90.3	102.4	+13.4

N: non-discretionary item

Source: Australian Bureau of Statistics 2013 Table 11

Of the expenditure classes that decreased most, the only non-discretionary class is milk. Competition between Woolworths and Coles in the 'milk price war' has produced a fall in milk prices of 13% over the five years, while the overall CPI rose by 13%. The average household saved on milk spending, and probably used the savings to pay for some of the non-discretionary items that increased in price.

Many of the other 10 items that decreased most in price are types of clothing and footwear. The prices of these things did not increase, probably due to price competition and because these are discretionary expenditures.

Income and expenditure trends across all age groups

This section analyses HILDA survey findings for households of all ages, to consider whether household income has increased to cover the increased prices or whether spending has had to change to accommodate the extra spending required on the higher prices of non-discretionary items.

Table 3 shows the total household income, the disposable (after-tax) income and the annual amounts spent in the categories recorded by HILDA. It also shows the change over that period and the proportion of the disposable income spent in each category. Comparison of the mean household spending between 2006 and 2011 shows that the biggest spending increases were in the areas of health insurance, medical, utilities, mortgage repayments and education (see technical notes and definitions for more information about these spending categories, located in Appendix A). Each of these increased by more than 30% over the five years.

Table 3: *Average household income, spending and proportions, 2006 and 2011*

Class of household spending	Annual Spend 2006 ($)	Annual Spend 2011 ($)	Increase (%)	Share of Income 2006 (%)	Share of Income 2011 (%)	Change in Share (%)
Groceries	8,251	9,556	15.8	13.2	11.8	-10.4
Alcohol and cigarettes	1,977	2,178	10.2	3.2	2.7	-14.7
Public Transport	345	403	16.8	0.6	0.5	-9.6
Eating Out	2,195	2,624	19.5	3.5	3.3	-7.5
Petrol	2,430	2,423	-0.3	3.9	3.0	-22.8
Clothing and footwear	1,656	1,871	13.0	2.7	2.3	-12.6
Communication	1,672	1,917	14.7	2.7	2.4	-11.3
Health Insurance	831	1,140	37.2	1.3	1.4	+6.2
Other Insurance	1,151	1,469	27.6	1.8	1.8	-1.2
Medical	775	1,056	36.3	1.2	1.3	+5.4
Pharmaceutical	404	479	18.6	0.6	0.6	-8.2
Utilities	1,185	1,656	39.7	1.9	2.1	+8.1
Home maintenance	2,485	3,090	24.3	4.0	3.8	-3.8
Car maintenance	883	962	8.9	1.4	1.2	-15.7
Education	848	1,252	47.6	1.4	1.6	+14.3
Rent	2,861	3,242	13.3	4.6	4.0	-12.3
Mortgage Repayments	6,430	8,721	35.6	10.3	10.8	+5.0
Disposable household income	62,435	80,679	29.2			
Total household income	77,303	96,257	24.5			

Note: Share of income is the spending on a given item as a proportion of disposable income

Source: HILDA waves 6 and 11

While the household spending on each category increased over the five years, the proportion of household income being spent in some categories has not increased. In other words, households have changed their spending behaviour, by spending less on some non-essential (discretionary) items so that they can afford the extra cost of essential (non-discretionary) items. For example, household spending on groceries rose by 16% between 2006 and 2011 but the share (of the household disposable income) fell by one-tenth from 13.2% to 11.8%. It seems that some households have spent less on groceries so that they can spend more on other items.

Average spending on home maintenance rose by a quarter (24.3%) between 2006 and 2011. However, disposable income rose by almost one-third (29.2%), so the proportion of income spent on home maintenance fell by four per cent (down from 4.0% to 3.8%). So, spending less on home maintenance may have been necessary to enable households to afford the extra expenditure due to the large increases in other categories (health insurance, medical, utilities, and education).

Differences in household spending patterns between age groups

The spending patterns of the Australian households by age reflect the different stages of life. The youngest households (under 35 years) are still enjoying being single or just starting to establish a family household. These households spend almost a quarter of their income on housing (rent and mortgage repayments). As expected, they also spend more than other groups on socialising (eating out, alcohol and cigarettes) (Appendix Table B-2).

The arrival of children in households aged 35–49 years results in these households being the biggest spenders on education. This age group also spends large proportions of their income on home maintenance and on petrol.

By the time the household reaches the 50–64 age group, owning a home has become the norm and rent as a proportion of income is the lowest of any age group. Health generally deteriorates with age, explaining why the 65+ age group spend a large proportion of their income on health-related items (health insurance, medical and pharmaceuticals).

Number of people in senior households

In 2011 there were 2.9 million households aged 50 and over. In these households, children are leaving home, employment is giving way to retirement, health may be deteriorating or spouses may be passing away. Each of these kinds of changes affects the income and expenditure of the households in this age bracket.

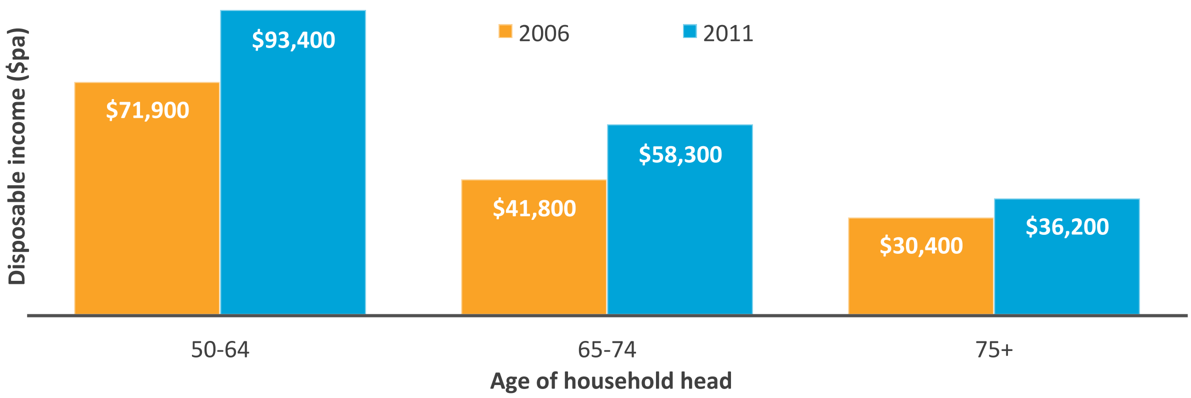
Over the five years from 2006 to 2011, households aged 50 years and over had an average number of 2.2 people, and this did not change over time overall. In 2011, the number of people per household ranged from 2.6 people per household for the 50–64 year age group to 1.6 people per household for the 75 years and over age group. Within particular age-groups, there were some changes in the number of people per household (see Appendix Table B-3):

- Among households in the 50–64 age group, the number of people per household increased over time due to adult children living at home longer.
- Among the 75+ age group, the number of single-person households increased, so the number of people per household decreased over time.

Income in senior households

For most people, private incomes (income from earnings and investments) decrease with age, as they move from employment into retirement. The average private income of a 75+ age group household is only around one-third of a 50–64 age group household (Appendix Table B-3). While government pensions and taxation offsets help to soften the decrease, the average 75+ age group household had an income of $36,200 in 2011, compared with the average disposable income of $93,400 for the 50–64 age group household (Figure 1). The difference in income will have a major impact on the budgets and spending of these age groups.

***Figure 1:** Average annual household disposable income by age group, 2006 and 2011*



Source: HILDA waves 6 and 11

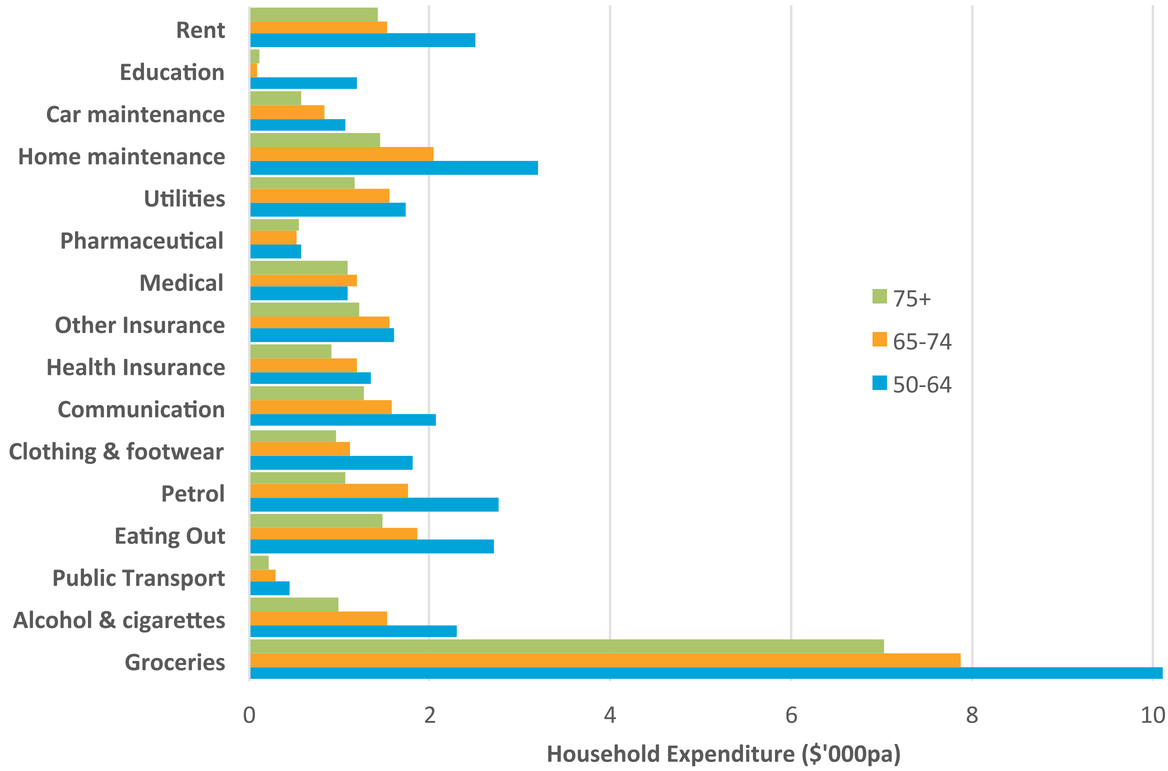
There are also differences in the growth rates in the income data. Those in the 50–64 age group saw their disposable income grow by more than $20,000 (30%) over the five year period, while those in the oldest age group had an increase of less than $6,000 (19%). Households with lower incomes have fewer options for affording the large increases in non-discretionary spending. Those on higher incomes can afford higher non-discretionary spending by eating out less, saving less or spending less on clothing. For those with low incomes, finding extra funds for non-discretionary spending can be very difficult.

Spending patterns in senior households

Differences in disposable incomes, lifestyles, health and number of people per household result in a range of spending patterns. When examined by age, all senior households show similar expenditure on certain items including insurance, medical fees, and pharmaceuticals. Some reductions in spending reflect the decreasing number of people per household (e.g. lower spending on groceries, utilities, public transport, and clothing and footwear). Education and mortgage repayments also decrease with the age of the household.

From the HILDA database it is not possible to discern whether mortgage repayments are just the minimum allowed or whether extra is being paid to pay down the loan. We also do not know if the mortgage is being used as a line-of-credit to fund a higher standard of living rather than just to purchase a home. As it is not possible to differentiate between whether the mortgage repayments are by choice (discretionary) or non-discretionary, this report assumes that mortgages are discretionary for these older age groups, and repayments are excluded from the discussion.

Figure 2: *Annual household expenditure by expenditure class and age group, 2011*



Source: HILDA wave 11 (see Appendix Table B-3)

The largest average expenditure for senior households is groceries. In 2011, households aged over 50 years spent $7,000–10,000 on groceries (Figure 2). When numbers of people in the household are taken into account, grocery bills cost an average of $4,000 per person per year and this figure is consistent across age groups. The reduction in the total bill with age simply reflects the reduction in household sizes.

Spending drops with age for almost all categories, reflecting lower income and smaller households. The effect of health deteriorating with age results in the only exceptions being pharmaceutical spending and medical spending, which are very similar in all three age groups in 2011 (around $550 for pharmaceuticals and $1,100 for medical).

Comparison of the expenditure in 2006 and 2011 shows that spending in certain categories has changed dramatically. Table 4 shows that the combined average spending on medical and pharmaceuticals for the 75+ age group has increased by 69%, from $966 in 2006 to $1630 in 2011. This age group is also spending an average of almost two-thirds (62%) more on health insurance and six-tenths more on utilities (58%). All senior age groups in 2011 increased their spending on utilities by at least 35%, compared with 2006.

Table 4: *Selected expenditure by age group, 2006 and 2011 ($ per annum)*

	Age Group 2006			Age Group 2011			Change (%)		
	50-64	65-74	75+	50-64	65-74	75+	50-64	65-74	75+
Groceries	8,625	7,071	5,926	10,116	7,875	7,037	+17.3	+11.4	+18.7
Health insurance	1,054	894	558	1,350	1,189	905	+28.1	+33.0	+62.2
Medical and pharmaceutical	1,482	1,228	966	1,646	1,726	1,630	+11.1	+40.6	+68.7
Utilities	1,290	1,108	743	1,743	1,540	1,175	+35.1	+39.0	+58.1
Home maintenance	2,261	1,924	1,109	3,207	2,050	1,449	+41.8	+6.5	+30.7
Rent	1,586	999	1,186	2,499	1,511	1,421	+57.6	+51.3	+19.8

Source: HILDA waves 6 and 11

Comparison between age groups for 2006 and for 2011 shows that average spending in most categories is lower for older age groups than younger age groups. However, the proportion of income is not necessarily decreasing as households get older, because income is also getting lower. If a household spends the same amount year after year on an item, but its income decreases over time, the proportion of income spent on that item will rise.

The amount spent on groceries fell for each of the three age groups, but did not fall as fast as income fell. Therefore, the proportion of income spent on groceries rose with the age of the household. In 2006, the average proportion of income spent on groceries was 12% for the 50–64 age group, 17% for the 65–74 age group, and 19.5% for the 75+ age group (Table 5). Even though the amount spent decreased, the proportion of income spent rose because incomes are falling faster. The main reason for the proportion of the grocery share not falling in line with income is that groceries are linked to number of people in the household. While the number of people in households declines with age, it does not decline as quickly as income: the average number of people in the oldest age groups decreases to approximately two-thirds of the number per household in the youngest age group; while their incomes decrease to approximately 40% (Appendix Table B-3).

Table 5 shows the average share of disposable income spent in selected expenditure classes for the three age groups. Analysis of the 2006 or 2011 data by age group shows that, as income falls with age, the share of income being consumed by groceries, health insurance, utilities, and medical and pharmaceuticals increases. The proportion of income spent on home maintenance and rent remain the same in the three age groups indicating that spending on these items is falling in line with income.

Table 5: *Selected expenditure as a proportion of income by age group, 2006 and 2011 (% of income)*

	Age Group 2006			Age Group 2011			Change (percentage points)		
	50-64	65-74	75+	50-64	65-74	75+	50-64	65-74	75+
Groceries	12.0	16.9	19.5	10.8	13.5	19.4	-1.2	-3.4	
Health insurance	1.5	2.1	1.8	1.4	2.0	2.5			+0.7
Medical and pharmaceutical	2.1	2.9	3.2	1.8	3.0	4.5	-0.3		+1.3
Utilities	1.8	2.7	2.4	1.9	2.6	3.2			+0.8
Home maintenance	3.1	4.6	3.6	3.4	3.5	4.0	+0.3	-1.1	+0.4
Rent	2.2	2.4	3.9	2.7	2.6	3.9	+0.5		

Note: Changes are only shown when the proportion of disposable income spent on an item has increased or decreased by more than 0.2 percentage points. Income refers to household disposable income.

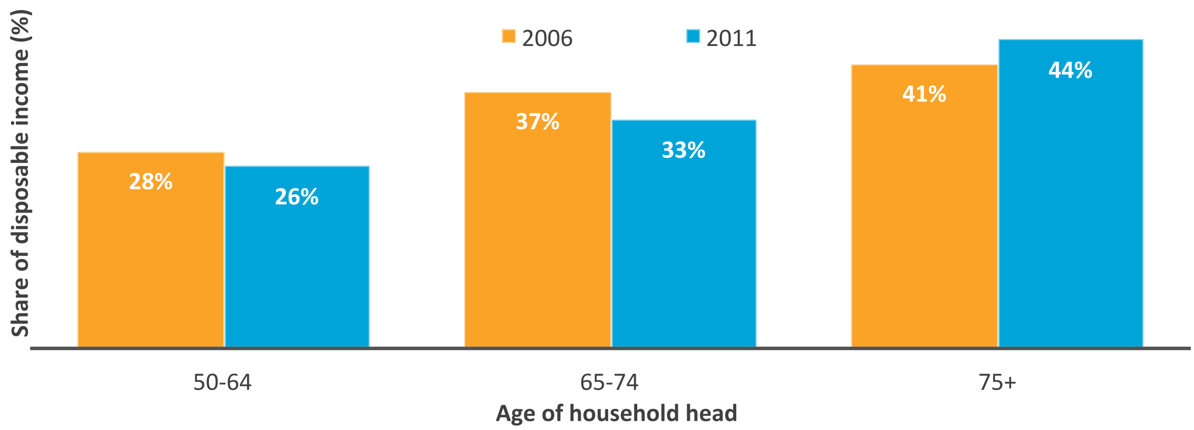
Source: HILDA waves 6 and 11

Comparison of the two time periods, shows a reduction in the proportion spent on groceries for younger age groups. This is a result of incomes increasing in these age groups faster than spending on this item. The smaller increase in income for those aged 75+ and the large spending increases on some essential items has seen an increase in the share of income being spent on them (Table 5).

Proportion of income spent on essentials

One way of judging whether a household is financially well off or not is the amount of choice it has in how it spends its income. If a large proportion of the income is spent on non-discretionary items then the household is likely to experience financial stress, because there is little available for emergencies or discretionary spending on leisure items or activities. This measure can be represented by the share of disposable income spent on non-discretionary items. The non-discretionary spending covers groceries, public transport, petrol, communication, health insurance, other insurance, medical, pharmaceutical, utilities and rent. Figure 3 shows this proportion by age group in 2006 and 2011.

Figure 3: *Share of household disposable income spent on non-discretionary items by age group, 2006 and 2011*



Note: See Footnote 14 for definition of Non-discretionary items.

Source: HILDA waves 6 and 11

As households get older, their income decreases and non-discretionary spending increases as a proportion of that income. For those in the 75 years and over age group, household spending on essentials is almost half of their income (44% in 2011). Those in the 50–64 age group are spending only one-quarter (26% in 2011) of their income on these essentials, even though they are spending considerably more dollars in total. They have some flexibility in how they spend the other three quarters. Those in the 65–74 age group spent an average of 37% of their income on these essentials in 2006 but this fell to one-third in 2011. This decline for those aged 65–74 years can be explained by the strong growth in their average income as the baby boomer's began moving into this age group. The average disposable income of this age group rose from $41,800 to $58,300 (40%) over the five years, compared with 30% for the 50–64 age group and 19% for the 75 years and over age group.

It is worrying that the proportion of income spent on essentials increased for those aged 75 and over, because this group was already spending the largest proportion of income on essentials. The oldest age group has experienced increased financial pressure, while the younger age groups – which were already under less pressure – have seen the proportion spent on essential items fall.

Source of income in senior households

The main source of income for the 2.9 million households aged 50 years and over is divided into three groups:

- Employed – the household head is working full-time or part-time
- Self-funded – the head is not employed and more than half of the household income is from private sources (superannuation, investments, etc.)
- Pension – the head is not employed and more than 50% of household income is from government pensions.

In 2011, 46% of senior households had employment as their main source of income, 23% were self-funded and 31% relied on government pensions. The overall number of senior households grew by 4.3% from 2.8 million to 2.9 million in the period 2006 to 2011, but this growth was not evenly spread by source of income. Households reliant on the pension grew by 55,000 (6.5%) while those in employment grew by only 35,000 (2.8%). Self-funded households grew by 30,000 (4.6%).

Among senior households, the average age of employed household heads was 57 years, while the average age of pensioner household heads was 70 years. The total income of an employed senior household is almost five times the income of a pensioner household ($126,700 versus $28,400 in 2011). However, after accounting for the higher rate of income tax paid by higher income earners, average disposable income of the employed household is reduced to 3.7 times the disposable income of a pensioner household.

The average age and income of a self-funded household lie between those of employed households and pensioner households. Their average age is 67 years and the household disposable income is two and a half times that of the pensioner household (Appendix Table B-4). The global financial crisis and low interest rates have reduced the income of self-funded households that rely on investments to fund their retirement. Poor investment returns have limited the self-funded households' income growth rate over the five years from 2006 to 2011. The disposable income of self-funded households rose by 21% to $70,700, while the disposable income of employed households rose by 27% to $104,100, and the disposable income of pensioner households rose by 27% to $28,300.

The spending patterns of the employed, self-funded and pensioner households reflect the available income and stage of life of the occupants. Households that are employed spend the largest proportions of their income on groceries and mortgage repayments (Table 6). Self-funded households spend less on mortgage repayments but spend a large share of their income on home maintenance. For pensioner households, groceries account for a quarter of the spending. Rent, utilities, telephones, petrol, alcohol and cigarettes and eating out all consume more than 4% of the budget.

Table 6: *Average expenditure as a proportion of income by income source, 2006 and 2011 (% of disposable income)*

	2006			2011			Change (percentage points)		
	Employ	Self-funded	Pension	Employ	Self-funded	Pension	Employ	Self-funded	Pension
Disposable Income ($pa)	81,800	58,600	22,300	104,100	70,700	28,300			
Groceries	11.4	13.0	25.8	10.1	12.6	23.2	-1.3	-0.4	-2.6
Alcohol and cigarettes	2.5	2.6	4.2	2.2	2.7	4.1	-0.3		
Public transport	0.4	0.5	0.7	0.4	0.4	0.9			
Eating Out	3.1	3.0	4.0	2.8	3.1	4.6			+0.6
Petrol	3.7	3.0	4.8	2.9	2.7	4.2	-0.9	-0.3	-0.6
Clothing and footwear	2.2	1.9	4.2	1.9	1.8	3.1			-1.1
Communication	2.4	2.4	4.3	2.1	2.2	4.7	-0.3		+0.4
Health insurance	1.5	1.8	1.8	1.5	2.1	2.0			
Other insurance	1.8	1.9	3.6	1.7	2.2	3.9			+0.3
Medical	1.3	1.7	1.4	1.3	1.7	2.7			+1.3
Pharmaceutical	0.8	0.8	1.5	0.6	0.9	1.5			
Utilities	1.7	1.8	3.7	1.8	2.1	4.3			+0.6
Home maintenance	3.0	4.5	4.0	3.0	5.1	3.4		+0.6	-0.6
Car maintenance	1.4	1.5	2.1	1.2	1.2	1.8			
Education	1.2	0.3	0.1	1.3	0.3	0.3			
Rent	1.7	2.5	6.3	2.2	2.2	7.4	+0.5		+1.1
Mortgage	7.6	3.5	2.3	8.9	3.5	2.0	+1.3		

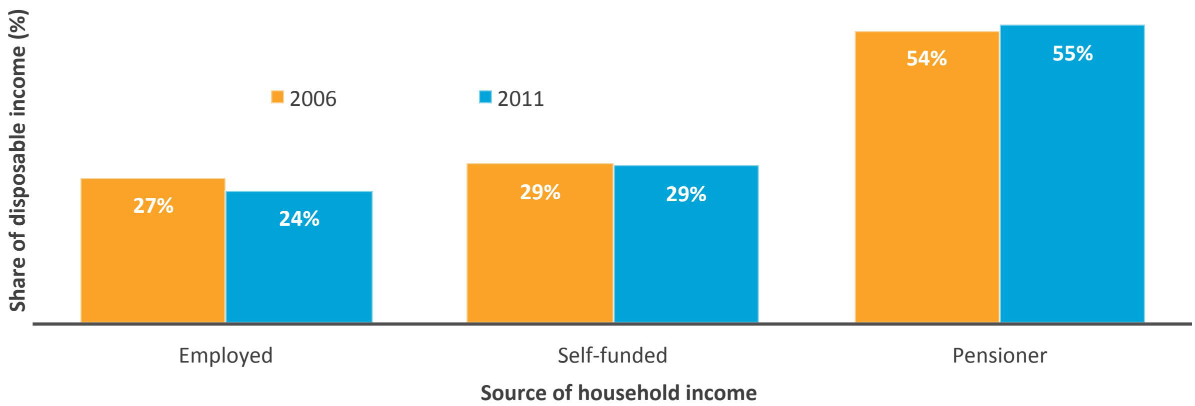
Note: Changes are only shown when the proportion of disposable income spent on an item has increased or decreased by more than 0.3 percentage points. "Employ" refers to employed people.

Source: HILDA waves 6 and 11 (Appendix Table B-4)

Repeating the trends already seen where proportions spent on essential items increases as income decreases, comparison of households by source of income shows the same results. The proportion of income spent on essentials such as groceries, maintaining contact with people and heating the house increases as the average household income falls as we move from an employed household through self-funded household to a pension household (Figure 4).

Pensioner households spent over half their income (55%) on essential items. The employed household, which has an average income 3.7 times that of the pensioner household, spends only one-quarter of its income on essentials. They have some discretion in how they spend the other three-quarters. The self-funded household spends an average of three-tenths of their income (29%) on essentials.

Figure 4: *Share of household disposable income spent on non-discretionary items by source of income, 2006 and 2011*



Note: The source of household income are defined as: Employed - where the head is still in the labour force; Self-funded - where the head is not in the labour force and half or more of total household income is from superannuation, investments or other private sources; and Pensioners - those not in the labour force and receiving more than 25% of their income from the government.

Source: HILDA waves 6 and 11

Income of senior households

It could be expected that senior households on high incomes would not be facing the same financial pressures as those on the low incomes. However, the data below shows that there are stark differences between the middle or typical households and the low income households as well.

In 2011, the average lowest-income (quintile 1) senior household lived on a disposable income of $17,600 per year, while the top quintile (quintile 5) had an income more than nine times this amount ($166,300) (Table 7). The two biggest expenditures for those in the bottom income quintile were groceries and rent. On average, those in the bottom quintile spent 31% of their income on groceries ($5,520) and 11% on rent ($2,013) (Appendix Table B-5). Those with the highest incomes spent more than twice as many dollars on groceries but, because of their higher income, the proportion of disposable income was less than 8%. Spending on rent was insignificant for those in the top income quintile, as over 90% of households were purchasing or owned their own home.

Table 7: *Average annual expenditure as a proportion of income by income quintiles, 2006 and 2011 (% of income)*

	Income Quintile 2006					Income Quintile 2011				
	Q1	Q2	Q3	Q4	Q5	Q1	Q2	Q3	Q4	Q5
Disposable Income ($'000s)	14.1	26.7	44.7	68.9	134.7	17.6	33.2	53.3	86.5	166.3
Groceries	35.6	24.5	17.7	13.0	8.1	31.3	22.3	16.0	11.9	7.6
Alcohol and cigarettes	6.0	4.4	3.3	2.6	1.7	7.1	3.3	3.6	2.1	1.5
Public transport	1.2	0.5	0.6	0.4	0.3	1.3	0.6	0.6	0.5	0.4
Eating Out	5.1	4.4	4.1	3.1	2.4	6.8	4.5	3.7	3.1	2.2
Petrol	6.5	5.3	5.2	3.9	2.5	5.5	4.2	4.5	3.4	1.8
Clothing and footwear	5.8	2.9	2.5	2.1	1.7	3.3	3.2	2.5	2.0	1.6
Communications	6.6	4.2	3.1	2.6	1.6	7.0	4.4	3.4	2.3	1.4
Health insurance	2.9	2.2	2.1	1.7	1.2	2.9	2.4	2.1	1.8	1.3
Other insurance	6.1	3.3	2.5	2.0	1.3	5.8	3.8	2.4	2.1	1.3
Medical	2.9	2.1	1.5	1.6	1.0	4.8	2.5	2.0	1.3	1.1
Pharmaceutical	2.7	1.2	1.5	0.8	0.5	2.5	1.3	1.0	0.7	0.5
Utilities	5.8	3.7	2.6	1.9	1.2	7.2	3.5	2.8	1.9	1.4
Home maintenance	6.2	7.3	3.4	3.6	2.3	6.3	3.2	3.6	3.0	3.2
Car maintenance	3.2	2.4	1.9	1.5	1.0	2.9	2.0	1.6	1.3	0.9
Education	0.4	0.4	0.8	1.0	1.0	0.8	0.2	0.6	1.1	1.2
Rent	9.1	4.5	2.5	2.2	1.0	11.4	5.9	4.4	2.1	0.7

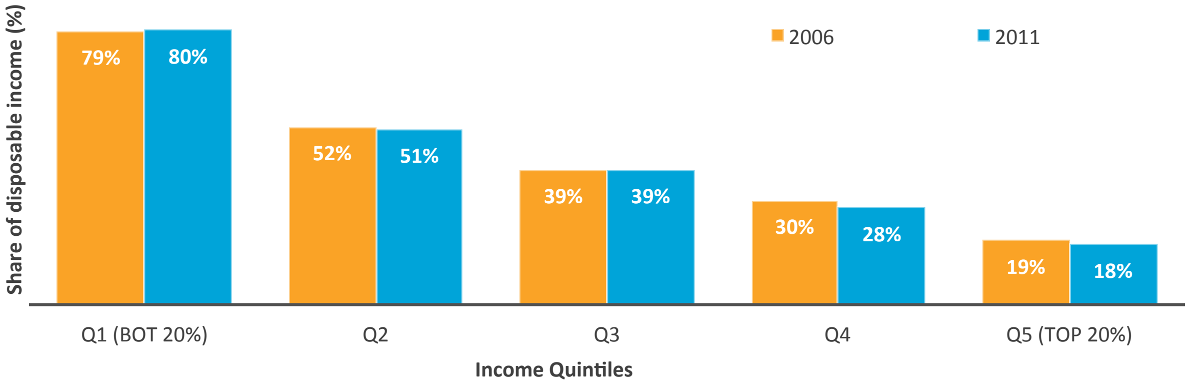
Source: HILDA waves 6 and 11

Between 2006 and 2011 the spending behaviour changed most for those in the two lowest income quintiles. In the lowest income quintile, the proportion of income spent on medical expenses increased by two-thirds (from 2.9% to 4.8%) while utilities and rent increased by one-quarter (utilities from 5.8% to 7.2% and rent from 9.1% to 11.4%). To manage these large increases, those on the lowest incomes made significant cutbacks on:

- Groceries (spending decreased by 12% or 4.3 percentage points)
- Clothing and footwear (spending decreased by over 40% or 2.5 percentage points).

Those senior households with incomes in the second quintile (Q2) also made significant cuts in their spending on groceries and reduced the proportion of income spent on home maintenance.

Figure 5: *Share of household disposable income spent on non-discretionary items by income quintile, 2006 and 2011*



Source: HILDA waves 6 and 11

Over half a million senior households with the lowest incomes spend, on average, 80% of their income on essential items (Figure 5). They have almost no flexibility in their spending, as they have only one-fifth of their income to spend on discretionary items. In comparison, the highest income quintile households are in the reverse situation with less than one-fifth (18% in 2011) of their income being spent on essentials.

Low-income senior households

Seniors in the lowest income quintile (Q1) have changed considerably over the period 2006 to 2011. The 525,000 senior households that make up Quintile 1 in 2011 consist of more older people, fewer married people, fewer employed people, and more renters than in 2006.

Table 8: *Characteristics of senior households in the lowest income quintile, 2006 and 2011*

		2006	2011	Change
Age Group	50–64	31.5	25.5	-6.0
	65–74	33.5	27.0	-6.5
	75+	35.1	47.5	+12.4
Marital Status	Legally married	21.5	17.4	-4.1
	Divorced	22.2	24.3	+2.1
	Widowed	46.3	47.0	+0.7
	Never married and not de facto	9.9	11.4	+1.5
Income Source	Employed	9.7	8.7	-1.0
	Self-funded	9.6	10.4	+0.8
	Pensioner	80.7	80.9	+0.2
Tenure	Own/currently paying off mortgage	67.2	65.9	-1.3
	Rent	26.0	28.5	+2.5
	Rent free/Life tenure	6.8	5.6	-1.2

Source: HILDA waves 6 and 11

By far the biggest change has been the age profile of those on the lowest incomes. In 2006, the lowest-income quintile consisted of one-third of households aged 50–64, one-third aged 65–74 and the remaining one-third aged 75 and over (Table 8). Only five years later in 2011, those households aged 75+ years represent almost half (47.5%) of those on the lowest income while the other two age groups have fallen to approximately one-quarter each. A small part of the reason for the 12.4 percentage point climb is the increase in the proportions of widowed and divorced households, which reduced the number of people per household (and reduced pensions) in this quintile. But the main reason that there are more older households in the lowest income group is probably because there has been a noticeable decline in the growth of disposable income of older low income Australian households when compared with other 50+ age groups.

The decline in the proportion of homeowners and home buyers among low-income senior households, and the resultant increase in the proportion of renters, is also a concern. Rents increased 33% from 2006 and 2011, but it is difficult for people to avoid rent increases by moving to cheaper accommodation because there is strong demand for low-cost housing, and moving house is expensive. Therefore, people have almost no control over the amount of rent they pay. Rent is the second largest expense for the lowest-income (Q1) households (Table 9) and any increase in rent will have to be paid for by spending less in another area. For seniors in the lowest-income quintile, almost all their spending is on essentials, so if their rent increases the only possible options may be eating less or heating less.

Table 9: *Spending by the lowest income quintile as a proportion of income, 2006 and 2011 ($ per annum)*

	Income Quintile 1			
	2006	2011	Change ($)	Change (%)
Disposable Income	14,100	17,600	3,500	+24.9
Groceries	5,027	5,520	493	+9.8
Alcohol and cigarettes	841	1,248	407	+48.4
Public transport	172	238	66	+38.4
Eating Out	715	1,206	491	+68.7
Petrol	919	969	50	+5.4
Clothing and footwear	823	591	-232	-28.2
Communications	937	1,240	303	+32.3
Health insurance	415	503	88	+21.2
Other insurance	859	1,029	170	+19.8
Medical	408	851	443	+108.6
Pharmaceutical	377	436	59	+15.6
Utilities	818	1,276	458	+56.0
Home maintenance	871	1,119	248	+28.5
Car maintenance	457	503	46	+10.1
Rent	1,283	2,013	730	+56.9

Source: HILDA waves 6 and 11

Another way of looking at how those on the lowest incomes are managing is to examine the changes in dollars spent in 2006 and 2011. Over this period, the disposable income of the lowest income quintile rose by one-quarter from $14,100 to 17,600. However, spending on medical expenses more than doubled from $408 in 2006 to $851 in 2011, while discretionary spending on clothing and footwear reduced from an average of $823 per year to $591 per year. In the same way, high increases in other essential items, such as utilities and rent, were offset by small increases in discretionary items like petrol and car maintenance. The small increase in spending on groceries by $498 (10%) suggests that people also made cutbacks in this essential area. Households could reduce their grocery spending by buying less groceries overall, buying groceries of lesser quality, or by changing to generic brands. People might be making these kinds of savings to pay for the increased costs of utilities and other essential items.

Changes in senior households' spending behaviour

The CPI data highlighted that the prices of many non-discretionary (essential) items had increased dramatically over the last five years (see price trends). To cope with these price changes, households have had to pay a higher proportion of their income on essentials, or change their consumption. For households with enough income, the extra spending on bills for essentials can usually be accommodated by saving less or making minor changes to lifestyle. However, for low income households, typically aged 75+ and pensioner households, accommodating the price increases is significantly more difficult.

'Cold turkey'

One method of increasing the amount of money available to spend on essential items would be to completely stop purchasing another item. For example, to have more money available to meet the higher price of essential utilities, a household could decide to give up drinking and smoking. Between 2006 and 2011, approximately 14% of pensioner households adopted this 'cold turkey' approach to alcohol and cigarettes (Table 10). These households had spent some of their income on alcohol and cigarettes in 2006, but did not spend anything on these items in 2011.

There are a number of reasons why the survey response could show that a household did not spend any money on a specific item. There are a number of reasons why the survey response could show that a household did not spend any money on a specific item:

- The household's consumption was recorded incorrectly as zero in the survey.
- The item was no longer relevant to the household. For example, Table 6 shows large proportions of households reducing their mortgage repayments to zero in 2011. It can be assumed that most of these reductions were due to the mortgage no longer existing (i.e. it was paid off before 2011). Similarly, stopping spending any money on education could easily be because the course was completed.
- The circumstances of the household changed (e.g. Disconnecting a private phone and using a work phone instead would reduce phone expenses to zero. Losing a driver's licence could reduce petrol spending to zero.)

However, even allowing for changing circumstances and incorrect recording, some of the zero spending recorded is probably because households made a voluntary choice not to spend money on that item. To allow for forced reductions and incorrect values, we used an arbitrary 5% threshold: if more than 5% of households are no longer spending on an item in 2011, after spending on that item in 2006, then we are confident that these households have made a decision to stop spending money on that item or category.

Table 10 provides a clear picture of where a proportion of households have stopped spending their money. This shows that a significant proportion of households aged 50 years and over have decided not to continue spending money on drinking and smoking, public transport, eating out, clothing, medical fees or on maintenance (not counting education and mortgage repayments).

Table 10: *Proportion of households aged 50 years and over in 2011 who spent money on an item during 2006 and did not spend on that item during 2011 (%)*

	Age Group			Income Source			All 50+
	50-64	65-74	75+	Employed	Self-funded	Pensioner	
Groceries	0.6	0.5	0.3	0.3	0.5	0.8	0.5
Alcohol and cigarettes	10.0	9.3	13.1	8.9	9.5	13.6	10.5
Public Transport	12.9	7.8	11.7	12.2	11.5	10.2	11.4
Eating Out	8.3	8.8	12.0	6.8	10.7	11.6	9.2
Petrol	3.4	3.4	7.1	2.8	4.2	6.3	4.2
Clothing and footwear	5.4	6.7	13.0	4.3	8.5	11	7.4
Communication	1.4	0.7	1.7	1.5	0.3	1.8	1.3
Health insurance	4.5	2.2	3.9	3.7	4.0	3.9	3.8
Other insurance	3.0	2.2	4.4	2.7	2.9	3.9	3.1
Medical	8.2	10.0	11.4	7.5	6.8	13.9	9.3
Pharmaceutical	4.9	1.8	2.0	4.9	1.6	3.1	3.5
Utilities	2.5	2.6	1.2	2.0	2.4	2.4	2.2
Home maintenance	11.0	10.5	14.8	10.2	10.9	14.6	11.7
Car maintenance	7.2	4.4	9.9	6.6	6.2	8.7	7.1
Education	19.3	5.8	3.1	19.4	11.4	3.5	12.5
Rent	4.0	2.0	1.2	4.0	2.3	1.8	2.9
Mortgage	13.8	6.3	1.3	13.5	8.1	4.0	9.3

Note: 'Spent money on an item during 2006' refers to households that stated in the 2006 survey that their normal weekly spending on that item was greater than zero. 'Did not spend on that item during 2011' indicates households that stated in the 2011 survey that their normal weekly spending on that item was zero. Highlighted rows indicate items or categories on which more than 5% of households spent money in 2006, but did not spend any in 2011.

Source: HILDA waves 6 and 11

The large proportion of households no longer spending in many discretionary categories suggests how these households are coping. The popular categories for going 'cold turkey' for pensioner households aged 50 and over include car and home maintenance, medical, clothing and footwear, petrol, eating out and alcohol and cigarettes (Figure 6).

In the case of home maintenance, 15% of pensioner households that had spent money on home maintenance in 2006 stated that they did not spend any money in 2011. It is not possible to say that the reason all of these households stopped spending money on home maintenance was to save money, but it was probably the reason for a large proportion.

While most of the categories in which seniors stopped spending are discretionary items, medical expenses are essential. Senior households may have avoided spending on medical items by using only bulk billing services, or their private health insurance may have covered the cost. However, if seniors chose not to attend medical services as a way to control their spending, then this is a very worrying trend.

Areas where senior households reduced their spending

Sometimes it is not possible, or it is very undesirable, to reduce consumption of an item (e.g. to buy less prescription medicines). In this case, reductions in spending on other items can be made to compensate for the higher priced items. In this section, we examine the changing spending behaviour in response to the increases in prices of non-discretionary items and where consumption is being reduced.

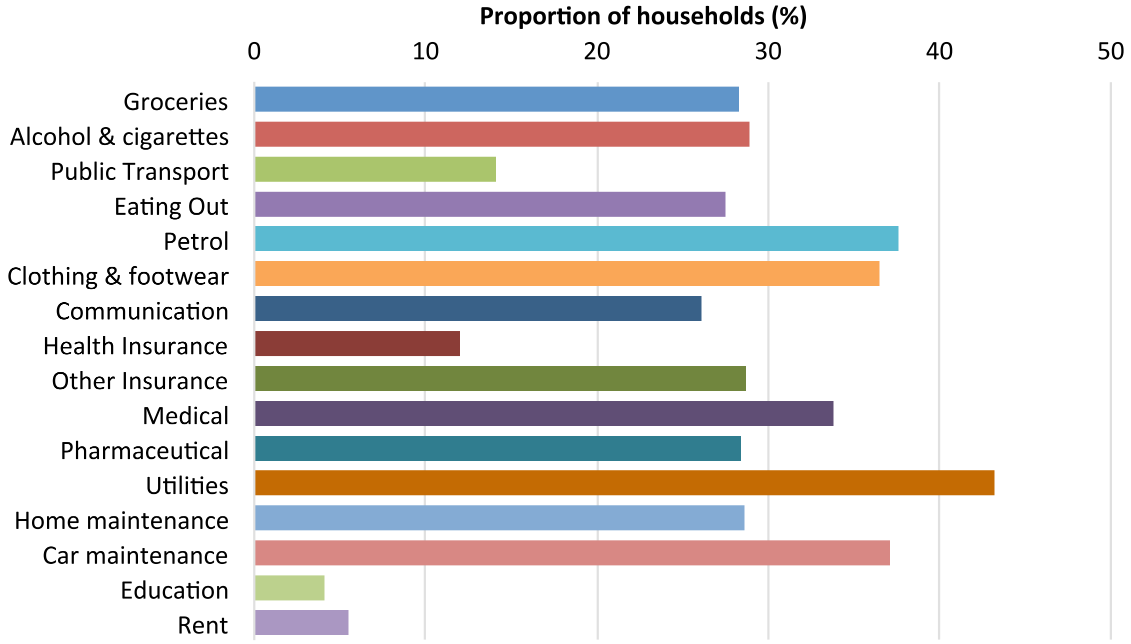
By applying the CPI inflation for that expenditure class to the amount spent on that item in 2006, we can estimate how much would have been spent in 2011 to obtain the same quantity. For example, if a household spent $1,000 on petrol in 2006 and petrol prices increased by 7.7 per cent between 2006 and 2011 (see Appendix Table B-6) then we estimate that $1,077 is required in 2011 to purchase the same amount of petrol.

Figure 6 shows the proportions of pensioner households aged over 50 years that reduced their consumption on an item by one-quarter in real terms for that expenditure class. Pensioner households spend the largest proportion of their income on essential items such as groceries and utilities. As pensioner households have low incomes, accommodating the large price rises on essential items can generally only be done by not spending on another item or reducing consumption of some items. For example, some households chose to not spend any money on some discretionary items and some even spent nothing on medical fees (see 'Cold turkey').

Utilities (electricity, gas, etc) prices rose by 63% between 2006 and 2011. If consumption by a household did not change over the period then their spending on utilities would also have risen by 63%. However, almost half of senior pensioner households (43%) reduced their spending on utilities by more than one-quarter in real terms. This means rather than spend considerably more (63%) to power, heat and light their home at the same level as before, they have found cheaper alternatives and/or reduced their consumption.

Large proportions of pensioner households also reduced their spending on petrol, clothing and footwear, medical, and car maintenance by more than one-quarter in real terms. Through the reductions in this discretionary spending, the households had more money available to spend on non-discretionary items. Even for essential items like medical and utilities, some pensioner households found ways to limit the increase in spending required.

Figure 6: *Proportion of Pensioner households aged 50 years and over who reduced expenditure by one-quarter in real terms between 2006 and 2011*



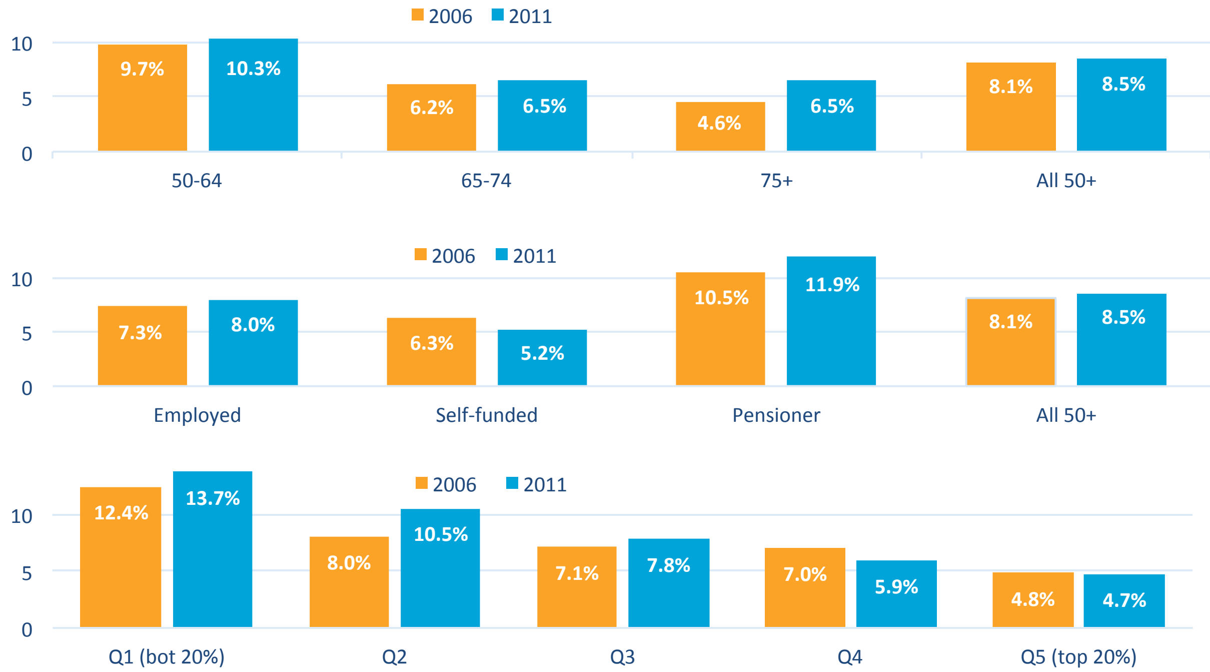
Note: Real refers to that particular expenditure class
Source: HILDA waves 6 and 11

Financial stress

Financial stress can increase significantly if a large proportion of income spent on essentials and the prices of these essentials are rising much faster than inflation. Some Australian seniors have faced this situation. Some senior households are spending the vast majority of their income on essentials and most of the essentials have risen in price at more than double the rate of inflation. This undoubtedly causes financial stress for these households. In this section we examine the trends and distribution of financial stress among households aged 50 years and over.

In 2011, almost a quarter of a million (245,000) senior households said they had been unable to pay their electricity, gas or telephone bills on time. This was 8.5% of all senior households and it was up 5% from 2006 (from 8.1% to 8.5%) (Figure 7). In 2011, almost 14% of those with the lowest incomes stated they were in financial stress (based on being unable to pay their bills on time).

Figure 7: *Proportion of households aged 50 years and over unable to pay electricity, gas or telephone bills on time by age group, income source and income quintile, 2006 and 2011*



Source: HILDA waves 6 and 11

The strategies of reducing spending on discretionary items and reducing usage or consumption of non-discretionary items where possible do not seem to have been effective to make up for the large increases in the prices of essentials such as electricity, gas and the telephone for some households. And the proportion of households that could not pay their bill on time increased (with the exception of self-funded seniors and the top two income quintiles).

Despite the average income of 75+ households being only one-third of households aged 50–64 years, a smaller proportion of the older age group were unable to pay their bills on time. This may be a generational issue (older people are more worried about paying on time), an organisational issue (younger people are busier and more likely to miss a payment date), or it may be that some other factors are contributing to the inability to pay on time.

Conclusion

Over the last five years, the overall inflation rate has not been high (2–3%). However, price increases are being driven by other factors, such as overseas competition, the high Australian dollar and consumer demand. The result has been that price increases have been at or below inflation for most non-discretionary items while most essential items have increased at rates above inflation and sometimes many times above inflation.

The higher prices for essential items such as electricity water, gas, insurance, and medical services has meant that households have had to reallocate how they spent their income. For senior households with low disposable income, such as pensioner households and households aged 75 years and over, they have had to allocate more of their income to paying for essentials. The 525,000 senior households with the lowest incomes are spending about four-fifths of their income on essentials, while high-income households (e.g. younger households, employed households or self-funded households) are often spending less than one-quarter. People have coped by changing their spending patterns (e.g. by doing without alcohol, smoking, eating out, buying clothing, and car and home maintenance). Spending on groceries is another area where savings are being made. Some senior households reduced their spending on medical services to zero.

The higher prices on essential household items clearly caused considerable financial stress. In 2011, almost a quarter of a million senior households said they had been unable to pay their electricity, gas or telephone bills on time. This was up 5% from five years ago. For some groups it was even worse – 14% of the lowest-income households were unable to pay their utilities bills on time, and the proportion of pensioner households unable to pay their bill rose by 13% over the five years.

Appendices

Appendix A and Appendix B can be found at productiveageing.com.au.

GPO Box 461, Melbourne VIC 3001 P: 03 9650 6144 F: 03 9650 9344
E: info@productiveageing.com.au W: www.productiveageing.com.au