

Do older people consume less? Consumption patterns at older ages

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Outline

- Prediction of the literature about consumption patterns
- Descriptives using the Survey of Health and Retirement in Europe (SHARE)
- Conclusions and policy implications

Introduction

Population ageing  New interests in how people manage their resources later in life:

1. Patterns of saving and the use of wealth (reflecting choices between current and future consumption)
2. Choices between labour and work
3. The allocation of current consumption expenditure among different goods and services

Understanding changes in expenditure allocation is of considerable interest for marketing, as well as for policy analysis.

Introduction

What does the literature predict?

- Life-cycle hypothesis: consumption decisions are made on the basis of current and past experiences and future expectations to achieve a relatively consistent lifetime consumption level (Friedman, 1957; Modigliani 1966).
- Families are supposed to save during peak earning years and dissave during retirement years to MAINTAIN consumption levels.

Introduction

What does the empirical evidence show?

- Households dissave less than the life cycle hypothesis predict. Many retired households continue to save during retirement by reducing consumption.
- There is even a ‚consumption drop‘ after retirement. This is known in the literature as the retirement consumption puzzle.
- On the other hand, there is still a proportion of older households who dissave at unsustainable rates. (Poor health, lower income, or becoming widowed).

Introduction

Unraveling the retirement consumption puzzle: main explanations for the consumption drop:

- Changes in preferences due to increased leisure
- Shocks inducing retirement and affecting the level of consumption
- Reduction in work-related expenditure (transport, meals out, clothing)
- Increase in home production of services and/or more efficient purchases
- Unexpectedly low pensions or liquidity problems

Descriptives

- The Survey of Health, Ageing and Retirement in Europe (SHARE) is a multidisciplinary and cross-national panel database of micro data on health, socio-economic status and social and family networks of more than 40,000 individuals aged 50 or over.
- Eleven countries contributed data to the 2004 SHARE baseline study: Belgium, Denmark, France, Austria, Germany, Greece, Italy, Netherlands, Spain, Sweden

Descriptives

- Sample: Belgium, Denmark, France, Germany, Greece, Italy, Netherlands, Spain, Sweden
- NORTH: Sweden, Denmark.
- CENTRAL: Belgium, France, Germany, Netherlands.
- SOUTH: Greece, Spain, Italy.

Descriptives

AMOUNT SPENT ON FOOD OUTSIDE THE HOME

Thinking about the last 12 months: about how much did your household spend in a typical month on food to be consumed outside home?

IS HOUSEHOLD ABLE TO MAKE ENDS MEET

Thinking of your household's total monthly income, would you say that your household is able to make ends meet ...

1. With great difficulty
2. With some difficulty
3. Fairly easily
4. Easily

Descriptives

EXPENDITURE

1. Food consumed at home

Include: all food items and non-alcoholic beverages bought at supermarkets, grocery stores, markets and other outlets.

Do not include: spending on alcoholic beverages such as beer, wine, or spirits.

2. Food consumed outside home

Include: all meals at restaurants and other outlets such as bars, pubs and canteens.

Do not include: spending on alcoholic beverages, or expenditures on large ceremonial occasions such as wedding anniversaries.

Descriptives

3. Telephoning

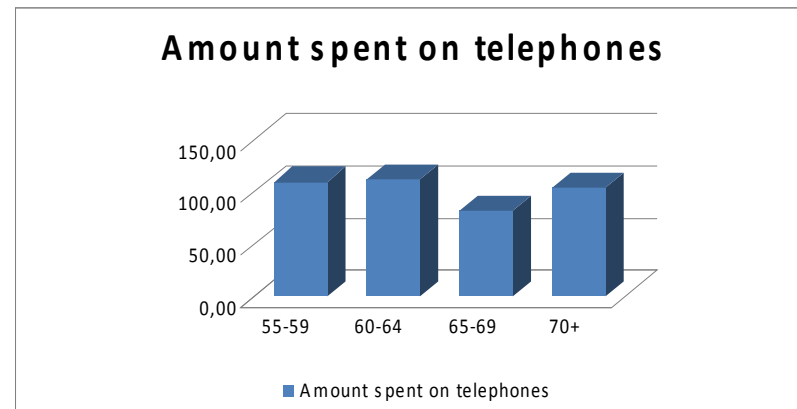
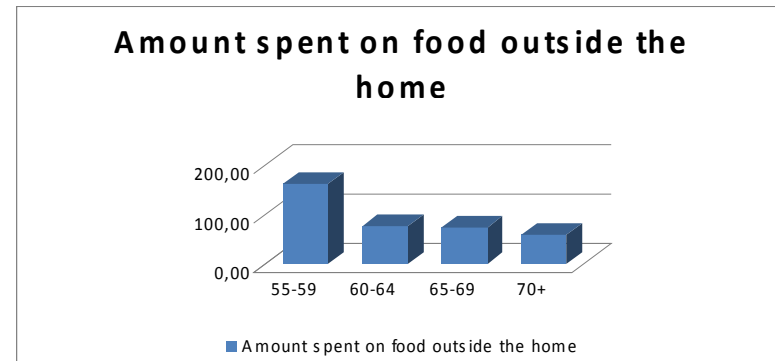
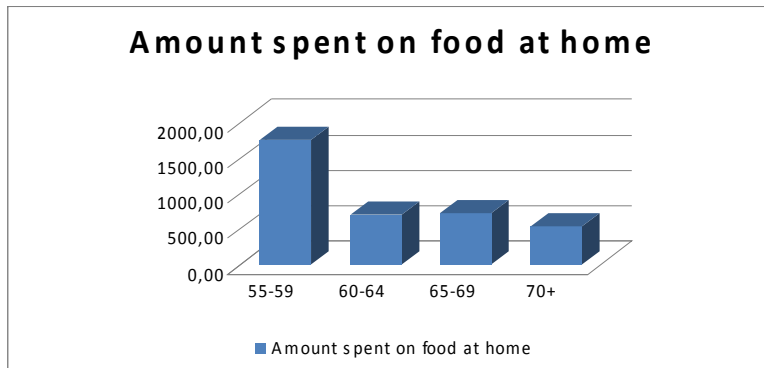
Include: per call or long distance charges and the basic rate; all expenditure on mobile phone calls made over the month; internet connection costs from your home. **Do not include:** purchases of telephone equipment such as phones or mobile phones.

4. All goods and services

Include: groceries, utilities, transportation, clothing, entertainment, out-of-pocket medical expenses and any other expenses you and your household may have.

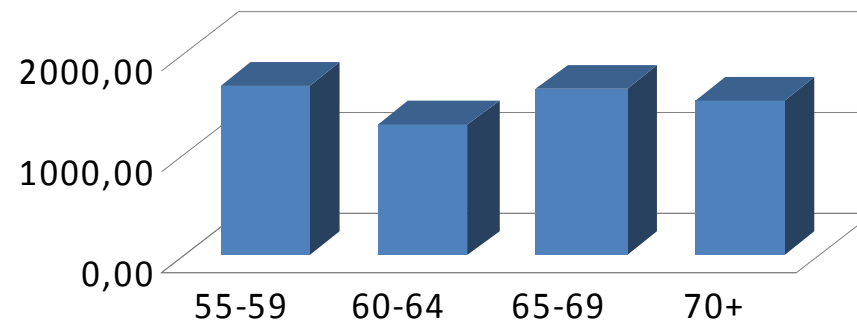
Do not include: housing payments (rent or mortgage), housing maintenance, or the purchase of large items such as a car, or car payments, television, jewellery or furniture.

Descriptives



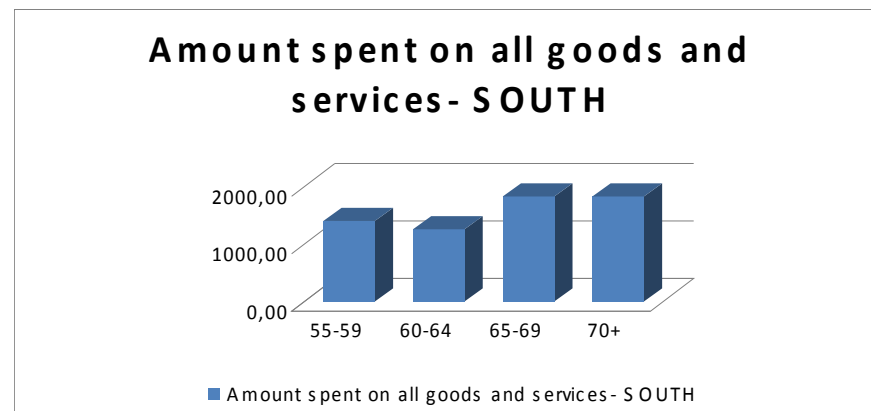
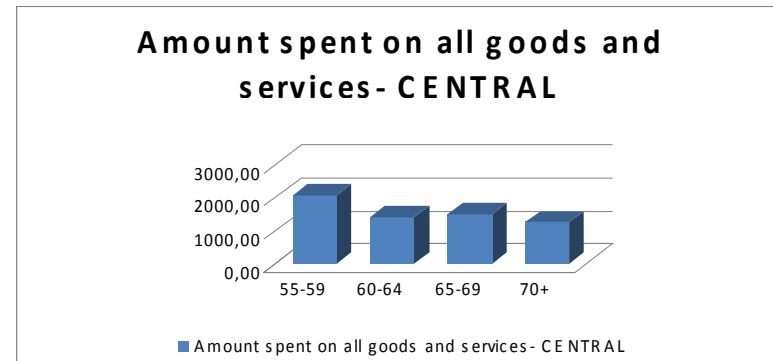
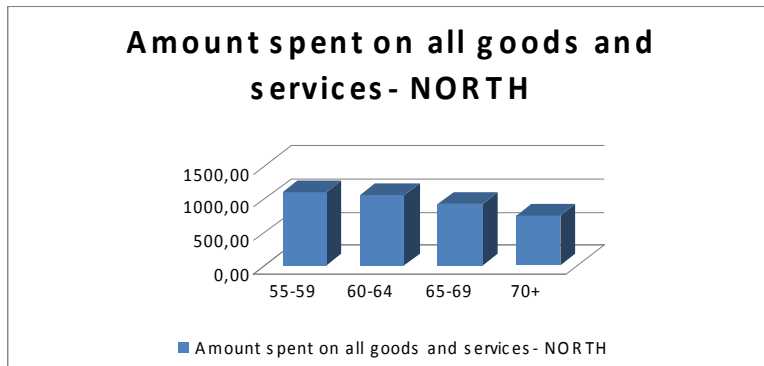
Descriptives

Amount spent on all goods and services



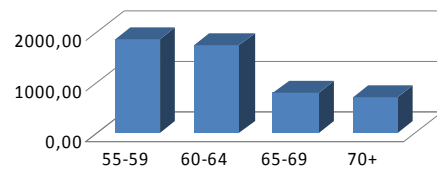
■ Amount spent on all goods and services

Descriptives



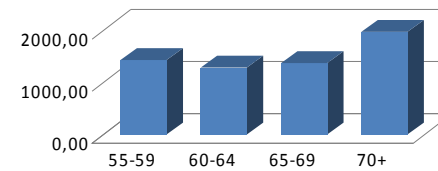
Descriptives

Amount spent on all goods and services- ALONE



■ Amount spent on all goods and services- ALONE

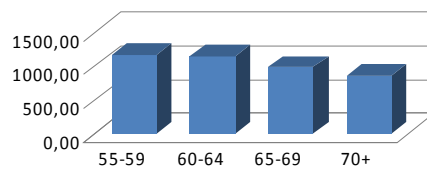
Amount spent on all goods and services- COUPLE ALONE



■ Amount spent on all goods and services- COUPLE ALONE

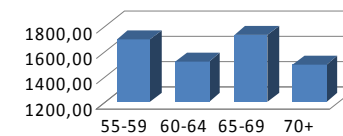
Descriptives

Amount spent on all goods and services - COUPLE ALONE - NORTH



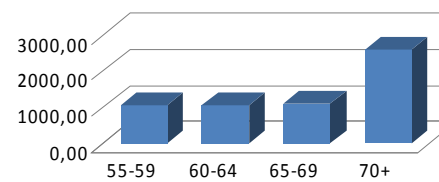
■ Amount spent on all goods and services - COUPLE ALONE - NORTH

Amount spent on all goods and services - COUPLE ALONE - CENTRAL



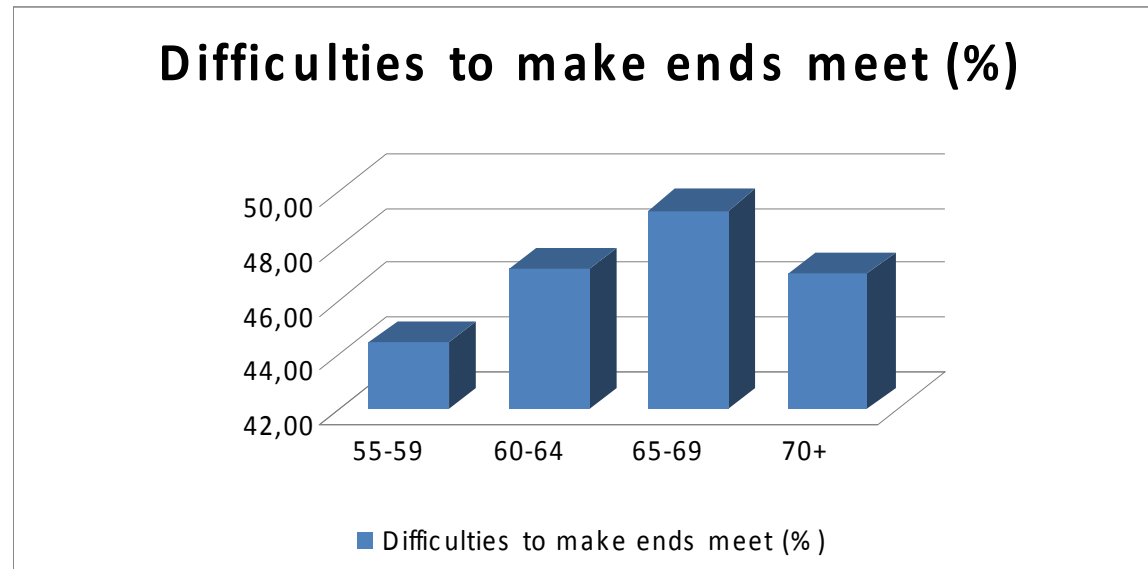
■ Amount spent on all goods and services - COUPLE ALONE - CENTRAL

Amount spent on all goods and services - COUPLE ALONE - SOUTH



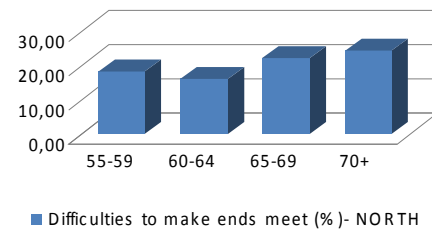
■ Amount spent on all goods and services - COUPLE ALONE - SOUTH

Descriptives

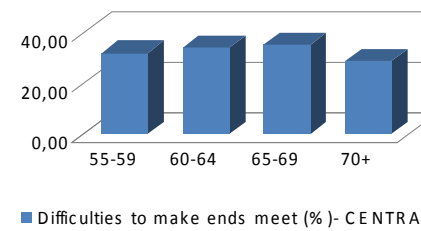


Descriptives

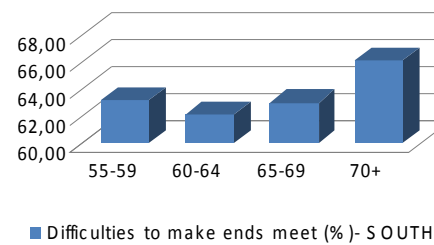
Difficulties to make ends meet (%) - NORTH



Difficulties to make ends meet (%) - CENTRAL



Difficulties to make ends meet (%) - SOUTH



Conclusions

- According to what the empirical literature says, there is a consumption drop after retirement which does not go in line with the predictions of the life-cycle theory.
- However, this change in consumption patterns is not equal for all individuals/countries. More research is needed in order to know more about which are the determinants of the consumption drop at older ages.

Policy implications

- Are these patterns caused by financial restrictions at older ages?
 ➔ Policies oriented to maintain income at older ages.

- Are these patterns caused by financial illiteracy?
 ➔ Policies oriented to improve financial knowledge specially among
 the young.

Policy implications

- Are these patterns caused by changes in preferences?
 ➔ It is not a matter for policy makers.

Thank you!