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EXECUTIVE SUMMARY

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Retirees' consumption in Finland from 1985 to 2012

The share of retirees and people approaching the retirement age is growing. This population group has become an increasingly significant consumer. In 1990, slightly less than one fifth of the Finnish population was aged 60 or above; in 2012, the same applied to an ample one fourth (Statistics Finland 2015, Population structure). In the 2030s, nearly one third of the population is projected to be aged 60 or above (Statistics Finland 2015, Population structure). The ageing of the population significantly affects the consumption level and the consumption structure of the national economy via the needs and improved purchasing power of the elderly.

In this report, we examine the consumption of retiree and working-age households in their various phases of life. We further study the changes that have taken place over time in the relative consumption of these age groups. We review the consumption of retirees and the working-age population through their consumption level, consumption rate and the structure of their consumption. In addition, we explore the significance of public consumption in households with members of different ages.

In our report, we describe consumption and its development over a period of nearly three decades: from 1985 to 2012. During our review period, the earnings-related pension system has reached full maturity. In this respect, the income level and consumption opportunities of retirees have improved compared with those of retirees of earlier years. The retirees of the 21st century can thus consume in quite a different way from those who retired in the 20th century.

Narrowed differences in consumption

Measured in consumption and income, the retirees are more affluent now than ever. At the same time, the differences in consumption between retirees and the working-age population have narrowed.

In terms of its level and structure, the consumption of retirees has come closer to that of the working-age population. In 1985, the average consumption of retirees was 63 per cent of the consumption of the working-age population; in 2012, the figure was 78 per cent. The consumption difference between retirees and the working-age population has narrowed by 15 percentage points, while the income differences have narrowed by 12 percentage points. The consumption differences narrowed the most during the deepening recession from 1990 to 1995, on the one hand, and during the economic boom at the beginning of the 21st century, on the other. During the recession, all households cut down on consumption, but the reduction in retiree households was only half of that in working-age households. The increase in the consumption by retirees in 2001 to 2006 was nearly 10 per cent higher than the increase in the consumption by the working-age population.

Increasing inequality

Inequality, whether measured by the Gini coefficient or the ratio between the lower or higher income quintile, has been higher among the retirees than the working-age population throughout our review period. Inequality has grown, but less so among the retirees than among the working-age population. However, taking public consumption into account reduces the degree of inequality measured in consumption, both between and within these population groups.

Retirees consume proportionally less than the working-age population

Measured in euros, the consumption expenditure of retirees has been on a lower level than that of the working-age population throughout the review period. The age profile of consumption shows a downward trend for each five-year age-group after the age of 60. In other words, the consumption expenditure of one five-year age group is at a lower level than that of the previous five-year age group.

The consumption among retirees has increased mainly due to growing income levels. As in previous empirical studies, we also observed that the consumption rate decreases by age; that is, retirees consume a smaller portion of their income compared with the working-age population.

Relative status of retirees has improved

A considerable change has taken place over the past three decades in the age-group-specific consumption distribution. In 1985, the median consumption per age-group was at its highest

among the 40–44-year-olds. In 2012, the median consumption was at its highest among those 15 years older; that is, among the 55–59-year-olds. At the same time, the consumption profiles among the working-age population have evened out. The consumption peak has stabilised, and consumption remains, on average, fairly even until the brink of retirement, at which time the consumption expenditure starts to decrease.

The situation for the elderly, when measured in terms of consumption, has improved significantly. In 1985, the 60–64-year olds, who were on the brink of retirement, consumed 70 per cent of what those at the peak working age (45–49-year-olds) consumed. In 2012, the same ratio was 96 per cent. In other words, the 60–64-year-olds have increased their relative consumption by nearly one fourth compared with those at the peak working age.

When reviewing the development of the consumption of the various age cohorts by year of birth, we observe that the financial crisis in the 1990s is most strongly reflected in the birth cohorts of 1960 to 1964. The mass unemployment brought on by the financial crisis considerably disturbed the phase during which the development of the working life of these birth cohorts should have been the most intense. The small age cohorts born during the wars were affected the least by the financial crisis in the 1990s.

Convergence in consumption structures

The consumption structure of retiree households has come significantly closer to that of working-age households. During our review period, both retirees and the working-age population have spent an increasing portion of their consumption budget on housing and transportation while the portion spent on food has decreased. Nevertheless, living expenses and food weigh more in the retirees' consumption basket than in that of the working age population. The higher in age the members of a household are, the greater the portion of these expenses.

The transition to retirement does not, however, increase the portion consumed on food. In international research, this has not been observed to relate to a decline in consumption standards but to an increase in time spent to procure and prepare food.

The portion spent on living increases upon retirement as the dwelling serves not only as a place to live in but also as an asset that, for one reason or another, people are reluctant to give up.

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