Lifetime Non-Asset Income Profiles

NOTE: Each line traces the lifetime profile for the group that reached age 18 in the stated year.


At any given moment, those who work and earn income do not necessarily have all of it available for their use. A part of current labor earnings is diverted as contributions to private pension plans and social insurance programs like Social Security and Medicare. Another part is paid as taxes to finance government purchases and welfare payments.

On the other hand, those who are not currently working receive income by way of pensions, social insurance, and welfare benefits. If labor productivity enjoys sustained growth, or if private pension plans, social insurance programs, and government tax and spending policies undergo significant changes over time, profiles for lifetime non-asset income (labor income plus pension income minus net taxes) would look very different for generations born at different times.

This is, indeed, the case in the U.S. Profiles of lifetime per capita labor income have the expected hump shape because each generation's earnings are highest during middle age. These profiles have steepened over time because of increases in wages and salaries stemming primarily from secular growth in labor productivity. Similarly, growth in the size and coverage of private pension programs has also led to steeper lifetime pension income profiles. More striking, however, is that generations that reach their peak earning years later in time pay substantially more in net taxes than those that reach these years earlier. Similarly, generations that retire later in time receive much larger government transfers than do those that reach retirement earlier. Hence, total non-asset income is projected to rise significantly after retirement for each generation, far exceeding the levels attained during that generation's peak years of labor earnings.