In the U.S., inequality among individuals in both consumption and income increases with age, although it is unclear how large a role income inequality plays in consumption inequality. The question is important because the design of public policy programs, such as welfare reform and unemployment insurance, could benefit greatly from identifying the sources of individuals’ risk and uncertainty.

At least some progress is being made in narrowing the range of explanations for age-related income inequality. Some inequality, predictable even before a person is old enough to enter the labor market, is determined by preconditions, like family background and schooling, that affect individuals’ incomes throughout their working lives. Programs like unemployment insurance would have only a minor effect if the dominant sources of inequality were fixed early in life.

Evidently, such preconditions do not loom large in explaining why income inequality increases with age; variations among individuals at a given age do not differ substantially across schooling groups, leaving little variance to be explained by preconditions. It appears that random but persistent shocks over workers’ lifetimes, perhaps from plant closings, technological change, and so on, must lead to the observed increase in inequality with age. Recent research suggests that roughly 40% of the age-related increase in income inequality can be explained by such shocks.