Young Households Are Losing Ground in Income, Despite Education

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Off the Charts

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YOUNG families are better educated than ever before, but they are earning lower real incomes.

The Federal Reserve Board’s newly released 2013 Survey of Consumer Finances indicates that the median family headed by someone under 35 years of age earned $35,509 in 2013 dollars. Adjusted for inflation, that is 6 percent less than similar families reported in the first such survey, in 1989.

Since 1989, the Fed has conducted extensive interviews of consumers every three years. Respondents are asked about their family’s income in the previous year, as well as about wealth, debt, education and attitudes toward financial issues. The results are released by family, not by individual, so the median family income may include the income of both spouses. Single-person households are included in the family calculations.

As can be seen in the charts, younger families have fallen further and further behind older families as time has passed. Nearly a quarter-century after the first survey was taken, families headed by people over 55 generally have higher incomes, after adjusting for inflation, than their predecessors did. But those in groups under 55 generally earn less than their predecessors.
In the first survey, the younger group included families headed by people born after 1954, and so was dominated by baby boomers. The latest group includes families headed by people born after 1984, and they seem not to have done nearly as well early in their careers. The earlier group came of age in a stronger economy and its members were generally not burdened by education loans as many of the latter group are.

The largest declines have come since the 2007 survey — the last one in which participants discussed their income in a year before the Great Recession began. The following survey covered income earned during the recession, and it was not easy to know how much of the falloff was a cyclical phenomenon that would disappear when the economy recovered.

But the newest survey covered income in 2012, three years after the recession ended, and shows that most of the lost ground has not been recovered. In fact, the real median income for all of the age groups except those in the 35-to-44 group declined from 2010 to 2013.

Among families of all ages, those with more education tend to earn more than those with less. But that differential appears to be shrinking, at least for younger families. In 1989, the median income of families headed by young college graduates was twice that of similar families headed by high school graduates who never attended college. Now, the difference is only 52 percent. There are more college graduates in the group, but those graduates have a lower real median income than their predecessors.

Median incomes tell only part of the story, of course. But the relative decline of the young can also be seen in the distribution of high-income families. In the first survey, nearly a third of younger families had incomes that put them in the top 40 percent of all families. That figure has been steadily falling, and in the latest report just over a quarter of young families are in that group.

The age group whose real income has grown the most over the last quarter-century covers those age 65 to 74. The median income of that group used to be lower than that of younger families. Now it is higher. People past the traditional retirement age of 65 are much more likely to be working now than they used to be, but higher pension income may also be a factor.

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