

Dimensions of Income Mobility of Parents and Children, 1987-2012

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The views and opinions expressed are those of the authors and do not necessarily represent official Treasury positions or policy.

There are many dimensions of income mobility:

Lifetime mobility:

- How do individuals/households fare over 5/10/20 year periods?
- How do individuals/households fare over their life cycle?
- How much upward and downward mobility is there? The right amount?
- What are the effects of short term variability/volatility?
- How long do people stay in the top income group?

Inter-generational mobility:

- How do children do relative to their parents? Relative to their peers? The population? In real terms?
- What is the average correlation between parent and child incomes? How much dispersion in outcomes?

What factors affect upward/downward mobility?

The results illustrate the importance of:

- The life cycle of income (many appear in the top and the bottom at different times)
- The variability of income and turnover at the top.
- The dispersion of mobility outcomes.
- Observers will differ in whether they view the observed mobility as sufficient.
- These results are preliminary and incomplete.

Methodology for the Project

Data and Sample

The sample for the research is the 1987-1996 IRS Statistics of Income Family Panel of about 87,000 tax households, including primary and secondary taxpayers and dependents. 1987 was the first year taxpayers were required to report the Social Security numbers of dependents. Individual taxpayers and dependents are followed separately, regardless of the tax unit they are in. The analysis follows the cohort of dependents born 1969-1972 who were ages 15-18 in 1987. Their 1987 income is based on that of their family. This group is followed from 1997 to 2012 from ages 25-28 to 40-43. In addition, taxpayers ages 25-45 who were parents in 1987 are followed for this period. Data for 1997-2012 come from the IRS Computer Data Warehouse.

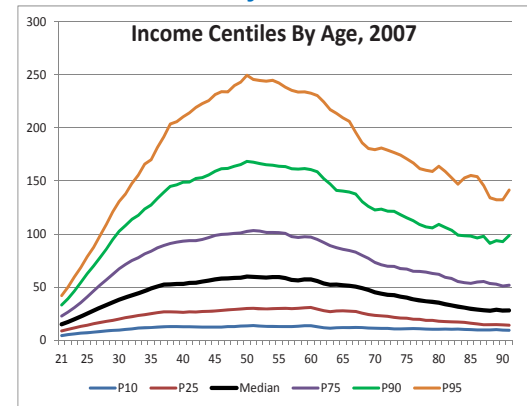
The Measure of Income

We use a broad measure of cash income available from tax records. Cash income includes all income reported on Form 1040 plus non-taxable Social Security Benefits, tax-exempt interest, exempt foreign income, net operating losses from prior years, and excluded capital gains on Section 1202 Small Business stock. IRS information return records are used to estimate income for years in which individuals do not appear on a tax return. These include wages on W2s, 1099-MISC income, 1099-SSA (includes disability), 1099R for pensions, 1099-G Unemployment Compensation, dividends and interest on 1099s, and K-1 income from partnership and S corporations. Estimates of non-filer income miss income from sole proprietorships (Schedule C) and capital gains for which there are no information returns for this period. Income is adjusted for family size by dividing by the square root of the family size. Centiles are based on primary and secondary taxpayers age 25 to 65. Note: Since negative incomes on tax returns generally reflect business losses of wealthier individuals, these returns are counted for determining income cutoffs for the bottom income quintile, but not included in the lowest income quintile in tables with other low-income individuals.

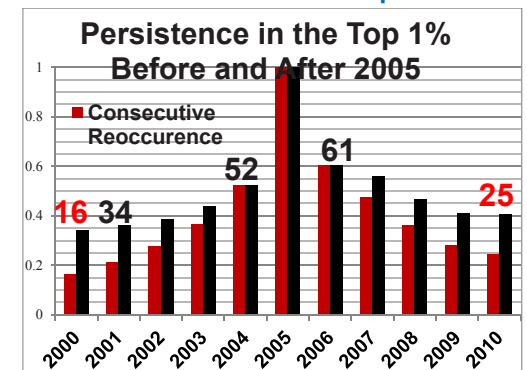
Previous papers by the authors on income mobility and turnover at the top include:

Auten, Gerald and Geoffrey Gee, "Income Mobility in the United States: New Evidence from Income Tax Data," National Tax Journal, June 2009. (Examines income relative and absolute lifetime income mobility over 10-year periods from 1987 to 1996 and 1996 to 2005. Shows income changes for the top .1 and .01 percent. Regressions identify factors association with upward and downward mobility.)
Auten, Gerald, Geoffrey Gee and Nicholas Turner, "New Perspectives on Income Mobility and Inequality," National Tax Journal, December 2013. (Examines longer term 20-year lifetime mobility, intergenerational mobility and turnover in the top 1 percent of the income distribution.)

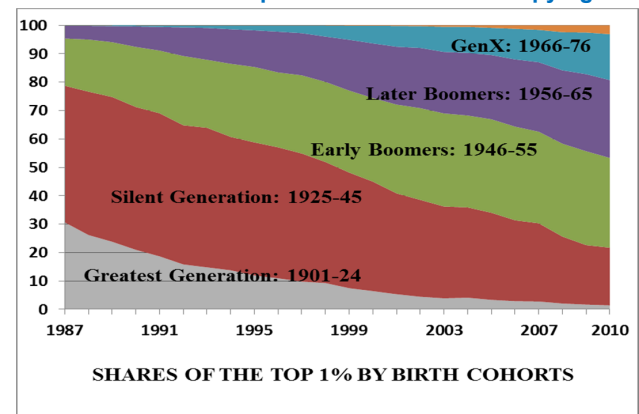
Additional Dimensions of Mobility and Income Dynamics The Life Cycle of Income



Turnover at the Top



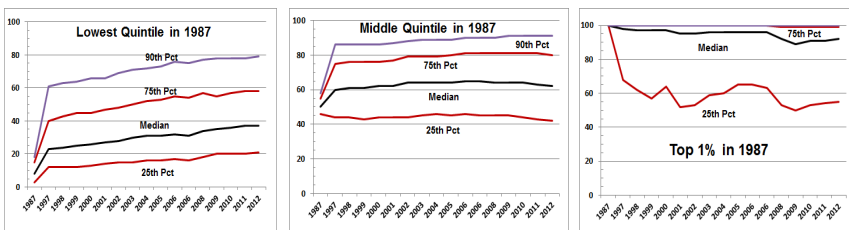
Long Term Turnover at the Top New Generations Occupying the Top 1%



INCOME MOBILITY OF PARENTS

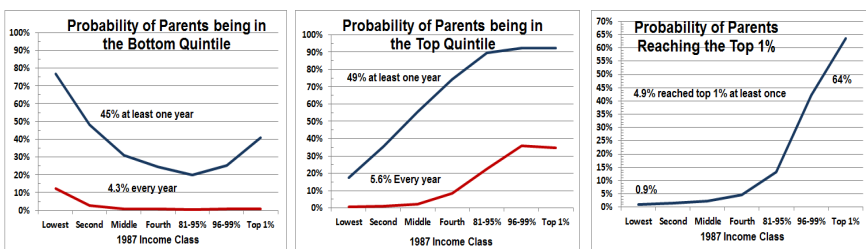
Movement of Parents Through the Income Distribution by 1987 Income Class

Parents' income positions rose as they reached peak earning years. Some reached retirement. Income positions of those in the top 1% in 1987 generally fell.



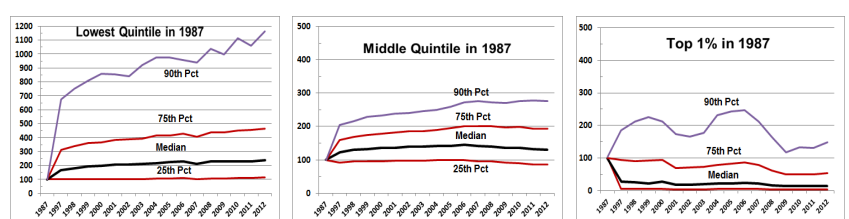
Likelihood of Parents Being in the Top or Bottom Income Class

Many are in the top or bottom quintiles at least once, but few are there in all years. Outcomes vary by 1987 income class.



Real Income of Parents from 1987 to 2012

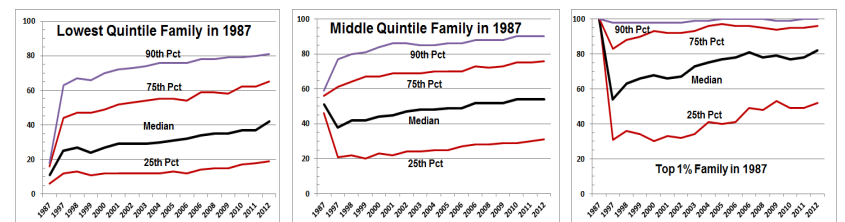
Real incomes of parents (adjusted for family size) generally rose as they reached peak earnings years, but some reached retirement age. Real incomes of the top 1% in 1987 generally fell and were more affected by the business cycle. (Index 1987=100)



INCOME MOBILITY OF THE 1969-1972 BIRTH COHORT

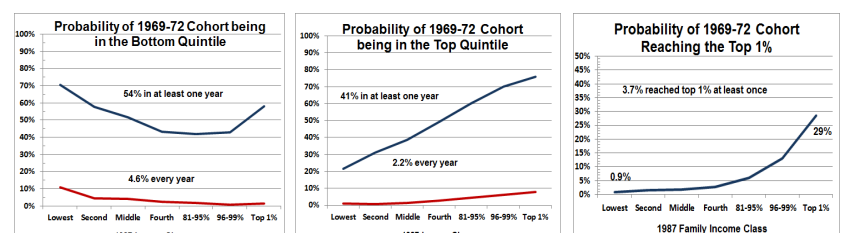
Movement of the 1969-1972 Birth Cohort Through the Income Distribution by 1987 Family Income Class

The 1969-1972 birth cohort generally moved up in the income distribution as they went from ages 25-28 in 1997 to 40-43 in 2012.



Likelihood of 1969-72 Cohort Being in the Top or Bottom Income Class

Many are in the top or bottom quintiles at least once, but few are there in all years. Outcomes vary by income class of parents in 1987.



Real Incomes of the 1969-1972 Cohort from 1987 to 2012

Real incomes of the 1969-1972 cohort generally rose as they reached "middle age". Most children from the lowest income families generally did much better than their parents. Real incomes of those from families in the top 1% in 1987 were lower than their parents. Note that all comparisons are to the income of the parents in 1987. (Index 1987=100)

