

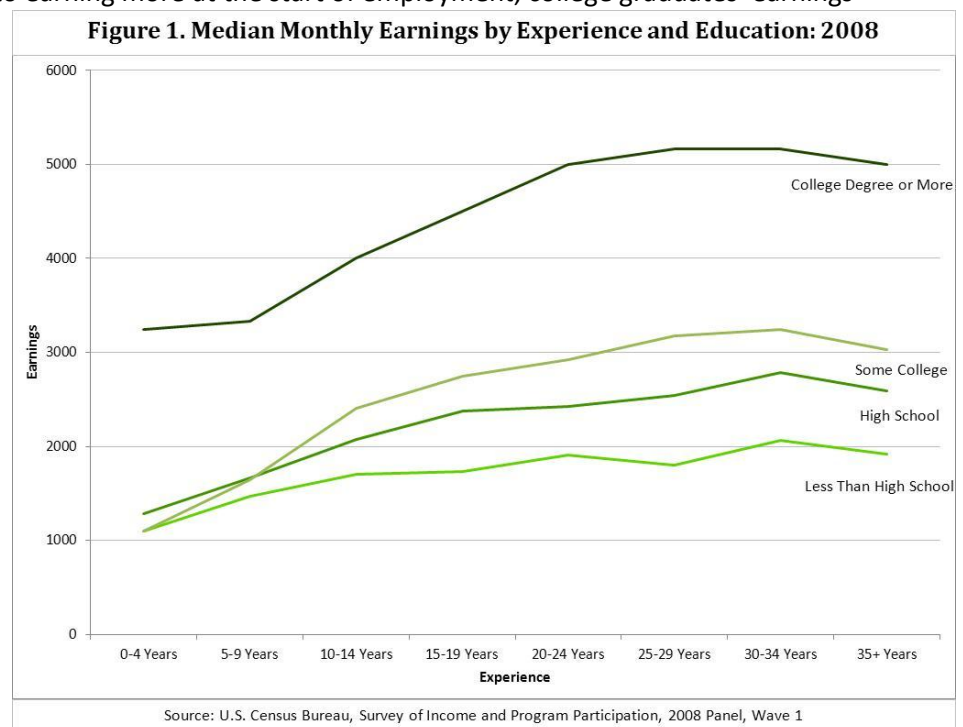
Work Experience and Earnings Associations

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We usually think of age as an important determinant of earnings in the labor market because as workers age they acquire more experience, thereby making them more valuable to employers. However, this ignores the fact that people can abstain from work for an extended period of time for a multitude of reasons such as raising children or returning to school, and therefore may not accumulate experience while they continue to age. The Survey of Income and Program Participation (SIPP) asks respondents detailed questions about both the individual's current job and past employment history, which provides the unique opportunity to analyze the associations of age, educational attainment, experience, earnings, and job tenure.

When we look at earnings of individuals based on years of experience, we find that the “premium” for completing a college degree or more is approximately \$2,000 per month upon entering the job market (see Figure 1). In addition to earning more at the start of employment, college graduates’ earnings

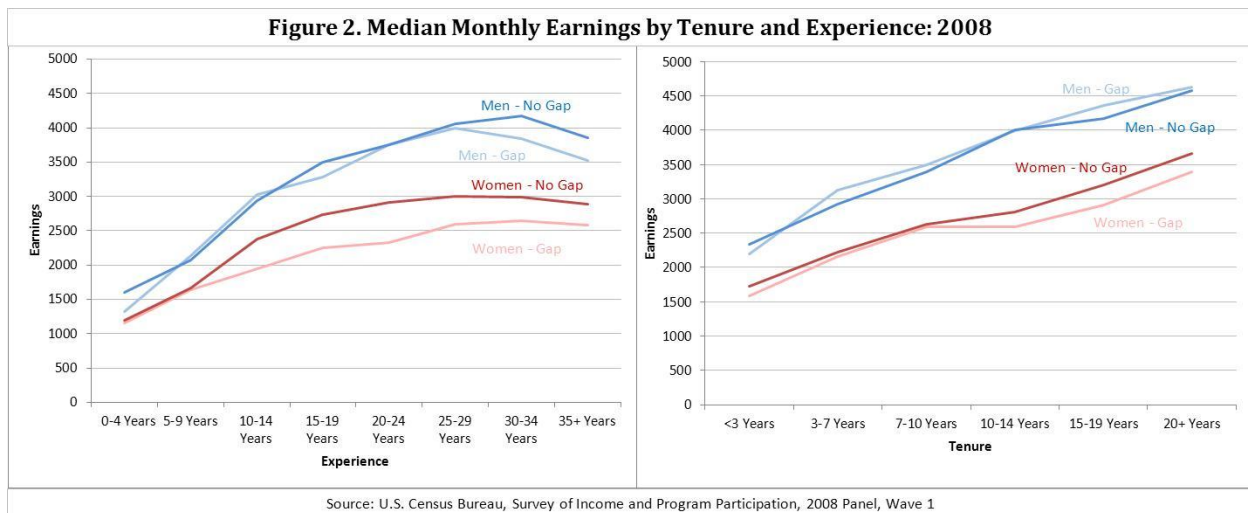
continue to garner a premium as they obtain more experience. The median earnings of those with a college degree are \$1,000 higher with 20-24 years of experience than with 10-14 years of experience; those with a high school diploma only have an increase of \$347 between the same experience categories. Exposure to some college, which includes those who complete associate's or vocational degrees, commands no initial



earnings premium compared with those who never attempt post-high school education. However, these workers begin earning higher wages than people without some college when they begin accumulating experience. Note that the profile of earnings by experience reaches a peak for all groups and earnings plateau or begin to decline with increased experience past this point, instead of continuing

to increase; this is likely due to changes in hours, responsibilities, and training as individuals approach retirement.¹

Job tenure, or years at a particular job, may be a good predictor of earnings as well. Although we see that general experience is positively correlated with earnings, economic theory suggests that job tenure could be an even stronger predictor of earnings growth.² This is important when considering the differences in earnings between men and women in particular. We find that among women with more than ten years of experience, those who have “gaps” in employment of more than six months have lower earnings compared with women with no gaps since beginning work. However, this is not the case



when comparing these women by levels of tenure; the differences are smaller (or not statistically different from zero). This suggests that many women tend to find new jobs after taking time off from work, so their tenure accumulation starts over. As a result, their earnings by experience are affected more than their earnings by tenure. Additionally, this result tends to support the view that those women who take time off from work but return to the same employer may not suffer the same earnings losses.

The SIPP data show that our earnings evolve differently as we age and accumulate experience and tenure. In addition, observable characteristics such as gender, educational attainment, and gaps in employment history can be predictors of future earnings relative to our peers. The statistics shown here represent a snapshot of the workforce in fall 2008 and do not follow the same individual over time. However, the differences we see in comparisons of earnings with age, experience, and tenure show us the relative importance of these different measures of exposure to the labor force and allow us to compare workers across different dimensions.

¹ Much of the dip in experience is driven by the increasing age of these workers. We present earnings for those who have most of their experience working part time or full time; however, earnings plateau at the higher experience levels for those who are currently employed full time and do not fall at higher levels of experience.

² Becker, Gary S. 1962. “Investment in Human Capital: A Theoretical Analysis.” *Journal of Political Economy*, vol. 70, no. 5: 9-49.

Lazear, Edward P. 2009. “Firm-Specific Human Capital: A Skill-Weights Approach,” *Journal of Political Economy*, vol. 117, no. 5: 914-940.

For some additional information about how experience evolves with age, please visit <http://blogs.census.gov/2013/02/12/acquiring-work-experience-with-age/>. For detailed statistics about experience accumulation and earnings by age, experience, and job tenure, please see www.census.gov/people/laborforce/publications/employment_history.html.