

Retirement, Recessions, and Older Small Business Owners

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How well are older small business owners prepared for retirement? How well do they fare during recessions compared to employees in the same age group? This study uses publicly available panel data to examine the retirement savings decisions of small business owners nearing retirement age, with particular emphasis on the role of economic downturns. Understanding whether small business ownership influences individuals' ability to weather recessionary periods with respect to their retirement planning will inform policymakers as well. If older small business owners' retirement savings are affected to a great degree during recessions, there might be a need for policy interventions to address this gap.

The researchers explore a variety of factors that might lead to differences in retirement plan preparation and savings behavior.¹

Overall Findings

The researchers' key findings are that small business owners nearing retirement (over age 50) are significantly less likely than employees to have pension or retirement plans, including 401(k)s, on their current job. This finding occurs regardless of the extent of self-employment in an individual's career (whether part-time, full-time or for a short or long period). At the same time, small business owners tend to have significantly greater IRA and Keogh plan savings than employees, even after controlling for key sociodemographic characteristics. A third key

finding is that small business owners and employees have similar retirement savings behavior during recessions; the probability of having a pension and the value of IRA/Keogh accounts are largely stable through recessions. Other findings include:

- Older small business owners invest their retirement savings similarly to older employees. They do not seem to be more likely to choose equities over bonds.
- Older small business owners do not appear to start to save for retirement sooner than employees, but the researchers were only able to examine this for one year.
- Older small business owners tend to report thinking about retirement less frequently than employees.
- The small business owner has a significantly later expected retirement age than an employee. In fact, the small business owner may be less likely to retire all together. Specifically, small business owners in 2010 reported that they would retire on average at age 72.6, while the expected retirement age among employees was 68.4.
- Finally, small business owners over age 50 exhibit greater financial knowledge about concepts such as inflation, interest calculations, and general financial literacy than employees. However, in some models these differences are quite small and not statistically significant, but still suggestive.
- These findings add support in favor of small business assistance programs as a way for individuals to gain valuable financial skills. It is possible that facilitating small business ownership could lead to greater retirement preparation and greater retirement income security.

1. Note that the researchers use the terms "self-employed" and "small business owner" interchangeably; and "wage-and-salary worker," "employee," and "non-business owner" interchangeably.

Scope and Methodology

The researchers use several methods to address whether small business owners over age 50 save differently for retirement compared to their employees and how recessions affect their behaviors. A comprehensive set of summary statistics is presented in which they compare business owners and employees as well as examine trends over time, with particular attention to recessionary time periods. Next, they use repeat cross-section regression techniques to assess whether self-employment experience (either currently or in the past) affects savings behavior. This approach allows them to test whether differences remain after controlling for other factors that may influence savings and retirement behavior. Finally, they compare regression results across time in order to investigate the extent to which the impact of self-employment experience varies over the business cycle, including 2001 recession and the Great Recession (December 2007 to June 2009).

The researchers use the Health and Retirement Study (HRS) from 1992-2010 for the analysis. These data are collected every two years and include new cohorts every six years. The HRS is a longitudinal nationally representative dataset of the U.S. population of individuals over age 50 that includes a rich set of data on labor force status and history, income, assets, pension plans, and other health and psychosocial measures collected biennially from 1992 to 2010.

Approximately one in eight HRS respondents (12.3 percent) were mostly self-employed over their working lives as of 1992, but this share falls to about 8 percent by 2010. Nonetheless, the presence of a large number of mostly self-employed workers in the HRS enables the researchers to get a better picture of the impact of longer-term or more intensive self-employment experience on retirement preparation.

The wealth of information within the HRS regarding current and prior jobs allows the researchers to construct a variety of indicators of current and previous self-employment experience including

current self-employment status, full-time and part-time involvement, and self-employment tenure over working years. The HRS data also include a variety of retirement preparation and financial literacy measures. The researchers limit their analysis to fourteen selected outcomes that provide a reasonably diverse view of retirement preparation and financial literacy among HRS respondents.

The analysis first investigates differences in the selected retirement preparation and financial literacy measures by self-employment status in a series of cross-tabulations. The researchers then estimate a series of multivariate cross-sectional regressions that allow for the control of important individual-level characteristics. A separate cross-sectional regression is estimated for each pair-wise combination of outcome measures and self-employment measures. The matrix of control variables includes the respondent's age (in quadratic form to permit nonlinear effects), a marriage indicator, indicators for educational attainment, and indicators for region of residence. Throughout the analysis the researchers pay particular attention to any observed interruptions in patterns or trends during recessionary years, namely 2002 and 2010 (the Great Recession), as these survey waves include data for the previous year.

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