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The realities of entrepreneurship— is the grass (and the money) greener?

By **Christian Weller**

Older employees are caught between a rock and a hard place. They work in increasingly unstable jobs with few wage gains and disappearing benefits, making it harder to save for retirement.

The share of workers between ages 45 and 54 with a retirement benefit from their employer fell from 62.6 percent in 2000—the most recent peak—to 53.8 percent in 2013, the last year for which data are available, according to an Employee Benefit Research Institute report (<https://goo.gl/ODF45i0>). Retirement plan participation for workers between ages 55 and 64 fell from 57.9 percent to 55.6 percent at the same time, according to the report. These economic uncertainties force workers to consider working longer, although wage and salary employment has become increasingly unattractive.

Is Entrepreneurship the Answer to Work Instability?

Becoming an entrepreneur may seem like a desirable alternative to wage and salary employment for older workers. They may have more control over their work lives and be able to save more for retirement. Many workers want to work on their own after they retire. And, many have the relevant skills and experience that could make them successful entrepreneurs—running a business rather than being independent contractors.

My calculations, based on the Federal Reserve's 2013 Survey of Consumer Finance (<http://goo.gl/h4JzB9>), show that the share of households ages 50 and older who were entrepreneurs—people who own and manage their own business worth at least \$5,000 (in 2013 dollars)—has grown, up from 8.3 percent between 1989 and 1998 to 9.9 percent between 2001 and 2013. Simultaneously, the share of entrepreneurs among households younger than age 50 declined from 9.8 percent to 9.0 percent.

That doesn't mean that every older worker seeking to leave their employer will become a successful entrepreneur, running and growing their own sizeable business over an extended period of time. Kevin Cahill and Joe Quinn from Boston College and Michael Giandrea from the U.S. Department of Labor found (<http://goo.gl/wNB51M>) that more than 40 percent of people who worked in full-time career jobs in 1992 had by 2010 moved into self-employment as a bridge toward retirement. At the same time, more than 30 percent of people who were self-employed in 1992 moved into wage and salary employment as a bridge toward retirement.

The numbers show that the path between self-employment and wage and salary employment does not run only one way. One possible reason is that older entrepreneurs abandon their businesses because they fail and they subsequently return to wage and salary employment.

Who Are the Entrepreneurs?

Predicting entrepreneurial success and failure is difficult because so much depends on hard-to-measure factors, such as personal motivation and idiosyncratic skills. My research (with co-authors) on growing entrepreneurship in older households (<http://goo.gl/PBnpLz>) does shed some light on factors that characterize older entrepreneurs, those who own and manage a business worth at least \$5,000 (these people became and remained entrepreneurs).

The key research findings are that older entrepreneurs are more likely to be white, married, increasingly less likely to be single women and somewhat more likely to be college-educated than older wage and salary employees.

Older entrepreneurs also are more likely to have diversified incomes. More often than wage and salary employees, they receive more than \$5,000 per year from more than one source. The most relevant additional income sources are capital gains income, interest and dividend income and, to a lesser degree, Social Security and other retirement income. Both the demographics and economic situations of older entrepreneurs differ measurably from those of older wage and salary employees.

What does this research indicate about older workers who enter into entrepreneurship? Older entrepreneurs currently have access to some form of income insurance. They receive incomes that are unrelated to risky business income, either from spouses, savings or from public benefits. This provides a measure of financial security, as entrepreneurs put a lot of their savings and income at risk. Our research shows that older entrepreneurs have become less risk tolerant over time, suggesting that the various forms of income insurance provide a good sense of security to them.

This does not mean that entrepreneurship is necessarily limited to older adults who match the demographic and economic profile uncovered in our research. Older wage and salary employees could gain some measure of income security, which could encourage entrepreneurship, even when they are single, do not have a lot of savings and do not want to collect retirement benefits.

Some states, such as New York, allow unemployed workers to use their unemployment insurance benefits to start a business, which would give older entrepreneurs access to some form of stable income, at least for a while. Also, increased health insurance coverage due to the Affordable Care Act can give older households some economic security when they begin a new, potentially risky business venture.

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Income stability is not the only aspect to consider when thinking about factors associated with entrepreneurship at older ages. Our research finds that African Americans and, to a lesser extent, those without college degrees are less likely to be entrepreneurs than whites and people with college degrees. These results likely show that having social networks matters to being a successful entrepreneur. African Americans often have less access to relevant social networks that could help them in starting and growing their business than do whites, according to Dawkins in *Enterprise, Deprivation and Social Exclusion: The Role of Small Business in Addressing Social and Economic Inequalities* (New York: Routledge, 2011). The federal government, through the Small Business Administration, and a number of states offer networking opportunities for would-be entrepreneurs. And, many community colleges offer relevant business classes.

Those wanting to pursue self-employment (after careful consideration of the financial risks involved) may be able to overcome such obstacles and succeed. This is especially true where federal and state policies reduce obstacles. Effective policies can at least partly mitigate the financial risks that older entrepreneurs face, such as not being able to get credit when necessary and putting their savings into their businesses. As a result, older entrepreneurs may be able to earn more and save more for retirement than is the case for similarly situated wage and salary employees.

In the right environment, entrepreneurship may be a way out of the conundrum of having to save more amid the unstable jobs, flat wages and disappearing benefits that often are hallmarks of working for an employer. And limited evidence suggests that older entrepreneurs spend less time at work than wage and salary employees, leaving more time for other pursuits. ■

Christian Weller, Ph.D., is a senior fellow at the Center for American Progress and a professor of public policy at the McCormack Graduate School of Policy and Global Studies at the University of Massachusetts, Boston.