

SELF-EMPLOYMENT AND THE 50+ POPULATION

Introduction

Self-employment is an important labor force phenomenon at older ages; however, there is a paucity of studies that examine the patterns and determinants of self-employment among older U. S. workers.

Self-Employment and the 50+ Population, by Lynn A. Karoly and Julie Zissimopoulos of RAND, begins to fill the gaps in the knowledge base about older self-employed workers, using complementary information from two sources of data: cross-sectional time series data from the Current Population Survey (CPS) and cross-sectional and longitudinal data from the Health and Retirement Study (HRS).

Since the mid-1990s, self-employment rates have fallen for both the workforce as a whole and the 50-plus workforce, largely because the number of self-employed and the rate of self-employment in unincorporated businesses have been falling. Nonetheless, in 2002, 5.6 million workers age 50 and above (16.4 percent of the 50-plus workforce) were self-employed in an unincorporated or incorporated business for their primary job. This compared to 10.2 percent for the workforce as a whole (13.8 million workers).

Rates of self-employment rise with age. Consequently, a disproportionate share of the self-employed are middle aged or older workers. Those age 50 and above made up 25 percent of the workforce in 2002; however, they comprised 40 percent of the self-employed in the same year. Some of these older workers have been self-employed for much or all of their working careers while others have made the transition to self-employment later in their careers, often as part of the transition to retirement.

Findings

Compared with their wage and salary counterparts, the self-employed are older; are more likely to be male, white, married, and

college educated; and are more likely to be healthier but to have a health condition that limits work. Self-employed workers are also more likely to be working part time and to have family-owned businesses or spouses who are also self-employed.

Most notably, in terms of economic status, the self-employed have higher household incomes and financial wealth (exclusive of business wealth) than their wage and salary counterparts. Some of the wealth difference likely reflects the fact that more than half of wage and salary workers have pension plans whereas much of the savings for retirement on the part of the self-employed will be reflected in their other financial assets. The self-employed are also less likely to have health insurance than their wage and salary counterparts.

Women who are self-employed at older ages are younger than men as well as more racially diverse, less educated, less likely to be married, and in somewhat poorer health. They are less well off financially in terms of various income and wealth measures. Their occupational and industrial distributions are shifted toward those more traditional for women such as clerical jobs and the personal services sector. The jobs self-employed women hold are more likely to be part time and less likely to include pension or health insurance coverage.

Although the self-employed have historically worked more hours than their wage and salary counterparts, there has been a substantial convergence in the last three decades in the hours worked for these two groups. By 2001, older self-employed workers in unincorporated businesses reported working one hour less per week on average than older wage and salary workers.

About one in three self-employed workers age 51 to 69 made the transition to self-employment at or after age 50. Transitions to self-employment for older men and women

appear to be driven by many of the same factors, yet there are important differences. For example, those who become self-employed at or after age 50 have lower levels of income and wealth than those who become self-employed earlier in their career. Thus, the retirement income security of self-employed workers, especially older workers who make the transition to self-employment later in their careers, may be lower than that of wage and salary workers in recent years.

Household wealth is a strong predictor of transitions to self-employment, especially for men. Men and women in the highest wealth quartile are more than twice as likely to move to self-employment than their counterparts in the lower wealth quartiles.

The health measure most strongly associated with transitions to self-employment is having a work-limiting health condition, particularly for men, who are more than two times as likely to become self-employed if they report such a condition compared with those who do not. This result differs from earlier research, which found no impact of health on transitions to self-employment for men. The finding may indicate that workers with a work-limiting health condition are better able to accommodate their condition and continue working if they are self-employed compared with employment in the wage and salary sector.

Controlling for wealth, having pension coverage in current wage and salary employment reduces the likelihood of becoming self-employed by a factor of three or more for both men and women.

Controlling for health, having health insurance coverage as an active worker on the current wage and salary job, but no continued retiree health coverage, reduces the likelihood of transitioning to self-employment for men and women compared with those who have no employment-based coverage. Health

insurance coverage may be capturing job quality or possibly a form of “job lock” that deters transitions that would lead to a loss of health coverage.

Consistent with the job-lock hypothesis, men with retiree health benefits (which should reduce job lock) are slightly more likely to become self-employed compared to men with active worker health insurance coverage only.

Among current job characteristics, higher wages for men are associated with an increased probability of moving to self-employment. For both men and women, having a physically demanding job is not predictive of transitions to self-employment.

Surprisingly, for both men and women, those who report they have flexibility to reduce their hours of work are also more likely to become self-employed. This is somewhat counterintuitive as one might expect inflexibility in hours in the wage sector to encourage moves to self-employment.

Conclusions

Transitions to self-employment are likely to be affected by the state of the economy, the value of individual wealth portfolios, and other factors. A number of policies may affect self-employment rates for future cohorts of older workers. For example, policies with respect to the Social Security system such as the early and normal retirement ages, the treatment of earnings among those drawing benefits, and the structure of the Social Security self-employment tax may have implications for whether older workers choose to move to self-employment from the wage sector, and when workers choose to retire from self-employment.

Source: Lynn A. Karoly and Julie Zissimopoulos, *Self-Employment and the 50+ Population*, prepared for the AARP Public Policy Institute, March 2004. © AARP.

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