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Small Business Research Summary

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Financial Viability and Retirement Assets: A Look at Small Business Owners and Private Sector Workers

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46 pages.

Purpose

Your income security during retirement may depend on whether you were a business owner or a wage and salary worker. The accumulation of differential patterns of assets and participation in individual retirement plans can be a function of your status as a business owner or an employee. An employee has the ability to participate in an employer-sponsored retirement benefit plan. Some business owners, on the other hand, may develop successful businesses that could lead to the accumulation of wealth. The relative success of business owners has consequences for their retirement security. Business owners as well as wage and salary workers should consider developing proper plans in order to draw down on their assets to finance an existing or new business.

Both owners and workers face financial vulnerability as they save for retirement. The study examines the level of financial vulnerability of small business owners—those who earn a high percentage of their income and hold a high percentage of their net worth in business income and assets. It also analyzes the retirement assets of business owners and private sector workers. One measure of financial vulnerability includes those owners and workers who have underwater residential mortgages. A comparison is made with those who have positive mortgage equity.

Overall Findings

The researcher's key findings suggest that business owners are significantly less likely to hold retirement assets (IRA and Keogh accounts as well as 401(k) and Thrift accounts) than private sector wage and salary workers, controlling for firm size and other factors. Small business owners with retirement accounts are more likely to hold lower amounts of such assets than their wage and salary counterparts.

An important concern emerges with respect to small business owners. Financially vulnerable small business owners—those who hold a high percentage of their net worth in business assets—are less likely to invest in retirement assets than owners whose net worth is less vulnerable. On the other hand, income vulnerability does not have a significant impact on whether small business owners hold retirement assets. Both net worth and income vulnerability, however, had a significant effect on the amount of retirement assets accumulated by small business owners. On both dimensions, financially vulnerable small business owners were significantly more likely to hold a smaller amount of money in these assets than less financially vulnerable small business owners.

Highlights

- Having an underwater mortgage did not have a significant effect on the likelihood that a small business owner invested in retirement assets or on the amount of retirement assets they accumulated.
- On the other hand, having an underwater mortgage increases the likelihood that private sector workers had a retirement account and increases the amount that these workers invest in retirement accounts.
- Owners of smaller businesses (fewer than 25 workers) were significantly less likely to invest in retirement assets and had lower amounts than owners of larger firms.
- The data depict the differences in asset allocation choices between small business owners and wage and salary workers and the use of different assets for retirement purposes.
- Wage and salary worker retirement plan behavior exhibited a similar pattern with respect to employment in smaller versus larger firms.

- The study's findings suggest the following:
  - There is a need to reexamine federal rules and regulations written to equalize the benefits within companies between workers and highly compensated individuals/owners to help both business owners and wage and salary workers increase their ownership and accumulation of individual account retirement assets.
  - In addition, new policies to expand automatic enrollment to owners as well as workers may need to be considered.

Scope and Methodology

This study uses the 2008 Panel of the Survey of Income and Program Participation (SIPP) to examine how business owners differ from private sector workers in the retirement assets they hold. The reference period for these data is August 2009 through November 2009, a period one month after the official end of the Great Recession. A key focus of the analysis is the influence of wealth holdings on retirement assets. The SIPP has information about business owners as well as about the businesses owned by individuals. Details about firm size and firm age are available. SIPP's Assets and Liabilities Topical Module and the Real Estate Topical Module also contain financial, housing, and business data. This study also looks at wealth reported for several different property and financial assets.This analysis, however, is unable to measure several important categories of retirement wealth including Social Security retirement benefits and defined benefit pension plan wealth.

In this paper, several measures of financial viability for business owners and private wage and salary workers are considered. Home equity is the key measure used to assess the financial health of both business owners and private sector workers. A measure of negative home equity—whether an owner's or worker's mortgage is "under water"—is calculated.

A second set of measures is used to examine the financial viability of small business owners only. These measures assess the financial vulnerability of small business owners along two key dimensions: wealth vulnerability and income vulnerability. In this paper, business owners are considered vulnerable if more than 50 percent of their total household wealth is held in business assets or if more than 50 percent of their total monthly household income is earned from the business.

This study examines the retirement assets of business owners and private sector wage and salary workers age 15 and older using three models. Each model has two stages. The first stage analyzes the holding of individual account retirement plan assets; the second stage examines the value of these accumulated assets. The first model analyzes factors affecting the individual account retirement plan assets held by both all business owners and private sector wage and salary workers, i.e., the entire private sector work force. The second analyzes only small business owners (those owning businesses with fewer than 100 workers) and focuses on the effect of small business owner financial viability on the holding and accumulated value of individual account retirement plan assets. Specifically, it deals with two aspects of financial viability—financial vulnerability (wealth and income) and home equity status. It analyzes whether the financial viability of small business owners is positively associated with the holding of individual account retirement plan assets. The third model analyzes the ownership and accumulation of these assets held by private sector wage and salary workers only.

Two types of regression models are used to analyze the data—logistic regression and least squares multiple regression.

This report was peer-reviewed consistent with Advocacy's data quality guidelines. More information on this process can be obtained by contacting the director of economic research by email at **advocacy@sba.gov** or by phone at (202) 205-6533.

Additional Information

The full text of this report and summaries of other studies of the U.S. Small Business Administration's Office of Advocacy are available on the Internet at **www.sba.gov/advocacy/7540**.

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