

Entrepreneurship among Baby Boomers: Recent evidence from the Health and Retirement Study

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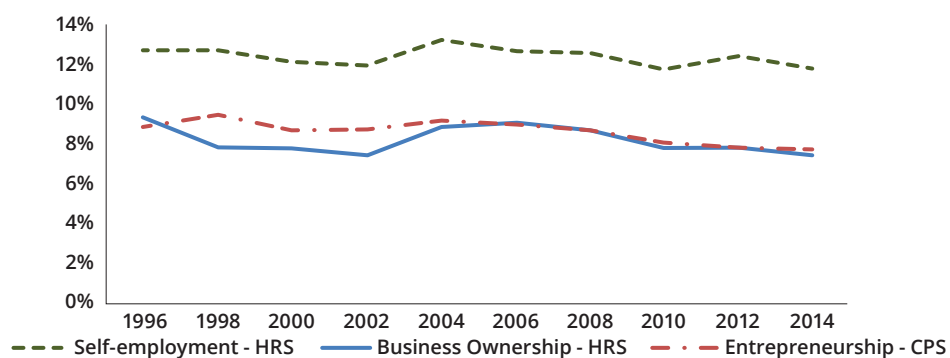
Introduction

The evolution of entrepreneurship among Baby Boomers (i.e., those born between 1946 and 1964) is an important topic in economic research and public policy, as Boomers have proven to be prolific entrepreneurs. More generally, self-employment among older individuals is becoming more prevalent and economically relevant because it provides flexibility not found in salaried jobs, as well as a more gradual path toward retirement or continued work later in life. Our analysis aims to highlight factors that affect Boomers' entrepreneurship to help policy makers and other organizations who work with entrepreneurs promote better and more informed policies.

Data

To study entrepreneurship among Baby Boomers, we use data from the 2012 wave of the US Health and Retirement Study (HRS), which is a biennial survey that samples the population age 50 and above and provides a wealth of information about respondents' family status, education, occupation, income, assets, physical and mental health, and expectations about the future. At the time the 2012 HRS was conducted, these individuals were age 52 to 65, i.e., born between 1947 and 1960. Our definition of entrepreneurship is based on information on business ownership and income, other earned income, and labor force participation. Our preferred definition of business ownership compare well with the rate calculated by the Kauffman Foundation using data from the Census Bureau's Current Population Survey (CPS) and reported in the Kauffman Index 2015: Main Street Entrepreneurship (Fig. 1). We also examine self-employment as an alternative mode of entrepreneurship, given that many individuals become self-employed late in their career.

Figure 1. Rates of entrepreneurship in the HRS and the CPS



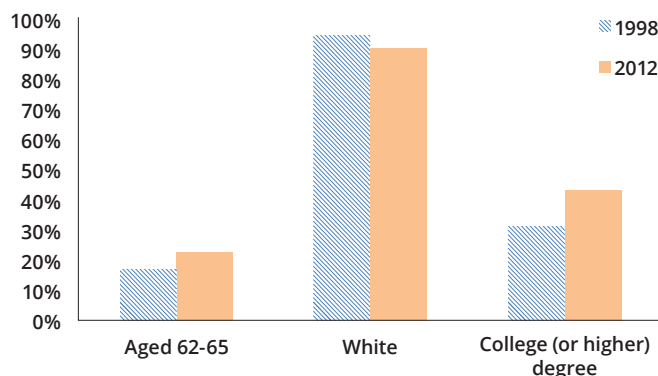
How are business owners different from the self-employed among Baby Boomers?

In our data, only about 39% of Boomers belonging to the pool of self-employed and business owners carry both designations. This lack of overlap is to be expected, as many who are self-employed undertake small-scale activities that they do not consider to be part of a business operation. We also found that business owners are systematically different from the self-employed: they are more likely to be white, female, college-educated, and richer and less likely to be divorced or suffer from depression.

How are Boomer business owners different from previous cohorts of business owners?

When comparing Boomer business owners (those in the 2012 HRS cohort) to business owners in the 1998 cohort (Fig. 2), we find that Boomer business owners are, on average, older (11.3 percentage points more likely to be between 59 and 65 years old), less likely to be white (by about 5 percentage points), more likely to be college educated (by about 12.5 percentage points), but score a bit lower on memory tests and have less optimistic longevity expectations.

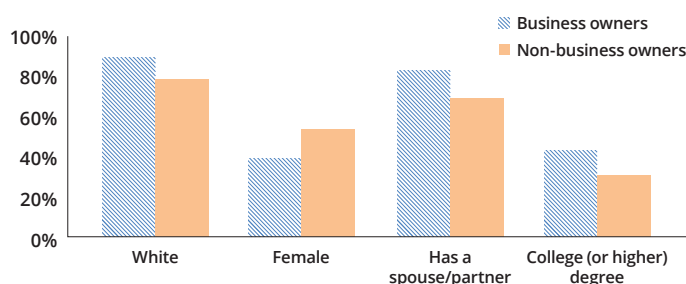
Figure 2. Changes over time in characteristics of business owners age 52–65



How are Boomer business owners different from the rest of the population?

Boomer business owners are also systematically different from the rest of the population (Fig. 3); they are 10.6 percentage points more likely to be white, 15.1 percentage points less likely to be female, 14 percentage points more likely to have a spouse/partner, and 12.3 percentage points more likely to have finished college. Moreover, their median net worth is about \$300,000 higher than families of non-business owners and they suffer from fewer physical and mental health problems, score higher on cognitive tests, and are more optimistic, as indicated by their self-reported longevity expectations.

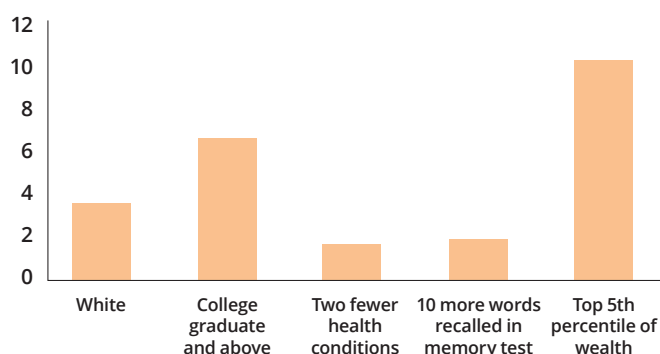
Figure 3: Differences between Boomer business owners and non-business owners



Multivariate analysis of Boomers' business ownership

The univariate association between Boomers' demographic and economic characteristics and business ownership continues, by and large, to hold when we conduct multivariate analyses of the determinants of business ownership (Fig. 4). Our results indicate that even after controlling for other characteristics, business ownership among Boomers remains positively associated with being white and male, having a college education, having better physical and mental health, scoring better on cognitive tests, having a spouse/partner, and having a larger net worth.

Figure 4: Estimated impact on the probability of business ownership (in percentage points)



The effect of wealth on business ownership later in life

Wealth could have a significant effect on both starting and running a business late in life, as it can be a source of start-up or emergency funds when outside funding is not available or difficult to obtain. However, the observed positive association between wealth and entrepreneurship, also observed in our data, does not necessarily imply a causal link, as there could be confounding factors (e.g., personality traits like intelligence, risk aversion, and drive for success) that affect both wealth and entrepreneurship. Using estimation methods that are novel to the entrepreneurship literature, we find a positive causal

link between wealth and business ownership, but only for very high levels of wealth. This result indicates that low- and moderate-wealth Baby Boomers find ways to finance the start-up and the operation of a business.

Discussion

Our analysis shows that Boomer business owners are different than the average individual in their age group; specifically they differ in characteristics such as ethnicity, sex, education, physical and mental health, cognition, and economic resources. We also find changes over time in the characteristics of business owners, with Baby Boomer business owners being older, more racially diverse, better educated, and in worse health than their counterparts of comparable age in the 1998 HRS wave.

These results point to the exceptional features that characterize entrepreneurs as well as to the dynamic evolution of these features over time. In other words, entrepreneurship is not exclusive to a particular segment of the population; it is undertaken by a progressively more diverse pool of people over time.

The fact that we find only a limited causal impact of wealth on entrepreneurship can be interpreted as a sign that business conditions are favourable enough that an entrepreneur does not need high levels of wealth in order to start or maintain a business in older age and that liquidity constraints are not a major impediment to business ownership. Reasons for such favourable conditions could be

- the existence of the Internet, which allows the quick gathering and processing of information, which is vitally important for taking advantage of business opportunities;
- medical advances, which allow people with physical limitations and health problems to function well in a professional capacity, thus being able to meet the challenges presented by entrepreneurial activity.

Policy implications

Our findings have a number of implications that are relevant to policy makers.

- First, given that there is little evidence that wealth impacts entrepreneurship, liquidity constraints could be less of a concern. Hence, any additional initiatives aimed at easing access to credit for small business should be carefully examined for their impact.
- Second, we find that even as recently as 2012, the share of minorities and women in entrepreneurship is quite small. This points to the existence of potential obstacles to entrepreneurship for these population groups, and thus policy makers could consider measures that can lower such obstacles.
- Third, it is clear from our data that entrepreneurship among Boomers is strongly associated with college education. Hence, enabling access to college, even later in life, seems a good policy to pursue if one is interested in promoting entrepreneurship in future years.
- Fourth, to the extent that medical problems are an impediment to entrepreneurship, policy initiatives that make health care less costly and more accessible are likely to lead to a larger number of entrepreneurs in the future.

About GFLEC

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