

DOES SELF-EMPLOYMENT CONTRIBUTE TO WEALTH
ACCUMULATION FOR OLDER WORKERS?

A Research Proposal Submitted for
The 2013 NBER Household Finance Working Group Research Grant

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Does Self-Employment Contribute to Wealth Accumulation for Older Workers?

Abstract: The proposed study will examine wealth accumulation of older workers who become self-employed after 55 years old. Previous studies suggest that household wealth is an important determinant of older workers' decision to enter self-employment. However, little is known about the contribution of self-employment to wealth accumulation for older workers. This study investigates the trajectory of wealth accumulation among self-employed older workers using data from the 1984-2009 Panel Study of Income Dynamics (PSID). Findings of the study will provide important insights into policies aiming to promote work and economic security among older adults.

Specific Aims

Transition into self-employment at older ages is increasingly common, and self-employment rates are higher for older workers (Van Solinge, 2012; Zissimopoulos & Karoly, 2003). In 2009, among the 15.3 million self-employed Americans, more than one third were older than 54 years old, and nearly 20 percent of workers aged 65 and above was self-employed (Hipple, 2010). Self-employment may extend working lives of older workers, improve their financial security, contribute to the overall economy, and could be part of the answer to the challenge to the Social Security system.

Despite its prevalence and significance, little is known about self-employment among older adults, with only a few exceptions (Gu, 2010; Van Solinge, 2012; Zissimopoulos & Karoly, 2003, 2009). These studies mainly focus on the determinants of transition into self-employment, and identify factors related to older workers' decision of self-employment, including access to credit, household wealth, health insurance access, previous occupation, and self-employment experience of other family members.

While the literature regarding older workers' self-employment entry shows the vital role of household wealth in starting a new business, it is not clear how self-employment contributes to their wealth accumulation. On the one hand, self-employment could create wealth for older workers. With income generated from self-employment, older adults may have more economic resources to save rather than have to spend down retirement savings (if they have retired from previous jobs). On the other hand, there is risk associated with starting a new business, and it may cause a loss of wealth. In addition, transition into self-employment and investment in business will likely change the wealth composition of older workers. To fill in this knowledge gap, the current study proposes to examine the relationship between self-employment and wealth accumulation of older adults using data from the PSID. It investigates the following research questions: What is the trajectory of wealth accumulation of self-employed older workers? Does self-employment increase or decrease their wealth distribution? And how is their trajectory of wealth accumulation different from that of other older adults.

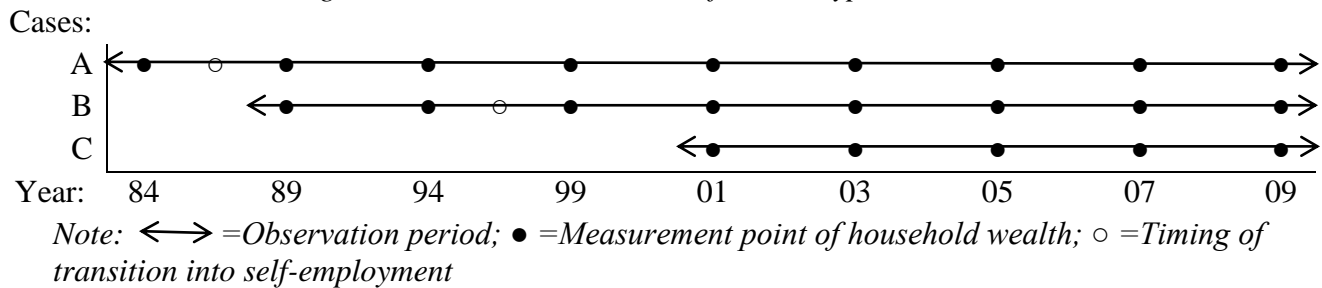
Research Methods

Data, Sample, and Design. The PSID is a longitudinal survey that is publicly available through the Institute for Social Science at the University of Michigan. The PSID collects demographic information and socioeconomic characteristics from a nationally representative sample annually from 1968-1997 and biennially thereafter. Self-employment status of household heads and their spouses is included in each wave of the survey. The PSID also collected

information of household wealth every four years between 1984 and 1999 (i.e., 1984, 1989, 1994, and 1999), and every two years between 2001 and 2009 (i.e., 2001, 2003, 2005, 2007, and 2009).

Following the previous literature (James, Swanberg, & McKechnie, 2007; U.S. GAO, 2005), the study defines older works as those aged 55 or above. The study sample, therefore, includes all household heads and their spouses in the PSID if they were aged 55 or above in any year when household wealth information was collected. The observation period varies from individual to individual. For example, the observation period for an individual is from 1984 to 2009 if s/he was 55 or older in 1984, and is from 1989 to 2009 for another individual who was 55 or older in 1989. Since the study focuses on the transition into self-employment, those who started self-employment prior to their observation periods are excluded. Figure 1 below uses three hypothetical cases to show the design of this study: “o” indicates transition into self-employment, which may or may not occur during the observation period.

Figure 1: Observation Periods of Three Hypothetical Cases



Measures. Self-employment is measured by self-reported employment status. An individual is considered self-employed if s/he reports working for himself/herself or owning a business in that wave. Household wealth is indicated by the amount of liquid assets (the amount of money in savings and checking accounts plus the total value of stocks, mutual funds, and investment trust), home equity, business assets, debts, and net worth (the sum of liquid assets, home value, and business assets minus all debts). The study also considers in the analysis covariates of demographic and socioeconomic characteristics (e.g., age, gender, race, education, health, marital status, previous occupation and employment status, the employment status of spouse, and so on).

Analysis. To answer the proposed questions, the study uses multilevel analysis (i.e., random-effect model) to examine the longitudinal trajectory of wealth accumulation:

$$Y_{it} = \beta_{0i} + \beta_{1i} * S_{it} + \beta_{2i} * S_{it}^2 + \beta_3 * X_{it} + \varepsilon_{it} \quad (i=0 \dots N, \text{ and } t=0 \dots T) \quad (1)$$

where Y_{it} indicates a measure of household wealth of an older worker i at the t observation; S_{it} denotes, at the t observation, the number of years since an older worker's self-employment entry; and X_{it} is a vector of control variables. If an older worker transitions into self-employment at observation e ($0 < e < T$), S_{it} equals to 0 if $t < e$. For those who never transition into self-employment, S_{it} is equal to 0 in all observations. The analysis includes a squared term of S_{it} to capture the potential nonlinear association between self-employment and wealth accumulation. As indicated by the subscription i , the analysis also allows the wealth accumulation trajectory to vary across individuals. The parameters of interest are β_{1i} and β_{2i} , which show the trend of wealth accumulation over the duration of self-employment.

References

- Gu, Q., Karoly, L.A., & Zissimopoulos, J.M. (2010). *Small Business Assistance Programs in the United States: An Analysis of What They Are, How Well They Perform, and How We Can Learn More About Them* (RAND Working Paper No. WR-603-EMKF). Santa Monica, CA: RAND Corporation.
- Hipple, S. (2010). "Self-employment in the United States." *Monthly Labor Review*. Bureau of Labor Statistics.
- James, J.B., Swanberg, J.E., & McKechnie, S.P. (2007). *Responsive workplaces for older workers: Job quality, flexibility and employee engagement*. Chestnut Hill, MA: Sloan Center on Aging & Work, Boston College.
- U.S. Government Accountability Office. (2005, December). Labor can help employers and employees plan better for the future. (Publication No. GAO-06-80). Retrieved from GAO Reports Main Page via GPO Access database: <http://www.gao.gov/products/GAO-06-80>
- Van Solinge, H. (2012). Explaining transitions into self-employment after (early) retirement. *Tilburg: Network for Studies on Pensions, Aging and Retirement (Netspar)*, 1-26.
- Zissimopoulos, J.M., & Karoly, L.A. (2003). *Transitions to Self-Employment at Older Ages: The Role of Wealth, Health, Health Insurance, and Other Factors*. (RAND Working Paper No. WR-135). Santa Monica, CA: RAND Corporation.
- Zissimopoulos, J.M., & Karoly, L.A. (2009). Labor force dynamics at older ages: Movements into self-employment for workers and nonworkers. *Research on Aging*, 31(1), 89-111.

Project Budget

Budget Items	Amount
Graduate Research Assistant (6 months):	
Stipend: \$1,478*6	\$8,868
Health Insurance: \$200*6	\$1,200
Two Conference Presentations	\$3,000
Consultant Services	\$1,500
Total Amount	\$14,568

Budget Justification:

1. Funding for one graduate research assistant is requested. The graduate assistant will work on tasks related to the proposed project for six months, including literature search, literature review, and data analysis.
2. A total of \$3,000 is requested for two conference presentations (\$1,500 for each). The PI plans to present the study results at the 2013 NBER Household Finance Working Group meeting and the 2014 Annual Conference of Society for Social Work Research.
3. A total of \$1,500 (\$100/hour*15 hours) is requested for consultation on statistics and econometric analyses.

CURRICULUM VITAE

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EDUCATION

- 2006-2011 PhD in Social Work, Washington University George Warren Brown School of Social Work
- 2003-2005 Master of Social Work, Washington University George Warren Brown School of Social Work
- 1993-1997 B.A. in Social Work, China Youth University for Political Sciences, Beijing, China

CURRENT POSITION

- 08/2011- Assistant Professor, Saint Louis University, School of Social Work, College of Education and Public Service.

RESEARCH INTEREST

Financial capability and asset accumulation of disadvantaged populations
Material hardship and economic well-being of disadvantaged populations

SELECTED PUBLICATIONS

I. Journal Articles

- Huang, J.** (under review). Asset poverty and happiness in Urban China. *China Journal of Social Work*.
- Huang, J.** & Schreiner, M. (under review). Financial incentives and participation in 529 College Savings Plan: Evidence from a statewide randomized experiment.
- Wikoff, Nora, **Huang, J.**, & Kim, Y. (under review). Material hardship and 529 College Savings Plan participation in the SEED OK experiment.
- Nam, Y., **Huang, J.**, Heflin, C., & Sherraden, M. (under review). Racial and ethnic disparities in food insufficiency: Evidence from a statewide probability sample of white, African American, American Indian, and Hispanic infants.
- Huang, J.**, Deng, S., Jin, M., Guo, B., Zou, L., & Sherraden, M. (under review). Asset poverty in urban China: A study using the 2002 Chinese Household Income Project.
- Deng, S., **Huang, J.**, Jin, M., & Sherraden, M. (accepted). Household assets, school enrollment and parental aspirations for children's education in rural China: Does gender matter? *International Journal of Social Welfare*.

- Huang, J.**, Nam, Y., & Sherraden, M.S. (in press). Financial Knowledge and child development account policy: A test of financial capability. *Journal of Consumer Affairs*.
- Deng, S, Sherraden, M., **Huang, J.**, & Jin, M. (in press). Asset opportunity for the poor: An asset-based policy agenda toward inclusive growth in China. *China Journal of Social Work*.
- Huang, J.**, Beverly, S., Clancy, M., Lassar, T., & Sherraden, M. (in press). Early program enrollment in a statewide Child Development Account program. *Journal of Policy Practice*.
- Huang, J.**, Nam, Y., & Wikoff, N. (2012). Household assets and food stamp program participation among eligible low-income households. *Journal of Poverty*, 16(2), 171-193.
- Huang, J.** (2012) Work disability, mortgage default, and life satisfaction in the economic downturn: Evidence from a national study. *Journal of Disability Policy Studies*, 22(4), 237-246.
- Nam, Y., & **Huang, J.** (2011). Change roles of parental economic resources in children's educational attainment. *Social Work Research*, 35(4), 203-213.
- Huang, J.** (2010). Effects of individual development accounts (IDAs) on household wealth and saving taste. *Research on Social Work Practice*, 20(6), 582-590.
- Huang, J.**, Oshima, K., Kim, Y., (2010). Does food insecurity affect parental characteristics and child behavior? Testing mediation effects. *Social Service Review*, 84(3), 381-401.
- Oshima, K., **Huang, J.**, Jonson-Reid, M., & Drake, B. (2010). Children with disabilities in poor households: Association with juvenile and adult offending. *Social Work Research* 24(2), 102-113.
- Lombe, M., **Huang, J.**, Putnam, M., & Cooney, K. (2010) Exploring saving performance in an IDA for people with disabilities: Some preliminary findings. *Social Work Research* 24(2), 83-93.
- Huang, J.**, Guo, B., Kim, Y., & Sherraden, M. (2010). Parental assets, income, and borrowing constraints and children's post-secondary education. *Children and Youth Services Review*, 32(4), 585-594.
- Huang, J.**, Guo, B., & Kim, Y. (2010). Food insecurity and disability: Do Economic Resources Matter? *Social Science Research*, 39, 111-124.
- Nam, Y., & **Huang, J.** (2009). Equal opportunity for all? Parental economic resources and children's educational achievement. *Children and Youth Services Review*, 31(6), 625-634.
- Lombe, M., Putnam, M, & **Huang, J.** (2008). Exploring effects of institutional characteristics on saving outcome: The case of Cash and Counseling program. *Journal of Policy Practice*, 7(4), 260-279.
- Guo, B., **Huang, J.**, Zou, L & Sherraden, M. (2008). Asset-based policy in rural China: An innovation in the retirement social insurance program. *China Journal of Social Work (English)*, 1(1), 63-76.

Guo, B., **Huang, J.**, Sherraden, M., & Zou, L. (2008). Duel incentives and duel asset building: Policy implication of the Hutubi Rural Social Security Loan Programme in China. *Journal of Social Policy*, 37(3), 453-470.

II. Book Chapters

Huang, J. & Greenfield, J. (under review). Asset development of older adults: A capability approach. In N. Morrow-Howell & M. Sherraden (Eds.), *Financial Capability across the Life Course: A Focus on Vulnerable Population*. NY: Oxford University Press.

Nam, Y., **Huang, J.**, & Sherraden, M. (2008). Asset definitions. In S. McKernan & M. Sherraden (Eds.), *Asset Building and Low-Income Families (pp.1-32)*. Washington DC: The Urban Institute Press.

CONFERENCE PRESENTATIONS

Nam, Y., Lee, E., & **Huang, J.** (Accepted). Long-term financial security among older low-income Asian immigrants in the United States. The 20th IAGG World Congress of Gerontology and Geriatrics. (June 23-27, 2013 Coex, Seoul, Korea).

Huang, J. & Guo, B. (2012). Asset poverty and happiness in urban China. *Lifelong Asset Building: Strategies and Innovations in Asia*, Peking University, Beijing (November 16-18, 2012).

Huang, J. & Greenfield, J. (2012). Asset development of older adults: A capability approach. *Financial Capability across the Life Course: A Focus on Vulnerable Population*, Washington University in St. Louis (October 24-26, 2012).

Huang, J. Cumulated asset effects on children's college enrollment: Evidence from PSID. Assets and Education Research Symposium, University of Kansas (*March 30, 2012*).

Huang, J., Guo, B., Zou, L., & Sherraden, M. (2012). Hutubi social insurance program in China: An example of asset-based policy in rural China. The 2012 Annual Conference of the Society for Social Work and Research.

Huang, J. & Kim, Y. (2010). Food insecurity by household types: Differential effects of household economic resources. The 2010 Annual program meeting (APM) of Council on Social Work Education (October 14-17, Portland, OR).

Lombe, M., **Huang, J.**, Putnam, M., & Cooney, K. (2010). Exploring saving performance in an IDA for people with disabilities: Some preliminary findings. The 2010 Annual Conference of the Society for Social Work and Research (January 14-17, San Francisco, CA).

Nam, Y., & **Huang, J.** (2009). Change roles of parental economic resources in children's educational attainment. Thirty-First Annual Research Conference of the Association for Public Policy Analysis and Management (APPAM), Washington DC, November 6-8.

Huang, J., Oshima, K., & Kim, Y. (2009). Does household food insecurity affect parenting and child behavior problems in low-income household?: Further evidence from the Panel Study of Income Dynamics. The 2009 Annual Conference of the Society for Social Work and Research (January 15-18, New Orleans, LA).

Huang, J., Guo, B., Kim, Y., & Sherraden, M. (2009). Parental income, assets, and borrowing constraints and children's post-secondary education. The 2009 Annual Conference of the Society for Social Work and Research (January 15-18, New Orleans, LA).

Guo, B., **Huang, J.,** Zou, L. & Sherraden, M. (2008). Asset-based policy in rural China: An innovation in the retirement social insurance program. Thirtieth Annual Research Conference of the Association for Public Policy Analysis and Management (APPAM), Los Angeles, November 6-8.

Nam, Y., & **Huang, J.,** (2008). Is America getting equal for all: Changes in the effects of parents' wealth on children's education. The 2008 Annual Conference of the Society for Social Work and Research (January 17-20, Washington DC).

Huang, J., & Guo, B. (2008). Food insecurity and disability: Do financial resources matter? The 2008 Annual Conference of the Society for Social Work and Research (January 17-20, Washington DC).

Guo, B., **Huang, J.,** Sherraden, M. & Zou, L. (2007). Institutional incentives for saving: Policy implication of a rural retirement plan in China. 2007 APPAM Fall Research Conference (November 8-10, Washington DC).

GRANTS

Faculty Research Leave Program, Saint Louis University (01/2013-05/2013; total costs: \$15,704)
Project: Household Material Hardship and Financial Assets in an Economic Recession: Evidence from the Survey of Income and Program Participation (SIPP)

Center for Social Development, Washington University in St. Louis and Ford Foundation (09/2012-09/2013; total costs: \$20,000)

Project: Subcontract of the SEED for Oklahoma Kids Experiment (Child Development Accounts)

Presidents Research Fund, Saint Louis University (09/2012-08/2013; total costs: \$25,000)
Project: Food Insufficiency, Income Volatility, and Asset Holding in Middle-Income Households: A Comparison Before and After Economic Recession, 2005-2010

Chiang Ching-Kuo Foundation for International Scholarly Exchange (09/2012-08/2013; total costs: \$15,195)

Project: Happiness and Economic Inequality in Urban China from the Perspective of Asset Poverty.

Center for Social Development, Washington University in St. Louis and Ford Foundation (09/2011-08/2012; total costs: \$10,000).

Project: Subcontract of the SEED for Oklahoma Kids Experiment (Child Development Accounts)