

# Transitions to self-employment at older ages: The role of wealth, health, health insurance and other factors

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Received 23 June 2004; received in revised form 6 August 2005; accepted 12 August 2005

Available online 16 September 2005

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## Abstract

Relatively little research has been devoted to studying self-employment among older workers although they make up a disproportionate share of the self-employed workforce. This study uses 5 waves of panel data from the Health and Retirement Study to investigate the determinants of labor force transitions to self-employment at older ages. We estimate a multinomial logit model of transitions from wage and salary employment to self-employment, retirement or not working. Results are compared with those found in previous studies. New findings on the impact of health on transitions to self-employment are highlighted.

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*JEL classification:* I12; J23; J26

*Keywords:* Self-employment; Health; Health insurance; Older workers; Retirement

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## 1. Introduction

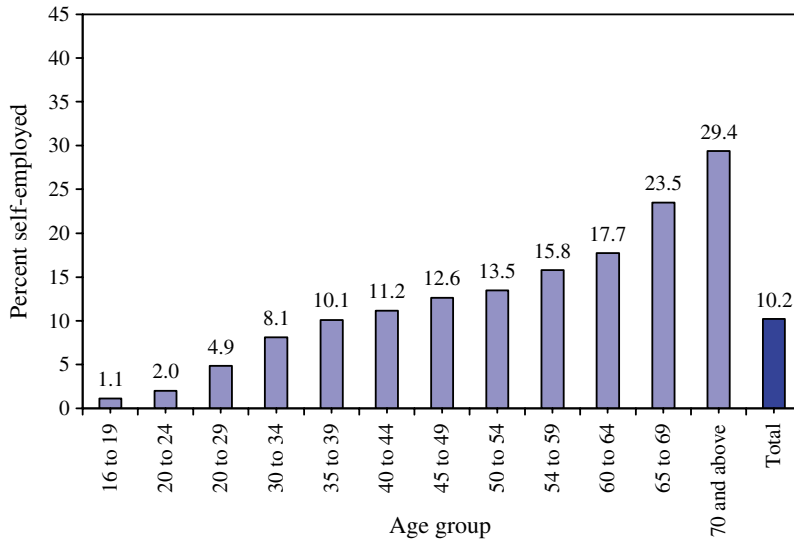
In 2002, 14.4 million U.S. workers, or 10.5 percent of the workforce, were self-employed in incorporated or unincorporated businesses.<sup>1</sup> Given that rates of self-employment increase with age, a disproportionate share of the self-employed are middle-aged and older workers. Slightly more than half (54 percent) of the self-employed (in unincorporated businesses only) in 2002 were ages 45 and above although this age group represented just over one third (38 percent) of

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<sup>1</sup> Based on published and unpublished household data from the Current Population Survey (CPS) reported by the Bureau of Labor Statistics (BLS) in Table 12 at <http://www.bls.gov/cps/home.htm#empstat>, and in an unpublished tabulation provided by BLS staff.



NOTE: Sample is all workers age 16 and above.

SOURCE: Authors' calculations using March 2002 CPS.

Fig. 1. Self-employment rate in the 2002 CPS by age group.

the workforce in total.<sup>2</sup> 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.

Data from the March 2001 Current Population Survey (CPS), plotted in Fig. 1 show that self-employment rates start out very low among the youngest workers, increase steadily until traditional retirement ages (60 to 64), and then begin to rise even more sharply around retirement (65 and above).<sup>3</sup> This pattern of rising self-employment rates at the end of the labor market career may reflect higher rates of retirement out of wage and salary work compared to self-employment, as well as transitions to self-employment at older ages. Indeed, tabulations from the 1998 cross-section of the Health and Retirement Study (HRS) reported by Karoly and Zissimopoulos (2004) reveal that nearly one third of workers age 51 and above who are self-employed made the transition to self-employment at or after age 50.

Transitions to self-employment among older workers have implications for current levels of well-being (e.g., earnings) among those nearing retirement, and may also have implications for the accumulation of retirement benefits and the accumulation or decumulation of other financial assets. Income from self-employment is more variable compared with wage and salary work, with both upside and downside risk reflected in a more dispersed earnings distribution among the self-employed (Hamilton, 2000). The self-employed, including older self-employed workers, are also less likely to be covered by a pension plan or employer-provided health insurance compared with their wage and salary counterparts (Karoly and Zissimopoulos, 2004). Moreover, entry into self-employment may require investment capital, potentially placing current or future retirement assets at risk. At the same time, self-employed workers report being more satisfied

<sup>2</sup> See Table 12 at <http://www.bls.gov/cps/home.htm#empstat>.

<sup>3</sup> The definition of self-employment for Fig. 1 includes both incorporated and unincorporated self-employed.

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