



# BUSINESS IS (BABY) BOOMING

Investments in Social Security, Medicare strengthen retirement security and consumer demand for Virginia's small businesses



**N**ational debates over deficit reduction have led some political leaders to propose deep cuts to Social Security and Medicare, threatening the retirement security of millions of Americans. Small businesses, key economic drivers on Main Streets across the country, have a lot at stake in this debate.

Cuts to Social Security and Medicare would harm small business owners in two ways:

- Undermining the retirement security of small business owners themselves, and
- Weakening consumer demand.

## Social Security and Medicare strengthen retirement security for Virginia small business owners

Across the country, more than a third of small business owners (businesses with 100 or fewer employees) are at or near Social Security's full benefit age of 66. In Virginia, 37 percent of small business owners are over the age of 55 (25% 55-64, 13% 65+), according to a Main Street Alliance analysis of the U.S. Census Bureau's first-ever Survey of Small Business Owners Public Use Microdata Sample released in August 2012.<sup>1</sup>

Small business owners, like their employees, face challenges saving for retirement. A 2012 study by the U.S. Small Business Administration Office of Advocacy found that business owners are "significantly less likely to hold retirement assets than private sector wage and salary workers," and that "owners of smaller businesses with fewer than 25 employees are significantly less likely to invest in retirement assets and have lower amounts of retirement assets than owners of larger firms." The study also found

that "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 who are less net worth vulnerable."<sup>2</sup>

The recession has hurt retirement security for small business owners. An August 2012 survey of small business owners by the Wall Street Journal and Vistage International found 38 percent of business owners said they planned to retire later than they would have predicted five years ago, and 56% said most of their retirement nest egg is tied to their business.<sup>3</sup>

Consequently, for many of Virginia's small business owners, Social Security and Medicare form a critical source of income in their retirement years.

## Social Security and Medicare strengthen consumer demand for Virginia's small businesses

Social Security and Medicare are also important to the state's small businesses because of the effects of these programs on consumer demand. Virginia's small businesses hire workers—and contribute to the state's economic growth—when there is demand for their goods and services. Strengthening—or at the very least maintaining—Social Security and Medicare

benefits at their current levels stimulates this demand better than most other policy options available, because of what economists call the marginal propensity to consume: Because lower and middle-income households spend a larger share of their incomes on necessities, they tend to spend—rather than save—more of any additional income they receive.<sup>4</sup>

Social Security and Medicare beneficiaries—mostly seniors and people with disabilities—earn and spend about a third less than the population as a whole.<sup>5</sup> The average benefit of a Social Security beneficiary in Virginia is \$13,041 a year, and two out of three senior households rely on Social Security for a majority of their income. When such households receive additional income, they are likely to spend it immediately in the local economy, and when benefits are cut, households are likely to curtail their spending. Given that 1,284,823 Virginians—16.1 percent of the state’s population—receive Social Security, strong Social Security and Medicare benefits translate into strong consumer demand in Virginia’s economy, while any cuts to these programs would weaken it.

In Virginia’s rural communities, Social Security and Medicare are even more important to small businesses:

- Over 1 out of 4 (26 percent) rural Virginians receive Social Security, compared with 1 out of 7 (14.4 percent) Virginians in non-rural communities.<sup>6</sup>
- 7.5 percent (\$3.8 billion) of total personal income in Virginia’s 44 rural counties came from Social Security, vs. 4.3 percent (\$9.6 billion) in the state’s 51 non-rural counties.<sup>7</sup>

Social Security and Medicare benefits have the additional economic benefit to small business owners of being countercyclical. During economic slowdowns like that of the last five years, consumer spending declines. Due to declining revenues and Virginia’s balanced budget requirement, state government spending declines as well, further contracting the economy. One of the few economic stabilizers in economic downturns is federal spending—most significantly Social Security and Medicare.<sup>8</sup> These programs are especially critical to maintaining consumer demand for small businesses in economically hard-hit states such as Virginia.

Not only do Social Security and Medicare help small businesses, they also make economic and budgetary sense for the country as a whole. The Congressional Budget Office estimates that transfer payments to individuals generate about \$1.50 of economic activity for every dollar spent on benefits.<sup>9</sup> This economic return is superior to that which could be obtained from many other ways of stimulating consumer demand options such as tax cuts for the wealthy or reductions in payroll taxes.

**Proposed cuts to Social Security and Medicare would hurt small business owners’ personal retirement security and depress consumer demand, making it more difficult for small businesses to grow and create jobs.**

## Conclusion

Proposed cuts to Social Security and Medicare would hurt small business owners' personal retirement security and depress consumer demand, making it more difficult for small businesses to grow and create jobs. Even a 3-percent cut in Social Security benefits would take \$502.7 million out of Virginia's economy. A similar cut to Medicare, meanwhile, would cost Virginia's economy \$292.1 million. Such cuts are the last thing struggling small businesses need in the midst of a fragile economic recovery.

The impacts of cuts help explain why large majorities of small business owners oppose cuts to Social Security, Medicare and Medicaid to reduce the deficit. A February 2013 poll by Small Business Majority found that 80 percent of small business owners oppose cuts to Social Security to reduce the deficit, 74 percent oppose cuts to Medicare, and 67 percent believe reducing Medicaid benefits would be unacceptable.<sup>10</sup>

Rather than cutting Social Security and Medicare, Congress should maintain or increase benefits provided through these earned benefit programs.

## References

- 1 United States Census Bureau, Survey of Business Owners, "Public Use Microdata Sample (PUMS): 2007," Issued August 2012. The first-ever Survey of Business Owners Public Use Microdata Sample was created using responses from the 2007 SBO. SBO PUMS data was used to estimate the percentage of small business owners (under 100 employees) over age 55 by state. <http://www.census.gov/econ/sbo/pums.html>
- 2 US Small Business Administration, Office of Advocacy, Financial Viability and Retirement Assets: A Look at Small Business Owners and Private Sector Workers, December 2012. [http://www.sba.gov/sites/default/files/files/rs401tot%20\(1\).pdf](http://www.sba.gov/sites/default/files/files/rs401tot%20(1).pdf)
- 3 Wall Street Journal, "The Economy Stole My Retirement," September 12, 2012. <http://online.wsj.com/article/SB10000872396390444230504577615861593287688.html>
- 4 See for example Karen E. Dynan, Jonathan Skinner, and Stephen P. Zeldes, "Do the Rich Save More?" *Journal of Political Economy*, 112, no. 2 (2004).
- 5 Those over age 65 earn about a third less than the average of the population as a whole (\$43,232 vs. 63,685). Bureau of Labor Statistics, "Consumer Expenditure Survey 2011," September 25, 2012: Table 57. <http://www.bls.gov/cex/2011/aggregate/age.pdf>.
- 6 County-level population data from U.S. Census Bureau, "Profile of General Population and Housing Characteristics: 2010," 2010 Demographic Profile Data. [http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=DEC\\_10\\_DP\\_DPDP1&prodType=table](http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=DEC_10_DP_DPDP1&prodType=table). Beneficiary data from SSA, "Table 4. Number of beneficiaries in current payment status, by county, type of benefit, and sex of beneficiaries aged 65 or older, December 2010," OASDI Beneficiaries by State and County, 2010, August 2011. [http://www.ssa.gov/policy/docs/statcomps/oasdi\\_sc/index.html](http://www.ssa.gov/policy/docs/statcomps/oasdi_sc/index.html)
- 7 Total personal income: Bureau of Economic Analysis (BEA), Regional Economic Accounts: Local Area Personal Income, "Personal income" in CA 05N Personal income by major source and earnings by NAICS industry (<http://bea.gov/regional/reis/>). Social Security income: BEA, Regional Economic Accounts: Local Area Personal Income, "Old-age, Survivors and Disability insurance (OASDI) benefits" in CA 35 Personal current transfer receipts (<http://bea.gov/regional/reis/>). BEA data were used for total annual Social Security benefits rather than the figures available from the SSA in order to be consistent with the denominator of "Personal income," which came from BEA. For other purposes in the report, such as calculating the average benefit and average retirement benefit in rural counties, SSA data were used.
- 8 Paul Krugman, *End This Depression Now!* (New York: W.W. Norton & Co., 2012).
- 9 Congressional Budget Office (CBO), "Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output from October 2010 through December 2010," November 2012, p. 6. <http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/120xx/doc12074/02-23-arr.pdf>
- 10 Small Business Majority, "Small Business Views on Deficit Reduction, Cuts to Social Security and Medicare," February 20, 2013. <http://www.smallbusinessmajority.org/small-business-research/taxes/deficit-reduction-poll.php>