BUSINESS IS (BABY) BOOMING

Investments in Social Security, Medicare strengthen retirement security and consumer demand for Virginia’s small businesses
National 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 2012.¹

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.”²

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.³

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
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.

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. 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.
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.10

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
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).