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It's Time for Baby Boomer Small Business Owners to Retire: Or is it?

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It's Time for Baby Boomer Small Business Owners to Retire: Or is it?

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Abstract: *This paper describes baby boomer small business owner succession as it relates to retirement from the perspective of the baby boomer business owner and society. Small businesses are key contributors to the U.S. economy and workforce. As society anticipates the retirement of the single largest part of the U.S. population, the “boomers,” many small business owners of that generation have, themselves, anticipated retirement. However, few business owners have prepared for retirement with a succession plan. Even in their 60s, many small business owners are delaying their retirement. This paper challenges conventional retirement norms and addresses the phenomenon of retirement through literature. Baby boomer small business owner resistance to succession planning and retirement may not be resistance, per se, but recognition of the complexities created by both baby boomer small business owners and society in addressing this issue.*

Keywords: Baby boomers, small business, small business owners, succession, retirement

INTRODUCTION

Small businesses are significant to the U.S. economy on several fronts. In fact, small businesses represent over 99% of all U.S. businesses and account for 64% of new job creation (SBA, 2015). Additionally, the 28.4 million small businesses also employ 56 million people in private sector jobs (SBA, 2015). Many of these vital businesses of the U.S. economy are led by baby boomers (U.S. Census Bureau, 2007; Lichtenstein, 2014).

THE BABY BOOMER IMPACT

Baby boomers, those born between 1946 and 1964, account for over 76 million people in the United States (Colby & Ortman, 2014). This “boom” in population can be traced back to the period after the end of WWII and the mid-1960s when post-war fertility rates were higher than any decade before or after the “baby boom” period (Adams-Price, Turner, & Warren, 2015). While generations to come are anticipated to be larger, there is no doubt that the baby boomer generation has played, and continues to play, an important role in shaping the economy and society as we know it (Hayutin, Beals, & Borges, 2013).

Impact on the workforce.

This generation, simply due to its size, has been a significant part of the U.S. labor force. The Bureau of Labor Statistics (2015a) projects that the median age of the workforce will continue to increase as it has for the past few decades. However, as the workforce ages and baby boomers are expected to retire, the labor force participation rate is projected to continue dropping from its current 62.9% through the next decade (Bureau of Labor Statistics, 2015a). This increase in the aging population, coupled with the anticipated “boom” in retirements, leaves an impending labor shortage for the U.S. to address. While baby boomers cannot take all of the responsibility for the shortage, their absence will be evident.

Impact of retirement.

Adding “insult to injury,” the labor shortage concerns are exacerbated by the fact that many of the leaders of the workforce, particularly small businesses, are baby boomers who are expected to retire shortly. According to the Current Population Survey (CPS), the median age of CEOs in the U.S. is 52.5 years (Bureau of Labor Statistics, 2015b). This continued retirement rate is expected to continue to 2029 when more than 1 in 5 Americans will be age 65 or older (Ortman, Velkoff, & Hogan, 2014). With many baby boomer CEOs expected to leave their businesses in the upcoming years, the impact of their anticipated, collective retirements on the U.S. economy is unknown but it is disconcerting. At minimum, their expected departure from the workforce is anticipated to have an effect on labor supply and institutional knowledge drain (Dychtwald, Erickson, & Morison, 2004; GAO, 2005).

DELAYING SUCCESSION PLANNING AND RETIREMENT

With the evidence that the population is aging and retirement is looming for millions of people, planning for such departure from the workforce would seem, to many, a prudent and obvious measure to take. Likewise, it seems logical that baby boomer small business owners would plan for their succession and anticipated retirement. The data suggest otherwise. As critical as small businesses are to the economy and labor force, more than 70% do not have succession plans (Eddleston, Kellermanns, Floyd, Crittenden, & Crittenden, 2013; Parkhurst 2013). In fact, despite knowing the key role a CEO plays, most small business owners leave their business legacy to chance (Chambers, 2014).

There are many reasons small business owners have for not doing succession planning. Literature suggests possible reasons for the lack of succession planning such as “financial and legal, family and organizational and other barriers to business succession planning” (Ip & Jacobs, 2006, p. 330). Other identified barriers to small business succession planning are the perceived lack of successor candidates, lack of resources, time demands, resistance to leaving, company politics, monetary consideration and characteristics of the owner (Chambers, 2014; Ip & Jacobs, 2006).

Similar to the reasons for not doing succession planning, reasons for delaying retirement vary. However, one reason—a concern over financial security—is prominent (Adams-Price et al., 2015; Ellis, 2014; Gurley-Calvez, Kapinos & Bruce, 2012; Rinn, 2014). The impact of the 2008 Recession negatively impacted the financial security and savings of retirement plans. Baby boomers and those near retirement had the most to lose.

In addition, small business owners in particular are “significantly less likely than employees to have pension or retirement plans” (Gurley-Calvez et al., 2012, p.5). Changes to social security and other benefits that were once considered “entitlements” of retirement are no longer guaranteed. For many, an obvious and necessary solution aid was to delay retirement which could provide additional years of income and retirement savings for them (Bajtelsmit & Rappaport, 2015, p.79). . “Since working longer is the key to a secure retirement, the labor force activity of people in their 50s and 60s is critical” (Munnell, 2015, p.1). From this standpoint, it isn’t difficult to understand why a baby boomer small business owner may want to delay succession and retirement.

Whatever the reason, baby boomer business owners are not leaving their businesses. The anticipated retirement age of small business owners is 72.6 years compared to 68.4 years among non-self-employed people (Gurley-Calvez et al., 2012; Rinn, 2014). The age at which small business owners are retiring is rising, not dropping. An alternate lens through which to examine this phenomenon of delayed retirement may be the concept of retirement itself and the societal expectations and norms around it.

THE RETIREMENT PHENOMENON

Retirement is defined as “the act of ending your working or professional career” (“Retirement,” n.d.). Purcell (2010) defines retirement with “reference to two characteristics; non participation in the paid labor force and receipt of income from pensions, Social Security, and other retirement plans” (p.70). The truth be told, retirement is a relatively new phenomenon. “For most of history, people worked until they dropped. It was only during the Great Depression that, desperate to make room in the workforce for young workers, government unions and employers institutionalized retirement programs as we know them today” (Dychtwald et al., 2004, p.54).

During the 1930’s era, Social Security was introduced and the retirement age was set at 65. Given that “actuarial life expectancy was 66 ½ [in 1935] that allowed for 45 years of work and 1½ years of retirement” (Ellis, 2014, p.6). Fast forward to the 21st century. Today, the life expectancy at birth is 78.8 years (Xu, Murphy, Kochanek, & Bastian, 2016). Baby boomers can expect to live well into their 80s. “Nearly 30 years have been added to average life expectancy in a single century” (Carstensen, Rosenberger, Smith, & Modrek, 2015, p.1).

In spite of the remarkable achievement of greater life expectancy, the age limits required to reap the benefits of social security, Medicare, and retirement plans have increased only slightly (Purcell, 2010). What was once one or two years of retirement has now grown to 20 or more years. This leaves a sizeable gap of potentially many years between retirement and end of life to both enjoy and be able to afford the cost of those additional retirement years. Yet, with this understanding, there seems to be only slow acknowledgement and consideration of the idea that baby boomers may be a desired and viable part of the economy well past the age of 65.

SOCIETAL PERCEPTIONS OF BABY BOOMERS

Laura Robbins (2015) commissioned research through the FrameWorks Institute to study the American public’s understanding of aging. Eight organizations in the field of aging (AARP, the American Federation for Aging Research, the American Geriatrics Society, the American Society on Aging, Grantmakers in Aging, the Gerontological Society of America, the National Council on Aging, and the National Hispanic Council on Aging) collaboratively researched this issue (Lindland, Fond, Haydon, & Kendall-Taylor, 2015). The results showed “three (mis) perceptions about older adults’ capabilities (more accurately, the lack thereof), the role of older adults in the broader society, and the concern of culpability” (Robbins, 2015, p.19). Aging is associated with “decline” or “deterioration” and the perception that “older adults can no longer learn new information as well as are seen as ‘elderly’, ‘other’ and ‘compartmentalized from society’” (Robbins, 2015, p. 19). The idea of culpability was identified in the FrameWorks study. Here, the perception held by the public about older people was one of individual accountability for their circumstances and that their lives are simply results of choices they have made and they are reaping the consequences or rewards for their choices (Robbins, 2015, p. 20).

Contrary to public opinion, experts from the study as well as from the Boston Center for Retirement Research and the Stanford Center on Longevity view older adults as critical to society and well positioned to contribute in meaningful ways. In other words, baby boomers are living longer than any previous generation in history, they are vital to the U.S. economy, and they want to contribute actively in society. (Carstensen et al., 2015; Hayutin et al., 2013; Lindland et al., 2015; Robbins, 2015). It seems that a “core belief about aging in America appears to be at the root of ageist rhetoric, action and attitudes” (Robbins, 2015, p.17).

In spite of broadly held societal perceptions, baby boomer business owners continue to lead their businesses. The fact that small businesses, which are critical to the U.S. economy and labor force, have baby boomer owners who wish to delay their retirement could be, in theory, beneficial to both.

CONCLUSION

Small businesses are critical to the economy. They make up a large number of the businesses in the U.S., are responsible for new job creation and employ large number of people. Small business owners are critical to the success of the small business. No recurring event in the life of an organization is more critical than the transfer of power and authority from the incumbent CEO to a successor (Drucker, 2001). Therefore, given their relative importance, small business owners should not take their decision to leave the business lightly.

Baby boomer small business owners tend to work to an older age and “exhibit different patterns of preparation for retirement than their wage and salary counterparts” (Gurley-Calvez, et al., 2012, p. 9). Some of these different patterns include extending the retirement age out past societal norms and expectations. While increased life expectancy should make this extension to retirement more acceptable, there are misperceptions of an aging workforce that impact the acceptance of extending retirement age. In addition, there are often real economic reasons for small business owners to delay retirement due to the financial needs and lifestyle desires they wish to have for the growing number of years they may be in retirement.

Even with the potential benefits to the economy and to business owners for delayed retirement, the significant lack of preparation and planning for their eventual retirement is puzzling and of concern. Additional review into this area is warranted as to not be in a position where the issue of retirement and succession of small business owners is simply postponed for more years only to leave the owners and society in a dire straits some years from now.

For now, there may be room to embrace the delay in the retirement of small business baby boomer owners. Perhaps it is time to question the assumptions about retirement and concede the possibility that the concept of retirement is simply a myth, a created concept, tied to an actuarial calculation, which society has embraced with little question. With their relative importance to the U.S., the additional benefits of allowing and encouraging small business owners to continue contributing to the economy and workforce may outweigh norms of retirement age expectations.

This additional time gives small business owners, employers, employees, and society as a whole, more time to plan and adjust to the inevitable changes in the workforce. This furthers the necessity of small businesses to solidify their succession planning efforts, to ensure that small businesses continue to be a vital part of the economy for decades to come.

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