

## Income and Net Worth of Veteran Business Owners over the Business Cycle, 2007–2013

By George Haynes, Haynes Consulting, Bozeman, Montana 59717. 65 pages.  
Under contract number SBAHQ-15-M-0075.

### Purpose

Veterans constitute a vital part of the nation's population and business sector. Their economic success is a national priority and a key objective of government efforts to expand small business and entrepreneurship opportunities. The recent recession challenged all businesses. While there has been ample discussion of the growth and decline of businesses during the economic cycles of the past 30 years, knowledge of the experience of veteran business owners (at either the individual or household level) is lacking.

This study focuses on the changing financial health of veterans during recent economic cycles. It examines the changes from 1989 to 2013, a period covering several economic expansions and contractions, for all veteran and non-veteran households and for those owning small businesses, with emphasis on the 2007-2013 time period.

The 24 years between 1989 and 2013 were marked by extremes. The 1990s saw the longest ever peacetime expansion in the U.S. economy, while the Great Recession of 2007 to 2009 was the U.S. economy's most substantial decline since the Great Depression. The rapid contraction from 2007 to 2009 and subsequent expansion from 2009 to 2013 has raised a very important question for policymakers: How have veteran-owned small businesses fared during and after the Great Recession? This study evaluates veterans' financial health in terms of income and

net worth utilizing data from the Federal Reserve Board's Surveys of Consumer Finance (SCF) from 1989 through 2013. It also updates a previous study done for the Office of Advocacy.<sup>1</sup>

### Background

Veteran business owners and entrepreneurs make important contributions to business creation and growth in the American economy. Their active duty and reserve service often provide them with important skills and leadership qualities that are directly relevant to business ownership. While veterans comprise an important segment of the nation's population and economy, veteran households have become a substantially smaller percentage of all U.S. households (and small business-owning households). The percentage of veteran households declined from 21.5 percent of all households in 2007 to 18.6 percent in 2013. These declines are largely due to the aging of the veteran population and the fact that the population age 65 and over increased at a faster rate than the overall population between 2000 and 2010.<sup>2</sup>

Recessions, in general, pose significant empirical challenges in terms of measuring their effects on businesses. For instance, some businesses realize substantial decreases in sales (and may eventually fail); while other businesses, faced with less competition in their market, experience substantial increases in sales. The recovery is equally challenging to

1. George Haynes, *Income and Net Worth of Veteran Business Owners over the Business Cycle, 1989-2010*. U.S. Small Business Administration, Office of Advocacy, 2014. Available at [www.sba.gov/sites/default/files/rs426tot\\_vet\\_income\\_and\\_net\\_worth\\_final\\_0.pdf](http://www.sba.gov/sites/default/files/rs426tot_vet_income_and_net_worth_final_0.pdf), accessed October 14, 2015.

2. Jules Lichtenstein, "Profile of Veteran Business Owners: More Young Veteran Appear to Be Starting Businesses," Issue Brief Number 1, U.S. Small Business Administration Office of Advocacy, November 8, 2013. Available at [www.sba.gov/advocacy/issue-briefs](http://www.sba.gov/advocacy/issue-briefs), accessed November 4, 2014.

assess because some businesses realize substantial increases in sales, while others experience substantial declines in the face of greater competition.

## Overall Findings

The most prominent finding of this study is that even though the recovery has been slow for veteran households with small businesses, these households have fared somewhat better than veteran households without small businesses. Also of note, the analysis found veteran small business households' net worth was higher than other veteran households, but similar to non-veteran small business households from 2007 to 2013.

### Income and Wealth

- After controlling for key characteristics, the analysis indicates that veteran small business households had higher net worth than other veteran households, but similar income.
- During the Great Recession (2007-2009), average veteran household income fell below non-veteran household average income and remained lower through the recovery (2009-2013).
- Both veteran and non-veteran households owning small businesses saw declines in income and net worth during the recession.
- Veteran households with small businesses had higher income than non-veteran small business households.
- While veteran households with small businesses have retained higher average net worth than non-veteran small business households since 1989,

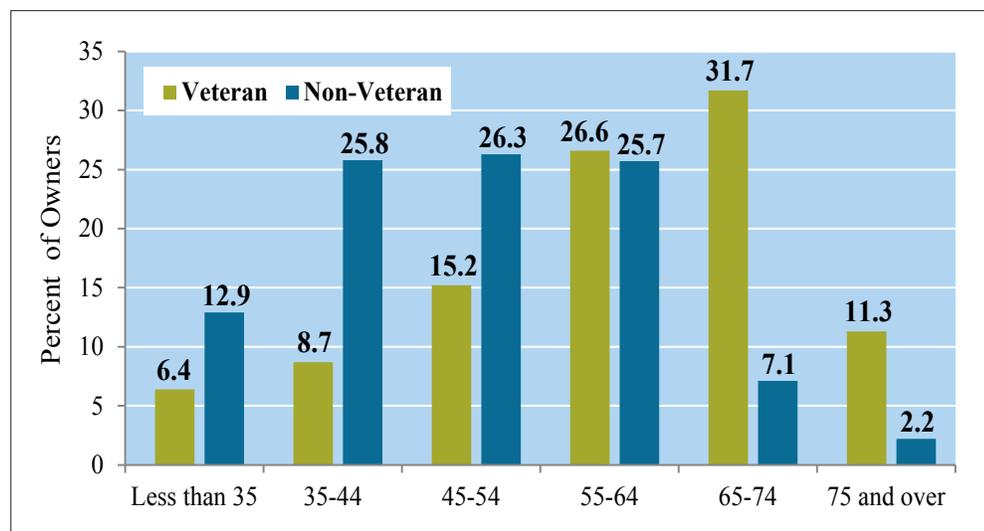
the difference in net worth has decreased from over 55 percent in 1989 (when veterans had 55 percent higher net worth than non-veterans) to less than 13 percent in 2013.

- The recession caused a decline in the percentage of high income veteran households. Veteran small business households' mean income also declined.
- Remarkably, the recession did not appear to change the likelihood of being high net worth; however, the recession did appear to cause a decline in mean net worth, from \$2.3 million in 2007 to \$2.2 million in 2010. Based on this study, it did not appear that non-veteran or veteran small business households had recovered from the recession by 2013.

### Demographic and Business Characteristics

- From 2007 to 2013, the number of veteran households declined from 25 million to 22.8 million, while non-veteran households rose from 91.1 million to 99.7 million—a decline of 8.8 percent for veteran households versus an increase of 9.4 percent for non-veteran households.
- The number of veteran households with small business owners decreased by over 25 percent, or 800,000 from 2007 to 2013.
- In the most recent year studied (2013), veteran household heads were older and more likely to be white, male, and married than non-veteran household heads.
- Veteran heads of households with small businesses were much older than their non-veteran counterparts in 2007 and 2013 (Figure 1).

**Figure 1: Veteran and Non-Veteran Small Business Owners by Age Category, 2013.**



Source: George Haynes, *Income and Net Worth of Veteran Business Owners, 2007 – 2013*, U.S. Small Business Administration, Office of Advocacy, 2015. Data from Survey of Consumer Finance, Federal Reserve Board.

- Veteran small business households had a higher share of income from Social Security and pensions than their non-veteran peers. This reflects veterans' older age distribution. In 2013, wages and salaries made up 38.2 percent of veteran households' total income and 50.9 percent of non-veteran households' total income. Social security and pensions made up 27.3 percent of veteran households' total income versus 6.2 percent of non-veteran households' total income.

## Policy Implications

These results suggest that veteran and non-veteran small business owners realized significant declines in income and net worth, and that veteran households with small businesses appear to be recovering more slowly than non-veteran households. However, veteran small business owners fared better than veterans not owning a small business. These findings reinforce the importance of policy incentives to support the growth and development of veteran-owned small businesses. These efforts include specialized assistance from the Small Business Administration (SBA) and its resource partners, as well as business development and entrepreneurship programs managed by SBA in conjunction with other federal agencies, such as Operation Boots to Business. Efforts by private sponsors, nongovernment organizations, or universities should also be continued and strengthened. Congress has enacted legislation establishing government-wide procurement goals for contracts awarded to service disabled veterans, which should be care-

fully monitored. Such policies designed to encourage the growth and development of veteran-owned small businesses have been important in mitigating the initial impact of the Great Recession.

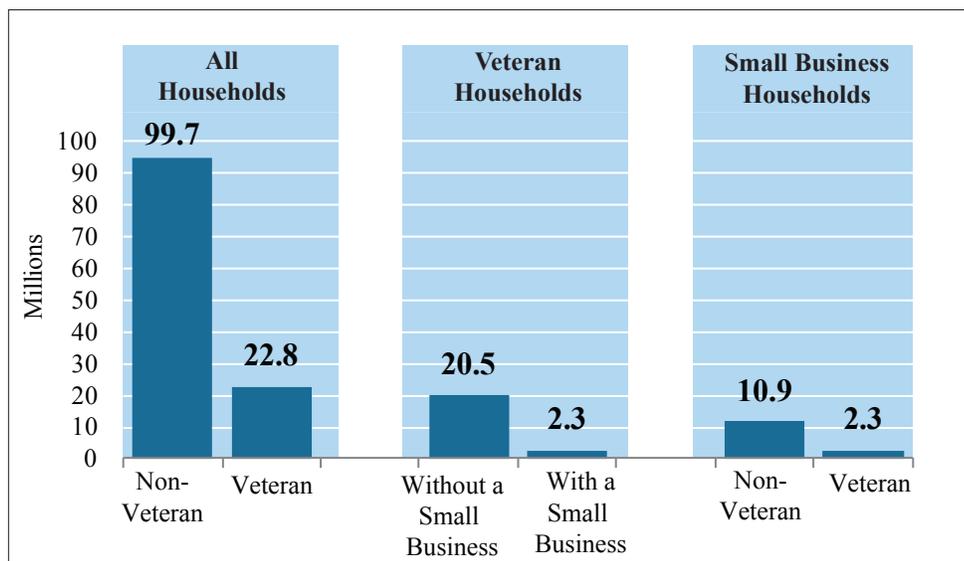
## Scope and Methodology

This study focuses on the financial impacts of the recession from 2007 to 2010 and the subsequent recovery from 2010 to 2013. It utilizes the 1989 through 2013 Surveys of Consumer Finances (SCF) conducted for the Federal Reserve Board to examine the impact of expansions and contractions in the U.S. economy on veteran households with small businesses. It compares three sets of households (Figure 2):

- 1) all households—comparing those headed by veterans and non-veterans,
- 2) veteran households only—comparing those with and without small businesses, and
- 3) small business-owning households—comparing those with veteran owners and those without veteran owners.

The sampling frame for the analysis is the household. Personal and demographic characteristics are those of the respondent interviewed, typically the household head. The variables included are military status of the owner, business ownership status of the household, household income, and household net worth (including assets and debt held by members of the household). Business ownership status was determined by whether an individual owned at least one business. Household income is computed by summing various sources of income (e.g., wages and

**Figure 2: Household Subgroups Analyzed in the Study, 2013.**



Source: George Haynes, *Income and Net Worth of Veteran Business Owners, 2007 – 2013*, U.S. Small Business Administration, Office of Advocacy, 2015. Data from Survey of Consumer Finance, Federal Reserve Board.

salaries, interest, and dividends). The net worth of the household was determined by generating a balance sheet supplied by the Federal Reserve Board.

Multivariate regression analyses, both logit and linear, are used to control for key household and business characteristics.

Control variables include personal and demographic characteristics of the household head and business owner, as well as characteristics of the business. Personal and demographic characteristics include age, race, gender, education, and marital status. In addition, financial characteristics of the household are included. Business characteristics include employee size of firm, age of the firm, legal organization, industrial classification, and founding strategy (i.e., bought or invested, started or inherited).

Business cycle information originates from two sources: the National Bureau of Economic Research, which reports U.S. business cycle expansions and contractions, and the U.S. Department of Commerce's Bureau of Economic Analysis, which reports gross output by industry.

This study examines the likelihood that a household would be classified as high income or high net worth. The thresholds were, for high income, \$83,651 in 2013 dollars (\$50,000 in 1992 dollars);

and for high wealth, \$1.627 million in 2013 dollars (\$1 million in 1992 dollars).

This report was peer reviewed consistent with Advocacy's data quality guidelines. More information on this process can be obtained by contacting the director of economic research at [advocacy@sba.gov](mailto:advocacy@sba.gov) or (202) 205-6533.

### **Additional Information**

This report is available on the Office of Advocacy's research webpage at [www.sba.gov/advocacy](http://www.sba.gov/advocacy). To be informed of Advocacy's future research, visit the office's email subscription webpage at [www.sba.gov/content/connect-us-0](http://www.sba.gov/content/connect-us-0). By subscribing to the Small Business Regulation & Research category, you can choose to receive email notices of new Advocacy research, news releases, regulatory communications, publications, or the latest issue of *The Small Business Advocate* newsletter.