

Fact Sheet

US Small Business Employment and Older Workers

Jennifer Schramm and Carlos Figueiredo
AARP Public Policy Institute

Small firms have long been considered the main engine of US employment and the driver of innovation and economic growth. Over the past several decades, larger businesses have increasingly dominated markets and accounted for a larger share of total employment. More recently, the pandemic influenced private small firms' formation and survival rates, revenue, and profits. Throughout these changes, however, small businesses maintained their reputation as the backbone of the economy and have remained the most substantial source of new jobs for American workers.

Older workers, meanwhile, are an important part of the story of this backbone of the economy. Older workers represent a larger share of the total workforce in small private businesses (34 percent) than in private firms with 500 or more employees (30.2 percent). Older adults are also more likely than their younger counterparts to own a small business.¹ The following data and discussion provide details on older workers' prominent position in what remains a key driver of the labor force and overall economy: small businesses.

Small businesses are an important source of jobs for older workers

The US Small Business Administration (SBA) defines a small business as an independent business having fewer than 500 employees. According to the US Census Statistics of US Businesses (SUSB) establishment survey in 2021, there were more than 32 million small businesses in the United States, accounting for 46.8 percent of US private-sector employees.²

Small businesses have always represented a major source of employment for workers of all ages, particularly older workers. As shown in table 1, in 2022, 24.2 million workers ages 50 and older were employed by firms with fewer than 500 employees, compared with about 19 million 50+ workers employed by firms with 500 or more employees. Moreover, as mentioned, many small businesses are founded by those ages 50 and older.³

Key Takeaways

- ✓ More workers ages 50+ work at private small businesses—defined as those with fewer than 500 employees—than at larger firms.
- ✓ Because of the overall aging of the workforce, the share of older workers in the total small business workforce is growing.
- ✓ In the past decades, very large companies have come to dominate market share for goods and services. These shifts account for the declining percentage of people of all ages who work for small businesses.
- ✓ The pandemic has influenced short-term trends in small business employment. During the toughest months in 2020 many small firms laid off employees or even closed, but as the economy improved in 2021, many new small firms formed.

TABLE 1
Number of Workers in the US Private Workforce by Age and Size of Firm

Size of Firm	Age					
	Under 25	25 to 39	40 to 49	50 to 64	Ages 65+	50 and older
Under 10	2,847,827	6,387,984	4,449,582	6,220,134	2,255,077	8,475,212
10 to 24	4,133,179	7,120,557	3,941,951	5,188,523	1,646,251	6,834,774
25 to 99	1,448,394	3,556,849	1,990,039	2,687,351	614,791	3,302,142
100 to 499	1,903,257	5,899,353	3,410,664	4,519,477	1,086,646	5,606,124
500 to 999	869,767	2,714,117	1,417,218	1,912,044	473,344	2,385,388
1,000 or more	8,597,080	19,601,687	10,744,783	13,874,467	2,741,383	16,615,850
Under 500	10,332,657	22,964,743	13,792,237	18,615,485	5,602,766	24,218,251
500 or more	9,466,848	22,315,804	12,162,002	15,786,512	3,214,727	19,001,239
All Firms	19,799,504	45,280,547	25,954,238	34,401,997	8,817,493	43,219,489

Source: Bureau of Labor Statistics, Current Population Survey, Annual Social and Economic Supplement, March 2022. The data in table 1 and throughout this Fact Sheet do not include self-employed workers.

The share of workers ages 50 and older is higher in smaller firms

The share of workers ages 50 and older is higher in smaller firms (34 percent) than in firms with 500 or more employees (30.2 percent, see table 2).

Very small firms with fewer than 10 employees, often described as “microbusinesses,” employ the highest percentages of older workers. Small businesses with the highest percentage

of workers ages 50+ fall in this microbusiness segment, with 38.2 percent working in such firms. As shown in figure 1, 26.1 percent of the US private small business workforce is composed of workers ages 50 to 64 and 7.9 percent of workers ages 65 and older. As the workforce has aged more broadly, and as the labor force participation rate of older workers has grown, the share of workers ages 50 and

TABLE 2
Age Distribution of the US Private-Sector Workforce by Firm Size

Size of Firm	Age					
	Under 25	25 to 39	40 to 49	50 to 64	65 and older	50 and older
Under 10	12.9%	28.8%	20.1%	28.1%	10.2%	38.2%
10 to 24	18.8%	32.3%	17.9%	23.6%	7.5%	31.0%
25 to 99	14.1%	34.5%	19.3%	26.1%	6.0%	32.1%
100 to 499	11.3%	35.1%	20.3%	26.9%	6.5%	33.3%
500 to 999	11.8%	36.7%	19.2%	25.9%	6.4%	32.3%
1,000 or more	15.5%	35.3%	19.3%	25.0%	4.9%	29.9%
Under 500	14.5%	32.2%	19.3%	26.1%	7.9%	34.0%
500 or more	15.0%	35.5%	19.3%	25.1%	5.1%	30.2%
Under 100	15.5%	31.3%	19.1%	25.9%	8.3%	34.2%
100 or more	14.3%	35.4%	19.5%	25.5%	5.4%	30.8%
All Firms	14.7%	33.7%	19.3%	25.6%	6.6%	32.2%

Source: Bureau of Labor Statistics, Current Population Survey, Annual Social and Economic Supplement, March 2022.

older in the private small business workforce has also grown (figure 2).

For workers ages 50 to 64, the share of employment in small firms compared to large firms is similar among men and women. The share of the male workforce ages 50 to 64 is 26.5 percent in small firms and 25.1 percent in firms with 500 employees or more. Among the female workforce, the share of women ages 50 to 64 is 25.7 percent in small firms and 25.1 percent in firms with 500 employees or more. For 65+ men, the share is 8.2 percent in small firms compared with 5.1 percent in larger firms. For women ages 65+, the share is 7.4 percent in small firms compared with 5.1 percent in larger firms (figure 3).

The likelihood of working for a small business is not the same across all demographics. Differences exist in both age and race/ethnicity, as shown in figure 4. In the 65 and older age demographic, multiracial and American Indian/Alaska Native, Native Hawaiian, and other Pacific Islander workers are most likely to work in small private firms. In this age category, 77.7 percent of multiracial/non-Hispanic workers work for a small firm,

FIGURE 1
Age Distribution of US Private-Sector Workforce at Firms with under 500 Employees

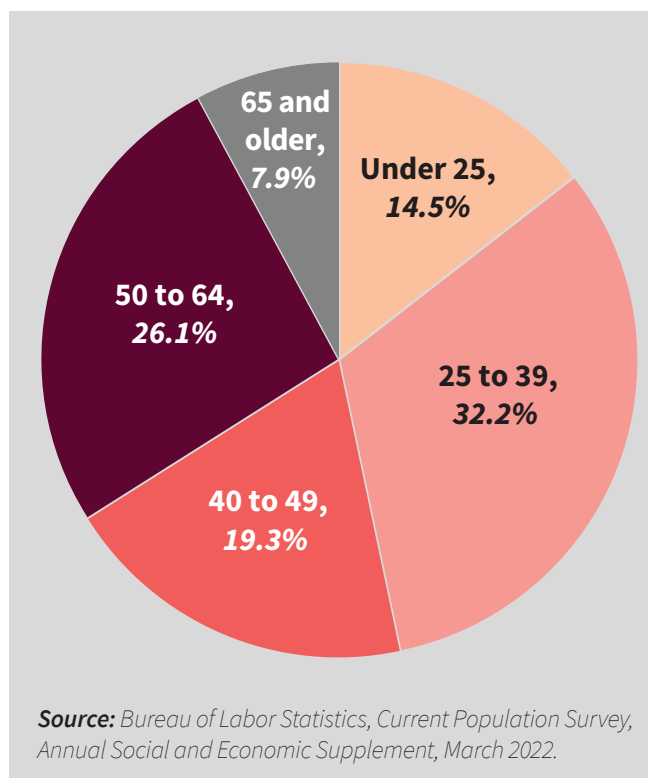


FIGURE 2
The Share of Workers Ages 50 and Older in US Private Small Firms (under 500 Employees) Has Increased over Time

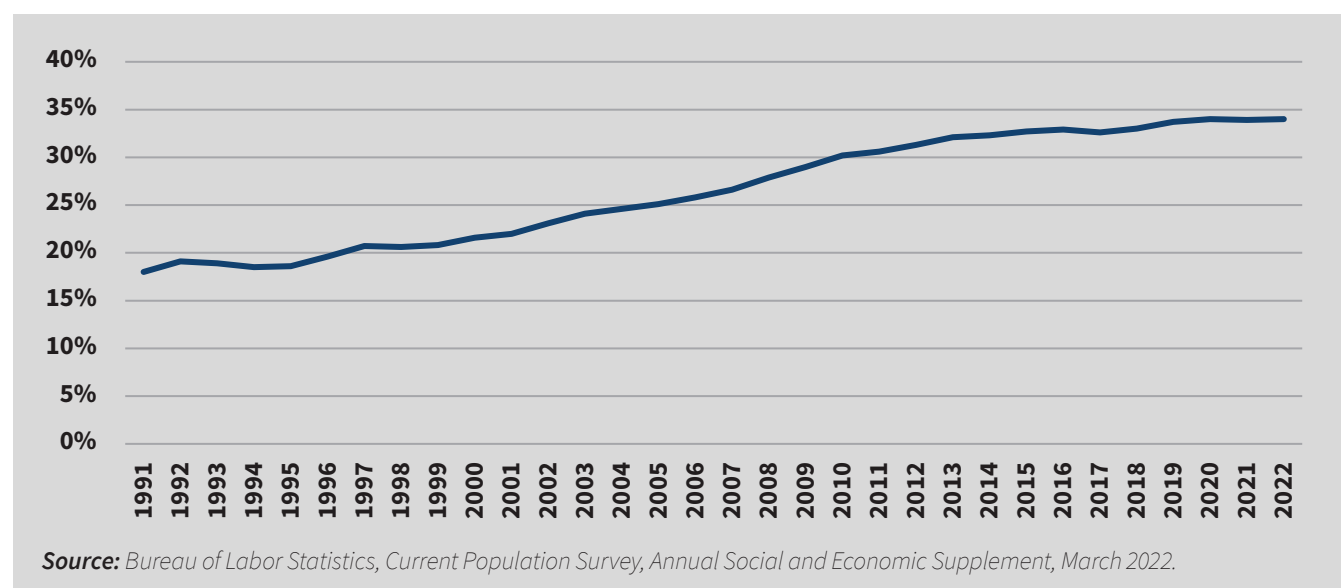
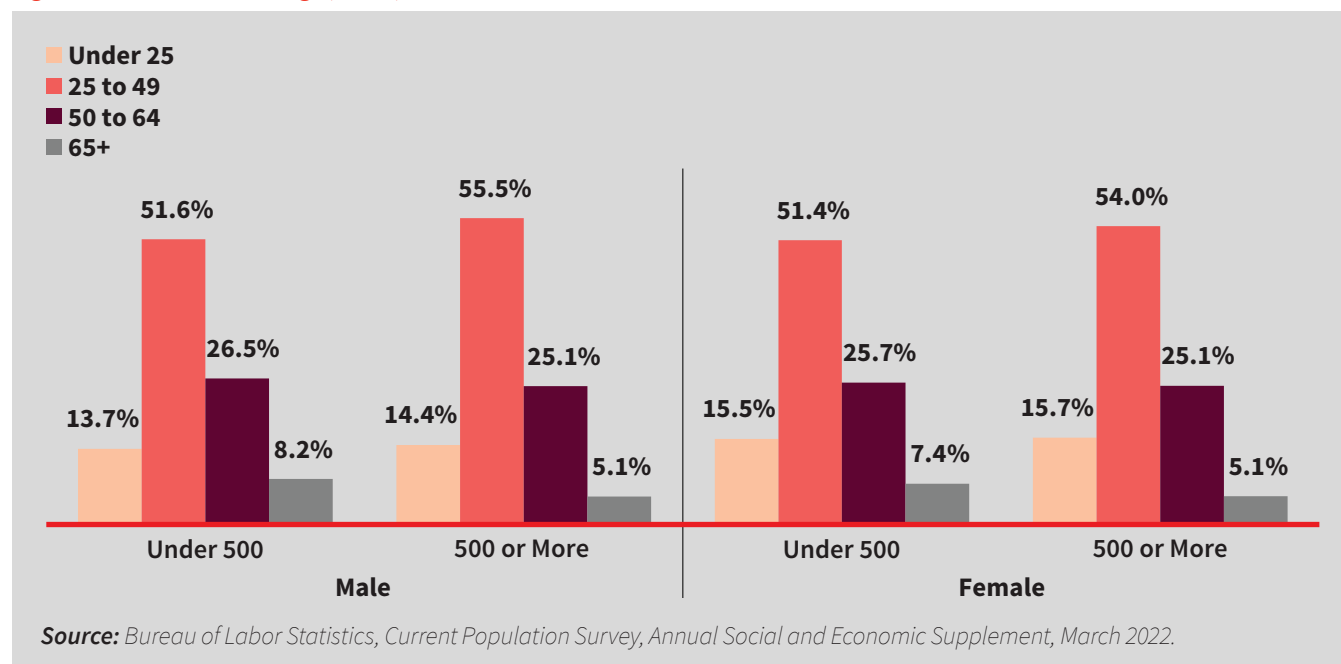


FIGURE 3
Age Distribution by Age, Sex, and Firm Size



followed by 73.7 percent of American Indian/Alaska Native and Native Hawaiian and Other Pacific Islander workers. In the 65+ private workforce, Asian American (49.2 percent) workers are least likely to work for a small business.

Meanwhile, in the 50 to 64 age group, Hispanic workers are most likely to work for a small private firm (62.8 percent). Black workers in this age group are least likely to work for a small firm (46.3 percent). Among the private-sector workforce under age 25, white workers are most likely to work for a small firm (55.5 percent), and Black workers are least likely (40.8 percent). For those ages 25 to 49, Hispanic workers are most likely to work for a small business (61.9 percent), while Black workers are least likely (42.2 percent).

Changes over time in business employment dynamics by firm size

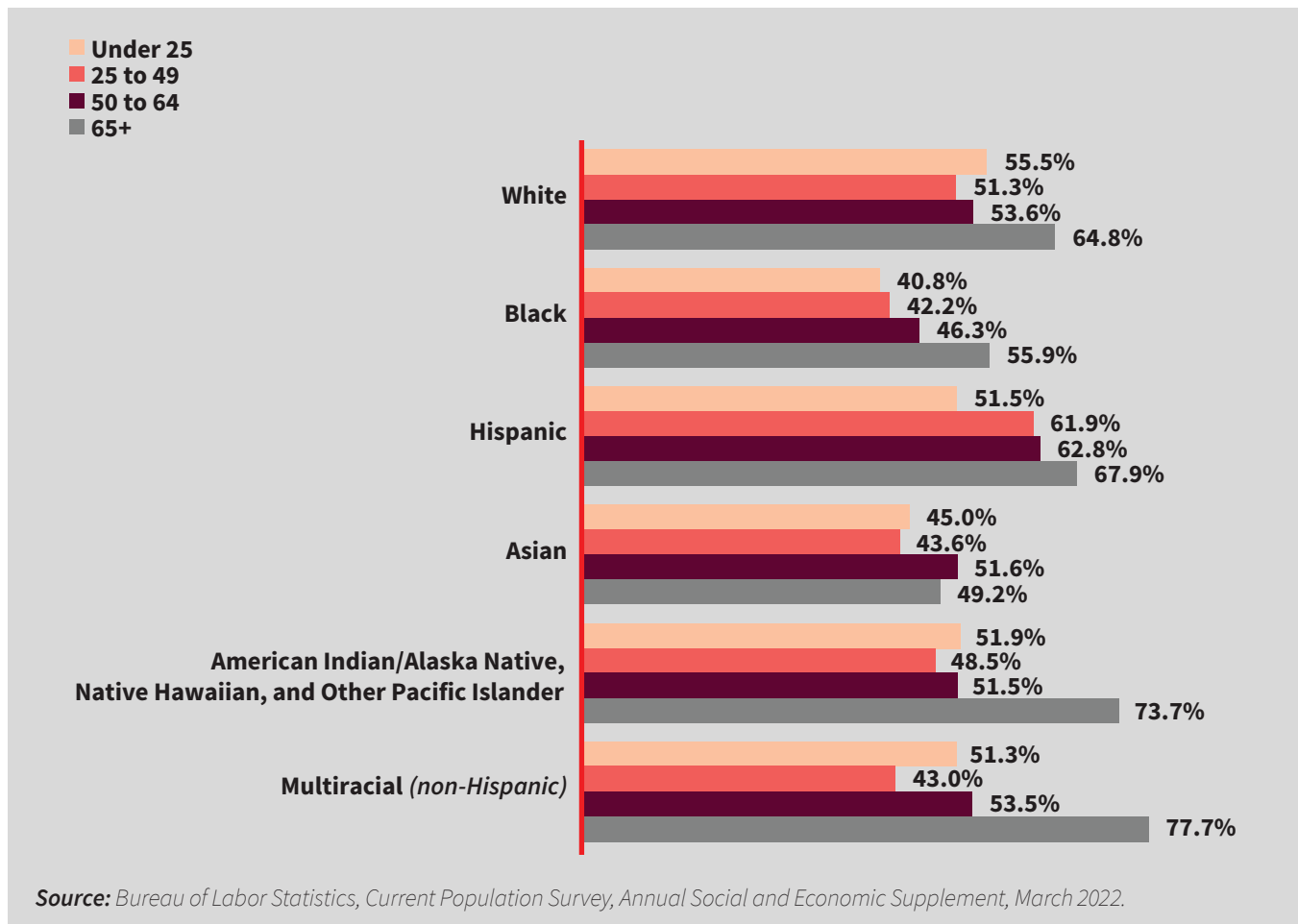
US Bureau of Labor Statistics (BLS) analysis of data on business employment dynamics between 1994 and 2019 indicates that firms with fewer than 500 employees had higher

employment growth compared with large firms.⁴ However, this higher growth rate did not lead to an increasing share of small firms in total employment. Instead, the BLS analysis shows that small firms' share in total employment declined from 63.1 percent in 1994 to 58.5 percent in 2019.

These seemingly inconsistent trends reflect several underlying factors. For example, smaller firms' headcount may have grown faster during the period of analysis, but they still employed relatively fewer people. Meanwhile, although older, larger firms increased their headcount more slowly, they started from a larger base of employment, and their overall employment share is larger. Further, the changing size of many firms, some of which may move from small to large because of business growth or mergers—while others fail—can also affect this counterintuitive trend of a declining share of total employment among small firms despite high employment growth.⁵

The changes in business dynamics analyzed by the BLS influence trends in the employment of older workers by firm size. Labor force

FIGURE 4

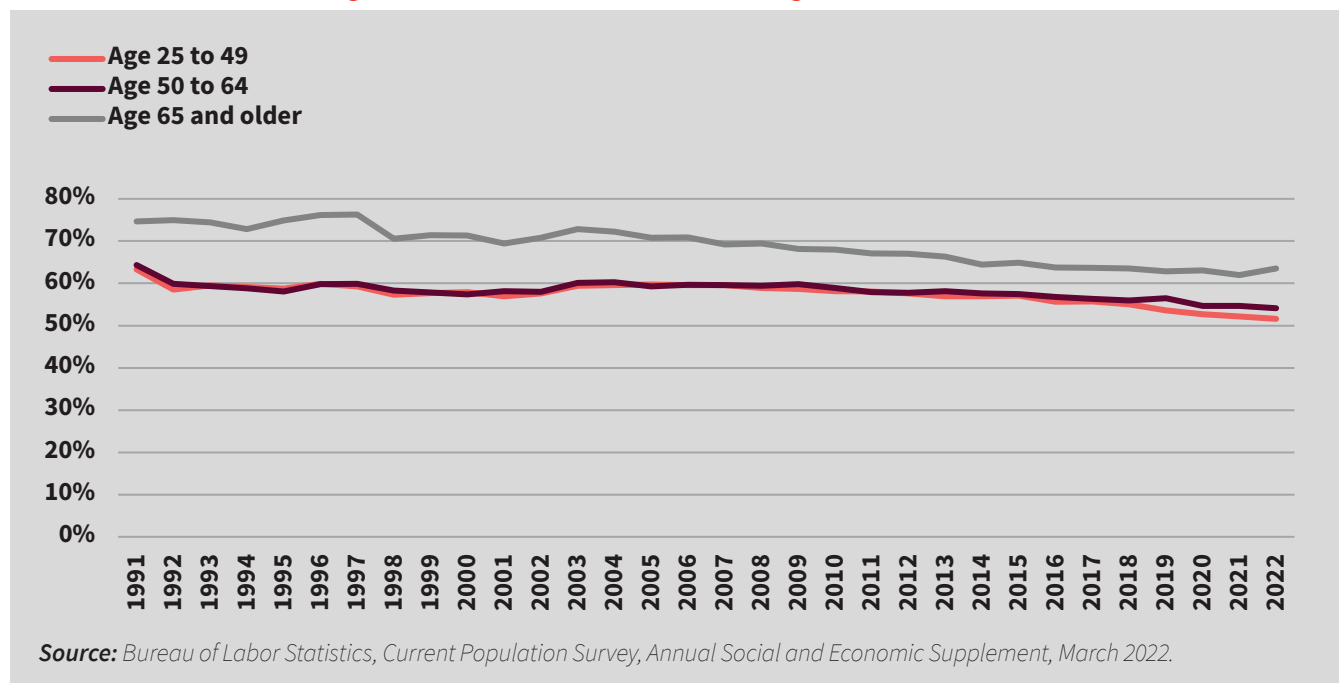
Small Business Employment of Private-Sector Workers by Age and Race/Ethnicity

participation rates for older workers have been on the rise in recent decades, leading to increases in the proportion of the private small business workforce that is made up of older workers. But the proportion of the older workforce in small firms has decreased because of the increase in the share of larger firms as employers. As shown in figure 5, when viewed over the period from 1991 to 2022, the percentage of workers ages 25 to 49 and those ages 50 to 64 who work for small firms has declined. Small-firm employment of workers ages 65 and older also declined during this period but began trending upward between 2021 and 2022.

Where older employees work is largely a factor of broader corporate and small

business trends. Recent research has shown that the gap in growth rates between large and small businesses is expanding and that large corporations are increasingly likely to maintain their dominant positions in the market while small corporations are becoming less likely to turn into big and profitable companies.⁶ Until 2000, 15 to 20 percent of small companies became medium-sized or even large companies each year. By 2017 this percentage was cut in half.⁷ Along with trends in small business creation, these dynamics could influence the share of employment by business size in the years ahead. Although small businesses do not account for as large a share of US GDP or employment as they did in the 1990s, they remain a vital part of the economy and an essential source of new jobs.

FIGURE 5
The Likelihood of Working for a Small Business is Declining



The COVID-19 effect and beyond

When the COVID-19 pandemic began, it presented a major threat to businesses everywhere, and many smaller firms were not able to survive. The volatile business environment led to steep declines in employment overall and a drop in small business employment in 2020. In response, the government took unprecedented measures to keep businesses afloat. Programs funded through the American Rescue Plan included those aimed at specific industries, such as the Restaurant Revitalization Fund, and other programs, such as the Paycheck Protection Program, COVID Economic Injury Disaster Loans, and Shuttered Venue Operators Grants. As of March 2022, the SBA had provided more than \$450 billion in critical recovery funding to more than 6 million entrepreneurs.⁸

By the second quarter of 2021, the outlook for small businesses appeared to improve. According to the SBA, the percentage of small businesses negatively affected by the pandemic declined from 51.4 percent in April 2020 to

25.2 percent in July 2021. Yet businesses in sectors such as accommodations and food services continued to have negative impacts from the pandemic.⁹ Analysis of BLS Quarterly Census of Employment and Wages data found that, overall, as of the third quarter of 2021, total business establishments nationwide stood 7 percent above their prepandemic levels.¹⁰ BLS Business Employment Dynamics data indicate that by the second quarter of 2021, both smaller and larger firms had net employment increases.¹¹

Despite the ongoing challenges, the pandemic seems to have created strong motivations among many individuals to start a business. Analysis of applications for new businesses from the US Census Bureau's monthly and weekly Business Formation Statistics showed that although applications fell substantially in the early months of the pandemic, they surged in the second half of 2020. This trend was in sharp contrast to the slower pace of applications during and after the Great Recession, which lasted much longer. By contrast, the 2020 pandemic-driven recession

was both shorter and starker, marked by a time when applications “declined sharply and persistently.” Then, starting in mid-2020, the pace of applications grew to the highest on record.¹²

While most of the businesses founded by those ages 50 and older do not have employees, the sheer number of small businesses founded by older Americans continues to make them a source of new jobs. Moreover, research indicates that small businesses with older owners are more likely to survive than companies started by younger people.¹³ Overall, the trends indicate that, in the years ahead, private small businesses will remain a vital part of the US economy, with older workers playing an important role—as both employees and employers—in their success.

Note on survey data

This *Fact Sheet* uses worker demographic data derived from the US Census Annual Social and Economic Supplement (ASEC) to the Current Population Survey, the monthly survey used by the US Bureau of Labor Statistics for a range of employment data. The ASEC, which asks

respondents about the size of their employer, allows us to report the characteristics of workers by firm size. The Statistics of U.S. Businesses (SUSB) is a series based on a US Census establishment survey and provides national and subnational distribution of economic data by establishment industry and enterprise size. These two sources of data differ in their estimates of overall employment by private firm size. For example, according to the SUSB, about 46.8 percent of all employees work in private firms with fewer than 500 employees, compared with 53.1 percent, according to the ASEC. Because the SUSB is a survey of firms/establishments, experts consider it a more reliable estimate of employment by firm size. Nevertheless, the ASEC data are useful because they contain demographic information about employees of firms of different sizes, including age, sex, and race/ethnicity. This type of data is not available from the SUSB establishment survey. Differences in the mode of survey collection, the context of the survey, the population of interest, and the fielding window for each survey limit comparisons of the data yielded.

- 1 “The Megaphone of Main Street: Unsung Entrepreneurs,” SCORE, June 2021, <https://www.multivu.com/players/English/8905351-score-older-entrepreneurs-small-business-report/>.
- 2 “Frequently Asked Questions,” Office of Advocacy, US Small Business Administration, last modified December 2021, <https://advocacy.sba.gov/wp-content/uploads/2021/12/Small-Business-FAQ-Revised-December-2021.pdf>.
- 3 Brian Headd, “Small Business Facts: Business Ownership Demographics,” Office of Advocacy, US Small Business Administration, March 2021, <https://advocacy.sba.gov/wp-content/uploads/2021/03/Business-Ownership-Demographics-Fact-Sheet.pdf>.
- 4 Akbar Sadeghi, “Business Employment Dynamics by Age and Size of Firms,” Office of Employment and Unemployment Statistics, US Bureau of Labor Statistics, January 2022, <https://www.bls.gov/spotlight/2022/business-employment-dynamics-by-age-and-size/home.htm>.
- 5 Sadeghi, “Business Employment Dynamics.”
- 6 Vijay Govindarajan, Baruch Lev, Anup Srivastava, and Luminita Enache, “The Gap between Large and Small Companies Is Growing. Why?” *Harvard Business Review*, August 16, 2019, <https://hbr.org/2019/08/the-gap-between-large-and-small-companies-is-growing-why>.
- 7 Govindarajan et al., “The Gap between Large and Small Companies.”
- 8 US Small Business Administration, “Statement by SBA Administrator Guzman on the First Anniversary of the American Rescue Plan,” news release no. 22-18, March 11, 2022, <https://www.sba.gov/article/2022/mar/11/statement-sba-administrator-guzman-first-anniversary-american-rescue-plan>.
- 9 “Frequently Asked Questions,” US Small Business Administration.

- 10 Connor O'Brien, "More Physical Places of Businesses Open Now than Pre-Pandemic, Led by Sun Belt Metros," Economic Innovation Group, April 5, 2022, <https://eig.org/news/more-physical-places-of-businesses-open-now-than-pre-pandemic-led-by-sun-belt-metros>.
- 11 US Bureau of Labor Statistics, "Business Employment Dynamics Summary," news release no. USDL-23-0105, January 25, 2023, <https://www.bls.gov/news.release/cewbd.nr0.htm>. Gross job gains and gross job losses in this release are derived from longitudinal histories of 8.7 million private-sector employer reports out of 10.8 million total reports of employment and wages submitted by states to BLS in the first quarter of 2021. The net employment change is the difference between total gross job gains and total gross job losses.
- 12 John C. Haltiwanger, "Entrepreneurship during the COVID-19 Pandemic: Evidence from the Business Formation Statistics," in *Entrepreneurship and Innovation Policy and the Economy*, volume 1, ed. Josh Lerner and Scott Stern (Chicago: University of Chicago Press, 2022), pages 9-42, <https://www.nber.org/books-and-chapters/entrepreneurship-and-innovation-policy-and-economy-volume-1/entrepreneurship-during-covid-19-pandemic-evidence-business-formation-statistics>.
- 13 "Despite Lower Revenues and Slower Growth, Women-Owned Businesses Survive at Same Rate as Male Entrepreneurs, According to New JPMorgan Chase Institute Data," JP Morgan Chase Institute, February 7, 2019, <https://www.jpmorganchase.com/institute/news-events/institute-women-owned-businesses-survive-at-same-rate-as-male-entrepreneurs>.

Fact Sheet 1593004, April 2023

© AARP PUBLIC POLICY INSTITUTE
601 E Street, NW
Washington DC 20049

Follow us on Twitter [@AARPPolicy](https://twitter.com/AARPPolicy)
[on facebook.com/AARPPolicy](https://facebook.com/AARPPolicy)
www.aarp.org/ppi

For more reports from the Public Policy
Institute, visit <http://www.aarp.org/ppi/>.

<https://doi.org/10.26419/ppi.00190.001>

