

# Experts explain why you're bad at making decisions, and how to improve

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Credit: Michael Greenwood

It's an unexpected home for a magic eight ball.

The iconic '50s toy sits on an office desk at USC's Center for Economic and Social Research. Anywhere else, it might elicit childhood memories. Generations have thought of questions to ask and then shaken the

spheres for answers, getting such responses as "It is certain," "Outlook not so good" or "Concentrate and ask again."

But at the center dubbed CESR (pronounced like the Roman politician and general), the Magic 8-Ball feels more tongue-in-cheek than nostalgic. That's because the 70 or so researchers at the center in Dauterive Hall specialize in the science of making decisions.

The economists, psychologists, behavioral scientists and demographers at CESR figure out how [people](#) make the decisions they make—and how they can make better, more-informed ones. To do that, the researchers tap the latest technology to make sense of large volumes of data. Turns out, humans are poor at weighing options and making big decisions. If you've procrastinated on life-changing plans and choices—like how much money to save or whether to undergo a major medical procedure—you're not alone.

"I've not planned my life out yet," says economist Arie Kapteyn, 72, with a laugh. By most measures, Kapteyn, CESR's director, is an expert in making informed choices. He has devoted most of his professional life to researching why it's so tough to get people to make important financial decisions—and the impact such indecision has on society and public policy. But for Kapteyn, as for the rest of us, putting knowledge into action is another story.

"For most people, decisions happen largely by accident," Kapteyn says. "In one way or another, we all need help."

## Today versus tomorrow

The factors behind our ability—or inability—to make better decisions move in opposite directions as we age, say Kapteyn and Jeremy Burke, a senior economist who runs CESR's satellite office in Washington, D.C.

Humans' raw cognitive horsepower declines with age. At the same [time](#), the knowledge gained from life experience increases over time until it plateaus late in life, Burke says. So we may have more information to work with as we get older, but the mental motor that processes that information slows down.

It's against that backdrop that people face some of their most challenging questions.

Take the major financial life decisions that surround retirement. Nearly half of American adults haven't started saving for it, even those whose age and experience puts them at their mental peak. Low take-home pay and vanishing company pensions are part of the problem, but researchers say it's also partly because people can't relate to their [future](#) selves—so they don't save money. For some, planning for tomorrow seems so overwhelming that it's easier to focus on today.

The problem has led some experts to warn of a coming retirement crisis, as retirees who look solely to Social Security for support are in danger of living their golden years below the poverty line.

For those already approaching retirement, Kapteyn says, one of the toughest decisions to make is when to claim Social Security benefits. Do it at age 62 and you get less per month than if you wait until age 70.

And yet, even though a person who claims Social Security at 70 will get more money per month than at 62, that older person probably will have fewer years to live.

It's this uncertainty about the future that often poses a big stumbling block to decision-making. Burke says it's a classic tradeoff problem: People struggle to weigh a benefit today against a benefit in the future.

First, the math might be too complex to grasp. And then there's the sheer impossibility of accurately forecasting the future. People are often "present-biased"—they favor getting something right now at the expense of the future, Burke explains.

There's no learning curve on Social Security, either. The decision on when to start collecting it comes along only once in your life. So people can't learn about Social Security through their previous experiences as they would, say, in buying a car—which the average person does several times. "You may get a bad deal the first and second time, but by the fourth time, you've learned how to make a more informed purchase," Kapteyn says.

But people can learn to make these decisions if they have the right tools, he says. "We need to develop simulations to help people better understand such things as compounding interest, inflation and the effect of interest rates, as well as the implications of longer life expectancy."

Researchers aim to create and bring some of these helpful tools to the public through CESR programs like the Roybal Center for Health Decision Making and Financial Independence in Old Age. They even dive into the nitty-gritty of language, studying the words used to teach people about making complicated decisions.

## **Fleeting feelings**

Rational thought, knowledge and feelings all have their place in [decision](#)-making.

But feelings are fleeting, and they become cloudy in retrospect, so learning from our feelings is difficult, says Norbert Schwarz, Provost Professor of Psychology and Marketing and co-director of the Mind and Society Center at the USC Dornsife College of Letters, Arts and

Sciences. The feelings surrounding pleasant or unpleasant experiences are short-lived, he says, and don't stand up to introspection after a while.

Consider driving. Schwarz joined with Jing Xu, a professor at Peking University in China, to survey drivers about how they felt about their cars. Their research found that [drivers felt better](#) when driving a luxury car than an economy model—but only when their attention was focused on the car. Most of the time, other concerns flood the driver's mind—a work project, those nagging extra pounds to lose, an upcoming dentist appointment—and the lavish driving experience goes unnoticed.

"The car matters when the car is on the driver's mind, but not otherwise," Schwarz and Xu concluded in their paper. Schwarz suggests that before making a big-ticket purchase such as a luxury car, consider the coming months of traffic jams, spilled coffee and other mundane matters before signing on the dotted line.

A similar concept can be applied to major decisions concerning health, Schwarz says. When people make a choice, they tend to pinpoint one factor that stands out, and they ignore everything else.

Schwarz uses the example of a person facing colon cancer. The patient may have to decide whether to undergo a colostomy (surgery that redirects the colon so it empties into a bag outside the belly) or live with a tumor likely to worsen over time.

Many people narrowly fixate on the unpleasant aspects of living with a plastic pouch while ignoring the hundreds of daily activities that would go unaffected. One detail can overshadow the big picture. Psychologists call that the "focusing illusion."

Says Schwarz: "You're focusing on that one thing that is bad when you have to deal with it, but it's not your entire life. It's not even close to

being your entire life. The sun still shines, the food is still great, your wine is still good, the music is nice."

Conversely, people tend to overestimate things they believe will bring them pleasure—say, moving from the Midwest to sunny Southern California. Schwarz points to a study that found the California climate to be another focusing illusion.

"Think about what your whole day will be like living in California," Schwarz says. "If you spend most of the day sitting in a cubicle, does the weather really matter that much?"

So, before making big life decisions, Schwarz suggests, avoid getting stuck on one prominent detail. "Most of your life will not change," Schwarz says.

## **Can timing make hard decisions easier?**

Decisions can be fun when you're a child. What kind of ice cream should I get? What do I want for my birthday? But over the years, the decisions become less exciting and more consequential, like whether to buy a house, and when. It becomes so much easier to put decisions off than to make them.

But USC Dornsife's Daphna Oyserman, Dean's Professor of Psychology and professor of education and communication, studies what might be described as training the brain to beat procrastination. She focuses on how small changes in context can shift a person's mindset—and perhaps lead to better decisions.

"Logically, if the future is far away, you can always start working on a goal later," Oyserman says. "So then the question is, how do you make the future feel close so you will start working on it now?"

One surprising way is to consider time in the smallest meaningful units. When calculating a budget, for example, think about saving \$5 a day instead of \$2,000 a year.

Such a strategy can help people save enough money for retirement, adopt healthful habits and spend more time studying, according to research by Oyserman and her former student, Neil A. Lewis Jr., now a colleague at Cornell University.

Oyserman and Lewis [conducted a study](#) to understand how people perceive time when they hear about an upcoming event happening in days—versus in months or years in the future. For example, if they hear that someone is saving money for an upcoming wedding, when do they imagine that the wedding will take place?

The research participants believed that events would happen much sooner when they expressed the time in units that sounded closer—in days rather than weeks, or months instead of years.

That's because of how people perceive themselves in relation to time, the researchers explain. It has to do with how connected people feel between their current self and their future self.

"Days seem more immediate. When you think of something in days, you feel like you have to jump on it," Oyserman says. In a way, it makes us feel like our future self is closer to our current one.

This also applies to how people think of money. They know it's important to save for the future, but they typically don't start saving early enough, Oyserman notes.

In the researchers' study, participants who were told they had 6,570 days until their child goes to college said they would start saving for tuition



four times sooner than those who were told their children had 18 years to go until college. The same held for those who were told they would retire in 14,600 days, compared to 40 years.

Do social scientists believe, then, that changing the words we use to talk about the future can help make big life choices feel less intimidating? There's always one expert who can weigh in. Says the Magic 8-Ball: "Without a doubt."

Provided by University of Southern California

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