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# Gray Area: How to Support Older People in Making Better Decisions

*Contrary to popular belief, the latest research suggests that older adults are not categorically poor decision makers. William Hampton and Vinod Venkatraman explain why older adults bungle certain decisions yet outperform their younger counterparts in other contexts.*

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Older people aren't as good at making decisions, right? Contrary to popular belief, the latest research suggests that older adults are not categorically poor decision makers and can sometimes even outperform younger adults. Age-related changes in decision-making performance are strongly influenced by the decision context, including the way information is presented, individual differences in intelligence capabilities, and the personal relevance of the task. Behavioral studies show that motivation level is a particularly important factor governing the differential effects of aging on decision preferences.<sup>1</sup> Neuroscience studies have similarly shown that changes in motivation play a substantial role—if not a primary one—in the aging brain.<sup>2</sup> Accordingly, some of the differences in performance by older adults can be seen as consequences of their overarching motivation to engage with the decision.

In our studies, we examined the strategies older adults use to make decisions and how they are affected by the way information is presented and framed. Surprisingly, we found that the same older individuals who made suboptimal choices in a gambling task used a more methodical strategy when choosing between annuities that was personally relevant. We also found that older adults were affected by the way information was presented, faltering when the task was less relevant, yet becoming more patient if we reminded them that choosing an immediate benefit (such as starting Social Security as soon as it is available) would mean losing out on future rewards.

What are the actionable insights? First, our studies underscore the importance of how financial information is presented to older adults: whatever is presented first is processed best. Stakeholders would be wise to present critical informa-

tion first, as later information may not be fully processed. If you want to encourage full processing of all the information, take extra steps to make the decision context as relevant to them as possible. Second, our findings have major implications for Social Security. Unfortunately, even among retirees with multiple income streams, more than a third claim Social Security as soon as it becomes available at age 62,<sup>3</sup> only to later find themselves unable to maintain their standard of living. Claiming at the earliest age leaves retirees with drastically reduced monthly payments—75% less than if they had waited until age 70.<sup>4</sup> Our findings indicate that highlighting the implicit loss created by claiming early could effectively nudge older adults to delay claiming Social Security, boosting their financial situation and wellbeing later in life.

So, while longevity may be a double-edged sword, older adults can still make smart choices when they are equipped to do so. Moreover, building on lab research and decision science we can reengineer the decision contexts to support our aging population to make adaptive, future-oriented financial and health decisions. Although we focus on financial decisions about retirement, our findings echo other research showing that how we frame decisions for clients can affect choices across a vast range of topics. Because most people are averse to loss, framing choices in terms of what the client has to lose can be a powerful nudge. Loss framing could also support other critical later-in-life health decisions about diet, exercise, and medication.

### **The longevity tsunami: Why understanding elder decision-making is vital as the years—and the decisions—pile up**

The world population is graying at an increasingly rapid rate. With life expectancy projected to increase

by roughly three months every year, in developed countries living to the age of 100 may become increasingly common for each new generation.<sup>5</sup> Protracted longevity and an aging population also carry serious social and economic implications for society at large, leading to increasing population size and exerting pressure on economic safety nets.<sup>6</sup> Older adults encounter many weighty decisions, including how and when to spend their wealth and how to manage declining health.

**Even among retirees with multiple income streams, more than a third claim Social Security as soon as it becomes available, only to later find themselves unable to maintain their standard of living.**

Unfortunately, such decisions are both complex and unfamiliar to most people facing retirement. Older adults face challenging questions: How long will I live? Will I need money for long-term care? How can I plan for unexpected severe illness? Given unpredictable inflation, how much money will be “enough”? Retirees must choose between spending now and saving for later without knowing what “later” will look like. Small wonder, then, that older adults lean on a variety of biases and coping mechanisms such as decision avoidance that lead to unhappy results.<sup>7</sup>

On top of all this, retirees are older and therefore have to make all these decisions with brains that are in some ways past their prime. Given what is at stake both for the individual retirees making decisions and for the implications on society, we wanted to find out what

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exactly is the impact of aging on decision making.

### **Tough decisions involving risk, uncertainty, and time**

In our studies we focused on the effects of aging on two particularly important types of decisions. The first is risky and uncertainty decisions, which are paramount for older adults given the heightened stakes of later life personal finance and healthcare decisions. The second is delayed gratification choices (choices made across time) that require older adults to choose between rewards that are larger later and those that are smaller but sooner.<sup>8</sup> Like most people, older adults increasingly devalue future rewards the longer they must wait, often driven by the difficult and emotional prospect of their own mortality.<sup>9</sup> This tension between present and future desires plays out every day, such as seemingly trivial decisions between enjoying the immediate comfort of sitting on the couch versus going for a walk to promote long-term health. Other decisions with similar short-term/long-term tradeoffs include when and how to spend retirement savings and life-determining health decisions about when to take medication or undergo surgery.

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We reviewed lab-based studies examining the effect of aging on both risky and delayed choices, focusing on new evidence highlighting the ways in which

these effects may be malleable. Although these are tough choices, we find there are opportunities to help people make better decisions.

### **Decision strategies and risk – adaptive or maladaptive?**

Many believe that older adults are more easily susceptible to scams and make poorer financial decisions. But the evidence is mixed. It is true that in some studies involving real-world investment choices, older adults are less effective at applying their investment knowledge and generally make poorer financial decisions.<sup>10</sup> This poorer performance is often attributed to diminished cognitive capabilities including attention, processing speed, and working memory. However, in other studies, accumulated life experience buoys older adults to perform just as well or better than younger adults. In fact, their greater crystallized intelligence (knowledge and experience) often compensates for lower fluid intelligence (flexible cognitive capabilities) across a variety of tasks—including delaying gratification and financial and debt literacy.<sup>11</sup> As we discuss later, this has important implications.

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Decision strategy and motivation to complete a decision are also critical factors that explain differences across age. In many decision contexts, older adults use simple heuristic strategies, making decisions quickly without processing all available information.<sup>12</sup> Making

decisions quickly and easily could be adaptive or maladaptive—so which is it? To evaluate the adaptiveness of these decision strategies, we tested the strategy and performance of people of varying ages performing different decision tasks. The first was a risk task in which participants chose between three gambles with varying probabilities. The second was a personal finance task, in which participants chose between annuities based on attributes like monthly payments, period certainty, and annual increment. We also shuffled the order in which we presented the options to probe for differences in information processing. Would older adults have the same strategy across the tasks? Would they be influenced by irrelevant features like the order of the options?

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**Older adults were more deliberative in their decision-making strategies, better at integrating information about different attributes, and less influenced by the order of the information.**

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In the gambling task, we found that while older adults tended to make choices with the highest possible gains (regardless of probability), their preferences seemed heavily influenced by features like the order the options were presented in. Gaze patterns obtained using eye tracking corroborated this theory, revealing that older adults spent more time processing information presented in the initial columns. Interestingly, these findings did not generalize to the annuity task. Here, older adults were more deliberative in their decision-making strategies, better at integrating

information about different attributes, and less influenced by the order of the information. Together, these findings tell us that task and context strongly modulate the effect of age on decision making.

### **From the lab to application: Supporting delaying gratification**

Well-known studies suggest that how much one is willing to delay gratification is a relatively stable trait that predicts major life outcomes such as educational achievement and salary.<sup>13</sup> This was suggested by the original “Marshmallow Test.” A child is put in a room with a marshmallow and offered the choice between one now or to two if they are willing to wait. This is a straightforward measure of the ability to delay gratification for greater reward, similar to what retirees face.

However, new evidence suggests that this preference can also shift temporarily according to our emotional state and context.<sup>14</sup> This flexibility opens the door for us to support key decisions. One straightforward intervention involves reframing information to “nudge” a

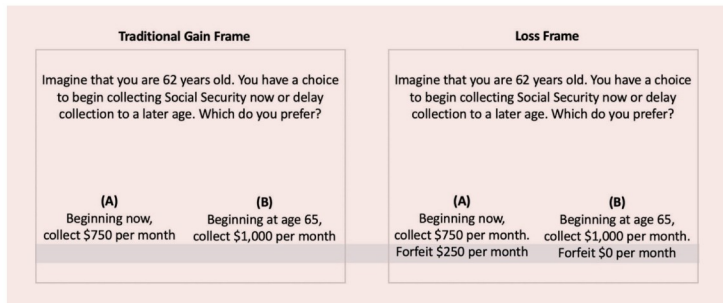
person toward the delayed option that provides the bigger payoff. For example, simply reminding people that by taking an immediate reward they will get zero reward in the future causes people to assign higher value to future options.<sup>15</sup> We also examined whether different kinds of framing could be leveraged to influence older adults’ behavior in one of the most critical delayed choice scenarios: claiming Social Security. Specifically, we tested whether reframing immediate Social Security claiming as carrying a loss could nudge older adults toward waiting to claim.

**Simply reminding people that by taking an immediate reward they will get zero reward in the future causes people to assign higher value to future options.**

In the traditional gain presentation frame (pictured on the left side of Figure 1), we asked participants to choose between (A) claiming Social Security immediately (at age 62) for a smaller monthly amount or (B) waiting until age 65 to claim a larger monthly amount. Depending on which option they chose, we then dynamically adjusted the offered amounts to pinpoint the dollar amount at which they were indifferent between the future and present payments. In the loss frame (box on the right), we included an additional line below the payment information indicating the amount that would be forfeited by selecting the immediate option.

Although the payouts in both conditions were identical, we found that highlighting the implicit loss of the immediate option made retirees more likely to choose an option that required a delay. This effect held even when controlling for a host of variables including age, self-estimated mortality, and personal wealth.

If the payouts for both the left and right options are the same,



**FIGURE 1.** Logically equivalent example trials of traditional gain and loss frames of Social Security claiming binary choice. The gray bar highlights the only difference between the frames.

then why does this simple reframe change behavior? There are several possible explanations, but this effect is likely partially driven by loss aversion. Therefore, framing an option to make a loss explicit makes it less attractive and accordingly could be an effective way to overcome desires for immediate rewards and fears of mortality. Our findings echo and extend studies examining the impact of framing on lifespan judgments. For example, simply framing a question about personal longevity as “the age you expect to live to” instead of “die by” leads people to increase their predicted longevity by 10 years.<sup>16</sup>

### Framing an option to make a loss explicit makes it less attractive and accordingly could be an effective way to overcome desires for immediate rewards and fears of mortality.

In a series of follow-up studies, we found that this kind of loss framing was also effective for other monetary decisions unrelated to Social Security. As mentioned earlier, given that loss aversion has been observed in health-related domains, it is also plausible that loss framing could be used to support other critical later life health decisions about diet, exercise, and medication.

So don't be fooled by what you see at first glance. Older people can make smart decisions—and we can help them get there.

### Five ways to support your older clients' big decisions: A checklist for practitioners

- Remember the principles of framing are important for shaping decisions, are simple to use, and that you can master them.
- Discuss important issues first. Initial factors are likely to command the greatest focus. While you can't control your client's character—how disciplined they might be in following through on financial or health decisions—you can control the way you frame your presentation to help them understand the downsides of choices and concentrate on the largest implications.
- Make decisions as relevant as possible by focusing on details relating to their personal situation and stage of life.
- Play to the sense of loss aversion, shared across the society, by stating the downside of various choices explicitly. Make clear what the long-term losses are for choices that have short-term rewards.
- Check your bias. Your clients may be getting on in years, making you doubt their ability to make the best decisions. But they stand on the shoulders of their life experience that can help them outperform younger decision makers. Assume they can make great decisions, provided you frame things appropriately. ■

### Author Bios



**William H. Hampton** is codirector of the TechX Lab and Postdoctoral Fellow at the Institute of Behavioral Science and Technology at the University of St. Gallen in Switzerland. His research

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