CHAPTER

15

Choice and Aging: Less is More

Pi-Ju Liu[1], *Stacey Wood*[2], *Yaniv Hanoch*[3]

[1]Psychology Department, University of San Francisco, San Francisco, CA, USA; [2]Department of Psychology, Scripps College, Claremont, CA, USA; [3]School of Psychology, Plymouth University, Plymouth, Devon, UK

INTRODUCTION

The financial crisis that started in 2007–2008 has had a major impact on millions of people in the United States and across the globe. Unfortunately, as of 2014, its impact is still felt among older adults, as their capacity to compensate for losses is much more limited. Given older adults' unique position and challenges, it is no wonder that the popular press has been rife with stories on the financial difficulties older adults have encountered. A series of articles in the *New York Times*, for example, captured the diverse, and sometimes unexpected, ways the financial crisis has eroded older adults' financial standing. They discussed, among other topics, the need to return to work after retirement (Noor, 2009), the high rate of housing foreclosure among the elderly (Brown, 2012), how older adults became the family financial safety net (Daley, 2012), and the erosion of earning power among those near retirement (Rampell, 2013). Older adults are not only facing more financial challenges than ever before, but they have to do so in an increasingly complex and choice-rich environment.

Financial decision making involves analyzing related information, such as how much to save for retirement or which product to purchase. It is the process of selecting the right choice that has positive implications for a person's financial well-being. While the financial crisis has had a wide-ranging impact, one common thread among these articles is the link between economic hardship and health status. Interestingly, about a year prior to the emergence of the financial crisis, the Medicare Modernization Act (better known as Medicare Part D) had come into effect. Providing

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prescription drug coverage for millions of beneficiaries, Medicare Part D has offered some financial reprieve for older adults. Yet a number of the program elements have been criticized, mainly due to the complex nature of the Medicare Part D decision environment. The criticism against the complexity of the program is in line with a growing body of evidence suggesting that the decision environment can enhance or impair individuals' decision making, with this perhaps being particularly true for older adults (McWilliams, Afendulis, Mcguire, & Landon, 2011). In this chapter, we use the Medicare Part D insurance choice as an example, for it can serve as a real-world decision environment to investigate older adults' decision-making capacity and preferences. We were particularly interested in the impact of choice set size on decision making in older adults for a couple of reasons. First, much of the work in decision making and aging is grounded theoretically in dual-process models. These models predict that increases in cognitive demands should disproportionally impact older adults. Second, in terms of policy, there is some debate regarding the optimal choice set size for consumers. On the one hand, consumers may benefit from a large degree of choice, because increased choice may increase the number of options and decrease cost. Alternatively, some have argued (e.g., Schwartz, 2004) that increasing choice decreases satisfaction with the decision, and hampers consumers' abilities to make decisions in their best interest. Medicare Part D provides something of a natural experiment to examine both of these issues. We review a number of key areas related to choice such as dual-process theories, cognitive ability, numeracy, and other related factors. We also provide results from one experiment that nicely captures many of the themes that develop in this chapter.

CHOICE PREFERENCE AND SIZE IN DECISION MAKING

In *The Paradox of Choice* (2004), Schwartz stated "More is less." Although having choices grants people a sense of autonomy, more options can become less advantageous when choices expand rapidly and become overwhelming. Decision quality, satisfaction, and preference can be impacted with a larger choice set size. Schwartz's idea corresponded to a body of literature that has found that as the number of choices increases, people have difficulties processing information and report overall lower levels of satisfaction with their choice (Botti & Iyengar, 2006; 2005; Schwartz et al., 2002; Wood et al., 2011). For example, in one study (Iyengar, Huberman, & Jiang, 2004), researchers assessed the retirement decision making of 80,000 U.S. workers. Overall, the study found that the more choices the employees had, the less likely they were to join any of the 401 (k) plans available to them.