Two Myths in DC Plan Administration

Warren Cormier
Executive Director
DCIIA Retirement Research Center
MYTH #1

WE DO A PRETTY GOOD JOB OF COMMUNICATING RISK TO PARTICIPANTS
Visual Vocabulary: Calculative vs. Intuitive

- Individual and group decision making under uncertainty (risk)
- May have flawed perceptions of risk
- Two different ways of eliciting a person’s preferences for risk.
- Which (if either) is the truth?

Sources: Benartzi and Iyengar, in progress
Driving in Bolivia

The Stremnaya Road is extremely beautiful with gorgeous mountains, cliffs and greenery. While the road offers dramatic scenery, it is considered by some the most dangerous road in the world. The combination of extremely narrow roads and tall cliffs could easily result in a deadly accident, and an average of two vehicles per month fall from the road. The danger of the road ironically though has made it a popular tourist destination starting in the 1990s. Mountain biker enthusiasts, in particular, have made it a favorite destination for downhill biking.

QUESTION 1: Would you be interested in taking an all expenses paid trip to the Stremnaya Road?

____ Yes
____ No
____ I am not sure
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MYTH #3

DC PLAN COMMITTEES MAKE UNBIASED DECISIONS
Myth #3

• Group dynamics have existed since more than one human converged to make a decision

• Two ways groups reach sub-optimal outcomes:
  – Group biases
  – Incorrect co-orientation

• Not a question of “if”, but “how and how much?”
Myth #3

The Three Most Powerful Cognitive Behavior-Changing Forces

• Trust

• Loss Aversion (Prospect Theory)

• Regret Aversion (Enhanced Active Choice)

Impact group decisions – optimizing gains or minimizing chances of loss?
Myth #3

Daniel Kahneman:

• The most damaging (group dynamic) is overconfidence: the kind of optimism that leads governments to believe that wars are quickly winnable and capital projects will come in on budget despite statistics predicting exactly the opposite.
Myth #3

- Human beings have a tendency to overestimate their own skills and predictions for success.
- History of booster rockets—1 failure in every 57 attempts.
- NASA set the chances of an accident at 1 in 100,000.
- Once every 275 years of daily shuttle launches
Example: Challenger Shuttle Explosion:

- Hierarchical structure reduces likelihood lower-ranked engineers would express concerns.

- Group members also held the belief that NASA was full of smart people – if something were wrong, surely someone else would have said something.
Framing Helps Offset Overconfidence

- Challenger decision rule was framed as, “Can you prove it’s unsafe to launch?”
- Reversing the framing—“Can you prove it’s safe to launch?”
Polarization

Harvard Law School Professor Cass R. Sunstein:

“From decades of empirical research, we know that when like-minded people speak with one another, they tend to become more extreme, more confident and more unified”
Conformity - Asch Experiment

• Many people go along with the group regardless of what they themselves might think as individuals.
Myth #3

![Image of line segments A, B, and C with B and C being longer than A.]

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Myth #3

- 75% of the subjects agreed with the group at least once—even though many later confessed they knew the group’s answer was wrong
## Myth #3

<table>
<thead>
<tr>
<th></th>
<th>Almost Always</th>
<th>Very Often</th>
<th>Occasionally</th>
<th>Rarely/ Never</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group harmony discourages healthy dissent.</td>
<td>0</td>
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<tr>
<td>Groups acquire information (or include people) that confirms preconceived ideas</td>
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<tr>
<td>People may vote differently if their specific vote is made public</td>
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<tr>
<td>Direct reports defer to their supervisors, do not contradict the “Boss”</td>
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<tr>
<td>People defer to “experts” or do not share opinions</td>
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<td>Group members resist being outliers, to make decisions based on what others do.</td>
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<td>Individual group members put forth minimal effort in a group setting.</td>
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Myth #2

Remedies for Group Bias

- Diverse disciplines
- Group size
- Decision-making tactics (public/private)
- Devil’s advocate
- Leadership style (ensure all participate)
- Outside experts
- Reframing the question to be answered