



CASE STUDY

THE IMPACT OF BIAS AND VALUES ON DECISION-MAKING

KNOWLEDGE EXPECTED OF: CFP® Professionals Only

Version 1.0.0, Updated 20170907

Gabriella, age 67, is a healthy, widowed mother of two adult children. Her mother lives in a retirement residence that Gabriella partially subsidizes. She lost her spouse to cancer four years ago and, after taking a few months off to grieve, had thrown herself back into her work. She recently called Victor, a CFP professional whom Gabriella has consulted over the last decade. During their conversation, she recounted her shock, anger and worry over her company's decision to lay her off after 33 years of employment. She would be jobless within a month as part of her employer's plans to cut back on staff. Gabriella was not ready to retire, and found it unsettling that she had so little time to make a decision about commuting her pension. Gabriella faxed the paperwork containing her options to Victor for review.

During a subsequent meeting, Victor explained that commuting the pension would fail to provide the guaranteed income that Gabriella wants. He also explained that both options would provide sufficient resources to fund Gabriella's retirement, but that the pension option would alleviate Gabriella's concerns around outliving her money. The pension has a 15-year guarantee period. Gabriella agreed but, before signing the paperwork, said she wanted to "sleep on it" to make sure she felt comfortable with the decision. Victor set up a follow-up meeting two weeks later.

When Gabriella missed the follow-up meeting, Victor called to ensure everything was alright. Gabriella explained that an emergency had come up and that she was unable to make it to the meeting. They agreed to meet one week later. When Gabriella didn't show up for that meeting either, Victor contacted her again. She expressed that she was having difficulty making a decision for fear of making the wrong choice. *"The guaranteed income option makes me feel secure,"* she explained. *"That would take a load off of my mind given that I remember times when my husband and I nearly didn't have enough to pay the rent when we first got married. Since then, I have always worried about being able to make ends meet, although I've never missed a bill payment. The downside is that I won't be able to draw additional funds to cover unexpected emergencies, like a leaking roof. I don't have a lot of savings I can draw on because of the expenses I pay for my mother. On the other hand, the idea of having more than \$1 million is pretty enticing. It will give me the flexibility I need, and my family would get any remaining funds when I die. But what if I spend it all? My friend Hellen received life insurance when her husband passed away and she said it's almost gone. I don't know what to do. Maybe I should just take the lump sum like all of my co-workers are doing. They keep saying that it's hard to pass up such a large sum of money."*

Knowledge Expectations – Relationships

The CFP professional should be able to:

- Identify that avoiding her meetings may be a way of avoiding a decision.
- Avoid lecturing or admonishing Gabriella for missing meetings or delaying her decision.
- Show genuine interest in Gabriella and the difficulties she has been experiencing. *"Last time we spoke on the phone Gabriella, you had expressed the roller coaster of emotions you were experiencing. I can appreciate how difficult it must have been to hear of the company downsizing. How have you been doing since then?"*

- Identify that Gabriella is seeking financial advice to reduce the complexity of her options in support of making better trade-offs. *“Gabriella, making decisions like this can be overwhelming. I commend you on taking the important first step in obtaining advice about your options. As we discussed at our last meeting, your main goal involves getting me to help you simplify the decision so that you can assess which option is better for you and your family. Does that sound right?”*
- Empathize with Gabriella and normalize the stress that she may be under. *“Making a decision like this can be stressful. It is a normal reaction to get stuck thinking which option is more suitable for you.”* Summarize Gabriella’s concerns and reflect them back to her. *“It sounds as if you are worried about outliving your financial resources and lacking flexibility in your cash flow. I think you might also be worried about turning down such a large sum of money. That’s not easy to do. Am I correct?”* Invite Gabriella to discuss her concerns in greater detail. *“Perhaps we can review some of the factors that you are concerned with to help put your mind at ease. That may help make the decision somewhat easier. How does that sound?”*

Knowledge Expectations – Relationships

The CFP professional should be able to:

- Identify that the fear of regret may be hindering Gabriella’s ability to make a decision. In many instances, avoiding regret by not taking action is a stronger motivator than the possibility of experiencing loss that occurs without taking action. Identify if Gabriella is being plagued by this aversion using an open-ended question. *“What concerns you most about making the wrong decision?”* Assure Gabriella that she will have the support she needs to make a decision.
- Identify that Gabriella’s worry about overspending the commuted value of her pension may be rooted in her previous experiences in which she constantly worried about being able to balance her cash flow each month. This vigilance around money may explain her initial thoughts that money provides security. *“Thank you for sharing your concerns with me Gabriella. Having worked with you, I know that you are vigilant with your money. You have always paid your bills on time, even in tougher times as you described them to me. No matter what choice you make, I believe you will continue that track record of fiscal responsibility.”*
- Identify that Gabriella’s focus on low-probability events, such as her roof leaking, may be a bias that is hindering her from making a decision. Remove the roadblocks that may be standing in Gabriella’s way of making a decision. *“The need to maintain an appropriate emergency reserve is important. Thinking about how you may be affected in the future because of this decision is very astute on your part. To help alleviate this concern, we could set up an automatic savings plan to transfer a portion of your pension income to a separate account every month. This will help build up an emergency reserve over time. While this reserve is being built up, we could also use an existing line of credit, in case any emergencies occur in the short term. Would implementing a plan such as this one reduce the anxiety you are feeling about that option?”*
- Identify that the belief of Gabriella’s co-workers may be social proof that the large commuted value is just too hard to turn down. Educate Gabriella on how commuted values are calculated to remove the social proof. *“While the size of the lump-sum payout may be attractive, it is actuarially equivalent to the pension option. Under both options, you are getting an equivalent amount of money; one simply pays you up front, while the other pays you over time. The difference is that you won’t outlive your pension income.”*
- Alleviate Gabriella’s stress by reducing her concern about her pension dying with her. *“Your pension also comes with a 15-year guarantee period. This will ensure that your family receives the remaining income that you would have been eligible for had you lived, and received the pension yourself for 15 years.”*

CASE STUDY – THE IMPACT OF BIAS AND VALUES ON DECISION-MAKING

- Ask Gabriella if there are any obstacles standing in her way of making a decision, and if there is anything else she is unclear about that could help her make a decision.
- Explain to Gabriella that it may be difficult to make a decision when one feels rushed to do so. Ask her if more time would aid in her decision-making process. *“If you are feeling pressured to make a decision in such a short period of time, I could ask your human resources team to postpone the due date for making a decision, if that would help.”*

CFP®, CERTIFIED FINANCIAL PLANNER® and CFP® are certification trademarks owned outside the U.S. by Financial Planning Standards Board Ltd. (FPSB). Financial Planning Standards Council is the marks licensing authority for the CFP marks in Canada, through agreement with FPSB. All other ® are registered trademarks of, unless indicated. © 2017 Financial Planning Standards Council. All rights reserved.