Decreasing Uneasiness

by Preparing for the Certainty of Uncertainty

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I recently had a significant disappointment unfold in my life. My immediate reaction was one of intense anger and deep emotion. I hadn't foreseen what happened and it saddened me tremendously. Luckily, I didn't completely unravel and compound the situation with ill-advised decisions. When I had the benefit of time to reflect on everything, it reminded me of a critical challenge our industry faces — helping people navigate uncertainty.

Over the past two decades and like never before, we have been reminded that what lies ahead is uncertain. When I started writing this, the Dow Jones Industrial Average was approaching 30,000 points and the coronavirus was just another story in a crowded news cycle. Now the Dow is below 26,000 and coronavirus *is* the news cycle. It is not as if we ever knew what the future would be. We're certainly not clairvoyant; but, now, it's obvious that we don't know what tomorrow, or the next day, will bring. The lack of clarity about the future creates uneasiness, particularly with questions about how long we'll live and what happens if we run out of money. Developing and implementing lessons from behavioral finance may help us to address these questions, during this time of uneasiness.

The basic principle of behavioral finance is the acknowledgement that human behavior is irrational. What we know to be true is that the brain is actually wired to avoid danger and pursue opportunity. When something happens outside yourself, you are first stimulated emotionally, and your emotional intelligence is activated. While emotional intelligence is real intelligence, it's not cognitive. For example, when we get excited, our opportunity system is turned on; when we get frightened, our danger system is turned on — both disable our ability to think clearly and, as a result, sometimes we make irrational decisions. This disabling of our clear-thinking ability then defaults our decision-making to engage mental shortcuts called biases. When assessing the tradeoff between risk and reward, biases influence us into thinking that our decisions are being made with clarity when, in reality, they are heavily formed by emotions.

We know that irrational decisions, driven by emotion, most often are not the best choice. Consequences for these decisions can be intense and longstanding. This becomes a severe issue when assessing the uneasiness associated with the possibility of outliving or losing your money; an uneasiness that is being experienced by many Americans at alarming rates.[1] The American Psychological Association has noted that money related stress has been the top stressor since the association began surveying on the issue.[2] Compounding the presence of stress is the lack of control many experiences when insufficient income sources are identified and the direct correlation to one's health.[3] Levels of anxiety and uneasiness then aggregate to have an increasingly negative effect on one's overall well-being.[4] Emotionally driven decisions, especially those caused by uncertainty around finances, are high-impact, and efforts need to be made to align decision-making with factual information to ensure thoughtful, informed outcomes.

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When we experience emotions such as anxiety, fear, or exuberance, it is imperative to prepare ourselves for the truth — and the truth is uncertainty. As we look at future finances, the truth is how long one lives is uncertain; one's health status is uncertain; the strength or weakness of the economy and the markets are uncertain; uncertainty is ever-present (Figure 1).

Length of life, health status, and the economy are truths that have financial implications. Living a long life has financial implications; a prematurely shortened life has financial implications; being sick, injured, or needing assisted living or nursing care have financial implications;

robust or weak economies, and bull or bear markets have financial implications. The financial impact of life's uncertainty is all around.

Unless you have a proven track record of accurately predicting the future (when people will die, whether or not people will get sick, what will happen in the global economy, will we have a bull or a bear market, etc.), it is in your interest to develop a responsible mindset to prepare for the future instead of trying to predict it. When we prepare, we feel better armed to make rational, informed decisions and the stress around the anticipation of what may happen is lessened.

Caught up in the moment, it can be difficult to discern when we are being influenced by emotions and when we are not. Without a baseline, you may question the basis of your decision-making. Thankfully, there is a technique to help one make more rational choices in the presence of competing — and often difficult to deal with — emotions. This technique is to discover your values.[5] Knowing what is most important to you, and employing those values when faced with a decision, allows you to approach the process more objectively. Values reflection doesn't make you smarter, but it will make you more rational. When you reflect on your values, you increase your access to your cognitive brain, thereby disrupting the mental shortcuts (biases) that may be hijacking your brain.

When it comes to emotions, preparing for the certainty of uncertainty by utilizing a structured approach while knowing and reflecting on your values will make you a more rational decision maker. My recent disappointment reminded me of the difficulty of navigating change and uncertainty when you haven't primed yourself in this manner. Let's keep striving to do so for ourselves and the consumers that depend on our industry.

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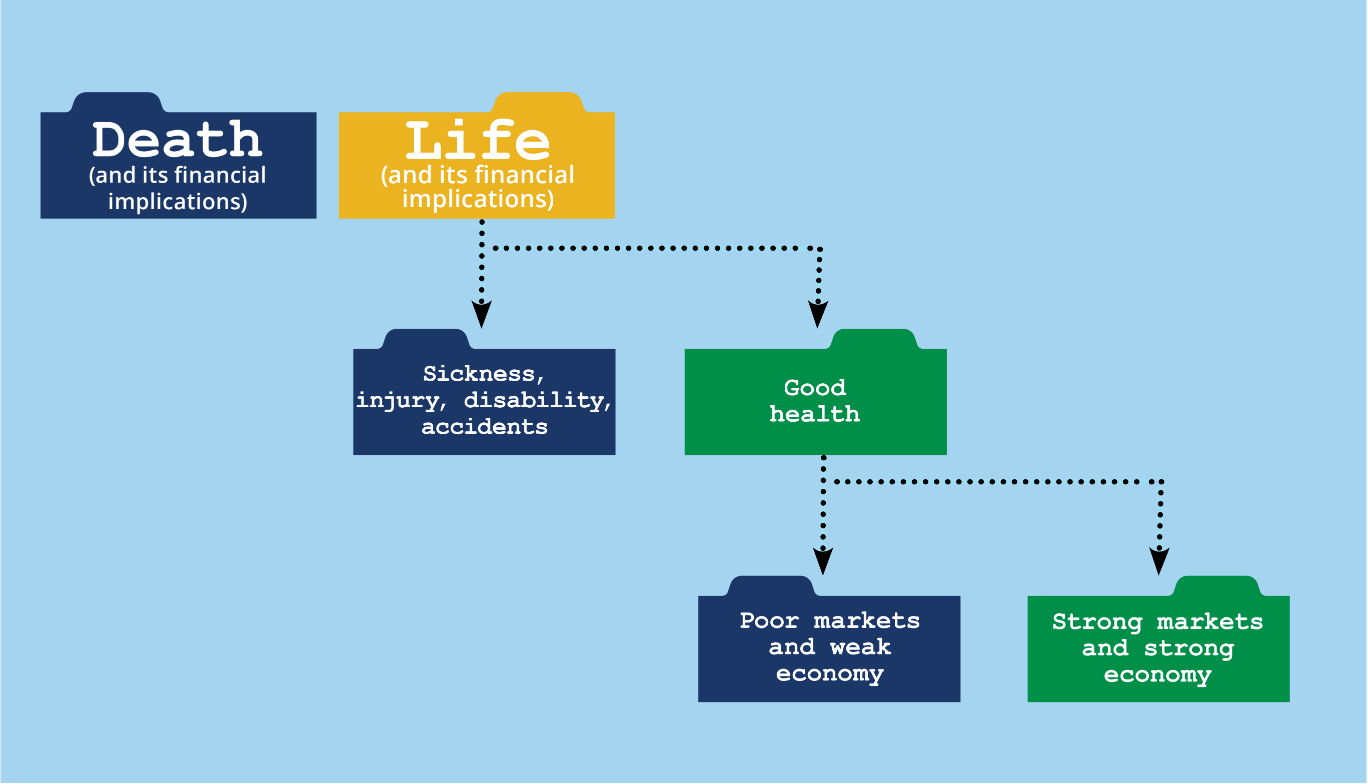
Figure 2

A Structured Approach Prepares You for the Certainty of Uncertainty



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[1] *Can annuities become a bigger contributor to retirement security?* Brookings.edu-Bailey Harris-Annuities - PDF.

[2] *This is the No.1 reason Americans are so stressed out* – MarketWatch.com 10-11-2018.

[3] *The Great Recession worsened blood pressure and blood glucose levels in American adults.* Proceedings of the National Academy of Sciences of the United States of America, 115(13) 3296-3301. Seeman, T et al. (2018).

[4] *Leveraging Your Financial Intelligence: At the Intersection of Money, Health and Happiness*, Wiley (2017).

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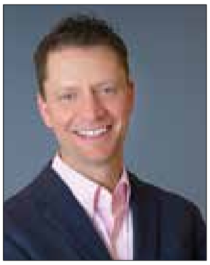

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funded ratio. This can happen even with gains in equities. This has helped speed the demise of DB plans. More companies are freezing or closing their DB plans. For example, late last year GE froze benefits to 20,000 employees.[3] Many plans are also looking to offload their obligations either partially or entirely through pension risk transfer deals. Secure Retirement Institute research found that 4 in 10 plan sponsors are interested in pension risk transfer[4] and our latest *Group Annuity Risk Transfer Survey* recorded the 19th consecutive quarter of $1 billion+ sales, with mid-size plans fueling that growth.

Where does that leave consumers? They need to save more, they will likely need to work longer, and likely take on more investment risk in search of returns. It's also a lot harder for the industry to provide guaranteed income. Consumers may turn away from important tools like annuities and guaranteed income products because of eroding payouts. Or they may end up having to manage risk intergenerationally. (That's a nice way of saying they may have to rely on their kids to help them out. Of course, this assumes the kids are in good financial shape themselves.)

There are no easy answers to these issues. The economic environment could lead to a retirement crisis or it could lead to innovation and the development of creative solutions. The financial services industry must figure these issues out for themselves, and help their customers figure them out as well.

[1] *2019 Insurance Barometer Technical Supplement,* LIMRA.

[2] According to NerdWallet's annual analysis of U.S. household debt: https://www.nerdwallet.com/blog/average-credit-card-debt-household.

[3] "GE to Freeze Pensions for 20,000 Workers." *The Wall Street Journal*, October 7, 2019. https://www.wsj.com/articles/ge-unveils-pension-plan-changes-aimed-at-paring-deficit-debt-load-11570447318.

[4] *Gaining Ground: Pension Risk Transfer,* LIMRA, 2019.