

# The surprising way the retirement system is stacked against you

Michael Douglass, The Motley Fool 5:56 a.m. EST December 26, 2016

*Too many choices and too much information can lead to paralysis. But there is hope.*



(Photo: Getty Images)

In our economy, choice is often equated with freedom. It's critical to us to "have it your way," as one popular fast-food slogan famously offered. Yet there is plenty of research out there indicating that when you provide people with too many choices and too much information, they freeze. (Ever eaten at a restaurant where everything looked good? It can be agonizing.) In some cases, they're even more likely to make *bad* decisions.

It turns out that the number of choices we have is hurting us – both in our preparations before retirement and in the decisions we make after retiring.

## Preparing for retirement made tougher

The results of a recent retirement readiness survey (<https://investment.prudential.com/util/common/get?file=18CAC0B95B49D959852580790076AF83>) by Prudential highlight the fact that workers have too many retirement investment choices. One of the survey's key findings is that workers are "overwhelmed with investment choices" and therefore have "little understanding about what they are invested in."

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Perhaps nowhere is this more evident than in 401(k) plans, where new workers are bombarded with fund after fund vying for their retirement dollars. In one study conducted by the [National Bureau of Economic Research](#), investors who were presented with roughly 50% fewer 401(k) funds reduced their fund expenses by half (worth \$470 in extra money per year).

## Crucial retirement decisions impacted

Medicare Part D is another area with tremendous risk for the paradox of choice. If looking at one drug formulary – whatever you have with your employer – is frustrating, consider what might happen when you're presented with dozens during a Medicare open enrollment.

In a study published in *Health Services Research* in 2009, researchers assigned various people three, 10, or 20 drug plans to analyze and asked them some basic questions about them. Participants were significantly more likely to answer incorrectly when presented with more drug plans. More elderly participants were also less likely than younger participants to pick the plan that would cost them the least. So if you present the elderly with more plan choices, they're more likely to make the wrong choice.

### **Some Medicare, Medicaid drug prices soar as reform uncertain**

(<http://www.usatoday.com/story/news/politics/2016/11/14/medicare-medicaid-drug-prices-soar-but-reform-less-certain/93796942/>)

According to the [Kaiser Family Foundation \(KFF\)](#), in 2016 Medicare beneficiaries in every state in the US have at least 18 Medicare Part D plans to choose from. (Pretty close to the 20 I highlighted in the research above.) A separate KFF analysis has found that relatively few Medicare Part D beneficiaries (around 13%) chose to switch plans during the open enrollment period, even though the switchers are often able to reduce their drug costs

as a result.

This has all the classic signs of choice/information overload: People are defaulting to doing nothing because they're overwhelmed with the complexity of their formulas and the number of different plans being offered. The simple solution, of course, would be to simplify Part D and reduce the number of competitors, but given the difficulty of overhauling anything healthcare-related here in the U.S., I doubt that will happen.

## Simplify

The framework that helps me when I'm paralyzed by choice is a simple one: Establish rules and reduce the number of choices down to a manageable number. Here's how that would work in the two situations I highlighted above.

If you're feeling paralyzed by too many 401(k) fund options, consider talking to your HR team to start paring those down. And even if they say no, you can guard against information/choice overload by following a simple (12-minute ([http://www.fool.com/retirement/401k/2015/09/19/how-12-minutes-could-save-you-60000-or-more.aspx?utm\\_campaign=article&utm\\_medium=feed&utm\\_source=usa-today](http://www.fool.com/retirement/401k/2015/09/19/how-12-minutes-could-save-you-60000-or-more.aspx?utm_campaign=article&utm_medium=feed&utm_source=usa-today))) framework to help you pick funds. In many cases, you can easily diversify with just a handful of funds (I'm invested in four through my company's 401(k)).

For the Medicare Part D problem, Medicare's Star ratings hold the key. Medicare rates every prescription drug plan from one to five stars across a number of axes, including drug pricing and overall customer service. That should help you winnow down the choices to a more manageable number (about 49% of Medicare Part D contracts in 2016 are rated four stars or higher). From there, you can better consider your specific drug needs and how you want to balance different costs.

### **Here's how much Medicare Part D premiums are rising in 2017**

(<http://www.usatoday.com/story/money/personalfinance/2016/10/26/medicare-part-d-premiums-2017/92591684/>).

This framework may not work for you – but the most important thing is to find a way to winnow those choices down, and then make careful decisions that work best for your specific circumstances.

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