

Financial decisions: Older adults' lifetime of acquired expertise offsets declining ability to process information

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Getting old doesn't spell doom when it comes to making important financial decisions, a team of researchers led by a University of California, Riverside assistant professor report in a just published paper.

Using credit scores and cognitive ability tests, the researchers found

evidence that "crystallized intelligence," which is gained through experience and accumulated knowledge, is more important than "fluid intelligence," the ability to think logically and process new information. Past research has clearly shown that fluid intelligence decreases with old age, a phenomenon known as "cognitive decline."

The researchers found that one standard deviation increase in fluid intelligence, equal to about 15 IQ points, corresponded to 22 more points of credit score.

They also found that one standard deviation increase in financial-domain crystallized intelligence, which equates to answering 3 1/2 more questions accurately on a 13-question financial literacy test, corresponded to 47 more points of [credit score](#).

"The research shows that despite cognitive graying, older people's financial decision making may be more 'golden' than a slowing brain might otherwise suggest," said Ye Li, an assistant professor of management and marketing at the UC Riverside School of Business Administration, who is the lead author of the paper.

The paper, "Sound credit scores and [financial decisions](#) despite cognitive aging," was published online today (Dec. 22) in the journal *Proceedings of the National Academy of Sciences*. Co-authors are: Jie Gao, A. Zeynep Enkavi, Lisa Zaval, Elke U. Weber and Eric J. Johnson, all of Columbia University.

The work has important implications as the population ages, ushering in the so-called "gray tsunami." One in five Americans is expected to be over 65 years old by 2030, and the number of people 65 and older worldwide will double by 2035.

This means more people with accumulated wealth will face decisions

about how quickly to consume their wealth and how to ensure it will last for their remaining years of life. Furthermore, policy changes, such as Obamacare and the shift from pensions to 401(k) plans, have transferred many complex financial and healthcare decisions to individuals.

The paper is based on a study of 478 residents in the United States who completed a battery of cognitive, decision-making and demographic measures, including assessments of financial literacy and health literacy. This data was then merged with participants' credit scores.

The researchers argue that people who present financial information, such as policy makers or financial services firms, need to take into account the fact that fluid intelligence declines in older adults.

This could be done by limiting the number of provided options or by allowing decision makers to sort options by attributes. For example, instead of only providing a list of 50 health insurance plans, the list could be filtered by monthly cost or maximum out-of-pocket costs. Even better, decisions aids could highlight the best plans based on past health conditions and insurance usage.

More information: Sound credit scores and financial decisions despite cognitive aging, *PNAS*, www.pnas.org/cgi/doi/10.1073/pnas.1413570112

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