

It is better to have loved and lost... or is it?

Fear of regret can be a paralysing factor when making important decisions. John Baines of Aon explains why it is important for trustees to overcome this cognitive bias

Alfred, Lord Tennyson's poem *In Memoriam* contains the famous lines
*'Tis better to have loved and lost
 Than never to have loved at all.*
 Have you ever heard people say that you are more likely to regret the things you do not do? This age-old advice rings true, partly because humans are very good at avoiding taking action they think they might later regret. We have to have it pointed out to us, by poets as well as experts, that we might regret the things we did *not* do more than the things that we do.

If we often know we should take action and yet do not, why is that?

Anticipated regrets

When we come across a problem that is big and ambiguous, it makes the best of us want to run screaming. This is part of the problem when we consider removing longevity risk from pension schemes. It can feel like a huge task. But the real battle is not what we have to do, but that the process itself can feel weighed down by jargon we do not understand, and a sea of different voices from consultants, insurers, administrators, and lawyers.

The bigger the decision, the more likely we are to 'anticipate regret' and not take any action at all, even when we can logically work out the best course of action. These anticipated regrets are labelled in behavioural science as 'regret aversion'. Simply put, humans dislike feeling regret, and may act to avoid

feeling regret, even if that means they are avoiding an important decision. Any time we are doing something other than maintaining the status quo, we open ourselves up to 'regret'. Trustees are required to act prudently, and, in some cases, this can result in a tendency to be more cautious than the average person. As a result, some trustees can be more swayed by wanting to avoid regret in the future and, hence, avoid making important decisions.

How our emotions trip up our decisions

Did you know that people who have experienced a particular type of brain damage (to the fear response part of your brain called the amygdala) find it harder to make decisions?

We literally need our emotions to help us make decisions. We use our emotions to help steer our decisions, whether we are conscious of it, or not. The bad news is that our emotions and the mental shortcuts we are inclined to take can get in the way of making good decisions. Particularly when it comes to doing something new that is taxing for our brains.

The more regret-averse you are, the more you are likely to fear the consequences of both errors of omission (such as missing out on potential upsides) and commission (e.g., buying the wrong investment, and the potential downsides). This leads to decision paralysis.

Therefore, people who are highly regret-averse might tend to take no action at all, because they are fearful of making a

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mistake. You see this arise in companies as well as people. In very mature organisations you will often notice that the longer the company has been around, the more risk-averse it tends to be.

How to reduce regret

As a trustee, you need to be comfortable in your choices. When it comes to reducing risk in your schemes, comfort starts from gaining an understanding of the whole process. You want to know you can take the right actions, and not suffer regret at missing the opportunity to reduce longevity risk at a time when prices were good, and when you could have secured a deal that spared the scheme and the sponsor from future financial strain. When it comes to minimising regret and making sure you take action, having an experienced guide on hand is vital.

Understanding the process helps everyone make better decisions

You may have gathered by now that there is more than one cognitive bias that is likely to trip up both sponsoring employers and trustees alike! To help trustees, Aon commissioned research with behavioural insight agency Behave London, who investigate the



behavioural biases that can get in the way of making decisions around reducing longevity risk in pension schemes.

Aon wants to help trustees to understand whether, and when, to remove longevity risk where appropriate. As a result of the research we felt we could make the process much more transparent and easy to understand. In order to help trustees painlessly understand what is involved at each stage, we have mapped out the process over four stages: Deciding strategy – should you reduce or remove longevity risk?; Engaging with the market to obtain pricing; Selecting a provider; Completing your transaction. [▶](#)

Interested in finding out more?

You can receive Aon's step-by-step guide direct to your inbox. Get your copy before anyone else by emailing talktous@aon.com



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