Joe McGarrity

Often, a question has several correct answers. For instance, when people ask, "How much should I save for retirement?" the best answer varies substantially, and depends upon who is asking the question.

People can save less if they retire at 73, instead of 67; live a modest life style, rather than an extravagant one; expect to be healthy, rather than sickly; start saving when they are 21, instead of when they are 40. Unfortunately, when people learn that the best answer to this question is complicated, they put off making decisions, and save nothing – for many years at least, leaving them in financial trouble when they retire.

By delaying their decisions, people are worse off than if they had made the wrong decision right away. For instance, people are better off saving 15 percent if they start this habit as soon as they start working, even if 12 percent is their best saving rate. This result is better than when they spend years trying to figure out what they should be saving.

To combat the decision-making paralysis that complex decisions bring, people use rules of thumb. The rule for retirement savings is – people should save 15 percent of their income. This advice is simple enough that a person can start following it right away.

One of the nice things about many rules of thumb is that they have reached a status of conventional wisdom. The rules have been around so long that if they had advocated nonsense, people would have learned the advice was bad and discarded these rules long ago.

The dynamic is much different when the government issues rules of thumb in the face of new and complicated situations. In these cases, a bad rule can cause a lot of harm. The federal government's response to the pandemic provides an example.

When the coronavirus struck, the best advice the government could have given about wearing masks was complicated. This advice should have been – people should wear face masks, but not medical-grade face masks. At the time, health care workers desperately needed these masks, so the government did not want the general public wearing the medical grade face masks around town. However, the experience East Asian countries had with respiratory diseases should have made it clear that if the general public wore non-medical-grade face masks, this act would have helped curtail the spread of the virus. Our government was so worried that hospital workers would not have medical-grade masks that they issued a rule of thumb, at the onset of the outbreak, telling people not to wear any masks.

Our country would have been better off if the government did not rely on a rule of thumb when providing guidance on face masks. It should have told people that only hospital workers can wear the medical-grade masks and everyone else should wear a non-medical-grade mask in public. This story is not that complicated. There are only two scenarios, not the countless scenarios people face trying to determine what percentage of their income to save for retirement.

It is always risky when the government issues a rule of thumb to help people deal with a complicated situation. The problem is that the rule is new and it hasn't been evaluated against people's experience. If the government issues a good rule, we are just lucky. In contrast, if a rule of thumb has been passed down for generations, it probably provides good advice, since if it didn't, we would have discarded it long ago. So, while the rule of thumb that calls for people to save 15 percent of their income is probably good advice, a government issued rule that has not stood the test of time may not be good advice.

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