

## Why It Matters: The Tyranny of the Average

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“Average” is all around us: your GPA, the unemployment rate, Joey Votto’s batting performance. Using averages can help us make sense of a large amount of data. But it can also lead us to incorrect assumptions. For example, if one of your projects for math class were to calculate the average wealth of all your classmates’ families, you’d probably come up with a number that fairly accurately reflects the economic circumstances of most of those in your class. But what if one of your classmates were Bill Gates’ child? With his current wealth sitting at \$72.9 billion, your average calculation will suddenly give the appearance that everyone in your class lives in a billionaire family.

SUMMARIZE THE  
MAIN POINTS OF  
THE ARTICLE IN 10  
BULLET POINTS.  
TYPE YOUR  
SUMMARY IN  
EITHER WORD OR  
POWERPOINT.

While this example of a misleading average is more amusing than substantive, there are plenty of examples that hit much closer to home. Let’s talk about car insurance. If you are a male driver under the age of 25, your car insurance premium is probably higher than that of a comparable young woman. In fact, if a female version of yourself existed, equal in all respects (same driving record, grades, car model, residence), odds are you will pay about \$676 more in premiums than your she-clone. But wait, you exclaim, insurance companies aren’t being fair! Enter the tyranny of the average.

Car insurance premiums for young males are generally higher than young women’s because, on average, young men are worse drivers. Men are more likely to be in a crash than women, especially fatal crashes. Women wear seatbelts 27% more often than men do. Men have twice as many DUI citations as women do. Men also drive more than women do—1.5 times more. So, men—especially young men—are on the road more than women, and once there, take greater risks—on average.

The problem in the insurance market is called adverse selection. In this case, adverse selection simply means that you have more information about your driving habits than the insurance company does. But the insurance company has to somehow determine an appropriate premium to charge you. What to do? The company relies, to some extent, on those averages. If a certain category of driver is, on average, involved in more crashes and engages in more risky behavior than other categories, and you fit into that category, you’re likely to pay higher premiums. Your individual behavior can certainly mitigate the effect of belonging to that risky category, such as getting better grades or taking driver training classes, but if you’re a young man, your premium is still likely to be more than that of a similar young woman.

This may not seem fair, but it is legal in the U.S. because insurance companies are not charging different premiums simply on the basis of gender. They are using gender as an indicator of risk because—on average—gender is associated with the greater likelihood of an accident on the part of young men. Gender is not the major factor in setting premiums, and the difference in premiums is becoming smaller as the driving habits of young men and women become more alike. This doesn’t mean that the tyranny of the average no longer exists; it simply means that the averages are more equal. If you’re a young male driver, don’t take your higher premium personally. Your insurance company doesn’t have anything against you, it’s just playing the averages.