

## Memorandum

To: Investment Management Sub-Committee and Staff  
**Nevada System of Higher Education**

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From: Daniel Pawlisch  
Ruth Schau

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Date: October 10, 2012

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Re: **Research Citations Regarding the Impact of Too Much Choice**

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### Background

As previously referenced in numerous interactions, Hewitt EnnisKnupp has observed that the investment line-ups for the Nevada System of Higher Education (NSHE) Defined Contribution Retirement Program are considerably larger than other defined contribution plans and contain numerous redundancies. While additional fund choices may be perceived as a benefit, evidence has shown that these extra choices do not help participants form better portfolios. In fact, numerous researchers have concluded that more fund alternatives typically leads to confusion and adverse portfolio choices among participants. The balance of this memorandum provides citation to research studies that demonstrate that a multitude of options can lead to choice overload, reducing decision quality.

### Industry Research

Several studies and authors have found that larger choice sets can reduce one's satisfaction decision, the likelihood of making a decision, and the quality and optimality of the decision. Specific research includes, but is not limited to, the following:

1. How Much Choice is Too Much: Contributions to 401(k) Retirement Plans (Iyengar, Jiang, and Huberman, 2004)
2. The Psychological Costs of Ever Increasing Choice: A Fallback to the Sure Bet. (Iyengar and Jiang, 2005)
3. When Choice is Demotivating: Can One Desire Too Much of a Good Thing? (Iyengar and Lepper, 2000)
4. When More Alternatives Lead to Less Choice. (Kuksov and Villas-Boas, 2005)
5. Designing a Sequential Choice Architecture to Reduce Choice Overload. (Roswarski and Murray, 2006)
6. Decision-Making Strategies and Performance Among Seniors (Schram and Sonnemans, 2011)

**Conclusion**

Hewitt EnnisKnupp believes it is imperative for the Committee to restructure the Plan's investment line-up in order to reduce confusion and help faculty and staff to invest wisely. In the past 12 months, we have assisted nearly a dozen universities in the redesign of their investment programs. In working with a growing number of these institutions, we have found that the optimal investment structure consists of roughly 20 - 25 investment options distributed across several tiers designed to meet the diverse investment goals and needs of their faculty and staff.