Columbia business professor Sheena Iyengar, author of The Art of Choosing, is the woman behind the famous jam study. One day in 1995, Iyengar set up a tasting booth in a grocery store. During some hours of the day, she put out a wide assortment of 24 jams for tasting. At other times, she put out just six jams. Throughout the day, she counted the number of store patrons who visited the booth, and of those people, the number who actually bought a jar of jam. The result: While 60 percent of store patrons visited the booth displaying 24 jams, just 3 percent of those shoppers ended up purchasing a jar. And while only 40 percent of store patrons visited the table when it offered six jams, a full 30 percent of those visitors ended up buying something.

The jam results show, Iyengar explains in her new book, that people can be much more decisive, and tend to report greater satisfaction with their decisions when faced with a limited assortment of choices rather than a deluge of options. While the store patrons who saw the large assortment of 24 jams often took as long as 10 minutes examining different flavors and discussing their options with others before choosing a jar to buy, the ones who saw just six choices strode confidently down the jam aisle and picked up a jar within about 30 seconds.

This preference for narrowed options stems from our limited capacity to process information. Iyengar’s research was inspired by Princeton psychologist George A. Miller, who argued in a seminal 1956 paper that the number of objects the average human can keep in his working memory is seven, plus or minus two. Give the average person a list of words, letters or numbers that is between five and nine items long, and he will be able to recite it back without much trouble. Give him any more than that, however, and he will start to forget items, or jumble them.

Iyengar’s marketplace extension of Miller’s findings has implications for financial planners. Despite the fact that money invested in the S&P 500 over the past 25 years would have more than a tenfold
advantage over money stockpiled in a bank account, participation rates in company 401(k) retirement plans are still surprisingly low. It may be, Iyengar writes, that many workers are overwhelmed by the sheer number of investment options that are available to them.

In a 2001 study of more than 900,000 firms, Iyengar found that employee participation in 401(k) retirement plans increased as the number of investment funds offered by employers fell. Participation peaked at a high of 75 percent when employers offered just four funds, and it dropped to a low of about 60 percent when companies offered as many as 59 funds. Iyengar believes that the workers with a larger number of investment choices probably took some time to mull their options. But then as days turned to weeks and weeks into months as they put off their decisions, they eventually forgot about their 401(k)'s altogether. Meanwhile, many of the workers with just four or five options felt ready to sign up on the spot.

Sweden's retirement system could teach a few lessons to U.S. retirement planners, Iyengar writes. When Sweden privatized its social security program in 2000, it offered workers a selection of more than 450 different investment funds to choose from. Workers who did not choose their own investment funds were automatically enrolled in a default fund designed by the government to meet the needs of the average investor. The government actively encouraged Swedish citizens to choose their own investments, however, with a massive advertising campaign.