



Money and Happiness: Are You Focused on What Really Matters?

KEY TAKEAWAYS

- Your overall happiness level rises along with your wealth—but maybe only to a point.
- Spending on experiences tends to create greater happiness than does spending on physical goods.
- People who spend on others report higher levels of life satisfaction.

You've worked hard for your wealth—so shouldn't you be able to use it to have a happier, more fulfilling life? We sure think so.

Unfortunately, we see too many individuals and families focus the bulk of their time and energy on accumulating wealth while paying little attention to the best ways to harness the benefits of those assets. When they retire or reach an advanced age, they often don't have a handle on how to spend their wealth in rewarding, meaningful ways—just when they have the freedom to do exactly that.

The result: Despite their wealth and the choices it can afford, some affluent people don't *feel* particularly fulfilled and aren't sure how to get there.

The good news: That doesn't have to be your fate. Over the past decade or so, there have been fascinating discoveries about the relationship between money, spending and happiness. You can use that information in your own life to earn, grow and spend money in ways that can potentially lead to greater happiness and satisfaction.

Here's a look at steps you can consider taking to boost the likelihood that your wealth will bring you greater joy.

The complex relationship between happiness and wealth

The link between life satisfaction and wealth has been studied repeatedly, in hopes of answering the age-old question of whether more money means more happiness.

Alas, the results do not provide a definitive answer. But a common conclusion seems to boil down to this: Your overall happiness level rises along with your wealth—but maybe only to a point. Eventually, additional wealth is unlikely to significantly boost your satisfaction.

The most famous of these studies—conducted by two Nobel laureates—assessed how people’s income impacted both their everyday quality of life (whether they were angry or sad, joyful or stressed) and a more internal “life evaluation” (used as a proxy for overall emotional well-being). They found that emotional well-being rose with income, but only to an annual salary of \$75,000 (\$90,000 in today’s dollars). Beyond that, people were no happier with higher salaries. Their conclusion: High income buys life satisfaction but not happiness.

A different study by researchers at Harvard that focused entirely on millionaires discovered that high-net-worth individuals do become happier as their wealth increases—but not by all that much. Example: Among those with a wealth level of \$3 million to \$7.9 million, life satisfaction scores were barely higher than the scores among those with \$1.5 million to \$2.9 million.

That said, a more recent study by an expert in the psychology of happiness shows that well-being or happiness keeps increasing steadily as income levels rise, noting, “There was no observed plateau in experienced well-being ... people with larger incomes reported both higher levels of evaluative well-being and higher levels of experienced well-being.”

The “right” way to spend money

Clearly, the understanding of the relationship between money and our satisfaction with our lives is complex and has evolved over time—and will likely continue to do so.

That said, there is compelling evidence that you can *use* your wealth to generate greater happiness for yourself—if you take certain steps and avoid going down other paths. Some of the key science-supported actions to consider incorporating into your life include the following:

1. Be a doer.

Our spending choices often involve whether to buy material goods or purchase experiences that cause us to be out and about in the world. And we tend to lean toward the possessions

for a variety of reasons—they are tangible (you can see exactly what you're getting), they are easy to compare with similar products, and they are items that we expect to have and use for many years (unlike, say, a dinner that will last a couple of hours or a three-day vacation).

But guess what? It's the experiences that prompt you to do something active that are more likely to boost your long-term happiness. Consider one study that placed more than 2,500 adults into either a material group or an experiential one and then monitored their emotions. Material buyers purchased jewelry, clothing, furniture and similar items. Experiential buyers spent on sporting events, restaurant meals and the like.

The result: Reported happiness was higher for the people who consumed experiential purchases versus material ones *in every category of spending*—regardless of the cost of the items.

There are several reasons why a one-off purchase like a concert ticket can tip the happiness scale more than, say, a couch that you'll use literally thousands of times. A big one is that we as humans adapt quickly to new environments. While that's helped us survive this long as a species, it also means that the excitement of a new purchase tends to fade rapidly as that item essentially blends into the background of our lives. Then—in a pattern that's been identified by psychologists as the “hedonic treadmill”—we set off in search of the next shiny object, thinking it will generate the happiness our previous purchase failed to deliver.

It's less so, however, with an experience—which involves engaging in an activity, often that you share with one or more people. That, in turn, creates a sense of shared community or bonding. Ultimately, an experience directly involves you and others. A product, regardless of how much you enjoy it, is separate from you. In addition, we're more likely to share and “relive” our experiences by telling others about them. Think about it: Sharing the details of your Machu Picchu excursion will make you a bigger hit at the next party than will talking about your new 4K TV. That, in turn, helps cement strongly positive feelings about the experience.

2. Spend on “flow” experiences that help you pursue a challenge.

If you want to go to the next level in being an experiential spender, try focusing on experiences that empower you to pursue a goal that's important to you or to overcome a challenge you want to conquer. Many of us—especially if we're driven, type A personalities—get a rush when we set out to tackle a tough goal or a new obstacle. (Indeed, have you ever noticed that the journey toward an objective can feel more exciting than when you actually reach the end zone?)

These types of challenge-based activities are sometimes categorized as “flow” experiences (a concept originated by positive psychology co-founder Mihaly Csikszentmihalyi). They capture your heart and attention and provide you with the kind of timeless moments you will

remember forever. This can happen during artistic or creative pursuits, athletic endeavors, active time spent in nature, or any type of activity where you are innately engaged and your skill level is reasonably matched with the challenges being presented to you.

The upshot: If your spending can help you scale a mountain—literally or figuratively—go for it.

3. Disrupt your material goods spending patterns.

While it may be easy to come up with a long list of cool experiences to spend your money on, it may be harder for you to rein in your spending on material goods. The allure of one-click buying can act like a magnet on your index finger. But if you know that the rush you get from acquiring more “stuff” dies out fast, then it makes sense to disrupt your buying habits a bit. One option: Commit to waiting a week, or even a month, before you purchase a nonessential item you see online or in a store. During that time, notice how often you find yourself longing for that item. If you’ve barely thought about the product over that period, cross it off your list and get on with your life. If you find yourself craving it repeatedly, it’s a good sign that you’ll derive real pleasure from owning it.

4. Buy time—then use it well.

Although we can do many things faster and more efficiently than ever these days, many people still say they’re time crunched and anxious about finding enough hours in a day to get through their to-do lists. Those conditions have been shown to be directly related to poorer mental health. And let’s be honest: If you’re stressed out about time, how likely is it that you’ll book that vacation or other amazing experience that could really boost your well-being?

One solution is to use some of your money to buy time. The rise of the gig economy means you can find providers who can take a broad range of chores and responsibilities off your plate, both personally and professionally. Take advantage of them—after all, one advantage of being reasonably affluent is that you can more easily enlist others to do tasks for you so you can free up your schedule a bit. Consider:

- Research published in the *Harvard Business Review* noted that people who engaged in time-saving activities and in spending that helped them save time had 10 percent higher life satisfaction scores than those who didn’t.
- An early study found that working adults who spent the same amount of money on a time-saving purchase as on a material thing said the time-saving purchase put them in a more positive mood and reduced their feeling of time pressure.

The catch? Once your spending has helped you carve out more time, don’t waste it. Rather than getting caught up on social media or squeezing in more work, do something that

makes you happy and boosts your mood. Seek out friends and have some fun, exercise or volunteer—being active and social during at least some of your downtime is a key part of being happier.

5. Support others.

Really want your dollars to make you happy? Try spending them on someone other than yourself. Give experiential gifts to friends and family on their birthdays or anniversaries. Help a grandchild buy his or her first home. Support charitable organizations that you value. “Pay it forward” in line at the grocery store. Numerous studies show that such pro-social spending is linked with higher levels of well-being and satisfaction.

Important: Notice a common thread running through these spending tips? They generally involve other people—having experiences with others, spending on others and freeing up time to be with others. The upshot: A plan to connect your spending with greater happiness should include strong relationships with friends, family, or a spouse or partner (and ideally all of the above) with whom you can create amazing shared memories.

Conclusion

While money and happiness may always be a tricky topic to untangle, you can take action steps with your wealth right now that could better help you find joy and live your best life.



VFO Inner Circle Special Report

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