Money Can Buy Happiness

By Justin Kermond
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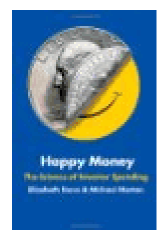
Marcia Fiamengo paid $200,000 to spend six minutes in sub-orbital spaceflight aboard Richard Branson's Virgin Galactic. In another instance, an anonymous donor paid for the layaway orders for 50 people at a K-Mart, then handed out $50 bills while leaving the store. While some might consider such spending extravagant or wasteful, it produced lasting happiness for the individuals.

Extensive research has shown that the act of buying life experiences and giving money away can make people happier than buying material items does.

Those findings have profound implications for planners, who are increasingly called upon to advise individuals and families on how to spend their money, rather than just how to invest it. Helping clients achieve better outcomes with their spending decisions – and enabling them to live happier lives – is a vast and largely untapped opportunity for the planning profession.

Fiamengo chose to spend the insurance money from her husband's death to honor their retirement dream of being astronauts. The death of her husband served as a catalyst and reminder to not put off amazing experiences until a better time. On a much smaller scale, the anonymous widow who generously gave away money at K-Mart was doing so to make people happy and to honor the memory of her recently deceased husband.



In *Happy Money: The Science of Smarter Spending*, Elizabeth Dunn and Michael Norton argue that money can buy happiness if people make a focused effort on spending differently. The authors' research shows that people are content to rely on their intuition to decide what type of spending will make them happy. If spending decisions are even half as complicated as investment decisions, there is no reason to assume that intuition alone provides a sufficient guide. Dunn and Norton's research shows that wealth increases fail to produce similar increases in happiness because people make flawed spending decisions. In order to increase happiness, the authors offer a more structured decision-making process with specific recommendations as to what types of spending will produce higher levels of happiness.

The authors state that rising incomes since the 1960's have not led Americans to use their time in happier ways. The U-index, a measurement of the proportion of time individuals spend in an “unpleasant”, “undesirable” or “unhappy” state, has been largely unchanged since the 1960s. The U-Index was introduced by Princeton economists Alan Krueger and Daniel Kahneman in their 1997 *National Time Accounting: The Currency of Life*. Dunn and Norton presented five principles to apply toward your daily spending habits to improve your personal U-index:

1. Buy experiences rather than material items. This makes people happier and provides an inoculation against buyer’s remorse associated with purchasing items such as homes, automobiles and flat-screen TVs.

2. Focus on buying time with your money. Using money to outsource undesirable tasks frees time to pursue passions and activities that promote wellbeing.

3. Invest in others at whatever level you can. Even if you cannot pledge a vast fortune like Warren Buffet or Bill Gates, you can get greater happiness and fulfillment from spending money on others. Spending even a few dollars on someone else can trigger a boost in happiness. In one study, researchers found that asking people to spend as little as $5 on someone else over the course of a day made them happier at the end of that day compared to people who spent the $5 on themselves.

4. Alter your consumption patterns. “If abundance is the enemy of appreciation, scarcity may be our best ally,” according to Dunn and Norton. Purchases become a treat and have a restored luster if we consciously reduce amounts and frequencies of specific purchases, from lattes and chocolates to wardrobes.

5. Pay now and consume later. Reversing the “consume now and pay later” mantra promoted by credit card companies and our digital economy buys more happiness. “Delaying consumption allows spenders to reap the pleasures of anticipation without the buzz kill of reality” and the struggle of having to pay debts at a later date, according to Dunn and Norton. People are less likely to overspend when purchasing up front. This leads to lower debt, which provides one of the best routes toward increased happiness.

Houses, cars and commuting don’t make people happier

Buying big-ticket items doesn’t bring happiness, as a number of studies have shown.

A 2011 University of Pennsylvania study of 600 women in Ohio concluded that homeowners were no happier than renters. (The homeowners were also 12 pounds heavier than renters, but the researchers did not offer an explanation for that.) Another study interviewed thousands of people in Germany who had moved to a new house because of something they disliked in their old house. Although they were more satisfied with their new homes, the new home produced no notable increases with their overall satisfaction and happiness with their lives.

After houses, cars are typically the largest purchases people make. Dunn and Norton researched whether splurging on a BMW, settling for a mid range Honda Accord or economizing with a Ford Escort produced different levels of happiness. They cited a study from the University of Michigan that asked car owners to think back to the last time they drove their car and to rate the experience of that drive. The research results showed that there is no relationship between the value of a car and the amount of enjoyment an owner got from driving it. Then, the researchers asked a different set of car owners to list their car's make, model and year and then to consider how they felt while driving it. Those with more expensive cars reported deriving more enjoyment from driving. Because they were reminded of their cars' value, the second set of car owners drew upon positive memories and the feelings created by the high-end features of a more expensive automobile.

The U.S. Census Bureau reports that Americans spend more than two weeks per year commuting, which exceeds many workers' annual vacation. The authors' research shows commuters are in an unpleasant mood more than 25% of the time, ranking commuting at or near the top of the U-index. The authors' conclude that "to offset the happiness costs of going from no commute to a 22-minute commute, the average person would need to see their income rise by over a third— and that's just to break even. You could get a similar happiness boost, research shows, by moving closer to work." The upshot is that spending more on a house makes sense when one's commuting time is reduced.

Turn off the TV and gain two months

Our modern world affords people the opportunity to spend less time on unpleasant activities such as household chores, but television viewing has sucked up a large part of this available time. The authors found that the average American spends the equivalent of two months per year watching television. They conclude that time and money associated with purchasing and watching a TV are counterproductive for happiness. "More than any other activity, television appears responsible for the failure of the U-index to budge over the past four decades," they write. TV's only advantage is that it is less expensive than the alternatives that lead to greater happiness.

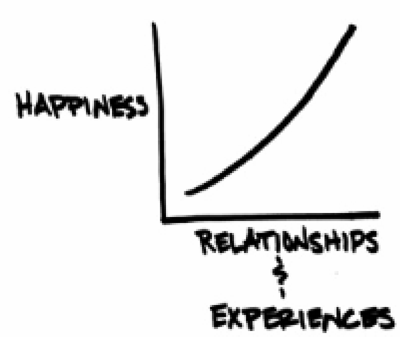
In contrast to the unhappiness associated with couch-potato TV culture, a study published in the *International Review of Economics* tracked spending habits of Americans over 50. It found that people who spend more money on leisure reported significantly greater satisfaction with their lives. The study defined leisure spending to include trips, movies, concerts, dining out, sporting events, gym memberships and even dog walking. In addition to getting people off the couch, buying experiences brings us together with other people and connects us with shared memories.

Should you sell your house, car and television?

No, the authors are not suggesting that the reader sell all their worldly goods and buy a ticket to outer space or donate the proceeds to charity. But it is highly beneficial to sell a house that is more than 30 minutes away from work and buy one that reduces commuting time, or to sell a large expensive house that limits experiential spending.

The spending habits and budgets of the average U.S. household are not well aligned with happiness. The 2010 U.S. Labor Statistics reported that 50% of after-tax household income is spent on housing and transportation, which Norton and Dunn's research shows does not lead to greater levels of happiness. Only 3% of after-tax income is spent on charitable donations, which their research shows does lead to greater levels of happiness. Apply Norton and Dunn's five principles before spending discretionary dollars and consider small changes in spending decisions.

Carl Richards weekly Behavior Gap email offered his thoughts on H. James Wilson's recent *Harvard Business Review* article, Want to Know What Really Makes You Happy? Try Tracking It. Wilson used three slightly wonkish approaches using auto-analytics to understand what makes us happy. Carl suggested instead tracking and rating your daily happiness on a 1-10 scale and writing down the things that contributed to making a day happier. Carl, like Dunn and Norton, suggests making small changes to stop wasting time on things that do not have a chance of making you happy. Lastly, he provides the following sketch:



Conclusion

My personal experience validates these findings. Many years ago, a college roommate of mine told me that money can't buy happiness, but it could buy him a new car and he could drive around all day looking for happiness. At the time, I was driving a 22-year-old Chevy II

Nova with a three-on-the-tree manual transmission. The concept of a new car was enticing.

My roommate has gone on to a highly successful banking career in New York City and rarely drives. Ironically, he is picked up by a black limousine from his Upper West Side residence and comfortably whisked to his downtown office on a daily basis. I am a weekend warrior, loading up my nondescript and aging SUV with bikes, skis, beach chairs and whatever the weekend's adventures require. The vehicle has contributed to experiences and memories with my family and friends that have created great happiness for all.

For financial advisors guiding their clients in spending decisions, applying Dunn and Norton's five principles will lead to higher happiness levels. Advisors are well equipped with tools to help clients save and invest their money wisely. Dunn and Norton's principles are additional tools to help your clients spend their money wisely and hopefully be a little happier.

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