Budgeting for Happiness

Dr. Matt J. Goren, CFP®

Does money buy happiness?

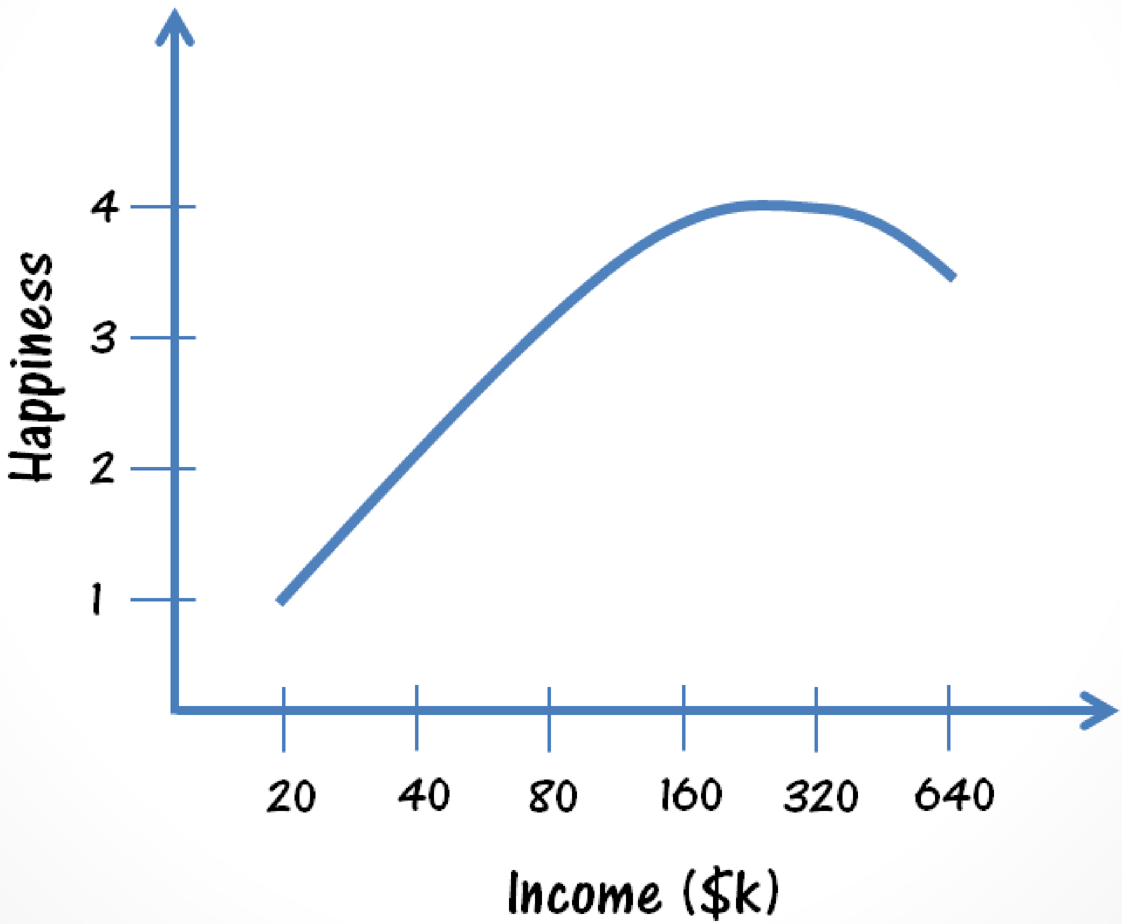
Yes

Thank you!

Any questions?

Are you buying happiness?

Income-Happiness Curve

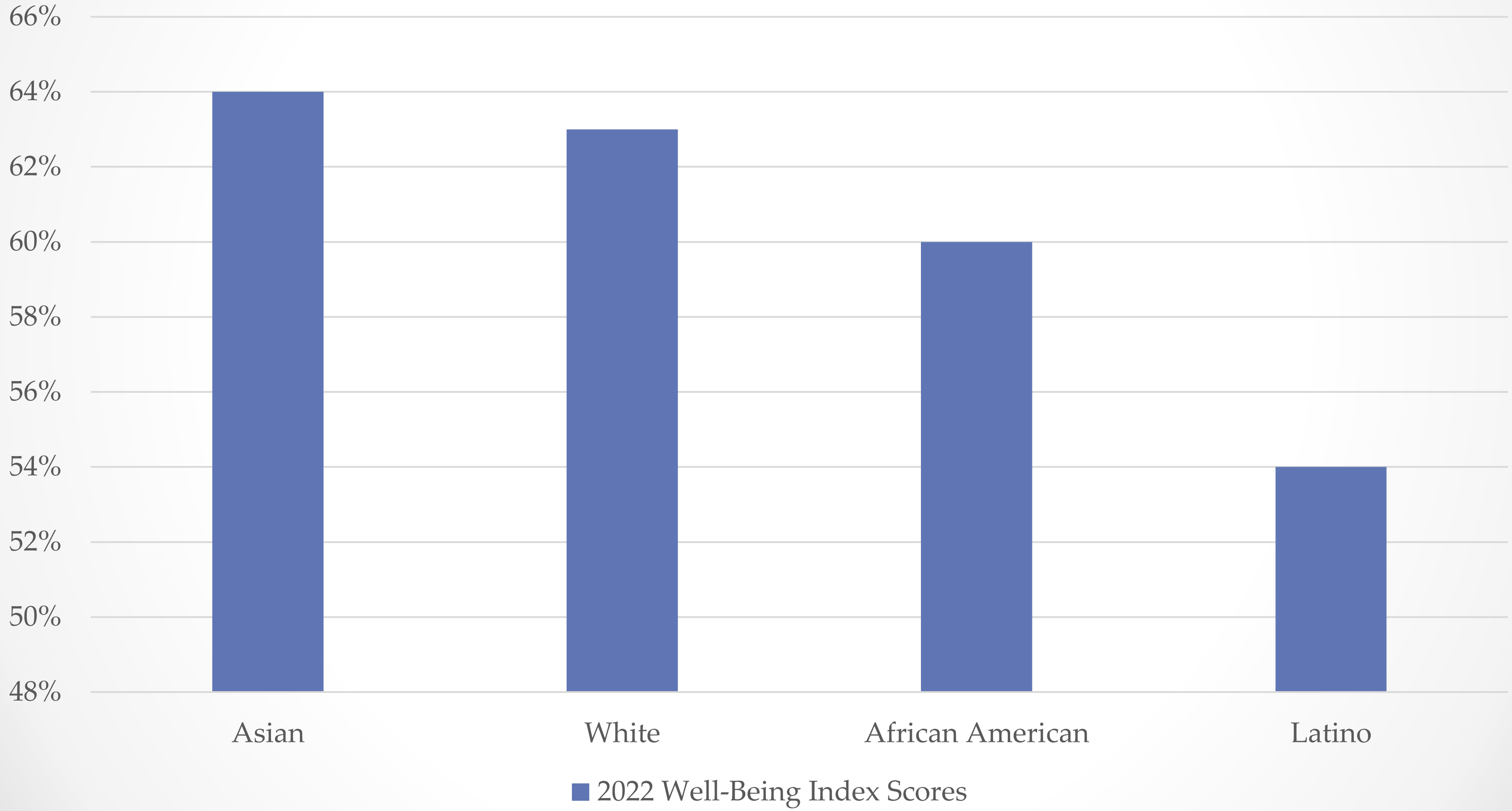


- https://pathwaytofi.com/how-much-money-do-you-need-for-peak-happiness/

Income-Happiness Curve

- Peaks at $75,000
  - http://content.time.com/time/magazine/article/0,9171,2019628,00.html
- $100,000 with inflation *and* add 50% = $150,000
  - https://pathwaytofi.com/how-much-money-do-you-need-for-peak-happiness/
  - https://www.sciencedirect.com/science/article/pii/S235282732100224X
- Similar effect for net worth around $1M-$3M
  - https://dash.harvard.edu/handle/1/37221623

Happy Cultures



- https://www.xminstitute.com/blog/us-wellbeing-fluctuates/

Happy Cultures

Finlanders

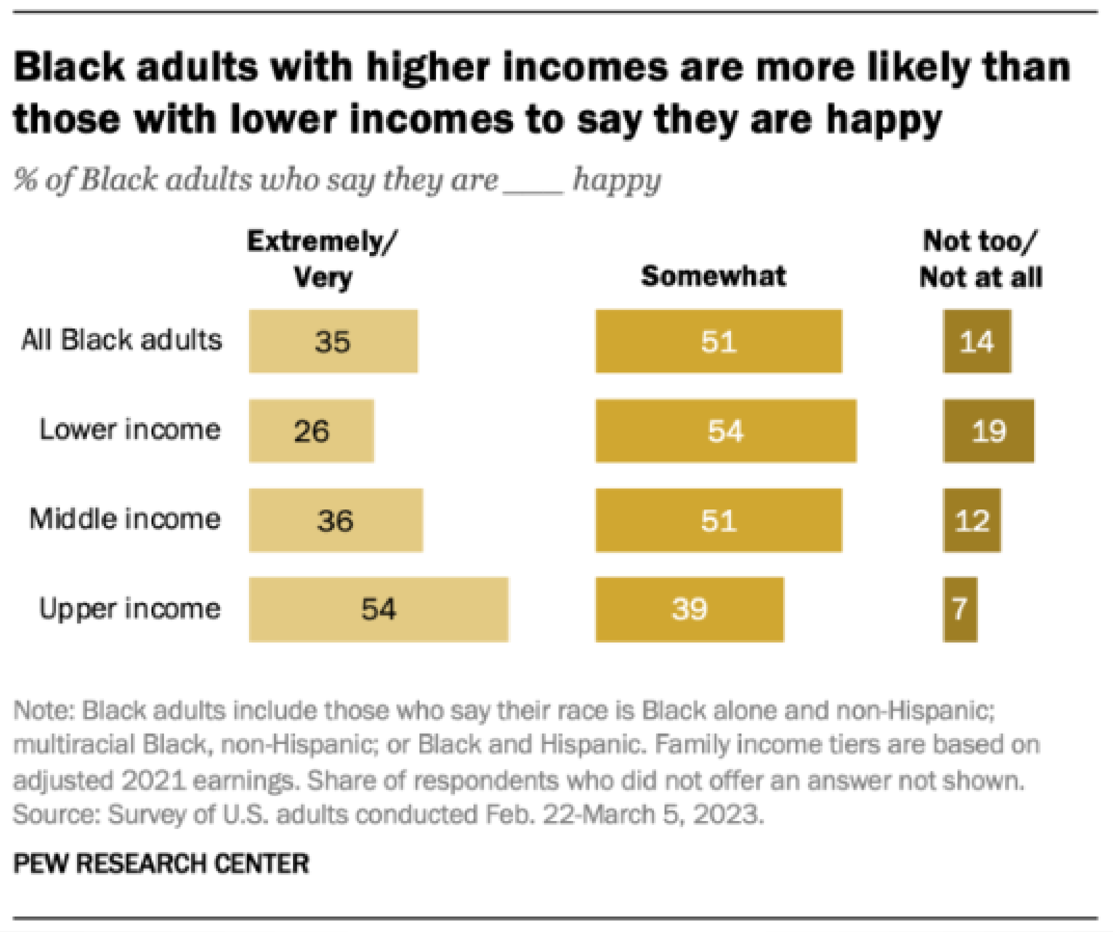
(& other Scandinavians)

https://worldhappiness.report/ed/2020/social-environments-for-world-happiness/

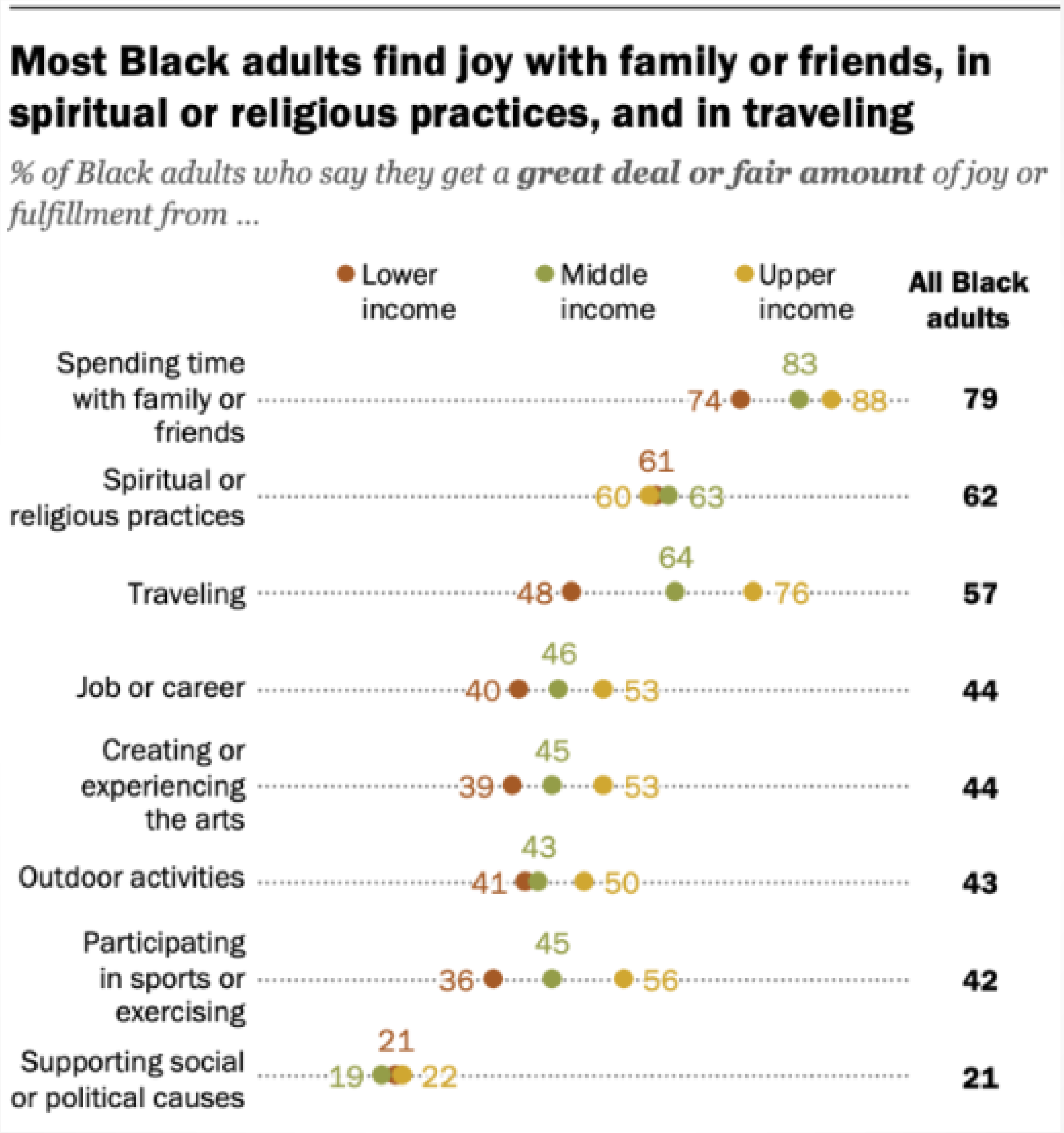
Khoisan

https://www.npr.org/sections/goatsandsoda/2017/10/01/551018759/are-hunter-gatherers-the-happiest-humans-to-inhabit-earth

Happy Cultures



- https://www.pewresearch.org/short-reads/2024/02/01/among-black-adults-those-with-higher-incomes-are-most-likely-to-say-they-are-happy/



- https://www.pewresearch.org/short-reads/2024/02/01/among-black-adults-those-with-higher-incomes-are-most-likely-to-say-they-are-happy/

Spend on experiences

"Buy experiences, not things…

Things get broken and go out of style. Experiences get better every time you talk about them."

- https://scholar.harvard.edu/files/danielgilbert/files/if-money-doesnt-make-you-happy.nov-12-20101.pdf

Spend on People

- https://www.library.hbs.edu/working-knowledge/to-buy-happiness-spend-money-on-other-people
  https://www.usu.edu/science/discovery/fall-2017/does-giving-make-you-happy

Spend on Stuff

~~Spend on Stuff~~

"Homeowners are no happier than renters."*

More % of income spent on housing
→ lower well-being**

*https://www.cnbc.com/2020/10/27/does-buying-a-home-make-you-happier-psychology-of-home-ownership.html
**https://pmc.ncbi.nlm.nih.gov/articles/PMC9914515

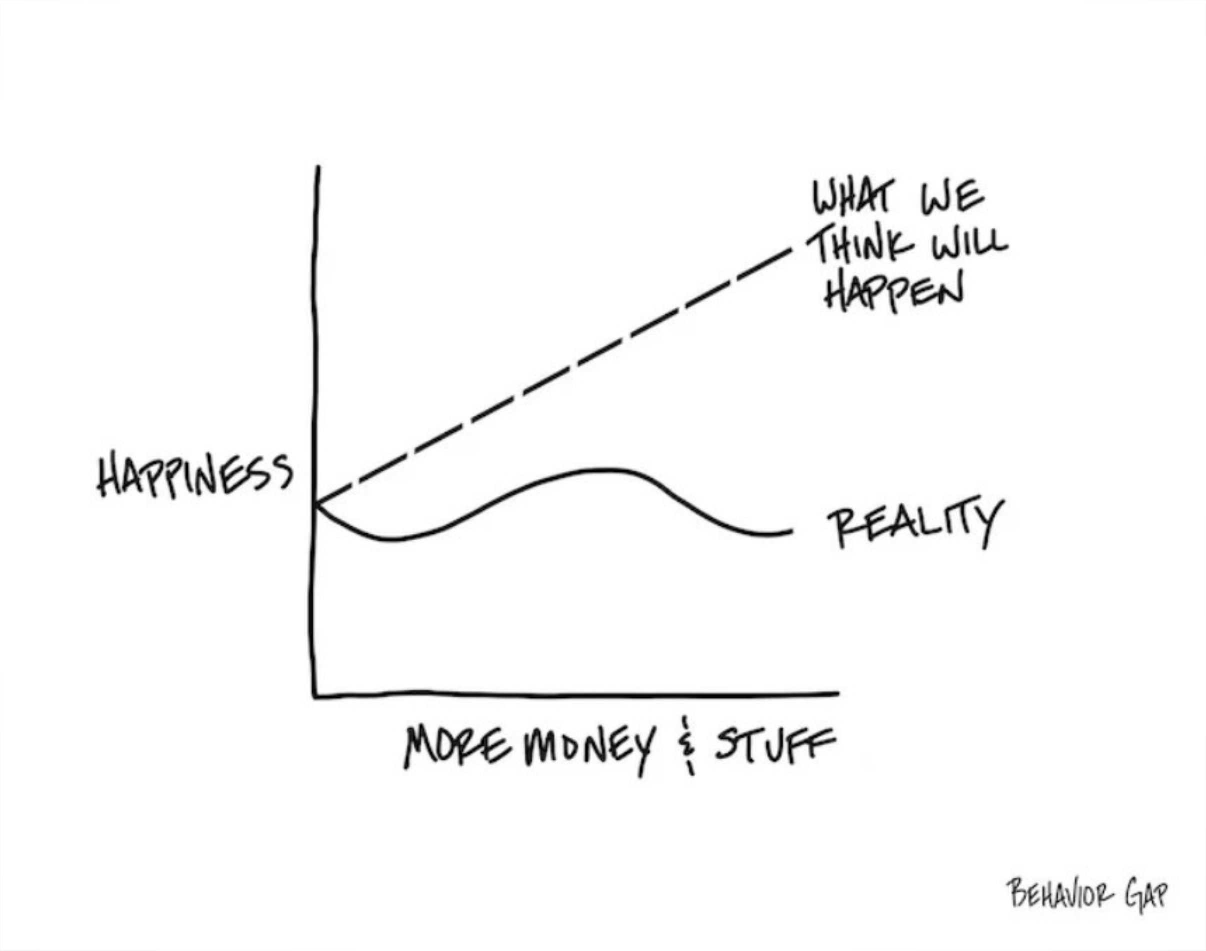
~~Spend on Stuff~~

More $, time spent on cars
→ lower life-satisfaction

Unless that time was on *trips*

- https://usa.streetsblog.org/2024/12/16/study-depending-on-cars-does-make-some-people-happier

The Hedonic Treadmill



- Carl Richards, *Behavior Gap* behaviorgap.com

The Hedonic Treadmill

https://www.businessinsider.com/lottery-winners-lost-everything-2017-8

https://amputee-coalition.org/

- https://psycnet.apa.org/record/1980-01001-001

The Hedonic Treadmill

The Income Effect

More Income = More Spending

- https://www.investopedia.com/terms/i/incomeeffect.asp

The Income Effect

	2^{nd} Quintile	4^{th} Quintile	Delta
Income	$40,800	$116,700	+$75,900

- https://www.bls.gov/cex/tables/calendar-year/mean-item-share-average-standard-error/cu-income-before-taxes-2023.xlsx

The Income Effect

	2nd Quintile	4th Quintile	Delta
Income	$40,800	$116,700	+$75,900
Housing	$18,700 (38%)	$28,000 (32%)	+$9,300 (-6%)
Transportation	$7,800 (16%)	$15,900 (18%)	+$8,100 (+2%)

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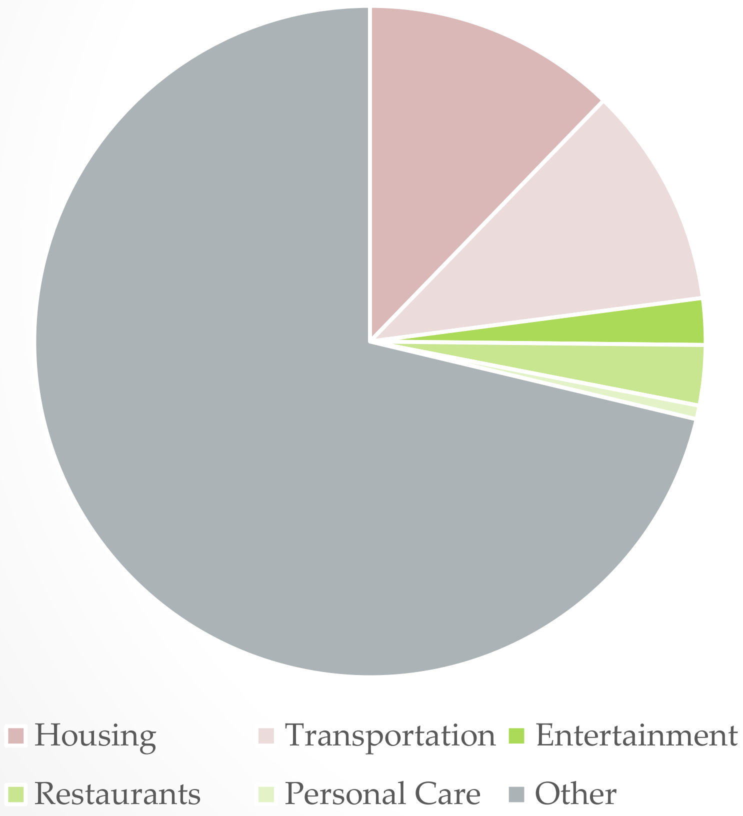
Entertainment	$2,200 (5%)	$3,900 (4%)	+$1,700 (-1%)
Restaurants	$2,400 (5%)	$4,600 (5%)	+$2,200 (+0%)
Personal Care	$600 (1%)	$1,100 (1%)	+$500 (0%)

- https://www.bls.gov/cex/tables/calendar-year/mean-item-share-average-standard-error/cu-income-before-taxes-2023.xlsx

The Income Effect

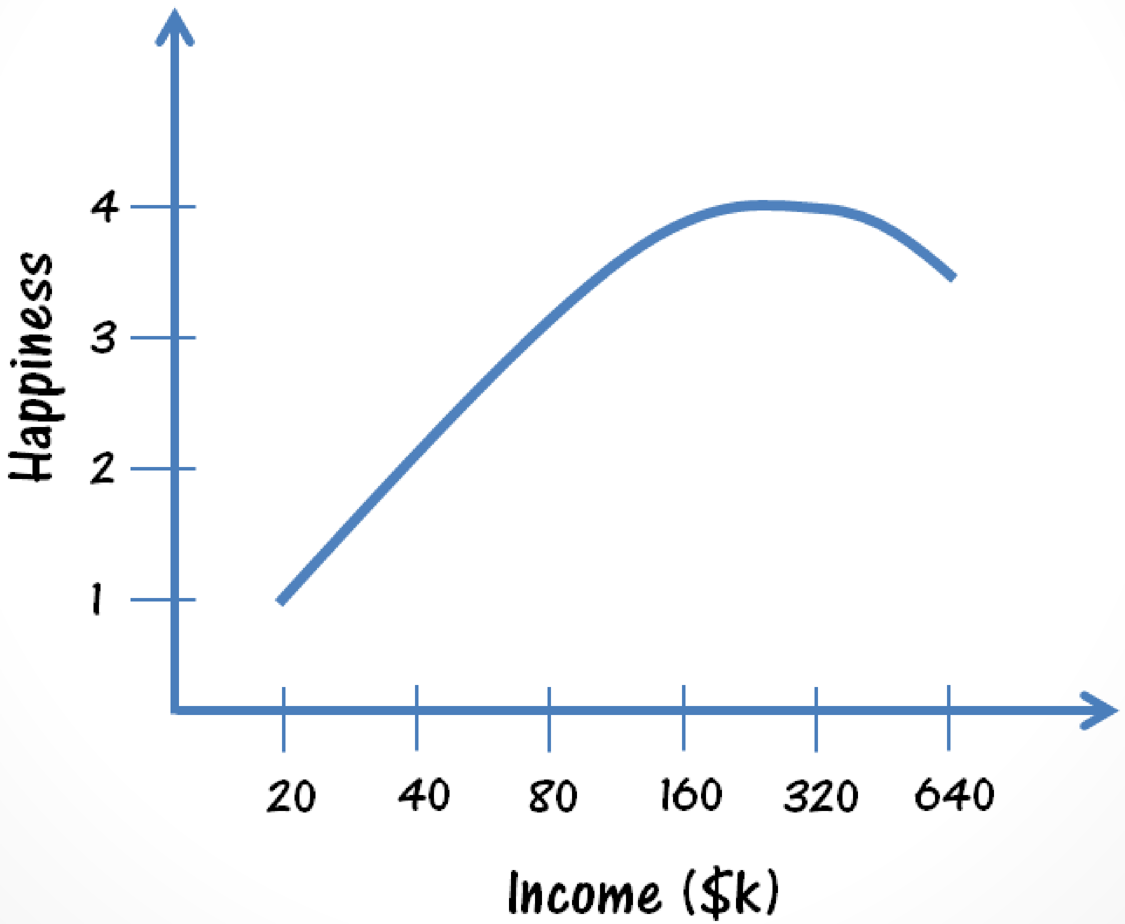
How the Income Delta is Spent:



4x more spent
on things
that don't make us
happy!

- https://www.bls.gov/cex/tables/calendar-year/mean-item-share-average-standard-error/cu-income-before-taxes-2023.xlsx

Income-Happiness Curve



- https://pathwaytofi.com/how-much-money-do-you-need-for-peak-happiness/

Spend Intentionally

- Fixed expenses reduce happiness
  - https://www.cbsnews.com/news/why-money-isnt-buying-you-happiness/
- Spend less on housing, more on experiences
  - https://positivesharing.com/2006/08/low-rent-living/
- Be a minimalist
  - https://www.becomingminimalist.com/budgeting-tips/

Spend Intentionally

Needs

- Required for survival
  - Food
  - Water
  - Shelter
- Required for modern living
  - Education
  - Transportation
  - Connectivity

- Wants
  - What we think will make us happy

Hedonic Accounting

	Needs	Wants
Fixed	↓	✕
Variable	Savings, Insurance	↑

Hedonic accounting

Actions	Annual Savings
Cancel cable	$1,200
Switch cell phone carrier	$500
Reduce heat, AC usage	$60 (per 1°)
	$1,760
Weekend roadtrip for 2	-$860
Net	**$900**

Hedonic accounting

Actions	Annual Savings
Live in a 2nd quintile house	$9,300
Drive a 2nd quintile car	$8,100
	$17,400
Space camp	-$1,900
Life-changing trip to Bali	-$5,000
Sponsor a new AFC	-$2,300
Net	**$8,200**

In Conclusion

- Spend less on what doesn’t make you happy
- Spend more on what does make you happy
- You can probably afford it

Thanks!

- Me
  - https://www.linkedin.com/in/mjgoren/
- My job
  - https://www.brettdanko.com/
- My other activities
  - https://www.msfsolutions.com/
  - https://www.gfp.institute/
  - https://www.financialplanningassociation.org/
  - https://finservfoundation.org/