



Money Can't Buy Me Love

"I've been rich, I've been poor. Rich is better."

– Cher

Will money make you happy? The link between money and happiness is a familiar and emotionally-charged topic of conversation. Singers and songwriters address the theme frequently, and while our romantic sensibilities encourage us to believe that true happiness could never result from wealth, it turns out that money can buy you happiness, but only up to a certain point.

You Can't Always Get What You Want: A study by Princeton University found that a certain level of money is required to make people happy and the study put that figure at \$75,000 per year. The idea is that there is a minimum amount of income that people need to simply take care of the basics, and struggling below that level can lead to unhappiness. However, the study also found that as people made more than \$75,000 their level of happiness did not increase. In fact, there was a plateau effect; individuals fail to be happier simply because they are making more money beyond the level of basic needs.

Rich Girl: But money does help. Surveys show that people in rich countries tend to be happier than those in poor countries, and within a particular wealthy country the rich tend to be more satisfied than the poor. However, our feelings about wealth tend to be *relative* rather than *absolute*. That is, people tend to be made happy by money only when

their money makes them wealthier than other people around them. The same \$100,000 income that would make a starving artist ecstatic would make a Wall Street banker miserable.

This is likely why happiness has been rising at a rapid rate in “emerging” countries in Asia and Latin America; those countries are quickly becoming more wealthy relative to poor countries and relative to their own recent past. H.L. Mencken's observation on this phenomenon in 1916 is still quite prescient today: *“Wealth. Any income that is at least \$100 more a year than the income of one's wife's sister's husband.”*

Don't Stop 'Till You Get Enough: How much is enough? Again, studies show that you gain greater happiness as you move into the income earning bracket that allows you to make sure you can afford the basics. Therefore, going from poor to middle-class gives you a larger gain in happiness than going from middle-class to rich does. And going from a net worth of \$1 billion to a net worth of \$2 billion probably does not move the needle at all, although most of us would be willing to test that theory.

It's in the Way That You Use It: Your level of happiness also depends on what you do with your money. For example, it is better to use your money

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to *do* things rather than to *have* things. Vacations and other experiences with family and friends can have an enduring positive impact on your life experience, whereas material goods such as jewelry and cars tend to provide only a short-term burst of happiness.

Research has also shown that spending money on others leads to greater happiness than spending it on oneself. A recent Wall Street Journal article noted that one paradox of money is that, although earning more of it tends to enhance our well-being, we become happier by giving it away than by spending it on ourselves. One study reported that this was even true when the individuals giving away the money were relatively poor themselves. The satisfaction from using money to help others contributes disproportionately to happiness, and the possibility of a charitable tax deduction can make you happy in a different way!

Money for Nothing: The source of your money can also impact your overall level of happiness. Specifically, money that you earn tends to make you happier than money that you win or inherit. Studies have shown that lottery winners are no happier than the average person, but full-time workers are happier than part-time workers, and unemployment can make you miserable. Also, self-employed individuals report higher levels of happiness than those who work for someone else, although this may be attributable more to the sense of creativity and achievement of self-employment rather than to the explicit financial rewards.

The bottom line is that money can buy a certain amount of happiness, but the research suggests that at a particular earnings level, happiness ceases to increase. It seems that the study of money and happiness may in fact be more art than science. So, as Time magazine reporter Belinda Luscombe noted, ***“Now that Princeton researchers have untangled that life mystery (the connection between money and happiness), maybe someone at MIT can look into the optimal amount of money required to buy us love.”***



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H | I | G HERITAGE INVESTMENT GROUP

2480 N.E. 23rd Street, Pompano Beach, Florida 33062
Phone: 954.785.5400 Fax: 954.933.0966

115 South Fielding Avenue, Tampa, Florida 33606
Phone: 813.258.1759 Fax: 813.254.3756

www.heritageinvestment.com