

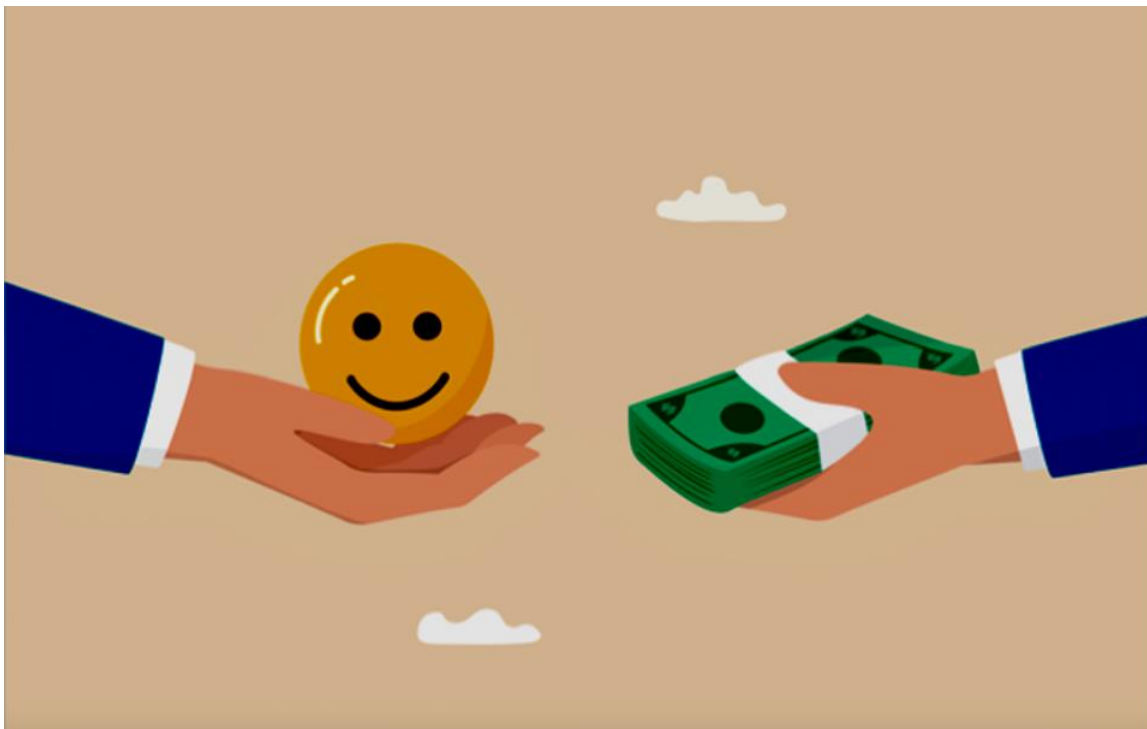
Self-reflection theme: Personal finance

# Forbes

## Does Money Buy Happiness? Actually, Yes

[John Jennings](#) Feb 12, 2024, 09:33am EST Updated Feb 12, 2024, 10:11pm EST

*John Jennings covers investments & issues that affect wealthy families*



Sometimes, ideas become accepted knowledge even though they are not based in fact. Prime examples are that the only human-made object that can be seen from space is the Great Wall of China, that lemmings periodically engage in mass suicide, that heat escapes mostly from our heads, and that we only use 10% of our brains. [None of those are true.](#)

Another notion that has become accepted wisdom is that making more money increases happiness, but only to \$75,000; that's also wrong. Research suggests there is no \$75,000 happiness threshold for most people — higher income does indeed correlate to more happiness.

### The \$75,000 Study

It's oddly satisfying to think that rich people aren't any happier than the middle class. This belief is supported by a widely publicized [2010 study](#) led by Daniel Kahneman and his Princeton colleague, Angus Deaton — both winners of the Nobel Prize in Economics — which concluded that happiness only increases with income up to \$75,000. After that, they claimed, additional income doesn't impact overall happiness.

Based on survey data from 450,000 Americans, the study examined the relationship between income and the concepts of “emotional well-being” and “life satisfaction.” Emotional well-being is how good or bad we feel in the moment — it's a proxy for our level of happiness (I'm going to refer to emotional well-being as happiness in this

article). Life satisfaction is a broader concept; it's whether we think we're living a good life and are satisfied with our life circumstances overall.

Kahneman and Deaton found that happiness increased with income, but only to a point — there was no further progress beyond about \$75,000 (\$108,000 in today's dollars). They theorized that the plateau occurs because satisfying basic needs is challenging at lower income levels, and those daily challenges negatively impact happiness. Lack of money is associated with stress, poorer health, less leisure time, and greater emotional pain. But once people make enough to move beyond meeting their basic needs and can afford things like a house and a car, take vacations, and gain financial security through savings, making more money doesn't move the happiness needle. The authors' theory is that above \$75,000 of income, happiness is driven by things like the quality of one's relationships, health, and leisure time, and money isn't a factor.

In contrast to happiness, Kahneman and Deaton found that life satisfaction increased steadily with income with no plateau. In other words, the more money people make, the more satisfied they are with their lives. This makes intuitive sense because making more money positively correlates with achievement and career success, and that sense of accomplishment can boost satisfaction with one's life.

### **The Killingsworth Study**

University of Pennsylvania professor Matthew Killingsworth authored [a paper published in 2021](#), which also examined the influence of income on happiness and life satisfaction. He used a research method known as real-time experience sampling, where 34,000 volunteers were pinged a few times a day via their smartphones and asked about their feelings and emotions in the present moment. They were also surveyed about their income and satisfaction with their lives.

Using this data, which constituted over 1.7 million experience samples, Professor Killingsworth found that larger incomes “were robustly associated” with both greater happiness and greater life satisfaction. Further, there was no observed plateau in either happiness or life satisfaction at \$75,000 or any other level. As income increased, positive feelings increased, and negative feelings decreased.

### **The Collaborative Paper**

The fact that two studies, each by respected researchers, would have conflicting conclusions was troubling. Which was correct? In 2023, Kahneman and Killingsworth published a collaborative paper (along with Professor Barbara Mellers of the University of Pennsylvania) that reconciled the contradictory results of the two studies and determined that neither had it exactly correct.

The problem with the \$75,000 paper was that the measurement of happiness was too coarse: In the survey, people reported merely being happy or unhappy, and there was no graduated scale. That meant that once you reported that you were happy, there was no way to report getting happier, and most people—including those with lower incomes—reported that they were happy. The problem in the Killingsworth paper was that he didn't notice that the happiness of the least happy 20% of the population didn't improve once those people hit about \$100,000 of income.

After re-examining the data, the authors of the collaborative paper concluded that more money *is associated* with more happiness for most, but not all, people. For 80% of people, happiness continues to rise with income past \$75,000. But for an unhappy minority, those individuals' unhappiness diminishes as they make more money — but only up to about \$100,000 (about the same as \$75,000 adjusted for inflation).

“If you're rich and miserable, more money won't help,” said Killingsworth in [a UPenn release](#). Further, the extent to which money affects happiness differs for people with different levels of emotional well-being. According to the UPenn release, the collaborative 2021 paper found [that](#) “for the least happy group, happiness rises with income until \$100,000, then shows no further increase as income grows. For those in the middle range of emotional well-

being, happiness increases linearly with income, and for the happiest group, the association actually accelerates above \$100,000.”\*

## Why Money Increases Happiness

There are obvious advantages to having more money. You can live in a nicer house and drive a nicer car, take better vacations, provide quality education for your kids, gain improved access to medical care, and have a more comfortable retirement. These are all good things, for sure, but they may not move the happiness needle much because we adapt to improved lifestyles. So, why might money foster increased happiness? There are multiple reasons:

- Not having money is associated with challenges and difficulties. According to late happiness researcher Ed Diener (who was known as “Dr. Happy”) in his book [Happiness](#), “Financial resources can serve as a buffer against life’s negative events.” Having more money means avoiding the stresses and worries that being poor bring.
- We evolved during scarcity, so we seek abundance. As our income increases, we feel closer to having “enough”—we aren’t threatened by scarcity. University of Texas professor Raj Raghunathan notes in his book [If You’re So Smart, Why Aren’t You Happy?](#), that feeling like we have enough is crucial to happiness: “When we are feeling abundant, life seems like a cozy mess: perfect despite its imperfections.” Likewise, [Ed Diener thinks](#) “there might be some primal connection between the secure feeling of having resources and the happiness money can deliver.”
- Having more money leads to more choices, freedom, and feeling more in control of our lives and circumstances. Sociologist Rachel Sherman interviewed wealthy New Yorkers about their feelings about wealth for her book [Uneasy Street: The Anxieties of Affluence](#), and a typical response to her query about the benefits of being wealthy was that it provided freedom and a sense of control. This feeling of control and autonomy is a crucial ingredient of how we feel about our lives.
- Money alone may not make us happy, but it is a resource that, if used correctly, can enhance happiness. [Research shows](#) that using money to buy experiences rather than things, using it to help others, to develop or deepen relationships, and buying time by hiring others to do things you don’t like to do will add to your overall psychological well-being.

Thus, the findings of the collaborative paper appear to ring true: Making more money is linked with more happiness.

## But Be Careful

Yes, making more money is correlated with being happier. Still, we need to be careful not to put too much emphasis on money when seeking happiness – more money, on its own, doesn’t guarantee greater happiness for four reasons.

First, research in the [November 2022 issue of PNAS Nexus](#) found that the correlation between money and happiness is slight. People earning more money tend to be happier than those making less, but how money affects happiness varies by individual, which means there’s an overlap in happiness among people at various income levels. For example, in a 1983 survey of individuals on the Forbes 400 list of the wealthiest Americans, [Diener found](#) that those with tremendous wealth were just a bit happier, on average, than those in the middle class, and a proportion of those uber-wealthy individuals were less happy than regular folks.

Next, as your income increases, it has a diminishing influence on happiness. If you make \$50,000 annually, a \$10,000 raise is relatively huge, while if you make \$500,000, a \$10,000 increase is barely noticeable. Professor Killingsworth explains in his [2021 research paper](#) that for “two households earning \$20,000 and \$60,000,

respectively, [they] would be expected to exhibit the same difference in well-being as two households earning \$60,000 and \$180,000, respectively.”

Third, happiness and life satisfaction are determined by myriad factors, such as your genetics, your health, the quality of your relationships, how much leisure time you have (and [too much can be as destructive as too little](#)), to what extent you feel that your life has purpose and meaning, how satisfied you are with your job, and so on. While money can boost your happiness, those other factors will significantly impact your overall psychological well-being more than money alone will.

Finally, beware of a money and happiness paradox. Given the benefits of having money, you’d think that achieving financial success should be a top life goal. Seek more money, get more money, and reap the happiness benefits of having more money. Right? Wrong. [A 2003 study published in \*Psychological Science\*](#) led by Daniel Kahneman and Ed Diener found that even though *having more money* is associated with happiness, *seeking more money* dampens our sense of life satisfaction and impairs our happiness. They found that people with strong financial success goals reported lower satisfaction with family life, satisfaction with friendships, and job satisfaction. Notably, the study found that “the greater your goal for financial success, the lower your satisfaction with family life, regardless of household income.” This paradox teaches that money boosts happiness when it is a result, not when it is a primary goal, or as Ed Diener noted in his book [Happiness](#), “It is generally good for your happiness to have money, but toxic to your happiness to want money too much.”

And a final word of caution: More income is *correlated* with happiness but it may not be a *cause* happiness. Indeed, it’s possible that causation may run in the opposite direction — happier people may tend to make more money than less happy ones.

## Conclusion

While the link between income and happiness is real, it's modest and conditional. We must be careful not to overemphasize money's role in happiness. Happiness is a complex topic involving various factors —money being just one of them. Genetics, health, relationships, leisure time, and purpose likely matter more for well-being than dollars alone. As the Beatles sang, “Money can’t buy me love.” Yet, used wisely, money can enhance our sense of well-being and improve our lives.

## Moment of gratitude: Feeling of safety

We often take the basic structure of our life for granted, even though we would lose an enormous amount of feeling of safety if we lost it. What are some aspects of your life that give you at least *some* basic safety, that you maybe take for granted sometimes? Do some people not have that? Do you think you are lucky to have at least that?

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## Moment of self-reflection: Personal finance

Reflect on the “money and happiness paradox” from the article: Yes, money can bring some happiness, so making that a life goal seems to make sense. On the other hand, *wanting* money creates negative happiness, so money becomes a terrible life goal in that sense. How do you balance that? How do you build a life goal that takes both of these factors into consideration?

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## Part 2: Videos (take notes of “important” sentences as needed)

### Dave Ramsey of the three basic money skills



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## Self-reflection: Money skills

Instinctively, if you try to rank how “good” you are at the three money skills, what order are they in for you? If you reflect on your weakest one, what aspect of it should you learn or practise? How would it improve your own life if you worked on this?

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## Journaling on personal finance

Today, you had a very brief introduction to many different aspects of personal finance. There was money and happiness, but also the link between financial freedom and consumer culture. There was how to manage your finances to attain financial independence. Do you think some of these concepts could help you improve your life? Which ones, and what should you do to try to benefit from this knowledge that is available?

This image shows a single sheet of white paper with horizontal blue or grey ruling lines. The lines are evenly spaced and run across the width of the page. There are approximately 20 lines visible. The paper has a slight shadow on the right side, suggesting it's resting on a surface.

## Moment of reflection: Money well spent

According to the research you heard about today, gifts are very effective in terms of making us and another person happy. Can you think of a time, recently or not, when you gave someone a gift and it made you happy? It does not need to have been a big gift of any kind.

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