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MANAGING FINANCIAL STRESS, MONEY SAVVY LIFESTYLE, RESEARCH & STATISTICS

THE RELATIONSHIP BETWEEN MONEY AND HAPPINESS: CAN YOUR INCOME SOLVE YOUR PROBLEMS?



We may have been told that money can't buy happiness, but research shows that for most of us—at least up to a point—the two really are linked.

In January 2018, the journal *Nature Human Behavior* [<https://www.nature.com/articles/s41562-017-0277-0>], published a study that says individuals reach a point of “income satiation” when they earn between \$60,000 and \$75,000 a year. Based on data from a Gallup World Poll that surveyed 1.7 million people across the globe, analysts found that, up until that financial sweet spot, the less money people make, the less they report experiencing day-to-day happiness. After reaching that \$60 to \$75K income, however, money has little effect on their daily emotional wellbeing.

A 2010 study of 450,000 Americans [<http://content.time.com/time/magazine/article/091712019628.00.html>] from 2008-2009 data polled by Gallup and Healthways showed similar results. In that study, an economist and a psychologist out of Princeton University’s Woodrow Wilson School found that the lower a person’s income fell below \$75,000, the less happy they reported feeling. After achieving \$75,000, greater earnings no longer increased people’s sense of day-to-day contentment.

According to both polls, when people were asked to report their overall sense of satisfaction about their lives (called a “life evaluation”), people’s income satiation was closer to \$95,000. Put another way: while people’s *day-to-day* moods were elevated by a lower number, their *deeper sense of satisfaction* about the direction their lives could be influenced by a larger number.

While \$75,000 seems like some kind of magic number, the actual income varied significantly by region. Not surprisingly, the more recent study reveals, people in developing countries and in more rural areas reported reaching the same “income satiation” at lower incomes. This is due to both a lower cost of living and the fact that their status is relative to those around them. People with more education, too, report greater incomes before reaching satiation, likely because of their loftier goals and the goals of those around them.



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How does money make us happy?

Researchers suggest [two ways money improves our state of happiness](http://content.time.com/time/magazine/article/0.9171.2019628.00.html) [<http://content.time.com/time/magazine/article/0.9171.2019628.00.html>]. First, while everyone experiences difficult circumstances including illness, loneliness, and just plain bad luck, money—up to a point—helps alleviate the misery that accompanies those circumstances. After all, reliable transportation, stable shelter, food, and affordable medical care can keep difficult times from snowballing into insurmountable challenges. Second, having some amount of “play money” to, say, enjoy a night out with friends, keeps us from feeling we are sacrificing experiences enjoyed by those around us. In sum: our degree of daily comfort and purchasing power affects our day-to-day sense of wellbeing.

After our basic needs and wants are met, however, our earnings, at best, have a neutral impact on our contentment. For example, people who earn a big raise, win the lottery, or come upon an inheritance [eventually return to a state of happiness](http://time.com/4856954/can-money-buy-you-happiness/) [<http://time.com/4856954/can-money-buy-you-happiness/>] that is dictated more by their individual disposition. As Harvard’s “happiness researcher” and [psychologist Daniel Gilbert puts it](https://www.nytimes.com/2008/04/22/science/22conv.html) [<https://www.nytimes.com/2008/04/22/science/22conv.html>]. “As a species, we tend to be moderately happy with whatever we get. If you take a scale that goes from zero to 100, people, generally, report their happiness at about 75. We keep trying to get to 100. Sometimes, we get there. But we don’t stay long.”

At worst, greater incomes actually result in a greater sense of *dissatisfaction*. That’s because people with expensive things begin to feel overwhelmed with their upkeep, including the stressful career, stressful commute times, and other sacrifices it takes to maintain their status. Equally important, people never stop comparing themselves to those around them; as they get richer, the Joneses get richer. After our basic needs are met, we naturally perceive our status and contentment on a continually shifting sliding scale, what some call the “[hedonic treadmill](https://en.wikipedia.org/wiki/Hedonic_treadmill)” [https://en.wikipedia.org/wiki/Hedonic_treadmill].”

The takeaway

If your basic financial needs are met, you have enough savings to feel financially secure, and enough spending money to treat yourself every once in a while, it is likely that more income is not going to dramatically or sustainably improve your daily contentment. If, however, you find that your basic needs and purchasing abilities are met but you feel financially lacking compared to your neighbors and peers, you are likely to require more income to gain a positive sense of self-worth—but look out! In that case, increasing your income will serve as little more than a stop-gap. In the end, [financial wellbeing](https://safetynet.com/blog/emergency-savings-j-michael-collins/) [<https://safetynet.com/blog/emergency-savings-j-michael-collins/>] is a real and important component to what makes us happy, but it cannot take the place of the happiness derived from emotional, physical, and mental wellbeing.