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How to Spend Your Year-End Bonus
December 11, 2014

Today I am going to speak on how to spend your year-end bonus. My guess is that you chuckle a bit inside when I say that. You chuckle because I am assuming that a year-end bonus is coming your way, and you chuckle because I have the nerve to suggest how you might spend it. But in large part today, I will not be sharing my opinion on the matter, I will be providing you with some thoughts compiled by Drs. Elizabeth Dunn and Michael Norton who last year published a book entitled *Happy Money: The Science of Smart Spending*.¹ The book compiles research on the spending of money and the attainment of happiness. In their prologue, they say that it is rather surprising that people seek all kinds of advice on how to earn and accumulate money. We buy books, subscribe to money management newsletters, hire financial advisors, and consider new ways to leverage our assets. All with the expectation that more money will bring them more happiness. But is that all there is to it? Could it be that how well we spend money as opposed to how well we earn money is the more important question when it comes to happiness and satisfaction? That seems like a fair question and Dunn and Norton provide the research to answer it. So here is what the research has to say on how you ought to spend your money if you want to end up more satisfied.

First, if you want to end up more satisfied with life, buy experiences over material things. The two largest spending categories for most individuals is housing and transportation, but once a very minimal standard of either of these is reached, research has consistently shown that there is no connection between happiness in life and the quality of one's home or the value of their car.² Each year Harvard undergraduates are placed in a lottery for their on-campus housing. Some of the housing options are considerably better than others in terms of quality and location. There is great fanfare when the results of the lottery are announced and much consternation is initially expressed among those who feel like they received the poorer housing. And yet when students are asked about their satisfaction with life at Harvard later in the year, there is no difference between those who received the better housing and those that did not.³ And there is no difference because the things we tend to spend the most money on—like housing

and transportation—just do not pay off in terms of happiness. In fact, there is not much connection to the acquisition of any kind of material good and happiness.

On the other hand, research tells us a different story when it comes to the choice to spend money on experiences. In other words, when people spend money on a trip to Italy or take their friends to dinner, they generally show more satisfaction in life than if they spend it on a new piece of furniture. And this is so in part because experiences are more likely to make us feel connected to others.⁴ Some of you are familiar with Tough Mudder. It is a team event that has people crawling through mud, wading through ice pools, sliding through five foot flames, and making one's way through live electrical wires, all on a 10-12 mile course. And yet participants keep coming back. Why do they keep putting themselves through the torture and paying the fees to participate? (Tough Mudder received \$70 million in fees in just its first two years.) Because it is all about experiencing something with others? The shared experience and dependence upon teammates brings about a lasting satisfaction that material things just can't sustain.

So if you want to spend your year-end bonus in a way that brings you the most satisfaction choose experience over things, especially experiences that bring you together with other people and builds the basis for stories for years to come.

Secondly, if you want to get the biggest bang for your buck, then you should keep the things you really enjoy a treat rather than an overly regular occurrence. Sometimes when we come into money we buy an abundance of what we like, but in doing so we are probably working against what really brings enjoyment. Research consistently indicates that the more we have of something the less we appreciate it,⁵ whether it be chocolate, travel, or a ride in a Maserati. Furthermore, indulging in constant abundance makes us lose sight of life's little pleasures. In one study, the wealthier a person was the less likely they were to say that they would pause to appreciate a beautiful waterfall on a hike, or stay present in the moment during a romantic weekend getaway.⁶ Now this might mean that if enjoy catching a TUTS performances at Sarofim Hall or a Rockets game at Toyota Center, you may not want to be so quick to buy season tickets just because your year-end bonus would allow. That may be a good way to spend your money, but it may well be that the

new regularity of going to the theater or to Rockets games actually lessens your enjoyment of going just here and there as a treat.

The idea that abundance interferes with our ability to find happiness and satisfaction seems to be the theme of the children's book *Charlie and the Chocolate Factory*. Charlie comes from a very poor family; he lives in a dilapidated house with his four grandparents. While the other children in the story are given a plentiful supply of chocolate by their parents Charlie's family saves up just enough money to give him one chocolate bar a year, on his birthday. Each time, he treasures it, spending days before he eats it and then taking just a nibble a day so that it last for months. That might seem a little extreme, but I think we all must admit that when we overindulge it doesn't raise our savoring of life's gifts, it deadens our sensitivities to them.⁷ As the proverb says, "If you find honey, eat just enough—too much of it, and you will vomit" (25:16)

The third of Norton and Dunn's research-based suggestions on how to spend your year-end bonus is to buy time. Research in the United States suggests that increased discretionary time is linked to greater happiness even for people who say that they prefer to be busy.⁸ That means that someone who spends lots of time trying to save money – like driving across town to save a small amount – may well find their frugality eroding their overall happiness with life. Of course, this doesn't call for being a spendthrift but there are simply times when buying time is a great investment. For example, it may be that you derive great pleasure from keeping up the yard in which case you ought to keep on doing it, but if you feel like it eats up your Saturdays and makes you a bear to live with it after you have done it, finding a way to pay someone else to do it is a good investment. Or consider that for the first many years of my marriage my wife was kind enough to iron my shirts. Now, I take them all to the cleaners, and I can tell you that buying her time in this way brings a lot of happiness to our household.

Now, you might say that you don't have the money to pay for someone to do the things that could save you time. So let me address one way to buy time without spending any money at all. And that one way is to watch less television. The average American spends about two months of each year watching television. You heard me right, two months! Even if you spend half as much as the national average you are spending over

10% of your waking hours watching TV. As Dunn and Norton note: “If our choices reveal what we like best, TV must be pretty much the most super-terrific thing ever. And yet, study after study shows that people experience less pleasure while watching TV than while engaging in more active forms of leisure, including walking the dog.”⁹ I don’t share this with you because I am against television. I am just saying that instead of buying an even bigger big screen with your year-end bonus, you might be better off spending your money on a dog that needs you to take it for a walk or on a droid you can build and fly with your kids.

The last suggestion on how to spend your money that I will share from Norton and Dunn’s research is to invest in others. As you would expect the greatest share of most people’s budgets is on personal spending (from housing to clothes to entertainment). In fact, the average ratio of personal spending to spending on others (through gifts or charity) is more than 10 to 1.¹⁰ This ratio suggests that Americans have figured out that spending a lot more on themselves than on others makes them happier, but all the research shows just the opposite. It’s the people who spend a greater ratio on others that are happier. And it does not matter if what they had to give away was a little or a lot.

Again, you might say, but I barely have enough money for myself. But know this: the research indicates giving away even small amounts has a very significant effect on one’s emotional well-being, not just for you but those around you.¹¹ There are fourteen days until Christmas. Go to the bank and get fourteen five dollar bills, and each day give one away. Yes, it will cost you seventy dollars, but I have a feeling that by the end of the fourteen days you’ll consider it money well spent.

You know, the idea that giving to others does us well does not surprise me. I am convinced that we are not creatures that came about just by chance but that we reflect, though in muted ways, the very nature of God. This means that when we copy his ways there is a certain resonance with our souls. And when I think of God, one outstanding attribute of his nature is that he is a God who gives of himself. I’ll even dare to say that that is what Christmas is all about. God giving himself to us. It is no shocker then that Jesus would say, “It is more blessed to give than to receive” (Acts 20:35), and that the research bears this out.

¹ Elizabeth Norton and Michael Norton, *Happy Money: The Science of Smarter Spending* (2013).

² Ibid, 1, 28

³ Ibid, 2

⁴ Ibid, 7

⁵ Ibid, 27

⁶ Ibid, 30

⁷ Ibid, 31

⁸ Ibid, 55

⁹ Ibid, 65

¹⁰ Ibid, 109

¹¹ Ibid, 106