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Ten commandments of financial happiness

The secret to being happy isn't earning a lot ♦ it's gaining control over your finances.

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By Jean Chatzky, Money Magazine

NEW YORK (Money Magazine) - It's time to take back our lives. In order to do that, we need to take control of our money. And we need to do it in a way that will allow us not to feel compromised, guilty and second-rate, but good, happy, smart and sound in our choices.

But how to do that? When I went looking for solid advice on what we could do to improve our relationship with money, I found nothing.

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So with the support of MONEY, the market research firm RoperASW conducted a proprietary study to figure out, first, what influence money has on happiness; second, what habits, attitudes, behaviors and knowledge separate those who are satisfied with their financial lives from those who are not; and third, what effect changing those characteristics might have on our lives.

This research taught us many things. Sure, there is a connection between income and happiness -- having enough money to retire, have a good time, purchase the things you want and weather a financial hardship makes you feel more secure, more content and, yes, happier. To deny that relationship would be disingenuous, not to mention wrong.

But what our research revealed is that you don't have to be a millionaire -- or even close -- to be happy. At a household income of about \$50,000 a year, the happiness curve flattens out. Most American households, with a median income of \$42,228, according to the Bureau of the Census, are almost there. Many others are already there, yet they find financial happiness elusive. Why is that?

It's because how much you earn, how much you have, isn't everything. Many other factors play into this equation. And what I find especially encouraging is that these are factors you can change. Some are habits you can adopt. Others are pieces of information you can absorb or behaviors you can mimic. And by making those changes, chances are you'll start to feel better, happier, more in control.

There is a very strong relationship between feeling in control of your finances and feeling happy about your finances -- and happy with your life. Control over your finances plays a bigger role in determining your life's happiness than being in control of your job, your health, your friendships, your weight. Clearly, it's worth striving for.

So what do you have to do?

1. Get (pretty) organized

You have a little wiggle room here. You don't have to hire a professional organizer or spend a mint at the Container Store. You just have to come up with a system that you understand, so that if you have to put your fingers on an important piece of paper, you can do it quickly and without hassle.

That's the key. People who say that they are "pretty organized" and can find what they need quickly are happier than those who aren't and those who can't. I'd argue that's because they're not stymied on a regular basis by frustrating losses -- first of objects, then of time looking for them. They're not consumed by the banal tasks of administration. They can focus on the good stuff.

2. Pay bills as they come in rather than all at once

You wouldn't think this would make a difference, as long as your bills get paid before they're overdue. But it does. People who pay their bills as they come in rather than stockpiling them to do once a month are happier.

Why? My theory is that sitting down to pay a dozen or so bills all at once is pure drudgery. It eats up a chunk of time you'd rather spend doing just about anything else. Moreover, watching that large sum of money fly out of your hands can be an emotional drain. Do it in bits and pieces, and it's far less overwhelming.

But make it easy on yourself. Set up a bill-payment center (which can be as simple as an in-and-out box) where you open the mail. Equip it with stamps, pens, your checkbook and anything else you need; and get yourself in the habit of opening the bill, writing the check, stamping the envelope, putting that envelope in the stack of mail that goes out tomorrow and recording the transaction in your checkbook. The bill itself goes into a stack to be filed. That you can do once a month.

3. Keep tabs on your cash

If you don't know where your money goes, you're more likely to be unhappy. What's the best way to prevent this from happening? Personally, I save receipts. But you can also start the day with a certain amount of cash (\$20 or \$40) and try to live within those limits. You can put yourself on a regular schedule of ATM withdrawals; take out a certain amount of cash for the week and put only a fraction of it in your wallet each day.

You can route all transactions through a single checking account, rather than paying some bills out of one account and some bills out of others. And you can balance that checkbook regularly; our research shows that people who do so are happier. That will help you stay focused on where all your money is going.

4. Save at least 5 percent of your household income

There is a powerful relationship between saving and investing anything and being happy with your finances. Manage to put away at least 5 percent of your income, and the strength of that relationship multiplies.

The easiest way to do that is to get that 5 percent out of your hands before you have the opportunity to spend it. Elect to have at least 5 percent of your pretax income funneled into a 401(k). Or set up a series of automatic transfers that take 5 percent of your income from your checking account each month to fund an IRA or other tax-advantaged investment account.

Once you find that you're able to save 5 percent a month, the growth in your account will provide some serious encouragement to do more (just like seeing those first ripples in your previously flabby abs encourages you to do more crunches each day). Go slowly. Up your contributions to 6 percent, then 7 percent, then 8 percent until you reach the level that will enable you to fund your future.

5. Protect your family (and yourself)

Doing all you can to shelter your family and yourself from financial hardship in the future is also an important part of financial happiness. Once you've amassed an emergency fund of three to six months' living expenses, written a will and purchased life insurance, you no longer have to worry every time you get on a plane (that's not a dig against airlines, by the way, that just happens to be my trigger point).

One note: You don't get as big a happiness pop from buying disability insurance as you do from buying life insurance or writing a will. But that's not because it's less necessary. It's because we don't hear as much -- or know as much -- about it. Buying disability insurance is crucial, particularly for singles and one-income families.

6. Minimize credit-card debt

Interestingly, having a very low level of total debt (including mortgages, car loans, home-equity loans and so on) doesn't make us happier. We understand that in today's society, being able to afford a house, car or home renovation means taking on debt, and as long as we're not spending more than we can afford on these large items, they don't stress us out.

Credit-card debt, however, is a totally different animal. If you can rid your life of revolving credit-card debt -- that means carrying a balance on your card that you don't pay off every month -- there's a good chance that you'll be happier financially, and happier overall.

7. Do unto others

Forget about the "as you would have others do unto you" part of the equation. Simply doing unto others -- by volunteering or giving away money or even old belongings -- can add to your own happiness.

Of all charitable activities, giving money to the causes that you believe in has the strongest tie to personal happiness. But taking your children's old toys to a children's hospital works too; so does volunteering at, say, a school or homeless shelter.

8. Spend sensibly

That double decaf skim latte may make your stomach sing as it's going down -- but if you can't afford it, it'll give you a headache later. Of these 10 commandments, not spending more than you can afford is arguably the hardest to follow.

That's because you first need to understand the things that are sabotaging your ability to live within your means. Once you've nailed them, whether they're lattes, magazines, car payments or birthday gifts, then -- one by one -- you make changes.

Here's how I dealt with an embarrassing one of mine. For years I spent an exorbitant amount of money on my hair. Twice a week I'd have it professionally washed and blown straight. I justified it because these trips were relatively inexpensive (\$30) when I looked at them one by one. And, I argued with my inner wallet, since I was going on TV, my hair needed to look good.

Then I added it up: \$30 twice a week, 52 weeks a year, equals \$3,120. I pride myself on being (fairly) low maintenance. I was horrified. So I started looking for a solution. And \$110 later, with the help of an adviser at a professional beauty-supply store, I found it in the form of a top-of-the-line straightening iron. I used it so often I burned it out in two years and had to invest in a second.

But I've saved \$6,000-plus. There are many, many ways you can make these sorts of deals with yourself. You can brew Starbucks coffee at home or buy that SUV used. Spending no more than you can afford on big items like a car is important to financial happiness -- but so is spending no more than you can afford on little items like coffee and magazines.

If you can train yourself to adopt these little money-saving ways, maybe you can get into the swing of it with your life overall.

9. Start working toward your goals

Attaining happiness is not a matter of having achieved your goals -- it's a matter of making progress. If you're at least halfway to your goals, you've got a much better shot at happiness than if you're just meandering toward them -- or worse still, if you haven't set any goals.

Being able to see consistent progress is key. I'm of the camp that enjoys the process more than the achievement. I get an endorphin rush from getting closer and closer to the finish line and feel a little let down when I actually get there.

So I try to make sure I have one or two financial benchmarks to hit at all times. You may be like me, you may not. But the bottom line of our research is encouraging: You don't have to hit your marks to be happy, you just have to see results.

10. Communicate

If you're constantly fighting with your spouse or partner about money, it's a drain on happiness. How do you sidestep this thorny issue? Involve each other in spending and borrowing decisions.

Before you slide that Visa through the electronic slot, think: How will Joe feel about this? Should I put this \$400 snowblower on hold and talk about it with Gina? Borrowing money without notifying your partner first (and that's precisely what you're doing when you put a purchase on a credit card) and spending more than was agreed upon are both associated with financial unhappiness.

If you can communicate about these issues so that they don't become hot buttons, you're likely to live a happier financial existence.

And one more for good luck.

11. Try not to be consumed with a desire for more

The first 10 commandments are behavior-oriented. This one requires an attitude adjustment. It asks that you focus on enjoying the life you've already been able to achieve -- from your family and friends to the clothes in your closet and car in your garage.

Look around. Take a breath. Relax enough to laugh at the joke your seven-year-old came home with today. And remind yourself that wanting more doesn't breed contentment, it breeds more wanting.

The Americans happiest with their financial situation roll their eyes at the statement, "The more money I make, the more money I find I need." If you can live one day in their shoes, then you can live a week, a month, a year.

Does it work? You bet it does.

Picture this. You have two American families.

The first earns less than \$50,000 but is in control of the family money. These folks aren't anal with a capital A, but they've adopted at least four of the following six habits:

- They balance their checkbook at least once a month.
- They have some sort of filing system in place.
- They pay their bills as they come in.
- They don't spend more than they can afford on three or more things (though they may occasionally bust the budget on one or two).
- They don't often buy things that they don't need.
- They know where their money goes.

The second family earns at least 50 percent more -- upwards of \$75,000 a year -- but its members don't feel they have as much control. They are not financial fiascos across the board, but they have at least two of these six bad habits:

- They don't balance their checkbooks every month.
- Their finances are disorganized, so they have to scramble to find what they're looking for.
- They pay all their bills once a month.
- They spend more than they can afford on three or more items.
- They often buy things they don't need.
- They don't know where their money has gone.

Who's happier with their finances?

Neither one. Roughly six out of 10 families in both categories say they're financially happy.

My conclusion

Adopting good money-management habits is like earning another \$25,000 a year. And that's it.

Remember, you don't have to jump on all 10 of these new habits at once. People at all income levels who have managed to adopt about half of these habits are significantly happier with their finances -- and, therefore, their lives -- than those who have adopted fewer.

Why? Because income is just a starting point. Your happiness doesn't hinge on how much you make. Your happiness hinges on how you handle it. Good luck! ■

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