

# Family Wealth Series II : Post #4

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***Post #1 outlined new research debunking the myth that family wealth is lost in three generations. This Post #4 explains why the idea that more income will not make individuals happier is mostly a myth too.***

## Another Myth Shattered

By Richard Franklin

New research provides more texture and clarity to the impact of income on happiness.[1] This information should be helpful for families planning their inheritance approach because this social science data supports the positive impact of “income,” which may come from inheritance.

This new research should also be informative to wealth holders and their advisors (i.e., attorneys, accountants, investment advisors, bank and trust officers, and wealth counselors) who frequently refer to the adage that “money cannot buy happiness”[2] and as support for this adage cite studies having found that happiness does not increase beyond a certain threshold or plateau of income – e.g., \$75,000.[3] The adage and supportive research are frequently offered to help justify a small subset of wealth holders leaving just a portion of their estates to their children (what I call the “limited inheritance approach”) because, as the reasoning goes, more income would not move the needle in terms of increasing family members’ happiness. Some extend the causal justification even further, making the point that more income could push the needle backwards by inflicting harm and causing family members’ happiness to decline.[4] On this perceived landscape of no benefit and risk of damage, the limited inheritance approach becomes the logical choice. Some wealth holders in this paradigm are leaving the wealth to charity because they reason it has the potential for doing some good.

### *The New Research*

In 2021, Matthew A. Killingsworth (Senior Fellow, The Wharton School, University of Pennsylvania) made a conflicting claim to much of the prior research. Killingsworth found no plateau beyond which both experienced and evaluative well-being did not increase as income increased.

*“Larger incomes were robustly associated with both greater experienced well-being and greater evaluative well-being... There was no observed plateau in experienced well-being, and there was no obvious change in slope of experienced well-being or divergence between experienced well-being and evaluative well-being, either around \$75,000/y or at any other income level.”[5]*

In a new twist, Killingsworth decided to engage in an “adversarial collaboration” with one of the prior researchers, using an academic facilitator.[6] Their collaborative data provides more nuance and leads to the conclusion that more income does make the great majority of individuals happier.[7] Equally important, their efforts explain the income plateau found in prior research and how such a plateau may apply to a small grouping of individuals.[8]

The newly identified nuance is that only the most unhappy group, the bottom 15% - 20% on happiness spectrum (the “unhappy cohort”), experiences no meaningful increase in happiness beyond a certain threshold amount of income.

*The suffering of the unhappy group diminishes as income increases up to 100k but very little beyond that. This income threshold may represent the point beyond which the miseries that remain are not alleviated by high income. Heartbreak, bereavement, and clinical depression may be examples of such miseries.[9]*

For the other 80% of the population, however, happiness does increase as income rises without regard to any plateau. For those in the middle 50% on the happiness spectrum, increasing income is correlated with linear increases in happiness [10]. Surprisingly, and particularly important to wealthy families, the happiest 30% cohort in the analysis enjoyed a more profound increase in happiness as income rises above \$100,000 compared to the mid-tiers on the happiness spectrum.

Prior research started with an assumption that treated everyone as if they were all uniformly unhappy. As such, the results for all subjects plateaued at the income threshold applicable to the unhappy cohort. By adjusting the analysis to consider the spectrum of the subjects’ happiness, the researchers found the prior flaws in their conflicting data and were able to harmonize their conclusions.[11] The result is a more refined and reliable set of data explaining the relationship of income to happiness.

Beyond the academic data, however, wealthy families might consider the circumstances they desire for their members (i.e., before limiting the inheritance based on any income plateau found in the academic data). In the U.S. (regardless of location), an income of \$75,000 means that single family housing is likely impossible and obtaining quality health care will be stressful. Sending children to private school for K-12 is impossible, and it is unlikely that the better public schools are accessible because those neighborhoods are frequently too expensive. Many of the better colleges will be out of reach or result in unsustainable student loan debt. Beyond such foundational elements, the list of what the individual cannot afford is long (e.g., inspiring travel). Moreover, the individual is likely to have poorer health, be less educated and have a shorter life expectancy.[12]

This recent and more textured academic data is more evidence that using family wealth and inheritance to positively support family members’ well-being will help them be more satisfied with their lives. Moreover, as a design element in a wealthy family’s inheritance plan, it now seems questionable to seize on an income plateau as being sufficient to secure happiness. While the determinates of happiness are multifaceted and not limited to money, the research is evolving to show money is one important element. [Caveat the important point made in endnote #8]

## More information

For more information on how to positively use family wealth and inheritance to foster family well-being - thriving in multiple domains of life, see our [Family Wealth and Inheritance Services page](#) or contact Richard Franklin, [rfranklin@fkl-law.com](mailto:rfranklin@fkl-law.com), (202.495.2677) or your FKL attorney.

For other posts in this Family Wealth Series II, [click here](#).

## Notes:

[1] Initially, it is important to understand the complexity of studying the relationships between income and happiness. In many research studies, happiness is measured using self-reported happiness surveys, which is referred to as subjective well-being (SWB). In other cases, SWB is measured by some or all of its components: life satisfaction, positive affect (pleasant emotions, moods and feelings), and negative affect (unpleasant emotions, moods and feelings), but is always based on self-reported evaluations. Life satisfaction refers to a person's thoughts about his or her life and is typically surveyed with question such as "How satisfied are you with your life as a whole?" Emotional well-being (happiness or affection) refers to the emotional quality of an individual's everyday experience – the frequency and intensity of emotions that make life pleasant or unpleasant. Moreover, much of the research is based on income averages derived from using macro data (e.g., real GDP per capita) and not actual earned income (e.g., wages and salary) and does not distinguish investment income, such as income earned on accumulated wealth and inheritance. Suffice it to say that it is a complicated and textured set of data.

[2] See e.g., Morris & Pearl, *Kids Wealth and Consequences*, p. 148 (Bloomberg Press 2010) ("It is important to teach your kids that money cannot buy happiness all of the time."); Singletary, [For the Color of Money Book Club, a lesson on the limits of wealth](#), Wash. Post (May 4, 2018) ("It is cliché to say, but nonetheless still true: Money cannot buy happiness.").

[3] See e.g., Jebb, Tay, Diener, & Oishi, [Happiness, Income Satiation, and Turning Points Around the World](#), *Nature Human Behaviour* (January 2018) (plateau at \$95,000 for life evaluation and \$60,000–\$75,000 for emotional well-being); Easterlin, [Paradox Lost?](#), p. 3 (January 2016) (happiness does not trend upward as income continues to grow); Yu & Chen, [Income and Well-Being: Relative Income and Absolute Income Weaken Negative Emotion, but Only Relative Income Improves Positive Emotion](#) (NIH 2012) (economic growth may not improve happiness, but does weaken negative emotion); Kahneman & Deaton, [High income improves evaluation of life but not emotional well-being](#) (PNAS 2010) ("High income improves evaluation of life but not emotional well-being"); Easterlin, [Does Economic Growth Improve the Human Lot? Some Empirical Evidence](#), pp. 111-112 (1974) (analyzed the relationship between absolute and relative income).

[4] See e.g., Roxanne Roberts, [Why the super-rich aren't leaving much of their fortunes to their kids](#), (Wash. Post, Style section, Aug. 10, 2014).

[5] Killingsworth, [Experienced well-being rises with income, even above \\$75,000 per year](#) (January 26, 2021).

[6] Berger, [Does more money correlate with greater happiness?](#), Penn Today (March 6, 2023).

[7] Killingsworth, Kahneman & Mellers, [Income and emotional well-being: A conflict resolved](#), PNAS (2023) ("Conflict Resolved").

[8] No suggestion is being made that everyone should work harder to earn more income based on the idea that will make them happier. In fact, a significant driver of the diminishing returns of a higher income in the prior research finding an income plateau seems to be related to the cost of time and stress of procuring that income. That is, there is a cost/benefit analysis built into the research and results. For example, suppose that Jane earns \$100,000 annually and could supplement her salary by another \$10,000 if she works four more weekends over the course of the year. Therefore, Jane has a choice of working the extra four weekends to earn 10% more with its attendant increase in well-being, or Jane could spend those weekends in another way that adds to her well-being such as spending meaningful time with friends and family or volunteering for a cause about which she is passionate. Jane might decide that having the time rather than the money is more important. Jane might resolve this question differently based on changing circumstances (e.g., she might work the weekends if she is trying to help her child pay for college, or at age 65 she might feel that being prosocial is more important than 10% more in income). In a family of wealth, however, earned income can be supplemented with investment income. The individual has both the increase in well-being from the income and the time to pursue other activities that add to well-being. That is, with inherited money, the "costs" part of the equation are typically low and the benefits of greater income can be fully savored.

[9] Conflict Resolved, at p. 3.

[10] Other researchers had already begun to note higher income plateaus, if any. See e.g., Stevenson & Wolfers, *Subjective Well-Being and Income: Is There Any Evidence of Satiation?*, *American Economic Review: Papers & Proceedings* 2013, 103(3) (May 2013) (no income plateau or, if there is one, it is a significantly higher number than \$500,000).

[11] Conflict Resolved, at p.4.

[12] Chetty, Stepner, Abraham, Lin, Scuderi, Turner, Bergeron & Cutler, [The Association Between Income and Life Expectancy in the United States, 2001-2014](#), Vol. 315, No. 16, *JAMA* (April 10, 2016, corrected January 3, 2017) (this paper is discussed in Franklin & Tordini, [Wealth and Well-Being - What Wealthy Families Can Learn from Sovereign Government Policies and Measuring Human Progress](#), *Bloomberg*, Vol. 46, *Estates, Gifts and Trusts Journal*, Number 3 (May 13, 2021)).

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