From the author of the #1 *Wall Street Journal* bestseller

StrengthsFinder 2.0

WELL BEING

The Five Essential Elements

TOM RATH

JIM HARTER

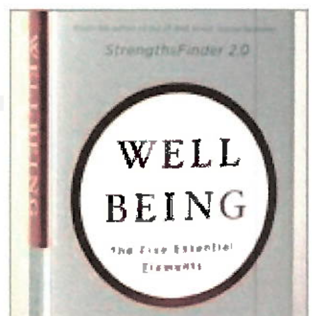
The Five Essential Elements of Well-Being
BY TOM RATH AND JIM HARTER

Gallup scientists have been exploring the demands of a life well-lived since the mid-20th century. More recently, in partnership with leading economists, psychologists, and other acclaimed scientists, we began to explore the common elements of well-being that transcend countries and cultures.

In our initial research, we asked people what "the best possible future" for them would look like.

As part of this research, Gallup conducted a comprehensive global study of more than 150 countries, giving us a lens into the well-being of more than 98% of the world's population. From Afghanistan to Zimbabwe, we asked hundreds of questions about health, wealth, relationships, jobs, and communities. We then compared these results to how people experience their days and evaluate their lives overall.

In our initial research, we asked people what "the best possible future" for them would look like. We found that when evaluating their lives, people often give disproportionate weight to income and health: Across the groups we surveyed, "good health" and "wealth" were two of the most common responses. Perhaps this is because these things are easy to measure and track over time -- we can monitor our height, weight, blood pressure, and household income. Yet we do not have a standard way to measure the quality of our careers or the health of our relationships.



Visit the website
to learn more

So to construct a comprehensive measure of individual well-being, Gallup designed an assessment composed of the best questions we have asked over the last 50 years. To create this assessment, the Well-Being Finder, we tested hundreds of questions across countries, languages, and vastly different life situations.

Upon completion of the research, five distinct statistical factors emerged. These are the universal elements of well-being that differentiate a thriving life from one spent suffering. They describe aspects of our lives that we can *do something about* and that are important to people in every situation we studied.

The elements

These elements are the currency of a life that matters. They do not include every nuance of what's important in life, but they do represent five broad categories that are essential to most people.

- The first element is about how you occupy your time or simply liking what you do every day: your **Career Well-Being**.

- The second element is about having strong relationships and love in your life: your **Social Well-Being**.
- The third element is about effectively managing your economic life: your **Financial Well-Being**.
- The fourth element is about having good health and enough energy to get things done on a daily basis: your **Physical Well-Being**.
- The fifth element is about the sense of engagement you have with the area where you live: your **Community Well-Being**.

Note from Financial Literacy Facilitator:

During our conversation on April 9th, we will discuss the *Financial Well-being* concept in more details. I am looking forward to meeting you and having a dialogue regarding this important topic!

Kindest Regards,

Abdullah Tahiri

Abdullah Tahiri

3: Financial Wellbeing

As we studied a great deal of research on the topic of money and its importance in our lives, what we found challenged many of our assumptions. Advice from personal finance gurus wasn't holding up. Nor, frankly, was a central tenet of classic economics, in which the assumption is that people make rational decisions that result in optimal monetary gain. Most strikingly, we learned that the amount of money you have — the gold standard of measuring financial health — is not the best gauge of your Financial Wellbeing, let alone your life in general.

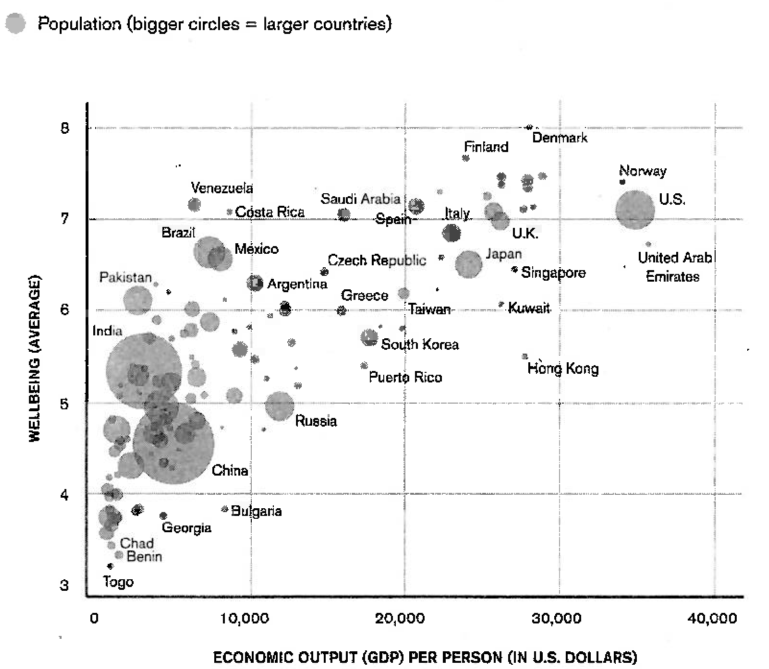
Do You Need Money to Be Happy?

Many books and articles assert that money is not that important to our overall happiness. When making this claim, the authors usually mention research showing that people who won the lottery were not much happier several years later. Others cite studies showing that income matters only up to the point at which people have enough money to afford their basic needs. And the media have endless stories about wealthy people who are otherwise miserable.

It would be nice to believe that we all have the same opportunity to be happy, regardless of our income level. But our data suggest that this is false. Based on a comprehensive study using Gallup wellbeing data from 132 countries, there is undoubtedly a relationship between wellbeing and Gross Domestic Product (GDP) per capita — and the connection is much stronger than we would have guessed. Clearly, wealthier countries have citizens with higher wellbeing. So although money doesn't guarantee happiness, being in a wealthy country certainly increases your odds of having a good life.

The Economics of Wellbeing

People in wealthier nations have higher evaluations of their lives overall



Gallup global research using the Cantril Self-Anchoring Striving Scale

At the risk of stating the obvious, money is valuable because it buys food for people and their families and puts a roof over their heads. Like the wide range of wealth and poverty across countries, average wellbeing also varies widely from Togo to Denmark. This variation is due in large part to differences in access to basics like food, shelter, and safety from extreme violence. For example, across Africa, 56% of people we studied reported that there were times when their family had "gone hungry" in the last 12 months.

In lower income countries, pain is one of the leading causes of suffering. And having the money to pay for basic healthcare can improve wellbeing through the alleviation of physical pain. So for a great number of people around the world, money is absolutely essential for meeting basic needs.

In middle to higher income countries, the differences in wellbeing levels can be explained by the daily enjoyment and comfort afforded by money. Generally, those who have a lot of money can do *what* they want *when* they want to do it. Money can increase short-term happiness by giving us more control over how we spend our time, whether that means a shorter commute, more time at home with family, or additional social time with friends.

How You *Can* Buy Wellbeing

When a team of Harvard researchers surveyed people about their spending on themselves, their spending on others, and their happiness, they found that spending on oneself does *not* boost wellbeing. However, spending money on others does — and it appears to be as important to people's happiness as the total amount of money they make.

In another experiment, the same investigators studied people who had recently received a large sum of "bonus" money from their organization's profit-sharing program and tracked how each person chose to spend this money. As you might expect, some people spent their money on personal items such as bills, expenses, rent, mortgage, or material goods. Others spent the extra money on something for another person or donated the money to charity. Again, spending money on oneself didn't boost happiness, while spending the money on others did.

In a third experiment, the researchers tracked individuals throughout the course of a single day. Each study participant received an envelope containing either $5 or $20 and was asked to spend all the money by 5:00 that day. Participants were randomly assigned to either spend the money on personal items, to use it to buy a gift for someone else, or to give it to charity. The amount of money the participants were given had no relationship to their levels of happiness at the end of the day. It was *how* the money was spent that mattered. Once again, the participants who spent the money on a gift for someone else or who gave it to charity experienced a significant boost in wellbeing by the end of the day, while people who spent the money on themselves did not.

Turning to Retail Therapy

When we are feeling down, trying to cheer ourselves up by going on a personal shopping spree is unlikely to help in the long run. Sadness may even lead us to spend *a lot more* money on ourselves than we otherwise would. People who were shown a video designed to induce sadness offered to pay *nearly four times as much* for a product when compared with a group that did not watch the video. Despite this major difference, people in the "sadness" group insisted that the video's sad content had *not* influenced their decision.

Even though we don't realize it, a bad mood could lead to a cascade of poor financial decisions. While spending on ourselves isn't likely to help much, this research suggests that the worst time to make a major purchase is when you are feeling down. We spend the *most* when we feel the *worst*. So much for "retail therapy."

Spending on Experiences and Memories

Buying *experiences* such as going out to dinner or taking a vacation increases our own wellbeing and the wellbeing of others. Experiences last while material purchases fade. Even if you feel better immediately after your purchase, studies show that our satisfaction with material goods decreases over time.

But if we use our money to buy pleasant experiences, we get the benefit of looking forward to the event, the actual experience, and in some cases, decades of fond memories. Material items lose their novelty, but *we can relive memories indefinitely*. Even brief experiential purchases such as dining out or going to a movie increase our wellbeing. In addition to satisfying our need for social time, we are less likely to regret experiential purchases, which increases our satisfaction with these decisions over time.

One of the people we interviewed with thriving Financial Wellbeing, Susan, is quite frugal in managing her family's money, and she avoids unnecessary purchases. But she and her husband make a point of spending money on fun and memorable experiences such as taking their granddaughter to see a movie. They have also saved money for trips with friends. When we talked with Susan, she and her husband were planning a cruise with another couple. "We've been on vacation with them twice, and we have a really good time together," she said. "So when we told them we were going on a cruise, they said they would go too." When Susan describes the way she spends money, she is mindful about spending on social events instead of focusing on material possessions.

Because spending on experiences boosts our spirits for the long term, it explains part of the connection between money and wellbeing. For those who make less than $25,000 a year, experiential and material purchases produce similar gains in wellbeing. However, as income levels increase, experiential purchases produce *two to three times* the levels of wellbeing when compared to material purchases.

We don't get bored with fond memories like we do with tangible objects. And we don't second-guess whether we should have made a different decision, as we do with material things. When we purchase meaningful experiences, it buys us memories that continue to grow, and we get more out of every dollar we spend.

The Comparison Dilemma

For years, traditional economists have assumed that people make rational decisions that are in their best interests. But the relatively new discipline of behavioral economics is proving otherwise. Consider the following two scenarios, and assuming the same purchasing power in both, which one would you choose?

A. An annual income of $50,000, while the people around you earn $25,000 a year.

B. An annual income of $100,000, while the people around you earn $200,000 a year.

Using a classic economic model, everyone should choose an income of $100,000 over $50,000. Instead, nearly half the people presented with these options pick the lower salary of $50,000 a year. They choose to make *half* the total income as long as it is double the income of their peers. It seems that the amount of money we make or the size of our home is less relevant than how they compare to others' income and possessions. This plays out in the decisions we make every day, and that poses a real dilemma.

You might install a new deck on your house in the fall and be glowing with pride, only to see your neighbor install a bigger one in the spring. The reality is, we have a built-in need to compare ourselves to those around us, particularly when it comes to the most tangible or visible means. Yet as many people have learned, continuing to define ourselves by social comparison makes for a never-ending rat race. Boosting our Career Wellbeing and our Social Wellbeing is one way around this comparison dilemma.

Gallup asked a random sample of U.S. workers about how they perceive their pay and whether they think it is appropriate for the work they do. Most people think they should be getting paid more, which is not a big surprise. But that isn't what we were actually studying. We were measuring how engaged these people were in their jobs and how likely they were to leave their company in the next 12 months.

At the exact same levels of pay and job responsibilities, some people feel their pay is adequate, while others do not. The differences in how people perceive their pay are largely dependent on how engaged they are in their work. Those with high Career Wellbeing perceive the same amount of pay much more favorably than those with low Career Wellbeing do. Even when asked to compare themselves to the people they spend a lot of time with, those with thriving Career Wellbeing and thriving Social Wellbeing are nearly two times as likely to say they are satisfied with their standard of living.

Money is easily counted, but it is still a highly subjective variable in our lives. If you want to improve your Financial Wellbeing, first make sure that your Career Wellbeing and your Social Wellbeing are thriving. If your daily work is fulfilling and your relationships are strong, you are substantially less likely to get caught up in this comparison dilemma. And you won't be as tempted to keep up with the proverbial Joneses.

Using Irrationality to Your Advantage

Studies from the field of behavioral economics have exposed the irrationality of our financial decision making. But they also highlight how we can manage these inherent biases. Our mental accounting does not work logically like the cells in a spreadsheet. We are what scientists call "loss averse." In other words, it hurts a lot more to lose $50 that we already have than it feels good to win $50.

We view money in relative — not absolute — terms. The same $50 is interpreted differently depending on whether we're buying a car or paying for a meal, even though it is the same dollar amount. Finding $50 on the street will do more to boost our wellbeing than having $50 cut from our utility bill, even though the amount is the same.

These biases play out every day, even if we don't realize it. Perhaps the most common example of this is the use of credit cards, which takes the pain out of the loss associated with making a payment because we can defer it until later. As University of Chicago economist Richard Thaler describes, credit cards act as a "decoupling device" because they separate the joy of the immediate purchase from the pain of the payment, which is off in the distant future.

Credit card companies and marketers will always tempt our desire for immediate gratification, but modern technology also affords us the ability to set up automated systems that work to our advantage. We can have taxes, benefits, insurance, and retirement savings deducted directly from our paycheck. Then, when that virtual paycheck is automatically deposited into our bank account, we can set up systems to pay off previous commitments (mortgage, bills, car) and even set aside a specified amount or percentage for savings. This leaves us with a remainder that we can spend on the things we need and want *without* the burden of debt.

We often do not take the time to set the right "defaults" in the first place. Putting money into retirement savings, especially when it is tax-deferred, is a wise decision for long-term financial growth and stability. Yet most people won't participate in a retirement plan if they have to consciously opt in. Research has shown that when a company requires employees to explicitly opt in to a retirement plan, most workers do not participate. But when the default is for employees to be automatically enrolled, *more than 80% participate* in the retirement plan.

Setting Positive Defaults

There are lots of examples of how we can use positive defaults to our advantage. When we interviewed people with thriving Financial Wellbeing, a consistent but surprising pattern emerged. Generally, they were not "rich" by traditional measures. Yet they had enough money to meet their needs, and they rarely had to endure the stress of worrying about not being able to pay their bills.

Linda, a rural mail carrier, described how carefully managing her money leads to thriving Financial Wellbeing: "I get paid twice a month, and I live on one paycheck. And one paycheck I save. So if I make a dollar, I spend 45 cents, and I save 55 or 60 cents. So I always live below my means."

Linda has set up default systems to make sure that she adheres to this plan. One of her two paychecks each month is automatically deposited into a long-term savings account. She said, "Once (the money) is pulled, I don't see it. So since I don't see it, I know I only have this much (to spend)." Linda also set up the long-term account so that her brother has to sign with her to withdraw any money. These strategies ensure that she is not spending unnecessarily. Linda tracks her balance in the remaining account to evaluate her finances each month.

Linda and others with high Financial Wellbeing realize that they need to structure the right defaults in the short term (e.g., automated payroll deduction) to thrive financially in the long run. Instead of following the minimum defaults set by others, such as a lender or the government, they take control and assume responsibility for their financial future. This helps them decrease their debt and alleviate the stress and guilt that come with purchases made with loans or credit. As Linda put it, "If there's something I want, I'm secure enough that I can buy it and pay for it without feeling any guilt."

Is Wealth Accumulation the Wrong Target?

Income, debt, and net worth are some of the most common metrics we use to evaluate the overall health of our finances. Yet people with thriving Financial Wellbeing talk about a general sense of financial security (and lack of worry) instead of these absolute measures of wealth. So after reviewing the income levels of the people we interviewed, we conducted a deeper analysis of the key drivers of Financial Wellbeing.

What we found was that financial security — the perception that you have more than enough money to do what you want to do — has *three times the impact of your income alone* on overall wellbeing. Further, a lack of worry about money has more than double the impact of income on overall wellbeing.

Bookstore shelves are lined with advice about how to become rich, and most financial advisors are judged based on the monetary return they deliver. But this approach might be targeting the wrong outcome. Sure, it's important to save money for the future and maximize the return on your investments. But the outcome of wealth accumulation alone leads us astray.

Focusing solely on this goal can even reduce our wellbeing. There are plenty of people who make a lot of money but don't feel financially secure, and they worry about money regularly, which in turn drains their wellbeing. Conversely, there are lots of people with lower incomes who *do* feel financially secure and worry very little about money, which builds up their wellbeing.

Investing to Minimize Stress

People with thriving Financial Wellbeing are satisfied with their standard of living, don't worry about money in their everyday lives, and have confidence in their financial future. What we learned from this group is that financial security is both possible and practical for people across the range of income levels.

Robert is a minister who has high Financial Wellbeing. He described how he lived in a house that was "beyond his wildest imagination." And he had enough money to buy a nice recreational vehicle, which allowed his family to travel. "It's like there's no limit to what we can do," he said. "And I will tell you, 40 years ago when I was going into the ministry, if you had told me I was going to be living as good at this point, I'd have thought you were crazy."

Robert made all this possible by investing his money wisely. He routinely consulted with a financial advisor and his father, who is a tax attorney, about how to invest for the long term. As Robert and others with thriving Financial Wellbeing revealed, they are able to have a great deal of enjoyment with a moderate amount of money — and without the undue stress that can come with higher levels of risk and debt.

Many financial gurus would caution you not to pay off your home early — because of lower historical returns and tax deductibility. But several people we interviewed went against that conventional wisdom, not because it was the best way to accumulate great wealth, but because it gave them the daily satisfaction and comfort of not being in debt. And while some traditional experts would contend that it's important to keep a large amount of your portfolio in stock, some people with thriving Financial Wellbeing did not. They chose to ignore this advice (and the potential upside return) in favor of more conservative strategies that would not leave them worrying about where the stock market was headed each day.

When a wealth-accumulation strategy creates daily stress, it's not worth the potential return. If a major purchase such as a home or a car creates a burden of debt that makes you uncomfortable, it's likely to do more damage than good for your overall wellbeing. In short, managing your finances well allows you to do *what* you want to do *when* you want to do it.

The Essentials of Financial Wellbeing

People with thriving Financial Wellbeing are satisfied with their overall standard of living. They manage their personal finances well to create financial security. This eliminates day-to-day stress caused by debt and helps build financial reserves. People with high Financial Wellbeing spend their money wisely. They buy experiences that provide them with lasting memories.

They give to others and don't just spend on themselves. As a result of managing their money wisely, they have the financial freedom to spend even more time with the people whose company they enjoy most.

Three Recommendations for Boosting Financial Wellbeing:

1. **Buy *experiences* — such as vacations and outings with friends or loved ones.**
2. **Spend on others instead of solely on material possessions.**
3. **Establish default systems (automated payments and savings) that lessen daily worry about money.**