



In collaboration with
Chris Budd

Financial wellbeing: 6 ways to help
you make better financial decisions



Chris Budd has been in financial planning all his career. He wrote the original Financial Wellbeing Book (proceeds to a cancer charity) back in 2015, which introduced the concept of financial wellbeing into the world of financial advice. He has written some 90 episodes of The Financial Wellbeing Podcast since then.

He founded the Institute for Financial Wellbeing (the IFW) in 2020. The IFW was established to bring together like-minded financial advisers and planners who want to learn how to help their clients be happier, not just wealthier.





Humans are hard-wired to make poor financial decisions. It's just in our DNA.

Financial wellbeing is a broad topic, covering all aspects of the relationship between money and our long-term happiness. It covers a wide variety of subjects, including how to manage money better, and how to use money to generate wellbeing.

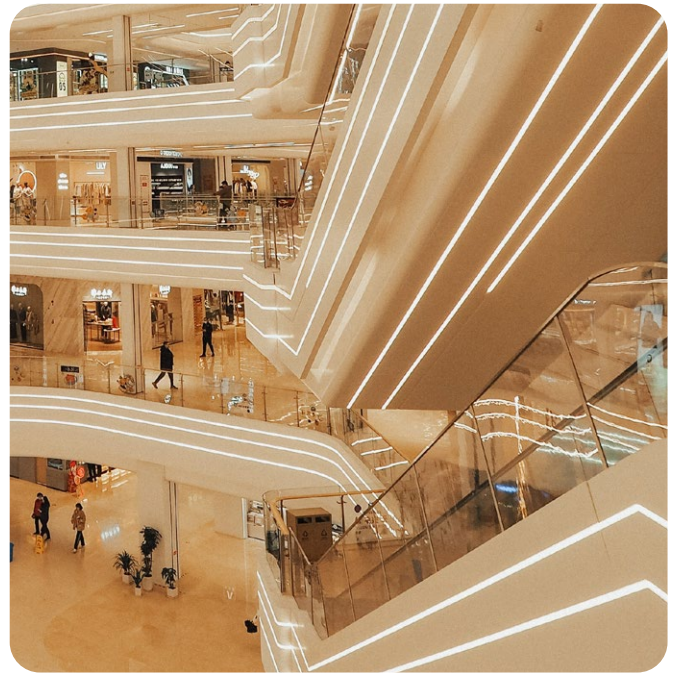
In some ways, financial wellbeing is about getting out of the bad habits we have acquired by linking money with success. It involves unlearning some of the attitudes that are drilled into us, to create financial plans that will make us happier, not just wealthier.

Defining financial wellbeing

There are five pillars to financial wellbeing¹, the study of money and happiness:

- A clear path to identifiable objectives
- Control of daily finances
- Having financial options
- Ability to cope with financial shocks
- Clarity and security for those we leave behind

I will add one more definition – for the purpose of this guide, let's agree that happiness is something that happens in a moment or in short bursts, whereas wellbeing is longer lasting. We could have also used the word "contentment".



From these five pillars we can see that a positive relationship with money will be one where we:

- Feel that we are in control
- Know our loved ones will be looked after if something were to happen to us
- Understand how money is helping us to get where we want to be

We will now look at six specific areas that you might want to focus on to improve your financial wellbeing.

¹ Consumer Financial Protection Bureau (2015)



1. Understanding why you are bad with money

Throughout the history of humankind, our ancestors have only needed to think as far as the seasons, and to concentrate on making sure they didn't get eaten. Because of this "fight or flight" instinct, we have three times more negative thoughts every day than we do positive ones.

It is only in the last few decades that we have needed to think about our future selves; we need to delay gratification now to set money aside for ourselves in 10, 20, 30, or 40-years' time. Even up to the 1980s our pensions were provided for us by our employers, with whom we very often stayed for much of our careers.

Increasing life expectancy also means that we have a much longer period of low income to cater for. Before the last century, many people had a short or even no time not earning, and those that did were often cared for by their families.

Even though we now have huge responsibilities for managing our own money and creating our own financial plans, we have been given no education on how to do this. There is virtually no financial education in schools.

So, what can we do about this? There are two specific parts to this tip.

The first you are achieving by reading this guide! A little education will go a long way. However, this does not mean traditional financial education such as "how do pensions work?"

We need to understand the causes of happiness. For example, a key initial building block is knowing that if you see money as an objective, you will be less happy than you would otherwise be².

Secondly, seek help from your financial adviser or planner, allowing you to focus on your wellbeing. You might be someone who enjoys looking at your investments, but, for most people, your days are better spent doing things that bring you joy. Money should be your slave, not your master.

I once worked with a couple. The husband spent his retirement managing their investments. When he died, his wife was surprised when we told her how much she was now worth. Rather than being happy with this news, however, she was furious that her husband had spent his days managing their money, not spending it to enjoy their retirement.



²See the Financial Wellbeing Podcast, Episode 42 - 'Hyper Capitalism' featuring Professor Tim Kasser



2. Understand the sources of wellbeing

There are five areas that contribute to your wellbeing that you can control³:

- Community
- Social
- Financial
- Physical
- Career

The key to these five areas is to understand that it is the balance between them that matters. Although this balance will be different for each of us, there are some principles that can be applied to everyone.

There is one of these five that has a bigger contribution to wellbeing than the others. One study⁴ asked 18-year-olds what would bring them happiness throughout their lives. The answer was almost overwhelming: fame and money.

The study then went back to these students every two years – and have been doing so for the last 75 years or so! What people reported as bringing them wellbeing throughout their lives was not fame and money, but the quality of their social relationships.

Note: quality, not quantity.



Peter was the managing partner of a City law firm. He was very successful in his career and had very high earnings. However, he was unhappy. His balance was not right.

After financial planning, he left his job and retrained to do what he really wanted to do – to be a science teacher!



An interesting exercise might be to score yourself on each of these five areas of wellbeing, and then ask yourself: do you feel the balance between them is optimised?

³The Five Essential Elements of Wellbeing by Rath and Harter – Gallup.com

⁴See 'YouTube Happiness: Ted Talks', Harvard Study

3. Identify your objectives

Now we know that our focus should not be on money itself, and that we need to understand what brings us joy. Let's go a little deeper on this subject to help you identify the objectives towards which you can then create a clear path.

Another study⁵ asked people aged over 60 a number of questions about their lives. The results clearly showed that those who were reporting the highest levels of wellbeing were those that lived a life of meaning and purpose.

What brings meaning and purpose to your life? Will your financial plan help you achieve these, or is it just focussed on accumulation of wealth?

What do we mean by "meaning and purpose"? An answer can be found in understanding what motivates us to do things. There are two types of motivations: intrinsic and extrinsic.

An *extrinsic* motivation is something we do for other people. It might be for applause, status, to achieve a target, or perhaps to avoid a deadline. Achieving an extrinsic motivation brings wellbeing for only a short term – for as long as the third party provides it to us.

Achieving an *intrinsic* motivation, however, is something you may find difficult to describe. It is something that you do for you. Achieving an intrinsic motivation brings a much longer lasting wellbeing.

Another way of looking at this might be to consider the issue of self-worth. If your sense of pride, or self-worth, comes from how much money you have, or from seeking the approval of others, then you may find yourself continually chasing for their approval.





If your self-worth comes from within, however, then it is up to you to generate.

So where does an internal sense of self-worth come from?

It is derived from having a compassionate attitude from helping others (see tip six for more about how to achieve this).

If this feels a little difficult to envisage at this point, it is because it is very difficult for us to challenge our own assumptions and preconceived ideas.

It is for this reason that it is so important for you to engage with your financial planner on helping you to understand your own motivations.

There is one additional issue to be aware of here – there is a behavioural bias called “loss aversion”. We feel the loss of something much more than the equivalent gain. If the stock market goes down in value, that feels a lot worse than if it goes up in value.

Research⁶ has shown that we can actually feel a loss 3.6 times more than the equivalent gain.

If you are constructing a financial plan to intrinsic motivations, but they are unachievable, then you will feel this loss much harder than if you would have achieved them.

So, it would be more reasonable for a more detailed version of the first of our five financial wellbeing pillars to actually be: *A clear path to achievable intrinsic motivations.*

⁵Age Concern Wellbeing Research

⁶Research by behavioural finance expert Neil Bage



4. Don't be a financial wellbeing junkie

We arrive in our adult life with a set level of wellbeing (interestingly this set level is thought to be around 60% inherited⁷). We then spend our lives oscillating around that point.

Something nice happens; maybe we are in our car, waiting at a junction, and somebody lets us out with a nice smile. We feel better about life, and we move above that set point. Something bad happens – perhaps our team loses a match – and we are pushed below that set point.

Each time, we move back to our set point level. The good feeling from an act of kindness will fade.

If something has made us unhappy, however, there is a tendency to want to do something to get us back up to our set level. And what is the thing that we choose to do?

We go shopping!

There is even a name for this: "Retail Therapy". We seek short-term hits of wellbeing by spending money on things, in order to keep us constantly up near our set point level. We are all *financial wellbeing junkies*.

I am a big cricket fan, and went to see my team, Gloucestershire. As I arrived, it started to rain. I waited two hours, but the rain did not stop. Disappointed, I left, and on the way home, I dropped by a music shop and bought some records to cheer myself up. As I got home, I realised that I had done the very thing that I tell people not to do! I had been a financial wellbeing junkie.



There are many ways of getting short-term hits of wellbeing that are free: exercise; the sun on your skin; time with loved ones; and healthy eating. All these produce chemicals in the brain that result in wellbeing but don't cost money.

⁷ The How of Happiness, Sonja Lyubomirsky



5. Connect with your future self

We are not programmed to delay gratification and think about our future selves. There is a physical reason why this happens.

Neuroscientists have been looking at which parts of the brain we use when we think of certain things. It turns out that when we think of ourselves in the future, we use a different part of the brain than when we think of ourselves now.

In fact, the part of the brain that we use when we think of our future self is the same part we use to think about other people.

So, when we decide to put money away for our future, we are actually imagining giving our money to someone else.

If you want to get better at saving, try and make your future self more real. Some of this can be achieved by the tips above. If you can envisage a life with meaning and purpose, you are more likely to imagine yourself doing those things.

Take retirement for example, what does retirement mean to you? You have an empty day stretching out in front of you – how will you fill it? How will you replace the aspects of working that brought you joy, such as feeling needed and being part of a team, a community of people.

Once you have a clearer vision of your future self, use pictures. Name savings pots. For example, if you want to travel to South America, set up a savings account named "The Machu Picchu" pot.



6. How to give

You have two important resources that you can use to finding intrinsic motivations: money and time. Do you have a plan for *both* of these?

Giving is a significant source of wellbeing, whether through financial donations or getting involved in your community. There are three important principles to maximise the wellbeing that you get from giving:

- Planning your giving. This will ensure that it comes from a position of joy, rather than being reactive or driven by guilt
- Relating to whatever you are contributing to
- Seeing the results of your giving

How do you allocate your time? Might there be space in your life to give your time to others?

Remember that community is one of our five areas of wellbeing. This might refer to your local geographical area or a community of like-minded people. Is there an organisation, perhaps a local sports club your kids attend, or a professional organisation (such as the IFW for financial advisers and planners) that you can get involved with?

My friend John sold his business. He still needed to work but now had some flexibility. He decided to split his working week into three days working, one day for charity and one day for the community (he became a governor at a local school).



As well as constructing a time plan, you might also construct a giving plan.

What are the issues that matter most to you? Write down a list and make them a combination of personal and global.

Now spend some time researching organisations active in those areas.

You might also work with your financial adviser to identify what money you may have available to donate, both on a monthly basis, and possibly lump sums. A bequeathment in a will may also be possible.

Choose organisations that show you the impact of your giving. There may be some overlap where you plan to give your time and some of your money.



Bringing it all together

Why not create a financial wellbeing plan based upon the five pillars? Your “clear plan to identifiable objectives” would involve understanding your intrinsic motivations and creating a financial plan of how to get there.

You could also ensure that you have put in place what we might call the “basic blocks” of financial planning for the other pillars: having an emergency fund, ensuring your loved ones would be looked after if something happened to you, having a will and powers of attorney, and so on.

Having these all confirmed in one financial wellbeing plan will give you peace of mind that you have the five pillars in place, and that you are now on a pathway to achieving financial wellbeing.



If you'd like to talk about your financial plan and life goals, please contact:

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