



# The pursuit of happiness

Life satisfaction in Australia

bliss  
wellbeing comfort  
happiness  
satisfied joyful  
peace of mind

AMP.NATSEM INCOME AND WEALTH REPORT  
ISSUE 26 - JULY 2010

**NATSEM**  
UNIVERSITY OF CANBERRA

## CONTENTS

Foreword	1
Introduction	2
The global picture	3
Life satisfaction	5
What makes people happy	10
Does money really buy happiness?	15
Wealth and life satisfaction	17
Life events and satisfaction	23
Does happiness come from within? The persistence of life satisfaction	24
Conclusion	26
Technical notes	27
References	28

# Foreword

Australia is a lucky country. Three decades of economic growth and the endless pursuit of the great Australian dream of owning our own home has led Australians to higher life satisfaction levels than most countries around the world.

Compared to our OECD peers, Australia ranks equal third with the United States and Sweden in overall life satisfaction, with an average score of 7.9 out of 10, beaten only by Ireland, Norway and Denmark (equal first) and Finland and Canada (equal second). This is despite Australia being placed 15th based on GDP per capita, which demonstrates that while GDP is important to achieving high satisfaction levels it is not a sufficient condition for happiness.

The old adage of “waste not, want not” no longer applies to most of us. Consumption levels are rising like never before and many Australians are enjoying the perks of a relatively affluent lifestyle. But what does our endless pursuit for the biggest home, newest model car or latest Apple invention tell us about life satisfaction?

Do our happiness levels really mimic the ups and downs of rising and falling stock markets? Can money buy happiness?

*The pursuit of happiness* explores life satisfaction trends in Australia, examining how different aspects of people's lives impact on happiness, from family life and relationships to employment and lifestyle.

Money is, of course, associated with happiness. People on higher incomes, who can afford to spend money on home renovations or holidays are more likely to be satisfied than those with less.

But while being financially better off can improve satisfaction, the report confirms money alone does not determine happiness.

Particular types of wealth, such as the family home, superannuation and money in the bank are linked to greater happiness than others. Spending money wisely can also make people happier highlighting the importance of managing our finances.

Some debts like those associated with credit cards and overdue bills can lead to lower levels of happiness but larger debts above \$100,000 like mortgages linked to more valuable assets can positively influence happiness.

The relationship between happiness and money is also relative. Happier people tend to have higher incomes relative to their peer group, while those that are quite dissatisfied with life are earning less than their peers.

As household wealth increases, more wealth is required to produce a similar increase in expected happiness. A person's income would need to increase by hundreds of

thousands of dollars to improve their happiness by a single point on a scale of 0 to 10.

Factors like age, health, family dynamics and employment can also influence happiness.

The report shows younger and older generations are more satisfied than those that fall between. In their middle years people start to build up their family, buy a house and increase their work responsibilities - a balancing act that can lead to greater stress and lower life satisfaction. As people get older they have more free time to enjoy themselves and happiness increases, underlining the importance of saving for a comfortable retirement.

When it comes to our working lives Australians are happy with their job security, flexibility and the nature of their jobs but less satisfied with their working hours and pay. The share of employed persons working long hours, of more than 50 hours per week, has increased over time in Australia as have the number of people working part time.

Full time workers are less likely to be very satisfied compared to those who choose not to work or are employed part time, reflecting the negative effect of longer working hours on life satisfaction.

Australian men and women also feel differently about elements of their lives particularly when it comes to family relationships, their share of housework and levels of free time, with men more satisfied in these areas. But overall, men and women share similar satisfaction levels with their lifestyle and financial situation.

Overall looking at a range of life satisfaction measures Australians are better off than most and while money can't necessarily buy happiness managing our finances wisely – by paying off smaller debts, investing in a home and putting money in the bank or saving through superannuation – can help improve life satisfaction.

Perhaps it is the recent global financial crisis that best demonstrates Australians propensity to look on the bright side of life. As a nation we managed our way out of a recession well before our global peers – not only because of good economic management but also because of our optimistic outlook on life that has helped see us through the tough times.



**Craig Meller**  
Managing Director,  
AMP Financial Services

# Introduction

Australia has managed to escape the full force of several major economic downturns over the past couple of decades. Our economy has remained resilient in the face of key crises from the 1997 Asian financial crisis to the 2000 dot-com bubble, and we have emerged from the global financial crisis in better shape than many of our global peers (perhaps not without the aid of a little economic stimulus).

As a nation, we have one of the highest life expectancy levels, the lowest child mortality rates, and a public health system that some countries could never dream of, despite its many well publicised flaws. We are sending our children to private schools and on to tertiary education at rates never seen before. And it seems Australia really is the land of opportunity, with boundless prospects and avenues for achieving our goals.

Our cities are recognised among the best to live in - we have access to an abundance of services and a social security safety net that exceeds that in many other OECD countries. When our toaster or kettle dies, most of us no longer have to save up to buy a new one. Instead, we whip off to the shops to purchase a brand new one, throwing the one we bought 12 months ago in our wheelie bins for collection on garbage day.

If we are sad or need a pep up, we indulge in retail therapy to see us through. As Lily Allen put it “we are weapons of

massive consumption”. Last year alone, we spent \$28.9 billion on take away dinners and eating out, consumed 4.5 billion cans of coke and 5 billion cans of beer. Our average weekly wages increased by 5.9 per cent, as did our credit card bills, with overall credit card debt increasing to \$45 billion. 200,000 of us purchased a new home, and we spent \$20 billion on overall retail purchases compared with \$19 billion in the prior year.

But - despite our relative affluent lifestyles the question remains - are we satisfied? Has our ability to earn and consume more made us happier? Does buying a home or getting married and having children contribute to our overall level of happiness? Who are the most satisfied Australians and on the flip side, who are the most dissatisfied?

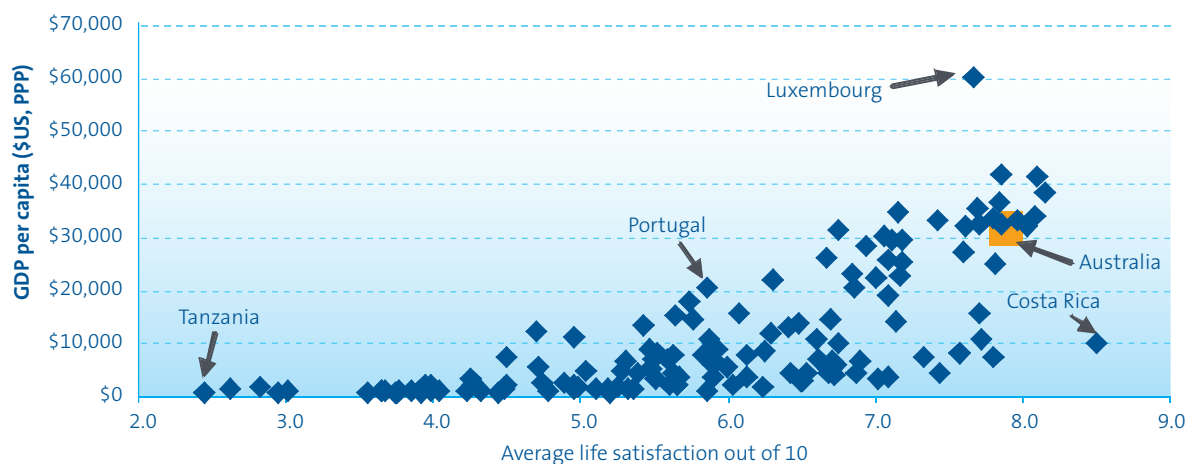
In this AMP.NATSEM Income and Wealth Report, we explore life satisfaction in Australia, examining how it varies across different demographic groups, searching for the elements that contribute the most towards a satisfied life. We analyse data from the Household Income and Labour Dynamics of Australia (HILDA) survey, which asks participants how satisfied they are about various aspects of their lives, including their relationships, employment and home. In this report, we recognise that satisfaction and happiness are often interchangeable terms that fall under the umbrella of subjective wellbeing and use this terminology accordingly.



# The global picture

Economists argue that economic growth is vital to increasing the wellbeing of a nation - increasing individual utility and maximising personal satisfaction. The data from Figure 1 supports this assumption, demonstrating that countries with higher Gross Domestic Product (GDP) per capita tend to have higher average life satisfaction or happiness levels than those with lower GDP per capita.

Figure 1 - GDP per capita and Life Satisfaction - the world



**Note:** GDP per capita is measured by purchasing power parity. This enables the different costs of goods and services in each country to be taken into account, and is often seen as a more comparable measure.

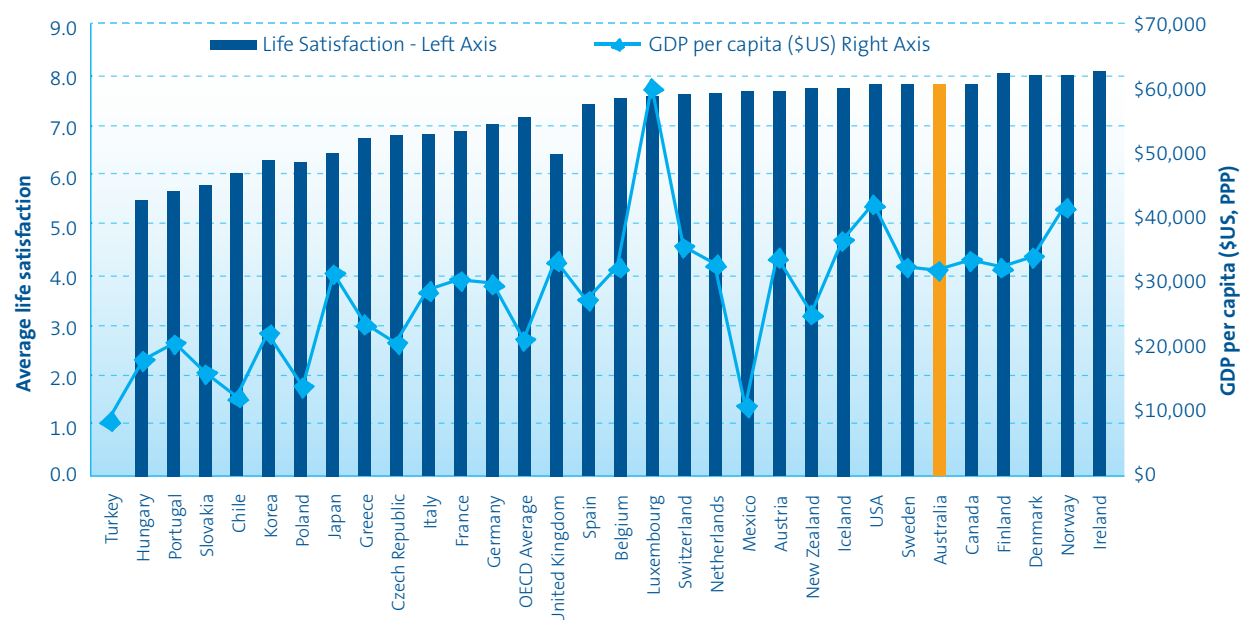
**Source:** The 2005 Happy Planet Index, See Abdallah et al 2009.

For the 23 nations that reported satisfaction levels below 4.5, all had GDP per capita of less than \$US4,000, while at the upper end of the spectrum, the 22 nations with happiness levels higher than 7.5 (including Australia, at 7.9) had GDP per capita between \$US8,000 and \$US60,000. However, there is some variation in the data, with many countries reporting high levels of satisfaction, yet low GDP per capita. This suggests that for a nation, having a reasonable GDP per capita is important to achieving high satisfaction levels, but it is not a sufficient condition for happiness.

When comparing OECD countries, we find a similar pattern between life satisfaction and GDP per capita, with increasing levels of GDP associated with increasing levels of life satisfaction (Figure 2). However, there are two

interesting outliers - Mexico and Luxembourg. Luxembourg has the highest GDP per capita levels (\$US60,228) and Mexico the second lowest amongst OECD countries (\$US10,751), yet both countries are ranked equally in terms of life satisfaction, with an average score of 7.7. Australia is ranked equal third with the United States and Sweden in terms of average overall life satisfaction, with a mean score of 7.9 out of 10, and 15th based on GDP per capita. Australians are just as happy as people from the United States and Sweden, despite having lower GDP, and happier than those in the UK and Luxembourg, which have higher GDP. In terms of life satisfaction, Ireland, Norway and Denmark equally rank first place, averaging a score of 8.1 out of a possible 10.

Figure 2 - GDP per capita and Life Satisfaction - OECD countries



**Note:** GDP per capita is measured by purchasing power parity. This enables the different costs of goods and services in each country to be taken into account, and is often seen as a more comparable measure.

**Source:** The 2005 Happy Planet Index, See Abdallah et al 2009.





# Life satisfaction

It has been recognised that GDP is only one of many important factors that can help a country and its people to prosper and flourish. The Legatum Prosperity Index does just this by combining a number of indicators that are believed important to producing “happy, healthy, and free citizens”, such as those that measure the health, personal freedom, social capital and economic fundamentals that exist within a country (Legatum Institute 2009). In the 2009 Index, Australia ranks 6th out of 104 countries, beaten only by the four Nordic nations and Switzerland.

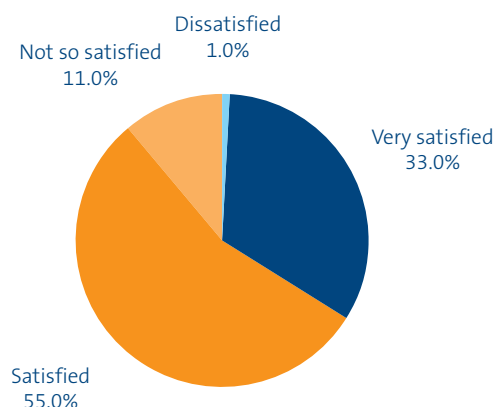
Given this stellar ranking, do Australians feel the same way about the quality of their lives? The 2008 Household, Income and Labour Dynamics in Australia (HILDA) Survey helps answer this question by asking Australians how satisfied they are with different aspects of their lives and overall. The survey measures satisfaction across a number of aspects of people’s lives - including satisfaction with their home, neighbourhood, financial situation, health, safety, community involvement, free time, paid job, as well as their

personal relationships with their partners, children and parents. Life satisfaction in HILDA is a subjective measure, with respondents ranking their life satisfaction on a scale of 0 to 10 (from totally dissatisfied to totally satisfied). For this report, we have organised this satisfaction scale into four groups - “very satisfied” (a score of 9 or 10), “satisfied” (a score of 7 to 8), “not so satisfied” (a score of 4 to 6) and “dissatisfied” (a score of 0 to 3).

## Overall life satisfaction

Examination of the HILDA data shows that overall Australians are generally happy, with the majority reporting being very satisfied or satisfied with their lives. The mean response to the question “how satisfied are you with life overall?” was 8 out of 10. Around 33 per cent of Australians aged 15 and above reported that they were very satisfied with their lives overall, 55 per cent were satisfied, 11 per cent were not so satisfied and only 1 per cent were dissatisfied (Figure 3).

Figure 3 - Satisfaction with life overall



**Note:** Very satisfied (9, 10), satisfied (7, 8), not so satisfied (4, 5, 6) and dissatisfied (0, 1, 2, 3).

**Source:** NATSEM calculations from HILDA, Wave 8.

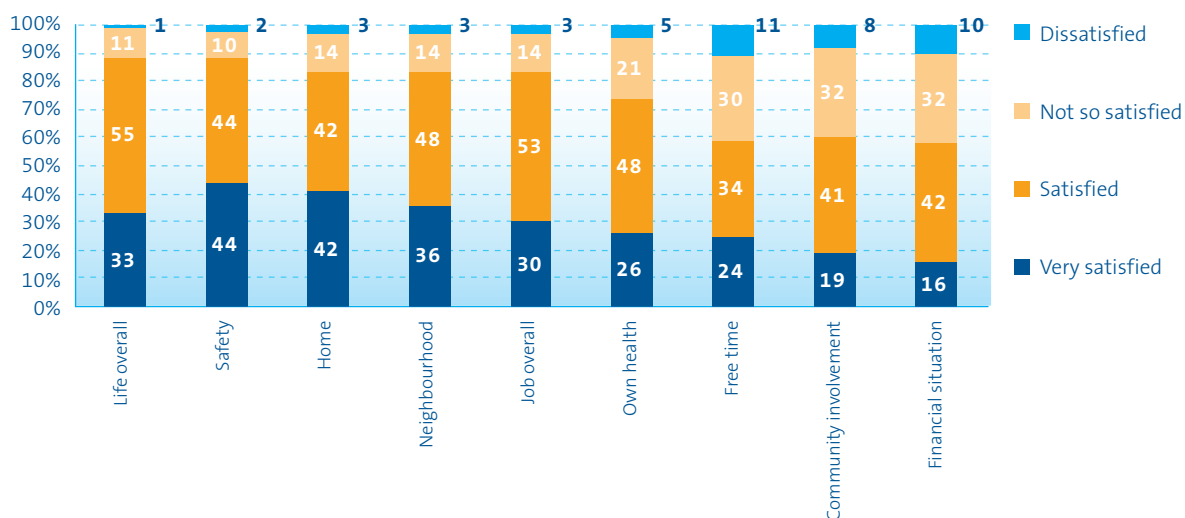
Life is naturally full of all kinds of stresses and challenges, from balancing work, family and the day-to-day pressures of living in a modern society, and Australians are no exception to these challenges. So even though the research shows, in general, Australians are quite satisfied with their lives - what aspects of their lives are Australians most and least satisfied with?

Figure 4 shows that Australians are most satisfied with their safety, home and neighbourhood, followed by their job and health, but least satisfied with their levels of free time, involvement in their local community and financial situation. It seems three decades of sustained economic growth, and

the endless pursuit of the great Australian dream of owning our own home has led Australians to higher life satisfaction levels. This is evidenced by our finding that home owners are most likely to be very satisfied or satisfied with their lives, followed by buyers and renters. However, with house prices continuing to increase compared to average wages, Australians (particularly first home buyers located in major cities) have to work harder and borrow more money to realise this dream. So it is no surprise that Australians are least satisfied with their levels of free time, community involvement and financial situation<sup>1</sup>.

1 AMPNATSEM Income and Wealth Report Issue 19 - “Wherever I lay my debt, that’s my home”, shows that housing unaffordability has increased substantially over time.

Figure 4 - Satisfaction with different aspects of life



**Note:** Neighbourhood indicates the neighbourhood where the respondent lived at the time of the survey. Values may not add to 100 due to rounding.

**Source:** NATSEM calculations from HILDA, Wave 8.

## Job satisfaction

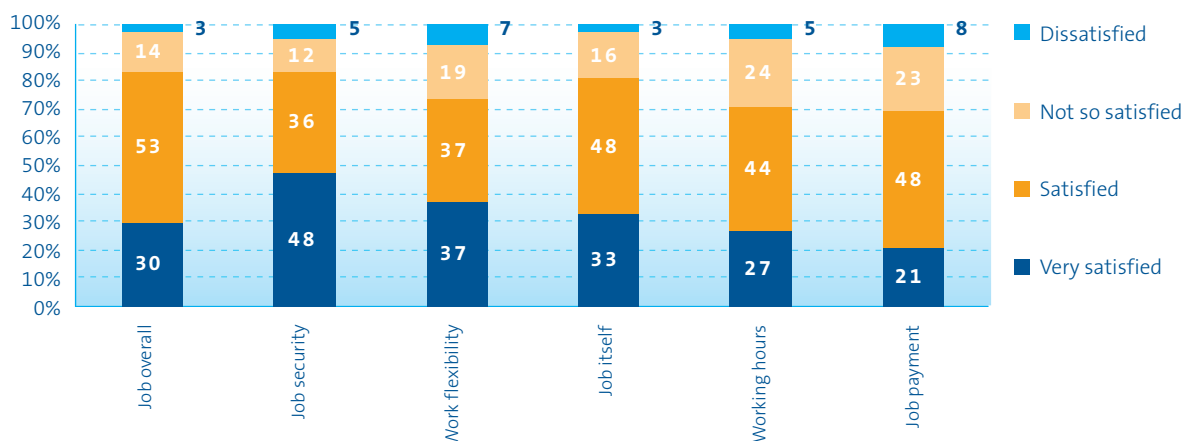
Around 11 million Australians are currently involved in some form of paid work, and most spend a large part of their day at work, so just how satisfied are Australians with their working lives? Figure 5 tells us that Australian workers are most satisfied with their job security, followed by flexibility and the nature of the work itself, and not surprisingly, least satisfied with their working hours and the pay they receive.

Considering efforts undertaken by the Federal Government, unions and Australian workplaces to provide job security,

increase flexibility and expand labour force participation, it is not surprising to find that Australians are highly satisfied with their job security and work flexibility.

Almost 50 per cent of Australian workers reported being very satisfied with their job security, in part reflecting the positive economic conditions at the time the survey was conducted. Generally, the majority of workers are satisfied or very satisfied with workplace flexibility although 7 per cent reported being dissatisfied or not so satisfied with this area.

Figure 5 - Satisfaction with different job aspects



**Note:** Values may not add to 100 due to rounding.

**Source:** NATSEM calculations from HILDA, Wave 8.



The amount of hours spent at work is one area that Australians are not too happy about. This could be attributed to a combination of a relatively high incidence of both short and long working hours in Australia, which is unusual among OECD nations (many have high proportions of their workforce employed for long or short hours, but few have both).

Wooden and Drago (2007) suggest that on the one hand, the share of employed persons working long hours (50 hours or more) has increased over time in Australia (from 13 per cent in 1979 to 17 per cent in 2008), and the share of Australians working long hours is higher than that in western and northern European countries (but still lower than UK and Eastern Europe, Japan and Korea). While on the other hand, more and more Australians are working part-time, which might make this group feel they can not earn sufficient pay to meet their own and their family's needs and desires (Wooden and Drago 2007).

There are currently around 900,000 employed Australians that have identified themselves as being "underemployed" - meaning they would like to and are available to work more hours.<sup>2</sup> This is also likely to be affecting the higher levels of dissatisfaction with working hours.

## Relationship satisfaction

On the whole, Australians are relatively happy with their family relationships, but some appear to be more trying than others (Figure 6). Like in most developed countries, the probability that a marriage will end in divorce has

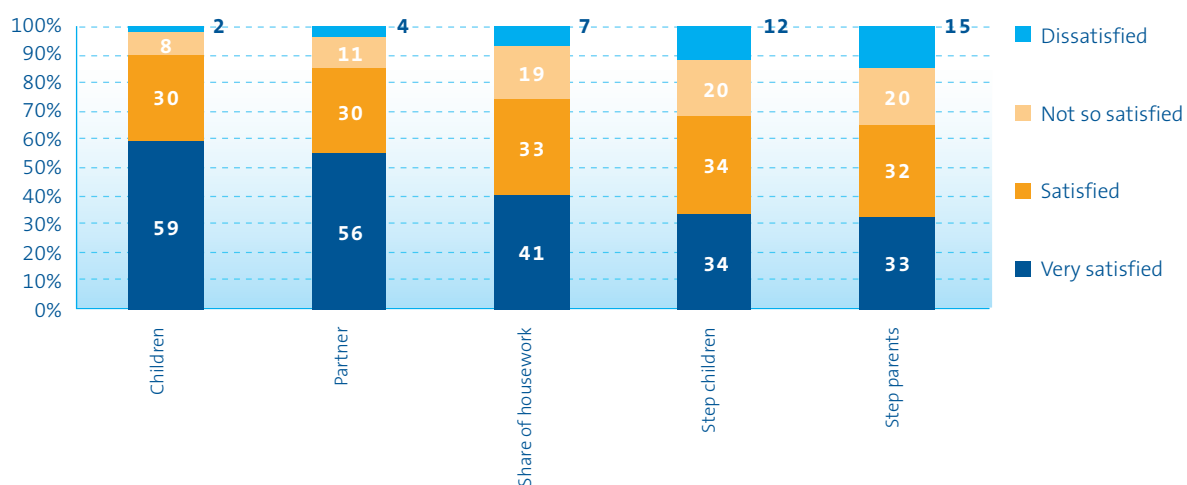
been increasing over time in Australia. The Australian Bureau of Statistics (ABS) estimates that around 28 per cent of marriages entered into between 1985 and 1987 are expected to end in divorce. This proportion increases to 33 per cent for all marriages entered into between 2000 and 2002 (ABS 2007a).

With the number of blended families growing as people have divorced or remarried, there are more and more studies looking at satisfaction among these newly formed family relationships. These studies have found that there is often some tension in blended families, for instance, step-mothers and step-fathers were perceived less positively than mothers and fathers by college students (Fluitt and Paradise 1991). It can be inherently difficult and daunting to build up a mutually understanding relationship between step-children and step-parents.

We find that most Australians are very satisfied or satisfied with their children and partners, but people from blended families were much less likely to report being satisfied or very satisfied with their step-children and step-parents. Around 30 per cent of parents report being dissatisfied or not so satisfied with their step-children, compared to around 10 per cent of parents with their own children.

The share of housework is also an area where around one quarter of the population report being dissatisfied and not so satisfied. When looking at this by gender, we find that women are more likely to be unsatisfied with their share of the housework - at 34 per cent compared with 17 per cent of men.

**Figure 6 - Satisfaction with family relationships**



**Note:** Values may not add to 100 due to rounding.

**Source:** NATSEM calculations from HILDA, Wave 8.

## Gender differentials

Do men and women feel differently about the quality of their lives, jobs and family relationships? Previous research has indicated conflicting trends when it comes to the impact of gender on satisfaction. Some studies found that women were slightly more likely to report higher overall life satisfaction than men, while others provide evidence of a relatively higher rate of mood and anxiety disorders among women that often change over time (see for example Stevenson and Wolfers 2009; Nolen-Hoeksema and Rusting, 1999; Cummins et al., 2001).

We found that Australian men and women do feel differently about their lives, but the differences are very small within areas of life and job satisfaction and more pronounced when it comes to relationships. Table 1 summarises the mean value of responses to life satisfaction by gender based on the HILDA data. Men and women, for example, share the same satisfaction levels with their life overall, financial situation, home and interestingly their salaries, but women are more likely to report lower levels of satisfaction than men in all relationship measures except for their relationship with their own children. Men are more likely to be more satisfied with their safety, health, free time, partner, step-children, step-parents, and unsurprisingly - their share of household tasks.

**Table 1 - Satisfaction by gender**

ASPECTS OF LIFE	ALL	MALE	FEMALE
Life overall	7.9	7.9	7.9
Home	8.0	8.0	8.0
Financial situation	6.5	6.5	6.5
Safety	8.1	8.2	8.0
Community involvement	6.7	6.7	6.8
Health	7.3	7.3	7.2
Neighbourhood	7.8	7.8	7.8
Free time	6.7	6.8	6.6
Work overall	7.7	7.6	7.7
Work payment	7.0	7.0	7.0
Work security	8.0	8.0	8.0
Work itself	7.7	7.6	7.7
Working hours	7.3	7.2	7.3
Work flexibility	7.5	7.4	7.5
Partner	8.2	8.4	8.1
Children	8.4	8.3	8.6
Step children	6.9	7.2	6.6
Step parents	6.8	6.9	6.7
Household tasks	7.5	8.0	7.1

**Source:** NATSEM calculations from HILDA, Wave 8.

It is easy to understand why women report lower satisfaction with safety than men, but puzzling as to why Australian women report similar levels of satisfaction with their salaries even though the gender wage gap currently stands at around 17 per cent.<sup>3</sup> This could be due to the fact that firstly, women who would get the least satisfaction from paid work are more likely to position themselves out of the paid labour force, and secondly, women, (with the exception of highly-educated professionals), have relatively lower job expectations than men, therefore increasing their satisfaction levels relative to their male counterparts (Clark 1997; Stevenson and Wolfers 2009).

The existing gender differences in response to satisfaction measures around home, neighbourhood, children, community involvement, free time and the share of housework, might reflect the fact that Australian women are still taking the main responsibility for their home and families, while men might see themselves as assistants around the house, rather than having primary responsibility. This is consistent with previous research that finds on average, men perform fewer hours of housework than women, even if both are undertaking full-time paid work (Cassells 2009b; Booth and Ours 2009; Stevenson and Wolfers 2009).

<sup>3</sup> Cassells, R., Vidyattama, Y., Miranti, R., and McNamara, J. (2009a), "The impact of a sustained gender wage gap on the Australian economy", Report to the Office for Women, Department of Families, Community Services, Housing and Indigenous Affairs.

## Who are the most or least satisfied?

Though most Australians are satisfied or very satisfied with their lives, still about one-tenth of Australians feel not so satisfied or dissatisfied. Who are the most or least satisfied in Australia, and what factors can anecdotally influence happiness?

A comparison of the satisfaction groupings shows that those who report being very satisfied or satisfied with their lives are more likely to be Gen Ys, have higher individual income, are in very good or excellent health, do not have a disability, are partnered and have children (Table 2).

People who are not so satisfied or dissatisfied with their lives are very different from those who are satisfied or very satisfied. The not so satisfied or dissatisfied people are more likely to be those who have average lower individual income, have no partner, have never had children, are not in the labour force (probably involuntarily), and who have reported fair or poor health and a long-term disability.

Predictably, health and disability appear to play very important roles in determining satisfaction levels of Australians, with 31 per cent of dissatisfied persons also reporting poor health, compared with only 2 per cent of very satisfied persons. Sixty-three per cent of dissatisfied persons also report having a long-term disability, compared with only 23 per cent of those who are very satisfied.

**Table 2 - A profile of satisfaction**

LIFE SATISFACTION	VERY SATISFIED	SATISFIED	NOT SO SATISFIED	DISSATISFIED
Household equivalised disposable income (Mean)	\$43,482	\$44,081	\$36,679	\$32,258
Individual gross income (Mean)	\$38,501	\$44,158	\$37,661	\$28,468
Male	48%	50%	51%	46%
Female	52%	50%	49%	54%
Partnered	62%	62%	53%	43%
No partner	38%	38%	47%	57%
With children	84%	81%	80%	78%
Without children	16%	19%	20%	22%
Employed	57%	71%	59%	36%
Unemployed	3%	2%	6%	7%*
Not in labour force	40%	27%	36%	57%
Managers and professionals	33%	38%	30%	23%*
Technicians and trade workers	15%	13%	12%	19%*
Intermediate workers	34%	34%	33%	36%*
Labourers and related workers	18%	14%	25%	22%*
Excellent self-reported health	19%	8%	4%	4%*
Very good self-reported health	41%	35%	17%	7%*
Good self-reported health	29%	41%	40%	23%
Fair self-reported health	10%	14%	30%	35%
Poor self-reported health	2%	2%	10%	31%
With disability	23%	24%	41%	63%
Without disability	77%	76%	59%	37%
Post-grad degree	9%	11%	8%	7%
Bachelor or honours	12%	15%	12%	8%
Diploma	9%	10%	9%	7%
Certificate	23%	23%	25%	23%
No post-school	47%	40%	46%	55%
Gen Z (15-18)	12%	6%	4%	3%*
Gen Y (19-34)	23%	31%	25%	19%
Gen X (35-49)	21%	28%	34%	36%
Baby-boomers (50-64)	23%	22%	26%	33%
Builders (65+)	21%	13%	11%	9%*

\* Denotes low sample size and results should be used with caution.

**Note:** Values may not add to 100 due to rounding. **Source:** NATSEM calculations from HILDA, Wave 8.

# What makes people happy?

What are the main factors associated with life satisfaction or happiness? Previous international studies have found that there are many things that can impact upon individual happiness. In general, people living in an economically prosperous country where freedom and democracy are respected, who are married and have a good relationship with family and friends, are mentally and physically healthy, successful in the labour market, physically active and involved in the community, are much happier than those who are not (see for example Veenhoven 1991; Ferrer-i-Carbonell and Frijters 2004; Dockery 2005; Guilbert and Paul 2009).

In this section, we examine the HILDA data to look at differences in life satisfaction in Australia based on various characteristics of individuals and households<sup>4</sup>.

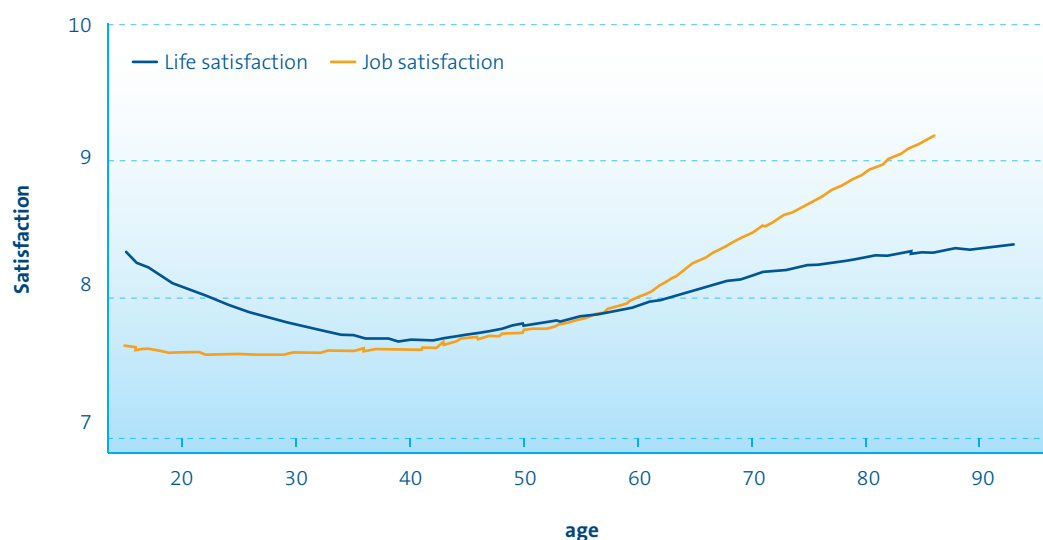
In our underlying statistical analysis, we find that there is a strong positive correlation between self-reported health and life satisfaction. In addition, people living with a

partner (whether married or defacto), owning a house, and being a member of a club are more likely to be satisfied. This compares with people who are divorced, separated, widowed or living alone in the bottom income quintile, and immigrants from non-English speaking backgrounds who are more likely to be dissatisfied.

## Age or generation?

A distinct U-shape pattern in the age profile of Australians has been found for life satisfaction and an increasing linear pattern for job satisfaction. Figure 7 shows that Australians' satisfaction level with life overall is high when they are younger, decreasing in their twenties and thirties, bottoming out at their late thirties and early forties, and then increasing slowly as they move into retirement. So why is it that Australians are the least satisfied when they reach middle age? And is this due to age or more to do with whether you're from generation Y or X?

Figure 7 - Age and satisfaction



Source: NATSEM calculations from HILDA, Wave 8.

One explanation for the U-shape life satisfaction age profile can be explained by what we know about life stages and events. In their middle years, people start to build up their family, buy a house and increase their work responsibilities - a juggling act that no doubt leads to increased stress levels and decreases overall life satisfaction. The job satisfaction profile supports this story, where once the children are all grown up and the mortgage paid off, they have less stress, more free time to enjoy themselves and hence become happier. Another explanation for this trend

is that when people become older, they have more control and fewer responsibilities or have achieved aspirations in their life and job, or some might just feel happy simply because they have lived longer than others.

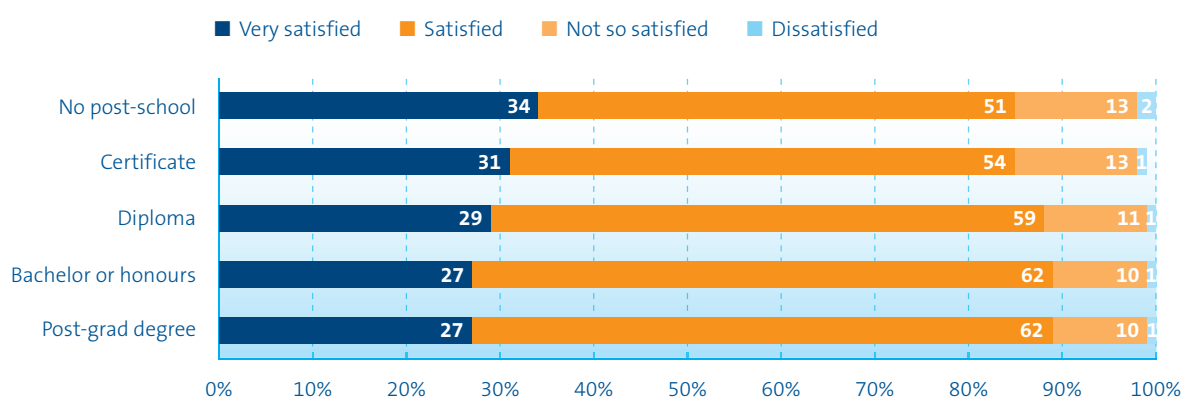
The interesting question is - has the older generation always been relatively satisfied with life, no matter what their age? Growing up in times of war and depression, they have become grateful for what they have, and not as concerned about what they do not.

<sup>4</sup> In this report, we only look at the association, instead of the causality, between satisfaction and factors. For instance, we report married people are associated with high satisfaction, but we don't distinguish whether it is because happy people are more likely to be married or being married makes people happier.

## Education and life satisfaction

Are we supposed to feel much more satisfied with our life after we have invested so much time and money into our tertiary education? The answer might surprise you. Figure 8 shows that those with no post-school qualifications are more likely to report feeling very satisfied with their life than those holding some sort of higher educational degree. However, when combining the satisfied with the very satisfied, there is little difference between all education levels, with most (around 85 per cent) falling within these classifications. And when examining the not so satisfied and dissatisfied people, we can see that there is a higher proportion of these people within the lower educational levels compared with the higher levels.

Figure 8 - Education and life satisfaction



**Note:** We have restricted the population to those aged 25 and above in order to decrease age effects that may be driving the data. Values may not add to 100 due to rounding.

**Source:** NATSEM calculations from HILDA, Wave 8.

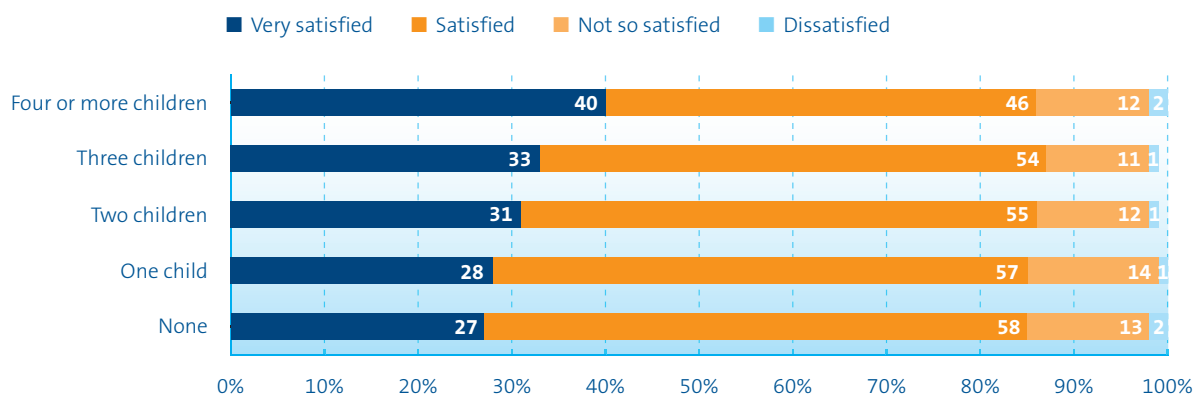
## Does having children make you more satisfied?

Many Australians would hold the view that having and raising children is one of the most important things that we can accomplish in our lives. However, is it all it's cracked up to be? For those who are parents, they would know that it is one of the most difficult jobs that they will ever have to do. Looking at people who do have children, there appears to be a clear increase in satisfaction levels as their family grows, with 40 per cent of people with four or more children reporting being very satisfied with their life overall (Figure 9). Those people aged 30 years and above who do not have any children, are less likely to report being very satisfied with life than those who do have children, however, they are more likely to report being satisfied than the other groups. Those with only one child are more likely to report being not so satisfied or dissatisfied with life. This is likely to be related to the stress and pressure that a first child can bring to relatively new parents.



“People aged 30 years and above who do not have any children, are less likely to report being very satisfied with life than those who do have children.”

Figure 9 - Children and life satisfaction



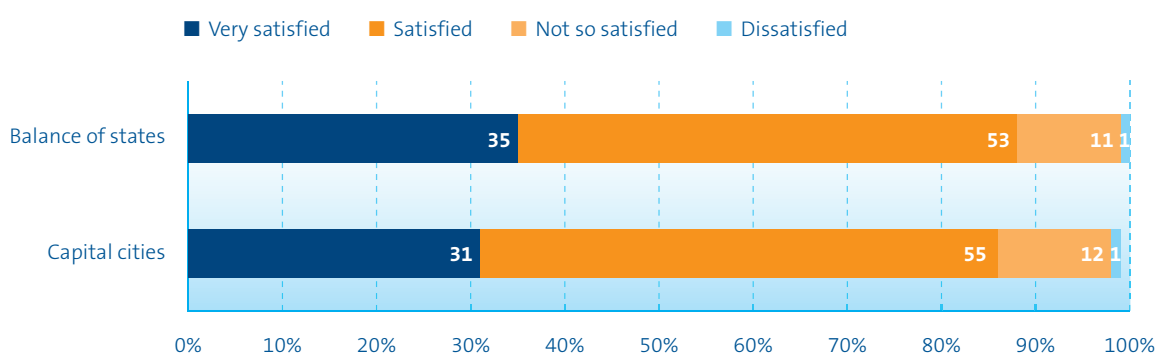
**Note:** We have restricted the population to those aged 30 and above in order to decrease age effects that may be present. Values may not add to 100 due to rounding.

**Source:** NATSEM calculations from HILDA, Wave 8.

## What about where you live?

It has been widely argued that people living in big cities are more likely to be stressed due to traffic, crowds, crime, increasing housing prices and less engagement in nature. Our findings support this. We find that people living in capital cities are less likely to report being very satisfied than people living in the balance of each state - 31 per cent compared with 35 per cent (Figure 10).

Figure 10 - Place and life satisfaction



**Note:** Values may not add to 100 due to rounding.

**Source:** NATSEM calculations from HILDA, Wave 8.

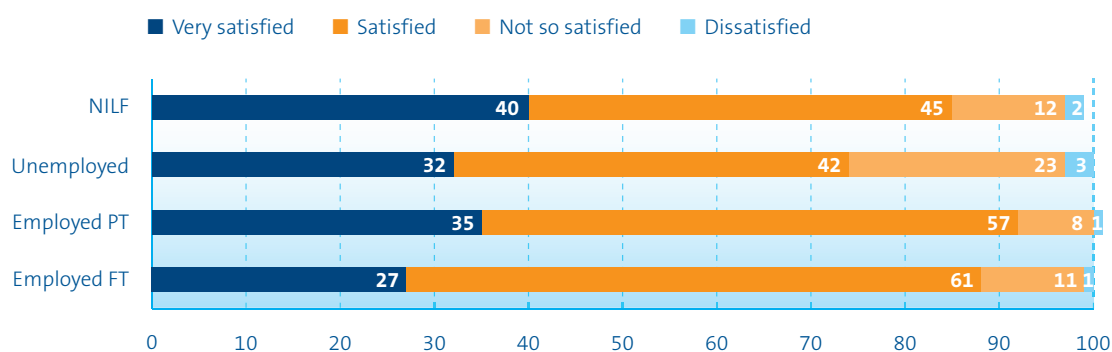


## Life satisfaction and the labour market

Unsurprisingly, unemployment has been found to have a significant negative impact on satisfaction, even after accounting for the effects of other characteristics and factoring in the loss of income (Winkelmann and Winkelmann 1998). Figure 11 shows that unemployed Australians are the least likely to report being satisfied and the most likely to report being dissatisfied with life.

Unemployment is almost by definition a classification of dissatisfaction, because an unemployed person is trying to change their employment state from not working to working by looking for a job. There are several reasons why unemployment is likely to lead to dissatisfaction with life, including lack of finances adding to financial stress and the inability to maintain a certain living standard, as well as a loss of valuable social connections and self-esteem which a job can often provide.

Figure 11 - Labour market status and life satisfaction



**Note:** Not in Labour Force (NILF), Part-time (PT), Full-time (FT). Unemployed persons and persons employed part-time who report being dissatisfied have low sample sizes and should be used with caution. Values may not add to 100 due to rounding.

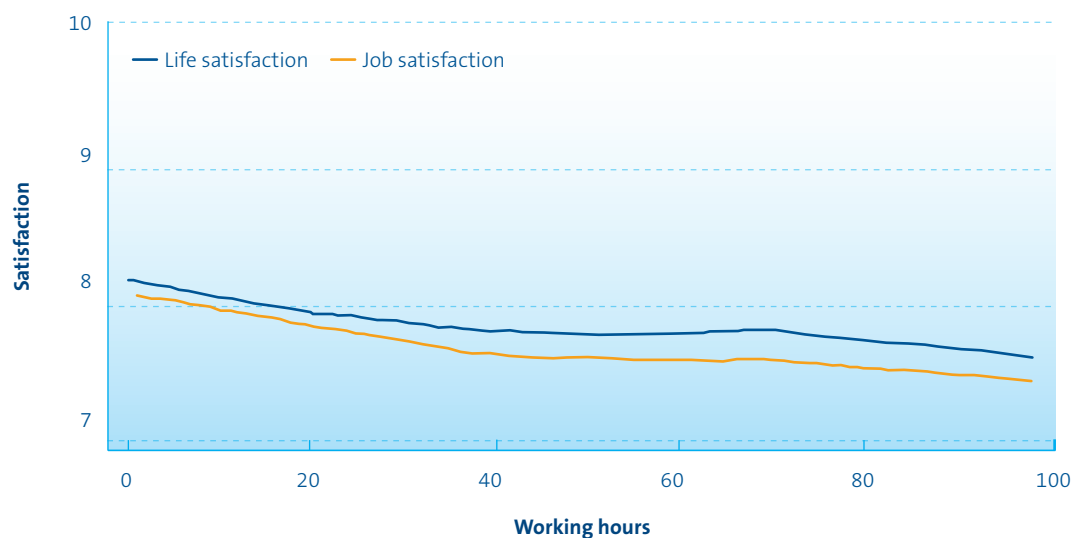
**Source:** NATSEM calculations from HILDA, Wave 8.

Interestingly, those employed full-time are less likely to be very satisfied than those not in the labour force or employed part-time. This is likely to be, at least partially, due to the greater flexibility enjoyed by people not working full-time and the strong negative effect of working hours on life satisfaction (Figure 12). As discussed above, we know that a greater proportion of Australians are working long hours each week, which is likely to impact on their satisfaction levels.



“Those employed full-time are less likely to be very satisfied than those not in the labour force or employed part-time.”

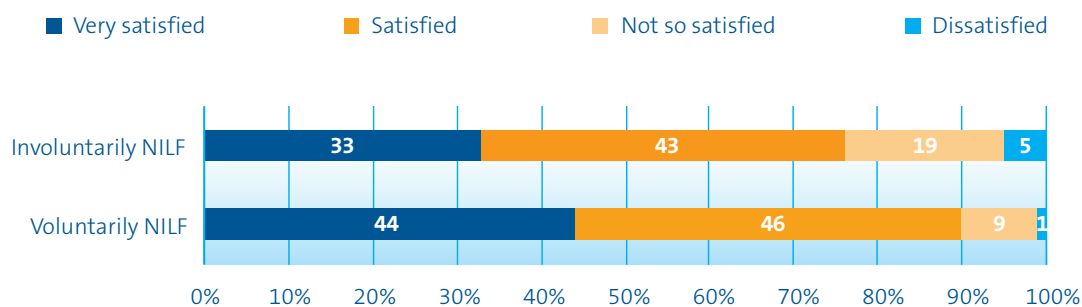
Figure 12 - Working hours and satisfaction



Source: NATSEM calculations from HILDA, Wave 8.

Not all people who aren't undertaking some sort of paid work are satisfied. When breaking this group down further, we find that people who are voluntarily not in the labour force (such as those who are retired, studying or holidaying) are more satisfied than those who are involuntarily not working due to an illness, injury or disability, or caring for an ill or disabled person (Figure 13).

Figure 13 - Main activities when not working and life satisfaction



Note: Not in Labour Force (NILF).

Source: NATSEM calculations from HILDA, Wave 8.

# Does money really buy happiness?

You wouldn't expect US Federal Reserve Chairman Ben Bernanke and Freddie Mercury from seventies rock band Queen to hand out similar lifestyle advice. But they do - they both advise that "Money can't buy happiness". But is this statement really true?

It's hard to believe that a person who can't afford to buy decent food and pay their bills on time will be just as happy as a person who can afford a lovely house, meals out and holidays. Higher incomes allow people to do more "fun" activities - they can afford to travel and take up enjoyable but expensive hobbies, and they can pay others to do housework and home maintenance, freeing up further leisure time. Also, higher incomes give greater leeway in avoiding financial stresses that have a negative impact on happiness.

Recent research involving Australia and other OECD nations has shown that there is a positive relationship between income and happiness - that is, richer people tend to be happier than poorer people (Guilbert and Paul 2009). Wealth is also associated with higher levels of happiness (Heady, et al. 2004, Heady and Wooden 2004).

Owning a home, for example, frees up income that would otherwise be spent on rent for other consumption. Investment assets like investment properties can provide passive income or security for a rainy day, or they may be satisfying in and of themselves.

Consumption is also associated with higher levels of happiness. It's useful to measure consumption separately to income and wealth, as household expenditure surveys show a large proportion of households spending more than their income - either drawing down savings or using credit - to smooth out fluctuations in their income (Heady, et al. 2004). On the other hand, research has found that people who receive a windfall of money such as by winning the Lotto

are not significantly happier than a control group of non-winners (Brickman, et al. 1978) and that these Lotto winners rated good health and relationships as more important than having a lot of money.

## Income and life satisfaction

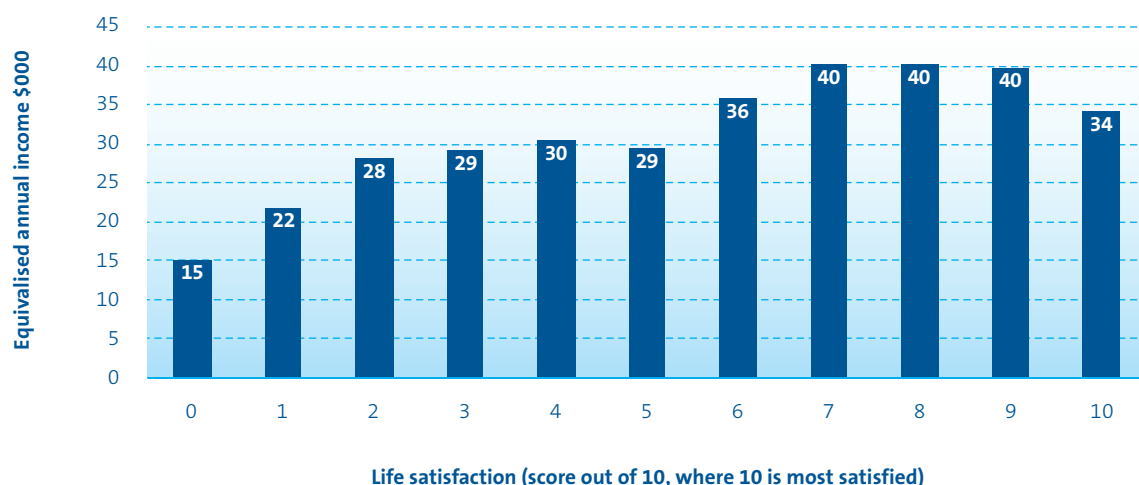
An examination of data from the HILDA survey shows that people who are satisfied with their lives tend to have higher incomes than people who are unsatisfied. HILDA asked respondents to rate how satisfied they were with their lives on a scale of 0 to 10.

Figure 14 shows the median equivalised disposable income for each level of happiness. Equivalising income is a way of taking into account the size of a household and how much income that household would need to maintain a certain standard of living.

For example, if two households, each had an income of \$100,000 per year, yet one had a family of five and the other a family of two, intuitively, these households would have very different living standards. So, in order to gain a true comparison, the incomes are transformed to take this into account and tax is also removed, so we gain the amount of income these households have at their disposal.

After taking this into account, we found that those who were least satisfied with their lives, scoring 0 and 1, had the lowest median equivalised disposable incomes (\$15,000 and \$22,000 per year respectively), compared with \$40,000 for those who scored 8 or 9 in life satisfaction. However, people who gave themselves a perfect score for life satisfaction had lower median incomes than even those people who scored in the average range (6 out of 10).

Figure 14 - Median equivalised household income and satisfaction



Source: NATSEM calculations from HILDA, 2008.

Of course, as we discussed earlier many factors can affect happiness and, in turn, income. For example, disability and unemployment have been shown to reduce life satisfaction, and these also result in lower incomes.

However, even when we do account for the effect of other personal characteristics that affect life satisfaction, such as age, marital status, education, employment and disability, we find that higher incomes are still associated with higher levels of happiness, but only very slightly. A person's income would need to increase by hundreds of thousands of dollars to improve their happiness by a single point on a scale of 0 to 10.

In contrast, an improvement in health or marriage would have a much greater impact on a person's happiness than an extra \$20,000 in income each year.

It should be noted that this doesn't necessarily mean that money can buy happiness, only that money is associated with happiness. It may be that the opposite is true - for example, that happy people are more productive in the workplace and therefore receive higher salaries.

Some economists have argued that a person's level of income doesn't matter as much as how much a person earns relative to their peers. Hagerty (2000) and Clark and

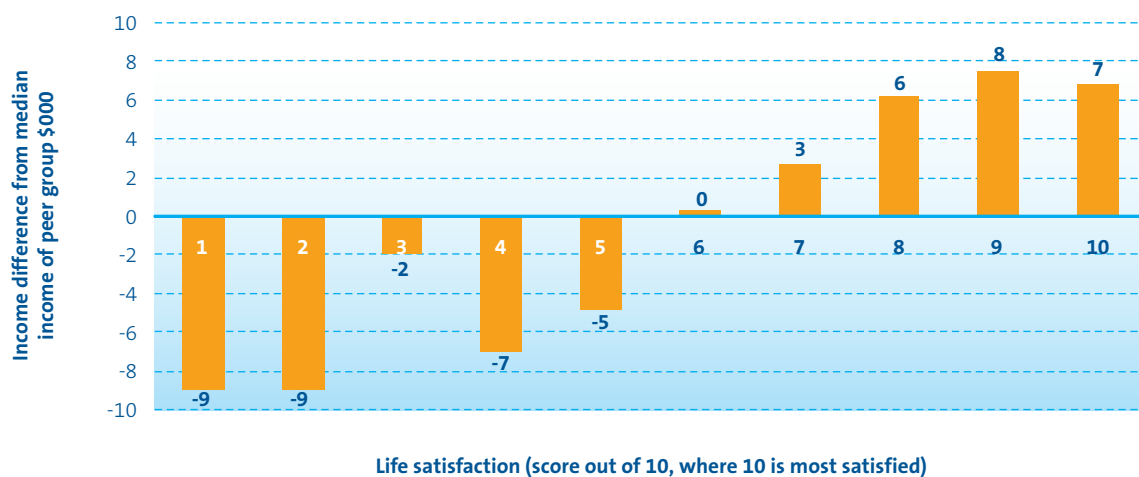
Oswald (1996) found that the rank of a person's income in comparison to other people in their community has a significant bearing on happiness, along with overall income. Therefore, a person who earns \$50,000 compared to his or her friends who earn \$30,000 could be happier than a person who earns \$60,000 with friends earning \$80,000.

For this study, we defined a person's peer group as those in a similar age and education group.<sup>5</sup> We then took each person's household equivalised disposable income and subtracted the median household equivalised disposable income for their age and education group. The resulting value was used as a measure to show how much richer or poorer a person is compared to the median of their peer group.

As figure 15 illustrates, when this value is charted against life satisfaction, happier people tend to have higher incomes relative to their peer group, and the most dissatisfied people have lower incomes than their peer group.

For example, people who rated their life satisfaction as 2 out of 10 had average incomes \$9,000 per year less than the average person within their peer group, while those with satisfaction ratings of 9 out of 10 earned an average of \$8,000 per year more than their peer group average.

Figure 15 - Peer group income and satisfaction



Source: NATSEM calculations from HILDA, 2008.

Even when relative incomes are considered, people at the top of the life satisfaction scale have lower equivalised disposable incomes relative to their peers than people who score 8 or 9.

<sup>5</sup> Age groups have been defined as follows: 18-24, 25-34, and ten year age brackets up to 75-84. Education level groupings are: Bachelor degree or higher, trade, diploma or Certificate III/IV, Year 12, less than Year 12.

# Wealth and life satisfaction

Research from the HILDA survey suggests that wealth, as well as income, has an impact on life satisfaction (Heady and Wooden 2004). This makes intuitive sense - a person who owns a lovely home, a holiday house and a nice car and earns \$50,000 a year is probably more satisfied than a person on the same wage who rents a small flat.

Different types of wealth are likely to affect life satisfaction in different ways. A beautiful house in a convenient area allows for a pleasant, relaxed lifestyle. A more modest home may not provide the same lifestyle benefits but provides security and tenure. On the other hand, shares, bonds and term deposits are not intrinsically satisfying, but the income stream they provide allows for higher levels of consumption, and they provide security in the form of emergency funds.

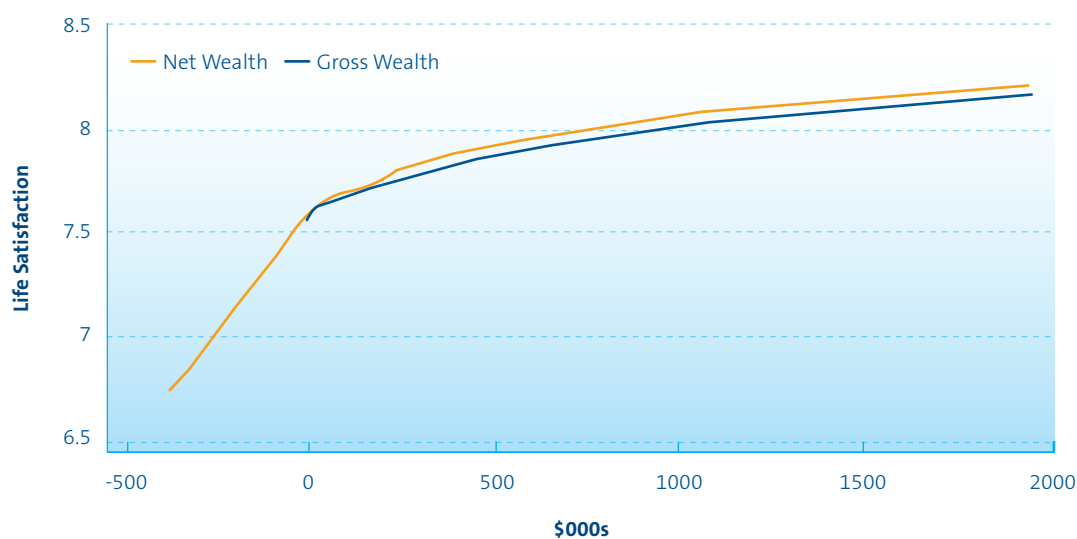
However, wealth alone may not tell the whole story in relation to happiness - debt may also have an effect. Debt

requires a portion of income to be sacrificed to service the debt, and can leave a person vulnerable to personal and economic shocks. However, debt allows a person to enjoy a higher level of consumption or wealth than would otherwise be possible.

To what extent does debt remove the satisfaction that comes with higher wealth? For example, if two people have net wealth of \$250,000, who is happier - the person with a \$1 million home and a \$750,000 mortgage, or the person with a \$250,000 home and no mortgage?

Evidence from HILDA shows that there is a strong positive relationship between wealth and life satisfaction, even when accounting for other factors such as personal characteristics and income. Net wealth is more strongly correlated with happiness than gross wealth, suggesting that holding debt reduces the satisfaction achieved from having assets.

Figure 16 - Gross and net household wealth and satisfaction



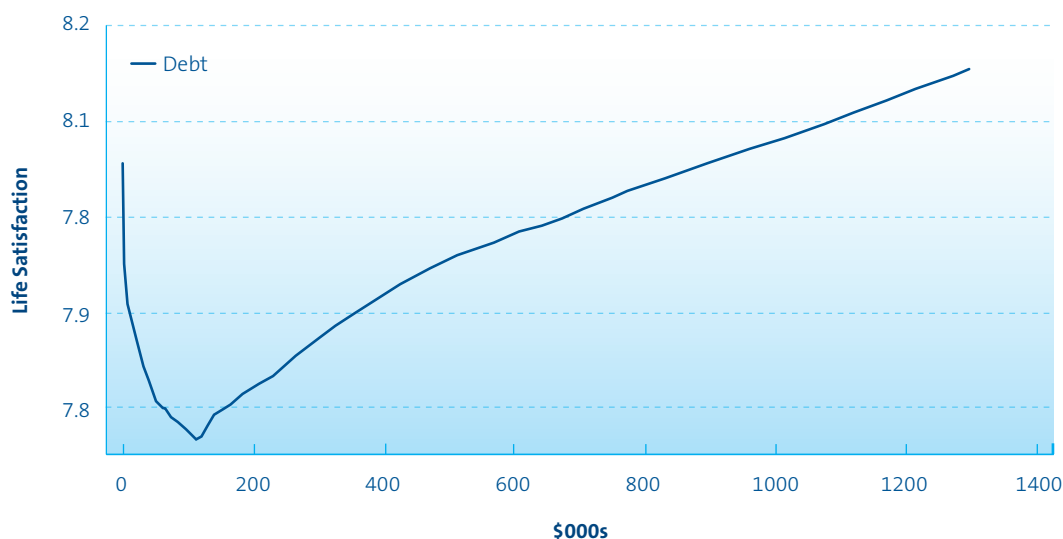
Source: NATSEM calculations from HILDA, 2006.

Figure 16 shows that at lower levels of both gross and net wealth (including negative values of net wealth), small increases in wealth result in larger increases in expected happiness. As household wealth increases, more wealth is required to produce a similar increase in expected happiness.

The relationship between debt and life satisfaction is V-shaped, as shown in Figure 17. Those with no debt have higher satisfaction levels, but this then decreases for debts up to around \$100,000, where debt is negatively associated with life satisfaction.

Above this level, the trend changes, and debt becomes positively associated with satisfaction. What explains this paradox that small amounts of debt are depressing, but large amounts of debt are satisfying? This may be because higher debt is strongly associated with more plentiful assets, in particular mortgages over the family home, and lower levels of debt are often associated with "bad debt" such as credit card debt.

Figure 17 - Household debt and satisfaction



Source: NATSEM calculations from HILDA, 2006.

It is important to note that very large debts - those greater than \$100 000 - are in most cases, associated with a large asset, such as a home. Having these valuable assets increases life satisfaction, so it is likely that the positive relationship between large debt and life satisfaction is due to the assets acquired using the large debt, rather than debt being intrinsically satisfying.

### Are different types of assets and debts more satisfying?

Is it possible that certain assets provide more satisfaction than others? This section considers which assets and debt are most strongly correlated with life satisfaction. Assets considered are the family home, other real property (for example, holiday homes or investment properties), superannuation, savings in bank accounts and shares.

Debts considered are mortgages, credit card debt and overdue bills.

The family home is the biggest source of wealth most people will own. Sixty-nine percent of households own their home (with or without a mortgage), and the average value of the family home is \$412,000, with mortgages over the family home averaging \$142,000. In contrast, households with superannuation had an average of \$110,000 in superannuation (ABS 2007b).

The benefits of owning one's own home include the ability to live rent-free when the mortgage is paid out, security of tenure, the ability to redecorate as one wishes and to use equity in the home for consumption and other investments. The family home is also treated favourably by Australia's tax and welfare system: capital gains are tax-free, and its value is excluded from most welfare assets tests.

"Debt allows a person to enjoy a higher level of consumption or wealth than would otherwise be possible."





People who own their own homes debt-free reported mean happiness levels of 8.15, homeowners with mortgages reported happiness of 7.86 and non-homeowners reported happiness of 7.68.

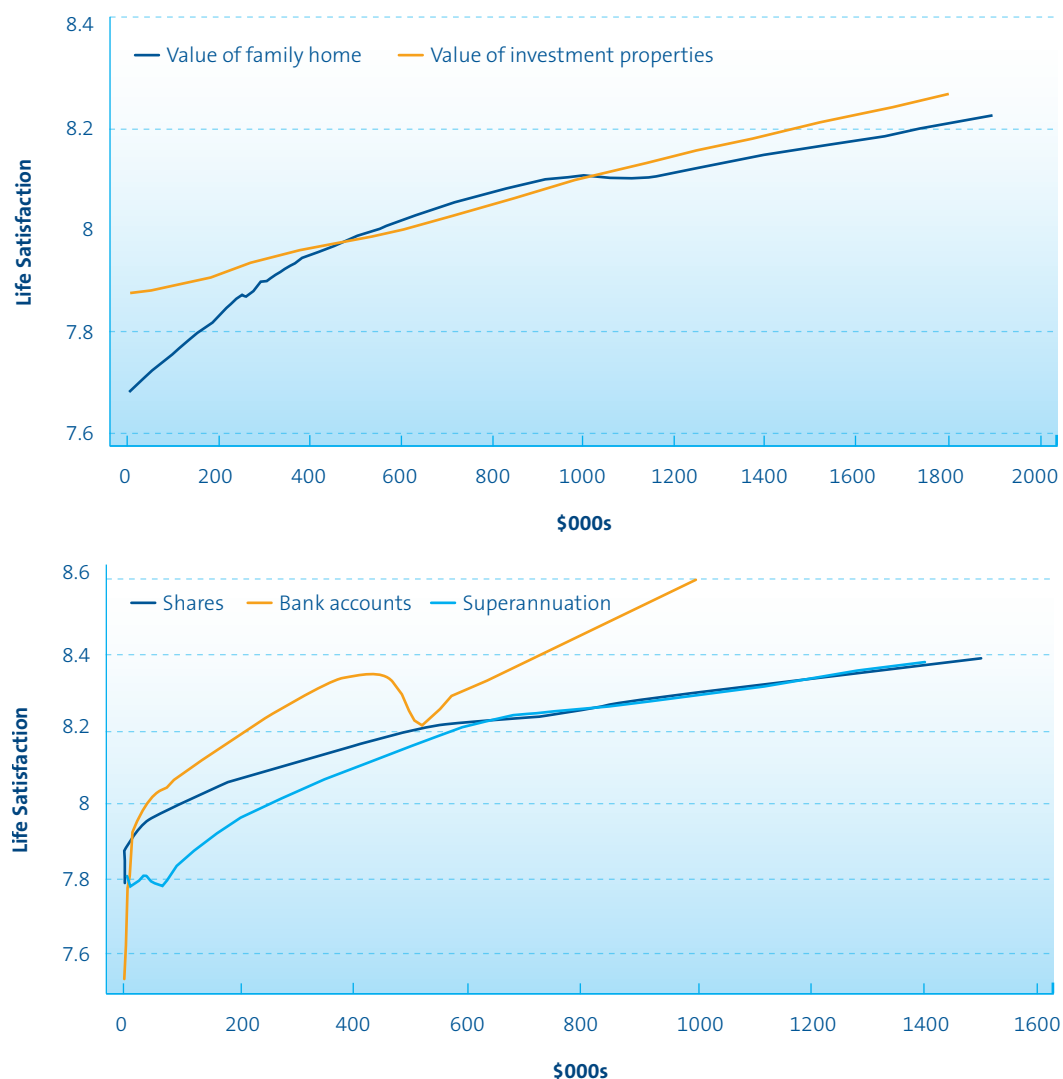
These results are significant even when age, health, education levels, employment, marital status and equivalised disposable income are taken into account. Happiness is positively associated with the value of the home as well.

Figure 18 shows the average asset value of HILDA respondents in 2006 by life satisfaction. All are positively associated with life satisfaction, but for some assets the relationship was not significant when income, marital status, education, sex and age were taken into account.

Owning an investment property, debt-free or otherwise, did not have a significant relationship with happiness levels when other factors were taken into account. Share ownership is associated with higher levels of happiness if the extremely rich - that is, those with more than \$3 million in shares who are top-coded in HILDA - are removed from the sample as outliers.

Good old-fashioned money in the bank did have a positive relationship with happiness, although its impact was slightly less than that for the family home. Superannuation balances were also correlated with higher levels of happiness.

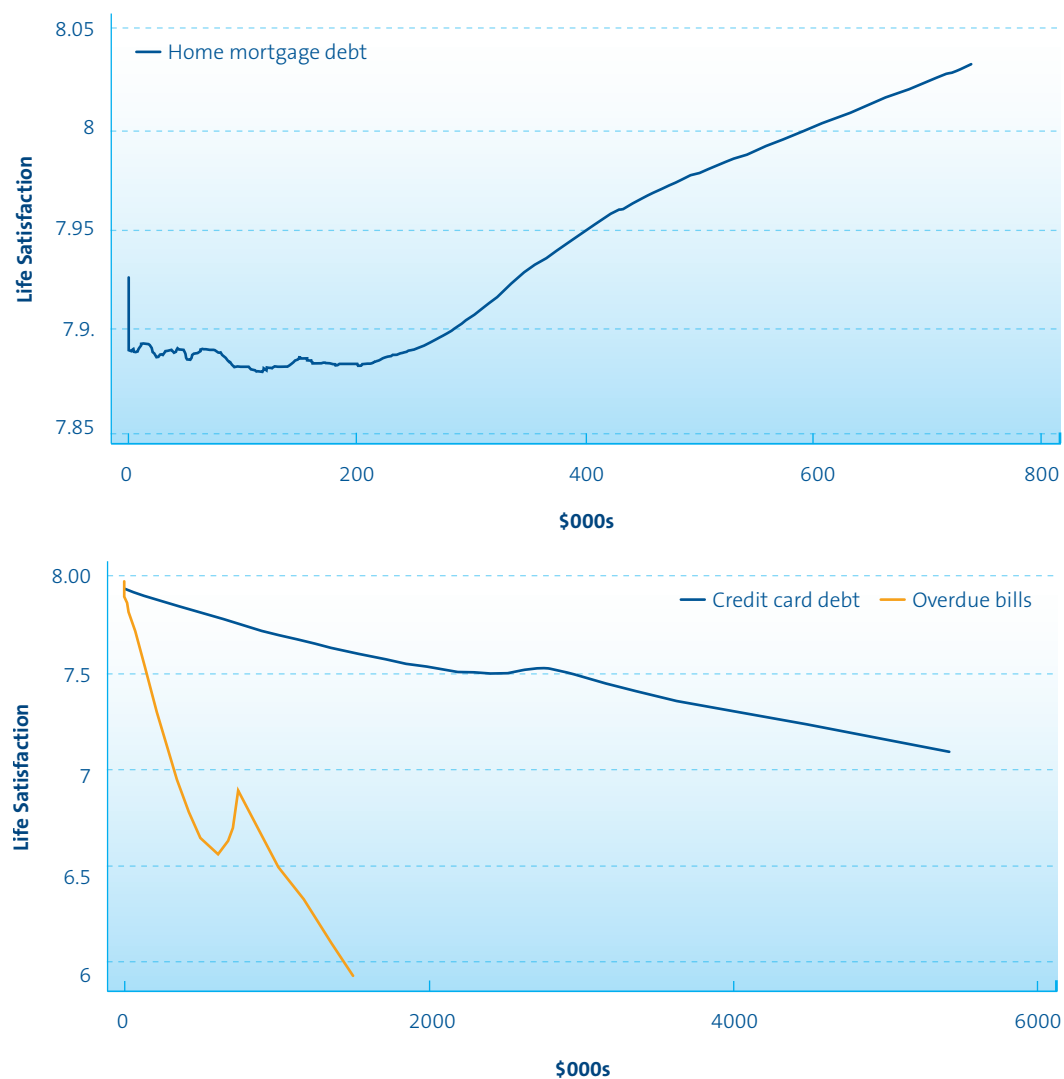
Figure 18 - Household wealth by asset class and satisfaction



Source: NATSEM calculations from HILDA, 2006.

The relationship between debt and happiness demonstrates that consumer finance advisers are on the right track - “bad debt” is associated with lower levels of happiness, while “good debt” is not. That is, credit card debt and overdue bills are strongly related to low satisfaction levels - see Figure 19 - even after taking into account other factors. Mortgage debt, on the other hand, is associated with higher levels of happiness - probably because larger mortgages are often associated with more expensive houses.

Figure 19 - Household debt by debt type and satisfaction



Source: NATSEM calculations from HILDA, 2006.

These findings are not surprising. “Good debts” usually refers to debts used to buy things that appreciate in value (eg a home), or increase future income (eg investments or study expenses). The additional security, income and amenity that come from the item purchased outweigh any dissatisfaction associated with strains from managing the debt.

“Bad debts” typically refers to debts used to buy things that depreciate quickly and do not provide income, typically consumer debt. Holding such debts effectively decreases future disposable income, which we have ascertained is associated with happiness, and managing that debt can be stressful. And in most cases (but not all) additional or more expensive consumption is not associated with happiness.

## Consumption and life satisfaction

It is a rare and strange person who receives satisfaction through simply looking at their bank balance, asset values or payslips. Satisfaction comes from having the means to consume. A six-figure income or a million-dollar share portfolio allows a generous level of consumption - the whole reason for chasing the six-figure income or large share portfolio in the first place.

Few surveys provide robust data on consumption as well as reporting on happiness levels. Heady et al (2004) found that in two countries where data was available, consumption is positively correlated with happiness where such data can be accurately measured, although the strength of the relationship varies between countries - in Britain the relationship is small while in Hungary the relationship is much stronger.

No Australian dataset asks individuals about both their life satisfaction and their total consumption or expenditure. HILDA asks its respondents about how much households spend on certain items, but these items are unlikely to sum to total household expenditure.

In any case, certain forms of consumption are unlikely to relate strongly to happiness. Staple items like power and phone bills, basic food and so forth are not traditionally consumption items thought to bring joy.

It is unlikely that a person who spends a lot of money on petrol or electricity bills will be made happier by their expenditure, but a person who spends a lot of money on discretionary items such as holidays or a home renovation might be happier as a result of their expenditure.

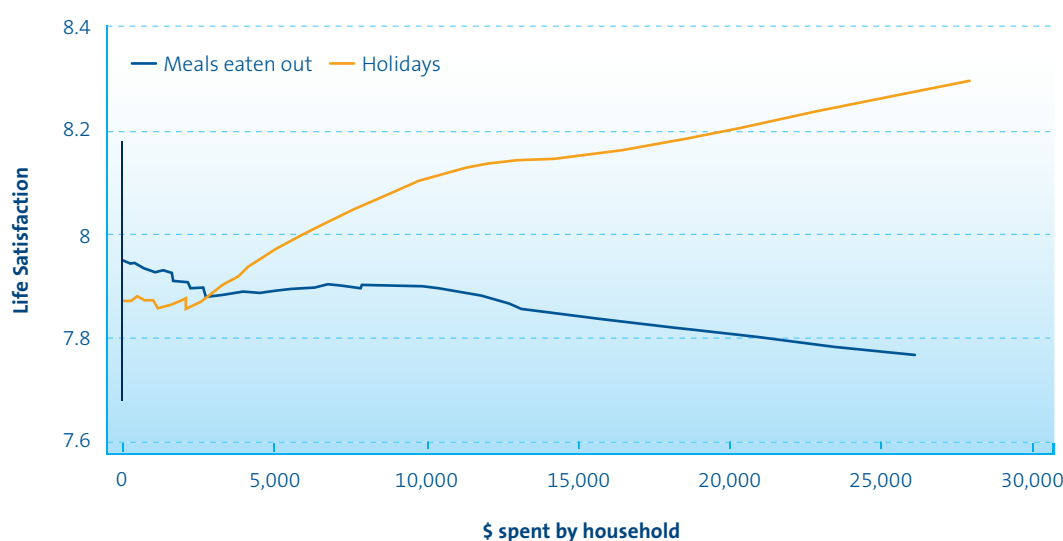
Since this analysis compares individual satisfaction levels and household expenditure, consumption items have been chosen by the likelihood that their purchase will benefit the entire household. For example, if a household spends money on a holiday or a new TV, it is likely that the entire household will go on the holiday or watch the TV, but if a household spends money on cigarettes or private school fees, it is likely that not everyone in the household will be smoking or going to private school.

This analysis focuses on the relationship between happiness and discretionary durables and discretionary non-durables.

## Spending on discretionary consumer non-durables

Two expenditure items have been chosen for consideration - meals eaten out and holidays. These are non-durable items whose consumption is reported in HILDA, which could be said to be non-discretionary, in that they are not reasonably necessary for functioning in modern society, unlike petrol, electricity or a telephone service for example. Also, consumption in HILDA is reported at household level, and the benefits of holidays and meals eaten out are highly likely to be shared among household members (unlike, for example, expenditure on women's clothing, which provides the most satisfaction to female household members). Figure 20 shows the relationship between household expenditure on meals eaten out and holidays with life satisfaction levels reported by household members.

Figure 20 - Household expenditure on non-durables and satisfaction



Source: NATSEM calculations from HILDA, 2008.

Spending money on meals eaten out did not have a strong positive relationship with happiness levels, whereas expenditure on holidays does. So does this mean that holidays make you happy, but dinners out make no difference?

To answer this question, we need to look at the distribution of the expenditure - how many people in each happiness group consumed these items, and how much of each item they consumed.

There is no data in HILDA on how many holidays respondents took or how frequently they ate out. However, more than half of respondents with satisfaction levels of 3 or less lived in households where no money was spent on holidays in that year, while respondents at all satisfaction levels consumed some meals out. This suggests that spending money on holidays provides more satisfaction than meals eaten out.

## Spending on discretionary consumer durables

Spending on discretionary durables was examined in a different manner to non-durables. HILDA reports how much was spent on each item type in the last year, by expenditure category.

The nature of non-durables is that they are purchased frequently, so people who actually consume the non-durable will record some expenditure every year. Durables, on the other hand, might only be purchased once every few years, so most individuals will record zero expenditure in a given year.

For this reason, we have compared happiness in two ways - the happiness of people who purchased a non-durable item compared with those who didn't, and, for people who did purchase a non-durable item, the relationship between their happiness and how much they spent.

As much as companies might like us to think that buying an expensive new car or a big TV set will make us happy, an analysis of expenditure on discretionary consumer durables and happiness shows that once the usual suspects<sup>6</sup> are taken into account, there is almost no statistically significant relationship between household expenditure on consumer durables and the life satisfaction of individuals within the household.

First, we tested whether having made a purchase over the last year on home repairs or renovations, TV or audiovisual equipment, whitegoods, furniture, a new car or a used car was associated with a higher level of happiness.

For every category except home repairs or renovations, there was no significant association. There was a small positive association between life satisfaction and money spent on home repairs and renovations. It should be noted that in the home repairs and renovations category, 60 percent spent \$1,000 or less on home renovations. Also, renovators' happiness may not be caused by their renovation expenditure, but by the increased value and amenity of their home.

Why would there be a strong relationship between individual happiness and household holiday expenditure, but almost no relationship between individual happiness and household expenditure on consumer durables?

Buying a new car, a new TV or installing a new kitchen may be fun and exciting if one has imagined for months how much better their new toy will be, but it is likely that for many people the purchase of a consumer durable is stressful or irritating, a necessary but expensive replacement for an item that has broken down, is worn out or has been stolen or damaged. For every person who is thrilled to drive their sleek, powerful new car, there is another person upset that their old faithful car was written off in the first place.

## What is it about money and happiness?

This chapter considers the extent to which equivalised disposable household income, relative equivalised household income, different forms of wealth and different forms of consumption affect happiness. Overall, it does seem that being better off financially is associated with greater happiness. What one does with their financial situation also makes a difference.

It must be emphasised that this analysis only shows that income, wealth and consumption patterns are correlated with higher levels of happiness - it does not mean that they cause happiness. It may be that people who are satisfied with their lives are more likely to find a well-paying job and spend their money on holidays and cars, while miserable people are passed over for promotions. But if income, wealth and consumption are at least in part a cause of life satisfaction, what should a person do to maximise their chances of life satisfaction?

Get a job that pays well, but not too well. Buy a nice house, but don't spend too much on a big TV, furniture or car. Put extra money into your super and open a savings account. Cut up your credit card and pay your bills on time. When you start to feel pretty pleased with your life, but still not totally satisfied, don't buy an investment property. Focus on reducing your debt, then book yourself a nice holiday!

<sup>6</sup> Age, education levels, marital status, employment and equivalised annual income.

# Life events and satisfaction

Many significant events happen to us throughout our lives. Many of us get married, some of us separate or divorce, many of us have children, lose loved ones, have windfalls and shortfalls and eventually retire permanently from the workforce. These events can impact greatly on our satisfaction and happiness, especially if these have happened recently.

Here we examine the effect of major life events that occurred in the last 12 months on the satisfaction of Australians. The analysis has been limited to examine only those people who have experienced one major event in this timeframe to reduce potential overlap.

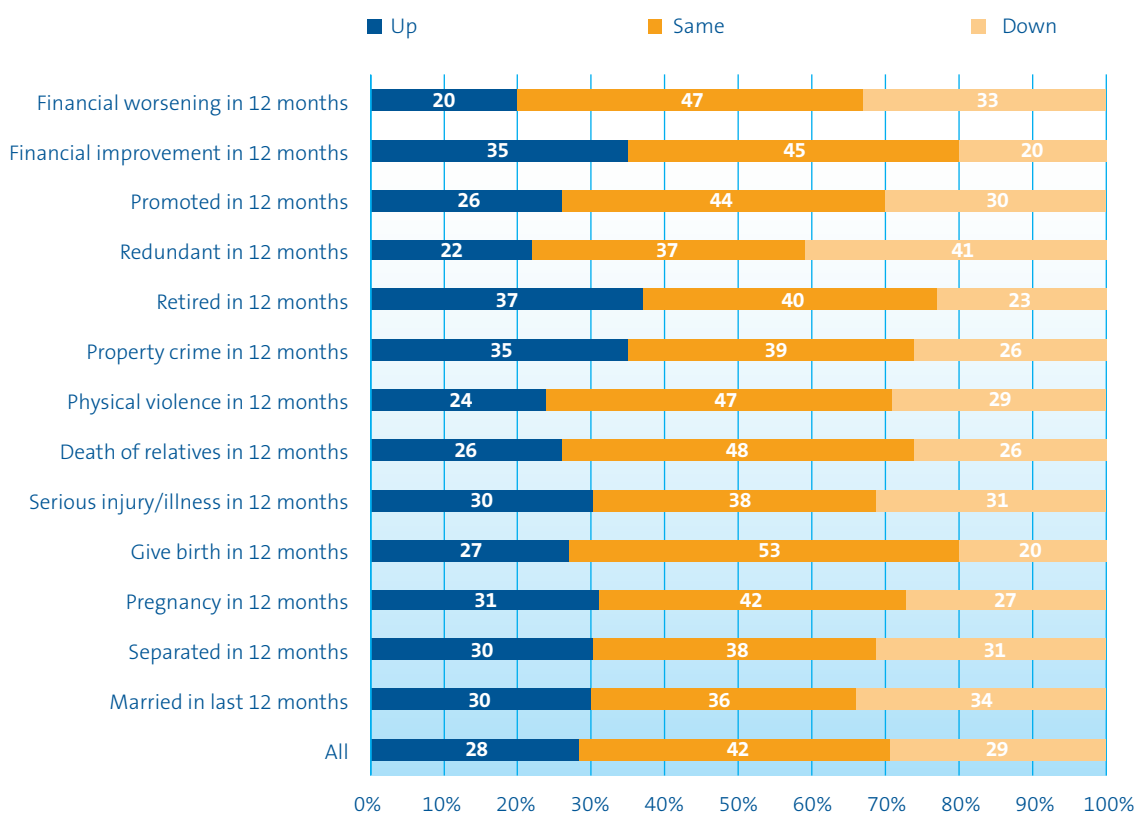
Figure 21 shows the main negative events were a worsening financial situation and being made redundant. For those people who had a worsening financial situation in the last 12 months, 33 per cent reported decreased levels of satisfaction. In contrast, the major positive life events increasing life satisfaction include moving into retirement and an improvement in their financial situation.

Interestingly, 35 per cent of victims of property crime increased their satisfaction levels over the past 12 months. One reason for this might be that these people are already more well-off than the general population, lessening the impact on them. Another reason might be that a victim of property crime has adequate insurance to replace the stolen items.

It is surprising to see that some people who have experienced significant negative events, such as being made redundant or a financial worsening, have increased their reported satisfaction level since the last time they were asked this question.

There could be many reasons for this, including the occurrence of other life events not taken into account here that have somehow offset the negative event. For example, a person who was made redundant in the last 12 months, may have in that time gained a more satisfying job, which has increased their overall satisfaction levels.

Figure 21 - Life events and life satisfaction



**Note:** Values may not add to 100 due to rounding.

**Source:** NATSEM calculations from HILDA, Wave 8.

# Does happiness come from within?

## The persistence of life satisfaction

If a person reports that they are dissatisfied with their life, are they likely to stay dissatisfied? Or are they going through a rough patch and will eventually bounce out of it?

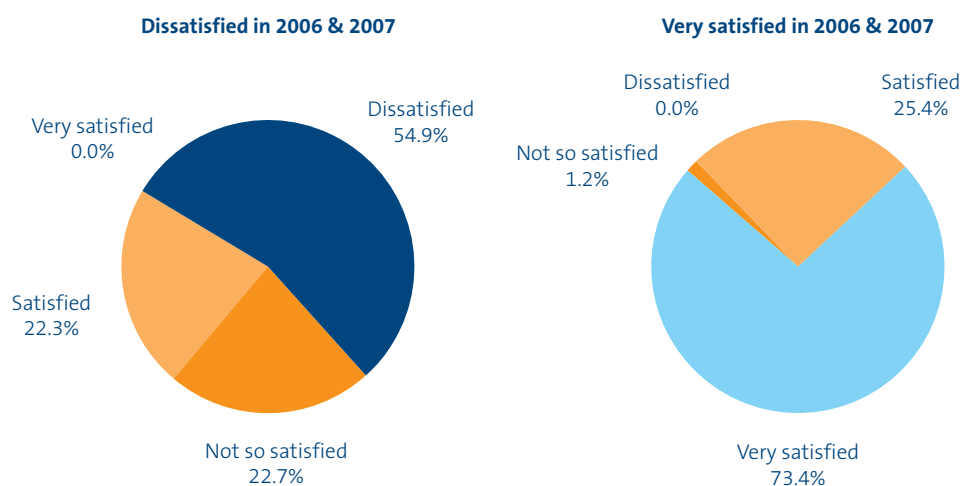
The HILDA survey is ideal for answering this question, as it asks the same questions of the same people over a period of years - including how satisfied they are with their lives.

HILDA data from 2006 to 2008 show that persistent gloom is, thankfully, rare. Of the sample interviewed in 2006, 2007 and 2008, only 0.24 per cent were dissatisfied with their lives in all three years. Furthermore, only 4.3 per cent reported themselves as not so satisfied or dissatisfied with their lives for all three years.

In contrast, 30 per cent of respondents were satisfied with their lives for all three years, and a further 16 per cent were very satisfied in the same period.

Figure 22 shows that it is far more likely for a dissatisfied person to increase their level of satisfaction than it is for a very satisfied person to decrease their level of satisfaction. A person who was dissatisfied with their life in 2006 and 2007 is almost as likely to cheer up in 2008 than stay glum - only slightly more than half of these people remained dissatisfied in 2008 (54.9 per cent). In contrast, of those who were very satisfied with their life in 2006 and 2007, only around 27 per cent experienced a decrease in satisfaction in 2008, with the large majority remaining very satisfied for three consecutive years.

Figure 22 - Life satisfaction in 2008, by life satisfaction in 2006 and 2007



Source: NATSEM calculations from HILDA, Waves 6, 7 and 8.

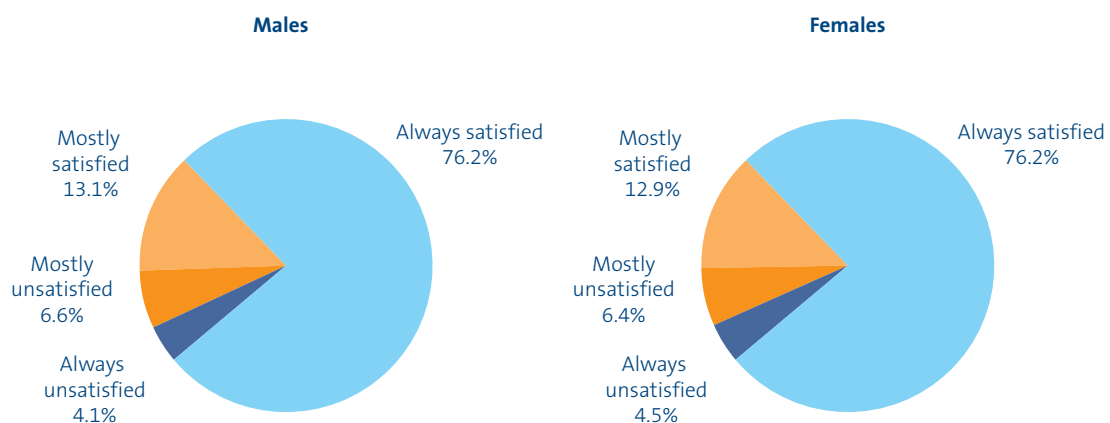
“Of those who were very satisfied with their life in 2006 and 2007, only around 27 per cent experienced a decrease in satisfaction in 2008.”





There was little difference in the general persistence of happiness between men and women, as shown in Figure 23. There was almost no difference in the proportions of men and women who were always satisfied (classified as “very satisfied” or “satisfied” for all three years), always unsatisfied (“dissatisfied” or “not so satisfied” for all three years), mostly satisfied (“very satisfied” or “satisfied” for two of three years), or mostly unsatisfied (“dissatisfied” or “not so satisfied” for two out of three years).

Figure 23 - Happiness from 2006-2008, by sex



Source: NATSEM calculations from HILDA, Waves 6, 7 and 8.

### Satisfaction persists, dissatisfaction is fleeting

The cheering result of this analysis is that for the vast majority of people, dissatisfaction with life is temporary. Even if a person has had a bad couple of years, they are more likely to feel at least a little bit more satisfied with life the following year than they are to have another bad year. And if you're satisfied with your life, it's most likely that you'll stay that way.



“If you’re satisfied with your life,  
it’s most likely that you’ll stay that way.”

# Conclusion

Aristotle wisely supposed that “happiness is the meaning and purpose of life, the whole aim and end of human existence”. Two thousand years later, this adage remains as relevant today as it was then. In this report, we have found that the majority of Australians are leading a satisfied and happy life, and internationally Australia is one of the happiest countries in the world, ranked equal third out of all OECD countries in terms of overall life satisfaction.

A closer look at different aspects of Australians’ lives shows that Australians are most satisfied with their safety, home and neighbourhood, but least satisfied with the amount of free time they have and work flexibility.

When isolating factors that are associated with satisfaction and happiness, we find that persons who are in good health, living with a partner, who own a house and those who are a member of a club are more satisfied than those who are not. When examining the relationship between life satisfaction and age, we find that the younger and older generations are more satisfied than those that fall between. This is likely a product of the life stage and various responsibilities one has in their middle age, including raising a family, working and buying and paying off a home.

Australians living outside of the state capital cities, those who have children, are employed either full or part time, and those earning relatively more than their peers, are more likely to report being satisfied in their life. While those who are involuntarily not in the labour force, unemployed, living without a partner, and earning relatively less income than their peers, are more likely to be not so satisfied or dissatisfied.

In general, Australian men and women share similar satisfaction levels with their life overall, financial situation, home and salaries. However, women are more likely to report lower levels of satisfaction than men in all relationship measures except for their relationship with their own children.

The Dalai Lama has said that “Human happiness and human satisfaction must ultimately come from within oneself. It is wrong to expect some final satisfaction to come from money or from a computer.” Yet, we toil away each day, striving to increase our incomes and our wealth, so that we may gain a higher standard of living. So, can money buy you happiness? In this report we have found that there are links between income and happiness, even when taking account of other factors that influence satisfaction levels. Wealth also has a strong association with overall life satisfaction, and particular types of wealth, such as the family home, superannuation and money in the bank are more strongly correlated with life satisfaction than others.

More importantly, being both financially better off and spending money wisely can make people happier. People spending their money on their home, home renovation or holidays, instead of on meals eaten out, a new car or a new TV, are more likely to be satisfied with their lives. And having low or no credit card debt or overdue bills is also likely to increase overall life satisfaction.

Today, Australia’s economy is the envy of many other countries, especially as it has managed to emerge from the GFC relatively unscathed. However, given the great success in economics and high level of overall life satisfaction of the majority, still about one-tenth of Australians feel not so satisfied or dissatisfied with their lives. There is still work to be done to improve the satisfaction of those who are not doing so well, but in general, Australians can be proud that we are succeeding in an overall measure of national wellbeing other than GDP.

# Technical notes

## Data

The majority of the data used in this report comes from the Household, Income and Labour Dynamics of Australia (HILDA) Survey. The most recent dataset is used - 2008. For the wealth analysis, the 2006 dataset is used, as wealth was a special topic for this wave of HILDA. There are around 13,000 persons in the HILDA dataset.

The HILDA Project was initiated and is funded by the Australian Government Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) and is managed by the Melbourne Institute of Applied Economic and Social Research (Melbourne Institute). The findings and views reported in this paper, however, are those of the authors and should not be attributed to either FaHCSIA or the Melbourne Institute.

Wooden and Watson (2007) provides details of the design of HILDA and Watson (2010) is the latest version of the HILDA User Guide.

## Methodology

As happiness and satisfaction are measured subjectively, and the concept may be considered quite abstract, the analysis throughout this report is supported by underlying regression analysis, in order to measure the strength of the association of happiness with personal and household characteristics such as education and income. Further, where possible, our descriptive findings are also supported by academic literature throughout.

## Wealth terms

The family home is defined as a property owned by one of the persons living in it, with or without a mortgage.

An investment property is defined as any real property that is not the family home, for example a dwelling or commercial property purchased for rental income or a holiday home.

Shares are any equity investment, such as company shares, options and other such market instruments. It excludes shares held in trust funds or superannuation funds.

Superannuation refers to funds held in a superannuation fund, including self-managed superannuation funds.

Assets includes money in bank accounts, superannuation accounts, real property, business assets owned by the household, collectables, vehicles, cash investments, equities, trust funds and life insurance.

Debt includes credit cards, HECS, business debt, real property mortgages, overdue household bills and other debt such as personal loans.

In testing to see which income, wealth and expenditure items had a positive impact on happiness, the following factors were controlled for using a linear regression equation:

- Age and age-squared.
- Self-reported health status.
- Highest level of education achieved: bachelor degree or higher, trade, diploma or Certificate III/IV, Year 12, and less than Year 12.
- Broad labour force status (employed, unemployed, not in the labour force).
- Marital status.

# References

- Abdallah S., Thompson S., Michaelson J., Marks N. and Steuer N. (2009), "The (un)Happy Planet Index 2.0. Why good lives don't have to cost the Earth" (nef: London).
- ABS (2007a), Lifetime Marriage and Divorce Trends, ABS Cat No. 4102.0.
- ABS (2007b), Household Wealth and Wealth Distribution 2005-06, Cat. No. 6554.0, ABS, Canberra.  
[http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/7C603E82C20B682ECA25738D000F4F0A/\\$File/65540\\_2005-06.pdf](http://www.ausstats.abs.gov.au/Ausstats/subscriber.nsf/0/7C603E82C20B682ECA25738D000F4F0A/$File/65540_2005-06.pdf)
- Booth, A. L. and Ours, J. C. V. 2009, "Hours of Work and Gender Identity: Does Part-time Work Make the Family Happier?", *Economica* 76, vol. 301, pp. 176-196.
- Brickman, P., Coates, D. and Janoff-Bulman, R., (1978), "Lottery Winners and Accident Victims: Is happiness relative?", *Journal of Personality and Social Psychology*, Vol 36, No. 8, pp 917-927.
- Cassells, R., Miranti, R., Nepal, B., and Tanton, R., (2009b), "She works hard for the money: Australian women and the gender divide", AMP.NATSEM Income and Wealth Report, Issue 22, April.
- Cassells, R., Vidyattama, Y., Miranti, R., and McNamara, J., (2009a), "The impact of a sustained gender wage gap on the Australian economy", Report to the Office for Women, Department of Families, Community Services, Housing and Indigenous Affairs.
- Clark, A. E. 1997, "Job Satisfaction and Gender: Why are Women so Happy at Work?", *Labour Economics*, vol.4, pp. 341-372.
- Cummins, R., Eckersley, R., Pallant, J., Van Vugt, J., Shelley, J., Pusey, M. and Misajon, R. A. (2001), Australian Unity Well-being Index, Survey 1: Report 1, Australian Centre on Quality of Life, Deakin University, Melbourne.
- Dockery, A. M. 2010, "Education and Happiness in the School-to-work transition", Centre for Labour Market Research, Curtin University of Technology.
- Ferrer-i-Carbonell, A. and Frijters, P. 2004, "How Important is methodology for the Estimates of the Determinants of Happiness", *the Economic Journal*, vol.114, no. July, pp. 641-659.
- Fluitt, M. S. and Paradise, L. V. 1991, "The Relationship of Current Family Structures of Young Adults' Perceptions of Stepparents", *Journal of Divorce & Remarriage*, vol.15, no. 3/4.
- Guilbert, D. and Paul, S. 2009, "Income and Happiness: An Analysis of Adaptation and Comparison Income Effects", HILDA Survey Research Conference, Melbourne, 16-17 July.
- Heady, B., Muffels, R. and Wooden, M. 2004, "Money Doesn't Buy Happiness. Or Does It? A Reconsideration Based on the Combined Effects of Wealth, Income and Consumption", IZA Discussion Paper Series, No. 1218, Institute for the Study of Labor, Bonn.
- Heady, B. and Wooden, M. 2004, "The Effects of Wealth and Income on Subjective Well-Being and Ill-Being", Melbourne Institute Working Paper No. 3/04, Melbourne.
- Legatum Institute (2009), "The 2009 Legatum Prosperity Index - An inquiry into Global Wealth and Wellbeing".  
 See [www.prosperity.com/default.aspx](http://www.prosperity.com/default.aspx)
- Nolen-Hoeksema, S. and Rusting, C. (1999), "Gender differences in well-being", In D. Kahneman, E. Diener, and N. Schwarz (Eds.), *Foundations of hedonic psychology: Scientific perspectives on enjoyment and suffering* (pp. 330-352). New York: Russell Sage Foundation.
- Stevenson, B. and Wolfers, J. 2009, "The Paradox of Declining female happiness", *American Economic Journal: Economic Policy*, vol.1, no. 2, pp. 190-225.
- Veenhoven, R. 1991, "Questions on happiness: classical topic, modern answer, blind spots" in F. Strack, M. Argyle and N. Schwarz, (eds), *Subjective Well-Being: an interdisciplinary approach*. Great Britain: Pergamon Press, pp. 7-26.
- Winkelmann, L. and Winkelmann, R. 1998, "Why Are the Unemployed so Unhappy?" Evidence from Panel Data, *Economica*, vol.65, pp. 1-15.
- Watson, N. (ed) 2010, HILDA User Manual - Release 8, Melbourne Institute of Applied Economic and Social Research, The University of Melbourne.
- Wooden, M. and Drago, R. 2007, "The Changing Distribution of Working Hours in Australia", Melbourne Institute Working paper No. 19/07, unpublished.
- Wooden, M. and Watson, N. 2007, "The HILDA Survey and its Contribution to Economic and Social Research (So Far)", *The Economic Record*, vol. 83, no. 261, pp. 208-231.



## Recent AMP.NATSEM Income and Wealth Reports:

- Baby Boomers - Doing it for themselves (March 2007)
- Generation whY? (July 2007)
- Honey I calculated the kids... it's \$537,000 - Australian child costs in 2007 (December 2007)
- Wherever I lay my debt, that's my home - Trends in housing affordability and housing stress 1995-1996 to 2005-2006 (March 2008)
- Advance Australia Fair? - Trends in small area socio-economic inequality 2001-2006 (July 2008)
- What price the clever country? The cost of tertiary education in Australia (November 2008)
- She works hard for the money - Australian women and the gender divide (April 2009)
- Healthy, wealthy and wise? - The relationship between health, employment and earnings in Australia (July 2009)
- Don't stop thinking about tomorrow - The changing face of retirement - the past, the present and the future (November 2009)
- Saving Tomorrow - The saving and spending patterns of Australians (April 2010)

All the above reports are available from [www.amp.com.au/ampnatsemreports](http://www.amp.com.au/ampnatsemreports)

This report was written by Rebecca Cassells, Cathy Gong and Marcia Keegan from NATSEM Pty Limited, and published by AMP. This report contains general information only and although the information was obtained from sources considered to be reliable, the authors, NATSEM and AMP do not guarantee that it is accurate or complete. Therefore, readers should not rely upon this information for any purpose including when making any investment decision. Except where liability under any statute cannot be excluded, NATSEM, AMP and their advisers, employees and officers do not accept any liability (where under contract, tort or otherwise) for any resulting loss or damage suffered by the reader or by any other person.

Suggested citation: Cassells, R., Gong, H. and Keegan, M. (2010), *The pursuit of happiness - Life satisfaction in Australia*, AMPNATSEM Income and Wealth Report, Issue 26, July, Sydney, AMP.