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Hedonists be
advised: save
now and you
can live it up
upon retiring



I came across a financial term recently which caught my ear, so to speak: the hedonic treadmill. It comes from a related concept called hedonic adaptation, which can be explained as follows.

Many people will remember how happy they felt after buying their first car. Do you recall how long the increase in happiness lasted? In reality, probably not that long. It's likely that the sudden boost in happiness was short-lived and you were back at your baseline happiness in a matter of days or weeks. In order to achieve a similar subsequent boost in happiness you would have to buy a much higher spec and newer car, and again, in a matter of days or weeks, the

happiness caused by the shiny new thing would abate.

Would you be that happy with a second-hand car purchase today? Probably not. These days many people need to buy a new, top-of-the-range car to get the same satisfaction they got from buying a second-hand banger in their twenties. That's hedonic adaptation at work, and it's a killer on your personal finances.

A good aspect of hedonic adaptation is that it also works in relation to negative events. If you experience a negative event, the feeling is generally worse closer to the event, and over time you return to your baseline happiness, the level of which has more to do with your personality type and the kind

of relationships you have, rather than the stuff you own.

It doesn't have to relate to your car, but given the depreciation cost of owning one, it's as good a treadmill as any. You would probably need to be an unlucky dealer in abstract art or have a liking for NFTs to do as much damage to your finances.

The availability of personal contract purchase finance plans has added fuel, if you pardon the pun, to the mix, with one person's car payment often dwarfing another's mortgage payment. Our finances generally expand as we age. Many people who, like me, have made over 50 trips around the sun, will observe how much more they spend on a particular category of their

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budget now than they did in, say, their twenties.

Is this stealthy expansion of your finances always a bad thing? Not necessarily, if you tap into the positives by using your money in a way that increases your future wealth.

Take saving for a pension, for example. If you start making any level of contribution, the vast majority of people will soon find they can comfortably raise the amount. If you don't start or wait till you can make exactly the contribution you need for the pension you want, you may never get to that position. Anyone who has ever deferred starting a pension and revisited the required contribution level in later life will attest that every year that passes makes successful retirement planning an exponentially steeper hill to climb.

I recall meeting a pension adviser during my early days working in financial services. His recommendation was that I should start a pension

with a monthly contribution of £150. In short, given my modest salary as a lowly bank assistant in the 1990s and other demands on my purse – none of which were adding to my net worth – I never gave it consideration. It simply couldn't be done, so it wasn't.

Luckily for me I subsequently became entitled to join a company pension scheme, but this might never have happened and, had it not, it is likely that had that adviser suggested saving just £50 a month I might have stretched to this and improved my financial position.

There will always be another expenditure on the horizon that could cause you to defer making the leap, and

as you get older much of your non-essential expenditure is caused by hedonic adaptation. That's fine once you are at least on course to have the pension you need, but if you haven't started that process then consider doing so now. The pension you accumulate may enhance your happiness for decades rather than weeks.

Of course, like many things in life, it's about balance. I heard a great saying from a client of mine recently: “If you slept in a coffin, you'd remember to live.”

The odd splurge can be good for the soul.

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