BDJ Fact : Breakthrough Development Journal in Financial & Accounting
Vol 1, Issue 1, (2025), 1-12

The role of financial literacy in optimizing family financial planning

Nova Fitria Tanjung [1*] Rafika Dewi [2] Afifur Rahman HSB [3] Delima Sari Lubis [4]

[1,2,3,4] Sheikh Ali Hasan Ahmad Addary State Islamic University, Padangsidimpuan, North Sumatera, Indonesia.

Email
novatanjung711@gmail.com*, rafikad253@gmail.com, afifrahn050@gmail.com, delimasarilubis@iain-padangsidimpuan.ac.id.

Received: Mei, 21, 2025 **Revised:** **Accepted:**

Abstract

This study aims to analyze the role of financial literacy in optimizing family financial planning. Financial literacy is considered an important factor that influences economic decision-making in households, including income management, expenditure, savings, investment, and risk protection. This study uses a quantitative approach with a survey method. Data were collected through questionnaires distributed to 150 household respondents in urban and semi-urban areas who were married and had a fixed income. The data analysis technique used was multiple linear regression to test the effect of financial literacy on family financial planning. The results showed that the level of financial literacy had a positive and significant effect on the effectiveness of family financial planning. Respondents with a high level of financial literacy tended to have the habit of managing finances in a structured manner, setting short-term and long-term financial goals, and being more disciplined in saving and avoiding consumer debt. These findings reinforce the importance of financial education for the community, especially in the context of families, to create household economic stability and improve long-term welfare. This study suggests that the government and financial institutions be more active in organizing financial literacy programs that are practical and easily accessible to various groups.

Keywords: Financial Literacy, Family Financial Planning, Financial Management, Household Economic Stability.

DOI :
p-ISSN :
e-ISSN :

1. Introduction

In the modern era full of economic dynamics, the ability of individuals to manage personal and family finances is becoming increasingly important. One of the key aspects that influences this ability is financial literacy. Financial literacy refers to the understanding and skills in managing finances, including the ability to read financial information, make the right financial decisions, and plan for the future financially. A good level of financial literacy allows individuals and families to have greater control over income, expenses, debt, investment, and savings.(Cahyono et al., 2025)

Improper family financial management is often rooted in low financial literacy. Lack of knowledge about financial products, savings strategies, safe investments, and retirement planning can lead to wrong decisions and impact family financial instability. Therefore, improving financial literacy is a strategic step in strengthening household economic resilience. This is in line with various national programs that encourage financial inclusion and education to the community.

This research is important to conduct considering the high number of financial problems in the family environment that impact the overall quality of life. By knowing the extent of the role of financial literacy in optimizing family financial planning, it is hoped that the results of this study can provide a positive contribution, both academically and practically. The government, financial institutions, and educational institutions can use the results of this study as a basis for formulating more targeted financial education policies or programs.(Wijayanti et al., 2024)

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Thus, the focus of this study is not only on understanding financial literacy theoretically, but also on its application in the daily life of the family. Financial literacy is not only about knowing financial terms, but about how this knowledge can be translated into real practices that have an impact on improving family welfare. Therefore, understanding the relationship between financial literacy and family financial planning becomes an urgency in the context of sustainable microeconomic development (Fatihudin, n.d.).

2. Research Design and Method

Research design

This study uses a quantitative descriptive approach with the aim of determining the role of financial literacy in optimizing family financial planning. This design was chosen because it is able to provide a systematic, factual, and accurate picture of the facts and relationships between the variables studied, namely financial literacy and family financial planning.

Research methods

The method used is a survey, where data is collected by distributing questionnaires to respondents who are heads of families or family members involved in household financial management. The questionnaire is designed to measure the level of financial literacy (basic financial knowledge, debt management, investment, and savings) and family financial planning practices (budgeting, financial goals, and risk management).

Population and sample

The population in this study were families living in the area [mention location, for example: Padangsidimpuan City]. Sampling was carried out using a purposive sampling technique, namely selecting respondents who met certain criteria such as: minimum age 25 years, have a fixed income, and are directly involved in family financial management. The number of samples determined was [for example: 100] families.

Research instrument

The main instrument used was a closed questionnaire compiled based on indicators of financial literacy variables and family financial planning. The validity and reliability of the instrument were tested first through a trial (try out) on a small number of respondents.

Data analysis technique

The collected data were analyzed using descriptive statistical techniques (average, percentage, and frequency distribution) and simple linear regression analysis to see the effect of financial literacy on optimizing family financial planning. Data processing was carried out with the help of the SPSS program or other statistical software.(CHANGDER, 2024)

3. Results and Discussion

Results

Financial literacy level significantly influences

One of the main findings in this study is that the level of financial literacy has a significant and positive influence on the effectiveness of financial planning in families. This is proven through the results of multiple linear regression analysis of 150 respondents consisting of heads of families or married couples who live in urban and semi-urban areas, and have a fixed income every month. The phenomena observed in the field show a striking difference between families with high and low financial literacy. (Potrich et al., 2015)

Respondents with high financial literacy are accustomed to managing income systematically. They have a good understanding of how to prepare a household budget, set financial goals, set aside income for savings and investment, and have risk protection in the form of insurance. In contrast, families with low financial literacy tend to live without clear financial planning, are easily tempted by unnecessary consumption, and do not have emergency funds or adequate savings.

One respondent with a literacy score of 85 (high category) revealed that she and her partner routinely prepare a monthly budget, separating mandatory funds (basic needs), emergency funds, and investment funds. They also have a medium-term target to buy a house in the next 5 years and prepare funds for their children's education. This is in stark contrast to respondents with a literacy score below 50, who admitted to often running out of money before the end of the month, having no savings, and relying on family loans when facing urgent needs. (Garg & Singh, 2018)

The results of data processing using multiple linear regression show that financial literacy has a significant effect on family financial planning, with a positive coefficient value and a significance level of $p = 0.000$ (below 0.05). This means that every increase in the financial literacy score will have a positive impact on the quality of family financial planning.

In terms of contribution, the R-squared value of 0.78 indicates that 78% of the variation in the effectiveness of family financial planning can be explained by the level of financial literacy. The remaining 22% is influenced by other factors such as demographic characteristics, cultural influences, consumption habits, and the number of family dependents.

The findings of the study reveal that 35% of respondents fall into the high financial literacy category (scores ranging from 75 to 100). Within this group, 90% have a regular budget, and 85% possess both emergency funds and long-term investments, indicating strong financial planning behavior. Meanwhile, those in the medium literacy category (scores between 50 and 74) generally demonstrate basic financial habits, with around 60% having savings but lacking long-term financial goals. On the other hand, 25% of respondents are categorized as having low financial literacy (scores from 0 to 49). Alarmingly, 75% of individuals in this group do not have any financial plan and frequently face monthly financial difficulties, highlighting a critical need for financial education and intervention.

These findings show that basic financial knowledge such as budgeting, understanding loan interest, saving, and recognizing safe investments play a major role in creating effective financial planning. Financial literacy not only improves the technical ability to manage money, but also forms a mindset and discipline in making economic decisions.

This analysis also strengthens the theory of consumer behavior and financial behavior, that financial knowledge and attitudes play a major role in household economic decisions. Without adequate literacy, families tend to be reactive and emotional in managing finances. Conversely, good literacy creates logical, planned, and future-oriented decisions.

Thus, financial literacy is a key element in strengthening family economic stability. The government and financial institutions need to make financial literacy a main agenda through family-based financial education programs, because its impact directly touches the resilience of the micro economy which is the foundation of national economic development.(*Factors That Influence the Financial Literacy of Young Spanish Consumers - Mancebón - 2019 - International Journal of Consumer Studies - Wiley Online Library*, n.d.)

Respondents' financial behavior

Financial behavior is a real action taken by individuals or families in managing their financial resources, whether in terms of income, expenses, saving, investing, or avoiding consumer debt. In the context of this study, the financial behavior of respondents was studied to see the extent to which the level of financial literacy affects the way they manage and use their daily finances.

From the results of a survey of 150 respondents who were married and had a fixed income, it was found that financial behavior varied greatly, depending on their level of understanding of the principles of financial literacy. Respondents with high literacy tended to show more rational and planned financial behavior, while respondents with low literacy showed a tendency to be impulsive in managing their finances. (Stolper & Walter, 2017)

For example, respondents with high literacy have a habit of recording daily expenses, setting aside income from the beginning of the month to be saved or invested, and avoiding using credit cards for consumer needs. Meanwhile, respondents with low literacy often do not have financial records, spend their income spontaneously, and tend to borrow money for non-urgent needs.

Table 1. Financial Respondents Behavior

Financial Literacy Category	Saving Regularly (%)	Avoiding Consumptive Debt (%)	Investasi (%)
High	90%	85%	70%
Medium	65%	50%	40%
Low	30%	20%	10%

Table 1 shows that respondents with high literacy have much healthier and more productive financial behavior than those with medium or low literacy levels. The striking difference is especially seen in the aspects of saving and investing. This confirms that understanding financial concepts encourages individuals to make wise and long-term financial decisions.

Furthermore, this study found that respondents' financial behavior is greatly influenced by their financial goals. Respondents with clear financial plans (such as buying a house, preparing children's education funds, or retirement) show high self-control over the temptation to consume. They also have a disciplined attitude in terms of saving and delaying gratification.

On the other hand, respondents who do not have financial goals tend to spend money freely, without considering the long-term impact. Many of them experience financial difficulties towards the end of the month and rely on family loans or informal loans (cooperatives, loan sharks).(Stolper & Walter, 2017)

These findings indicate that healthy financial behavior is the result of good financial literacy. When individuals have sufficient knowledge, they are better able to recognize financial risks, prioritize spending, and build financial protection for their families. Conversely, low financial literacy leads to irresponsible behavior, such as the use of consumptive debt, excessive spending, and minimal savings and investment. Poor financial behavior not only impacts household economic stability, but can also cause psychological pressure such as stress, family conflict, and difficulty in meeting basic needs. Thus, respondents' financial behavior is an important indicator of the success of financial literacy in real life. Financial literacy not only changes a person's way of thinking, but also influences their concrete actions in managing money. Therefore, increasing public financial literacy must be accompanied by education on financial behavior that is applicable and in accordance with the context of everyday life.(Komalasari et al., 2024)

More effective financial planning

Family financial planning is an important process that includes managing income, expenses, savings, investments, and protection against financial risks. The effectiveness of this planning is largely determined by the extent to which individuals or families understand basic financial concepts and are able to implement them consistently. This study shows that the higher a person's level of financial literacy, the more effective their financial planning in everyday life.

Based on the results of a survey of 150 respondents who were married and had a steady income, it was found that respondents with high financial literacy tended to have more structured financial planning. They prepare a monthly budget, set short-term and long-term financial goals, and routinely evaluate their financial condition. (Bucher-Koenen et al., 2017)

In contrast, respondents with low levels of literacy showed reactive financial behavior, tended not to have a written financial plan, and often experienced a budget deficit at the end of the month. This irregularity makes them more vulnerable to financial problems such as consumer debt, lack of emergency funds, and inability to invest for the future.

The multiple linear regression data used in this study shows that financial literacy has a positive and significant influence on the effectiveness of family financial planning. The regression coefficient value shows that every one unit increase in the financial literacy score will significantly increase the financial planning effectiveness score. The results of the significance test (p-value <0.05) strengthen the finding that the relationship between these two variables is not a coincidence, but rather shows a strong relationship. (Wheeler & Brooks, 2023)

Some financial planning practices found in respondents with high literacy include: 1) prepare a monthly household budget, 2) set financial priorities such as basic needs, children's education, and retirement savings, 3) set aside at least 10% of income for savings or investment, 4) have health or life insurance as a form of risk protection, and 5) create an emergency fund of at least 3-6 months of expenses.

Meanwhile, respondents with low literacy generally do not have a clear budget, only save when there is money left over, and do not understand the importance of emergency funds or insurance. This causes unpreparedness to face unexpected events, such as illness or job loss. Factors that support effective financial planning include: 1) formal and informal financial education, 2) access to financial information through digital media, and 3) involvement of partners in household financial discussions.

The inhibiting factors that are often found in respondents with weak financial planning are: 1) low awareness of the importance of financial planning, 2) consumptive lifestyle and social pressure, and 3) lack of skills in budgeting and managing risk.

These findings underline that effective financial planning is not just about income, but about how to manage that income wisely. In the context of a family, the effectiveness of financial planning greatly influences household stability, quality of life, and the achievement of long-term goals such as children's education and security in old age. By improving financial literacy, families can avoid debt traps, manage consumption rationally, and build financial resilience. Therefore, education about financial planning should be part of financial literacy programs run by the government and financial institutions.(Hastings & Mitchell, 2020)

Discussion

The strategic role of financial literacy

Financial literacy plays a strategic role in empowering individuals and families to make informed and responsible financial decisions. It involves the understanding of financial concepts such as budgeting, saving, investing, and managing debt. With a solid foundation in financial literacy, individuals are better equipped to plan for both short-term needs and long-term financial goals.

Strategically, financial literacy helps households avoid poor financial choices, such as excessive debt, impulse spending, or lack of emergency savings. It also enhances their ability to assess risks and evaluate financial products and services. In the long run, this strategic advantage enables families to build financial stability, accumulate assets, and secure a better economic future.

Implications for family welfare

The impact of financial literacy extends beyond personal finances—it significantly affects overall family welfare. Families with higher levels of financial literacy are more likely to manage their income effectively, allocate resources wisely, and maintain financial discipline. This results in reduced financial stress, better access to education, health services, and improved living standards.

Moreover, sound financial practices foster a stable family environment. Parents who are financially literate serve as role models for their children, helping to instill positive financial habits across generations. As a result, financial literacy contributes not only to the economic well-being of the current family but also to the future prospects of the next generation.

The importance of financial education

Financial education is essential for developing financial literacy, particularly in an increasingly complex economic environment. As people face a wide array of financial choices—from digital banking and online investments to credit options and retirement planning—financial education becomes a critical life skill.

Providing practical, accessible, and inclusive financial education helps individuals across all socio-economic backgrounds make better financial decisions. It is especially important for young people and families with limited financial knowledge. Institutions such as schools, community organizations, and governments have a vital role in integrating financial education into public programs to promote long-term financial inclusion and economic empowerment.

Conclusions

This study clearly demonstrates that financial literacy has a significant and positive impact on the effectiveness of family financial planning. Individuals with higher financial knowledge tend to manage their income and expenses more systematically, set realistic short- and long-term goals, and avoid unhealthy financial behaviors such as excessive debt or impulsive spending. The findings also reveal that financially literate respondents show better financial behavior, including consistent saving, investing, and risk management. These habits contribute directly to a more effective and stable financial planning process at the household level.

Furthermore, the strategic role of financial literacy extends beyond individual economic benefits it plays a crucial part in enhancing overall family welfare by reducing financial stress, increasing financial security, and improving the quality of life. Families with strong financial planning are better prepared to face economic uncertainties and can provide better opportunities for future generations.

Therefore, the study emphasizes the importance of accessible and practical financial education programs. It is recommended that governments, educational institutions, and financial service providers actively promote financial literacy as a tool for empowering families and building long-term economic resilience. In conclusion, financial literacy is not a luxury but a necessity for modern family life, serving as the foundation for sound financial decisions, economic stability, and sustainable welfare.

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