Journal of Economics Education and Entrepreneurship
Vol. 4, No. 1, April 2023, pp. 26-33
https://ppjp.ulm.ac.id/journals/index.php/jee/issue/view/6347
ISSN: 2746-5438 (Print) | 2745-729X (Online)

Financial Literacy: The Key to Successful Family Financial Management

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Article Info

Keywords:
Financial literacy
Family financial management
Family welfare

ABSTRACT

The family is the smallest unit of a society. The family is a unit consisting of the head of the household and several people who gather and live in one place under one roof in a state of mutual dependence on one another. Financial problems are something that must be experienced by a family, especially families who are just starting the household ark. Therefore, it is necessary to have good financial literacy so that family finances can be managed properly in order to achieve family welfare. The method used in this paper is literature study from journals and books and other publications related to the variables in this paper. The data in this study were taken from books and journal articles which were combined to provide solutions and procedures for good family financial management. This paper discusses how to do good financial management so that families can adjust their expenses to family income. It is hoped that this paper can reduce the negative impact of public ignorance about family financial management.

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Submitted 07 Sept 2022; Received 21 March 2023; Accepted 2 Apr 2023; Published 30 April 2023

How to cite: Sihaloho, F. A. S. (2023). Financial Literacy: The Key to Family Financial Management. *Journal of Economics Education and Entrepreneurship, 4*(1), 26-33. https://doi.org/10.20527/jee.v4i1.6347

1. INTRODUCTION

Literacy skills are very important to support people's lives so that they can become good people in living their daily lives. The definition of literacy is the ability of a person or group of people after obtaining or conveying information either through technology or interaction with the environment (Stordy, 2015). One part of literacy is financial literacy. Financial literacy is important for the community so that people can manage their finances in such a way by fulfilling the management concepts, namely planning, organizing, actuaing and controlling so that the process of going in and out of money in their hands can match their needs. In this case, financial literacy for individuals or groups is not just a science or theory, but is expected to make individuals wiser and smarter in managing their assets so that they can provide useful feedback in supporting individual finances both in the short and long term. long (Yushita, 2017).

Financial literacy is currently one of the most important knowledge for society. This ability can help an individual in managing their finances well. With good financial literacy skills, an individual is expected to be able to apply basic financial management such as planning, managing, running and controlling their finances. But in reality, very few people know about this so most of them use the money they have as they please so that there is a financial minus that makes their finances unstable.

This instability can be overcome by improving individual financial literacy skills. The first ability that an individual must be able to do in managing his finances is the ability to plan finances. With good financial planning, it is hoped that an individual will be able to identify and prioritize the financial needs needed for a certain time. By having this ability, individuals can adjust income and expenses based on the priority scale of their needs so that there are no minuses in carrying out financial activities.

The importance of planning in family finances because nowadays people tend to be consumptive and spend their financial resources only in order to fulfill their wishes. This leaves many people in debt in installments that can cost more than half of their income, and in some cases exceed their income. The impact of this habit is that they have no savings and/or cannot prepare an emergency fund. The absence of emergency funds and/or savings makes them unable to control emergency conditions such as illness, disaster or other unpredictable conditions.

Based on survey data conducted by the Financial Services Authority (OJK) in 2019, it was stated that only 38.03% of the Indonesian population were well-literate in financial matters. (OJK, 2021). With these data, it can be said that only about 38 out of 100 Indonesian individuals have good financial literacy. Especially now that the world has just recovered from the Covid-19 pandemic where this condition has resulted in an increase in people's needs but their income has decreased. This is certainly a serious problem for people who do not have good financial literacy. People still do not understand the importance of planning and knowledge about financial management (Buchdadi et al., 2019). Therefore, it is considered necessary to discuss the formulation related to how to improve public financial literacy, especially in the part of family financial management.

After we know the above, we can conclude that financial literacy is very important to be known by all people from all walks of life and ages so that people can behave well in managing their finances. (Novieningtyas, 2018). In addition, the existence of good financial literacy skills can reduce the level of consumptive behavior in society (Mintarti, 2016; Sari, 2018).

2. METHOD

This research is a literature study using data sources in the form of various articles published in the last 10 years taken from various reputable national and international journals. The contents of this paper are the result of the author's thoughts on financial management for the family. The data in this study were taken from books and journal articles which were combined to provide solutions and procedures for good family financial management. This article was written in order to educate the public about how to manage family finances well. It is hoped that this article can reduce the negative impact of people's ignorance about family financial management.

3. RESULTS AND DISCUSSION

3.1 Results

Financial literacy is knowledge, skills, and beliefs that influence attitudes and behavior to improve the quality of decision making and financial management in order to achieve prosperity (OJK, 2021). The Organization for Economic Co-operation and Development or OECD defines financial literacy as knowledge and understanding of financial concepts and risks, along with the skills, motivation, and confidence to apply this knowledge and understanding in order to make effective financial decisions, improve financial well-being (financial well-being) of individuals and society, and participating in the economic field (OECD, 2016). Reserve Bank of India dalam National Strategy for Financial Education 2020-2025 defines financial literacy as a combination of financial awareness, knowledge, skills, attitudes and behaviors needed to make good financial decisions and ultimately achieve individual financial well-being. (Reverse Bank of India, 2020). Based on some of the opinions that have been mentioned, we can conclude that financial literacy for the community is very important. Where by having good literacy skills, people have basic knowledge about financial management such as the difference between nominal and real values, basic knowledge about risk diversification, the time value of money and various other things. With increasing financial literacy in society, it is hoped that they can avoid financial problems such as bad credit, excess debt, or lack of funds at the end of the month.

In making an effort to achieve optimal results when making a financial plan, financial planning must follow the following points (Goss, 2001) : (a) Each of the objectives set must have a specific impact on the cash flows to be achieved. (b) Reassessment of financial position on a regular basis, this is because the objectives of financial planning may change from time to time due to changes in a person's lifestyle. For example marriage, promotion, childbirth. (c) start planning as soon as possible; Developing good financial planning habits such as saving, budgeting, investing, and regular evaluation can make a difference in people's lives and help them cope with emergencies. (d) financial goals must be realistic; This financial target requires a long process where uncertainties and risks such as inflation, stock price fluctuations and interest rate fluctuations affect the results of financial planning. (e) You must work hard to achieve your financial goals. Based on some of the things above, it can be said that financial planning must go beyond planning and involve its development, which is called a process.
There are several reasons why we should do financial planning, including:

a. Limited time offer. Professionals are usually so focused on doing what's best for work and family that they often run out of time and forget the importance of financial planning.
b. Demographic changes - lifestyle, age, population. As individual lifestyles and education increase, so does general public awareness of how to regulate and control income and wealth growth to make the family's future more predictable.
c. Transfer of pension fund obligations. Many companies do not provide old-age insurance to their employees, so that each individual is now responsible for the quality of their respective pensions.
d. Increasingly complex financial products. The financial industry is a very dynamic industry. New financial products are popping up all the time. Researching and analyzing all available products may not be feasible for everyone involved in their respective trades.
e. Reduced social relationships. The rising cost of living and other challenges that cause these children to experience difficulties in their lives have made parents unable to rely on their children for survival.

By carrying out financial management activities in the family environment, the family is expected to be able to maintain its financial turnover. By maintaining the financial cycle, a family can survive various economic crises that can occur at any time. Therefore, it is very important to be able to manage family finances well so that family goals can be achieved not only now but also in the future.

3.2 Discussion

Family management is an aspect of life that must be completed within the household within a lifetime. The problems that we often encounter around us in family management are economic problems. Economic problems often lead to bigger family problems such as divorce, broken homes for children, maybe other more extreme problems. at this time we can observe various families around us, where many families are experiencing financial difficulties and those who live in a cycle of poverty. This problem can be overcome if everyone in the family, at least the head of the family, consciously tries to manage family finances better. With good family financial management, income can be allocated effectively and efficiently to achieve family goals. In this case, a family head must understand how to manage finances well. but before being able to manage finances well, every family must have good financial literacy skills first. only with good literacy skills, a family led by the head of the family can manage finances effectively and efficiently (Ardiana, 2017; Foster et al., 2021; Khoiriah et al., 2020).

Family financial management simply includes planning, managing, controlling, taking and storing family-owned funds. In this case, a financial manager who in this case could be the head of the household needs to know how to manage all elements from a financial perspective. This is important because financial management is one of the main functions in achieving family financial goals that can support sustainable development in a country (Pandey et al., 2022).

With good financial literacy, individuals will be better able to manage their finances in their daily activities (Khan et al., 2022; Yudha & Pradana, 2022). This can also be strengthened by the self-control of individuals in carrying out consumption activities. These two things must be developed and regulations made in order to maintain the community's economic activities in all conditions (Mawad et al., 2022). The government's absence in supporting the ability of the community's financial literacy causes several problems including ignorance in the financial sector; ignorance of how state financial institutions operate and their benefits; distrust of financial institutions and financial organizations; inability to distribute income and expenses; and afraid to start their own business (Klochko et al., 2020). This makes people tend to be less than optimal in terms of managing their income for consumption activities. On the other hand, there are also those who say that the low level of public interest in increasing financial literacy is due to a lack of funds, distrust of banking institutions, unacceptable bank pricing policies. (Prymostka et al., 2020). Therefore it is necessary to have financial inclusion in the community to increase their interest in managing finances well (Ajibola et al., 2021; Q. Xu & Sun, 2022). But it is also necessary to maintain even distribution of financial inclusion in society by the government so that there can be equal distribution of income and financial management (Prasetiyani et al., 2021). This is to avoid disparities that occur between regions that make economic development unstable.

Having good financial literacy in society can have a positive impact on people's ability to manage their finances. This is evidenced by the increase in ownership of formal bank accounts, participation in financial markets, participation in commercial insurance, participation in pension programs, and ownership of credit cards in China when they created programs to increase financial literacy skills. (S. Xu et al., 2022). It is known that the Chinese people, after being given an understanding regarding financial literacy, they are not only able to save and distribute money but can also make money with the money they have. In order to realize this, a spirit of lifelong learning is needed in society. In this case, developing the educational process so that it can touch mature people. The areas most likely to be developed for adults are investing in expanding and diversifying learning spaces or opportunities in the field of lifelong learning; updating programs to support young parents, children and youth; organizing awareness-raising training and multi-literacy skills; certificate recognition in the process of lifelong learning and non-formal education; conducting research on social awareness for lifelong learning; support the development of long-term adult learning strategies; expanding opportunities for adult learning, etc (Postryhach, 2022).

But in developing people's literacy skills, we must also pay attention to their needs (Prado et al., 2022). Not all people need all financial products, so they need filtering in developing their literacy skills so that they are right on target. This is because the main target in developing family literacy skills is parents. Parents are currently the main actors in managing the family economy because they are the person in charge of the family, especially the husband as the head of the family. Therefore, a man as a husband must have literacy skills to assist him in managing family finances (Khusaini et al., 2022). However, there are problems related to the process of internalizing financial literacy to parents due to various factors, including activity focus factors. Where when someone has started to become parents, then their focus will be reduced to study thereby reducing their interest in learning (Budiwan, 2018; Kadarko, n.d.). Therefore, special treatment is needed to be able to educate them so that they have sufficient knowledge regarding financial literacy so that they can manage their family finances well.

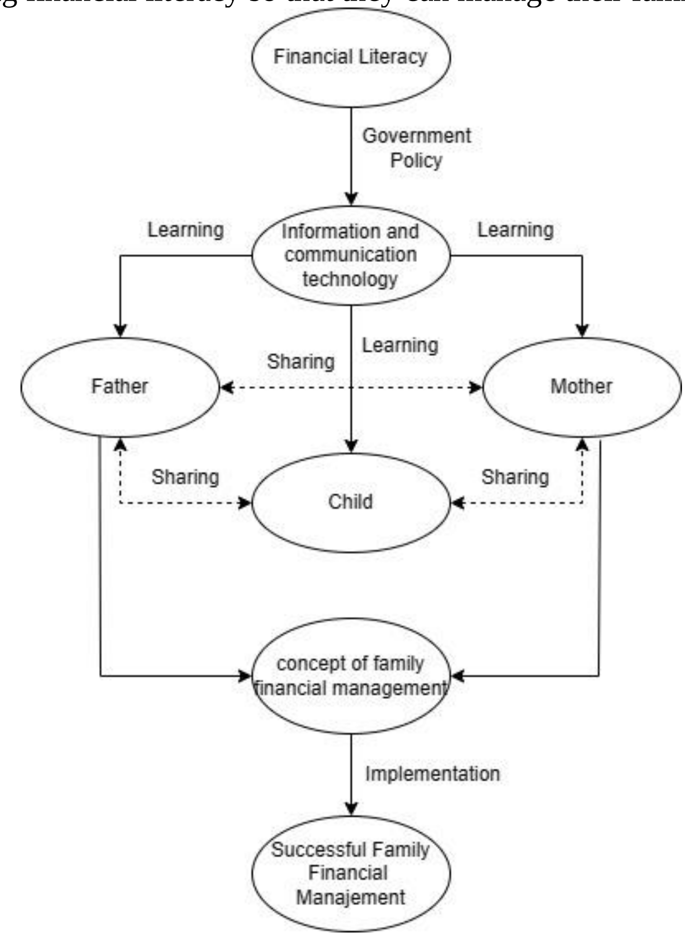

Figure 1. The concept of literacy skills as the key to successful family financial management

As for one of the best options available to be able to educate people in developing their literacy skills is to use information technology (Foster et al., 2021). One of the information technologies that can be used to help accelerate the internalization of people's financial literacy skills is social media. Social media is considered capable of fast penetration of people's literacy skills (Aisa, 2022; Suchocka et al., 2022). This is because social media as modern media is able to reach all people of all ages. That way the penetration of people's financial literacy capabilities will be faster. In the end, all families of all ages of marriage can be touched by financial literacy education. With increased financial literacy skills it is considered that it can increase people's income because of self-awareness of good financial management (Rahayu et al., 2022; Twumasi et al., 2022).

In the end there are several actors in the use of literacy skills in managing the family economy, namely the government through policies to improve community literacy skills, parents, in this case fathers and mothers, as financial managers, and children, in this case, as advisers in managing family finances. then all the information is processed in such a way by the parents to become a financial management concept with the characteristics of their family based on the financial information they have received. then they carry out family economic activities in accordance with the management concept that they mutually agree on

Meanwhile, if it is described how literacy skills can be the key in managing family economic capabilities, it can be seen in the following Figure 1.

4. CONCLUSION

It must be admitted that managing the household budget is a very important point and is at the heart of every family. Proper financial management will help a family live a more comfortable and happy life now and in the future. As the saying goes, raft upstream, swim to shore, get sick first, have fun later. Congratulations on making a financial plan for your family. Never forget family goals so that we can calculate the right amount of funds to save, spend, and invest. Bad habits such as spending too much money on things that are less useful are not a problem because financial management is already in place. Finally, spend less and start saving and investing. Align expenses with family goals to help families achieve the wealth they desire.

ACKNOWLEDGEMENTS

Thanks are given to my family who always support me to keep writing. Apart from that, I would also like to thank all the leaders of the North Sumatra Nahdlatul Ulama University who always supported me to develop more in my daily life as a lecturer. May all of us always be protected by Allah SWT. *Aamiin*.

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