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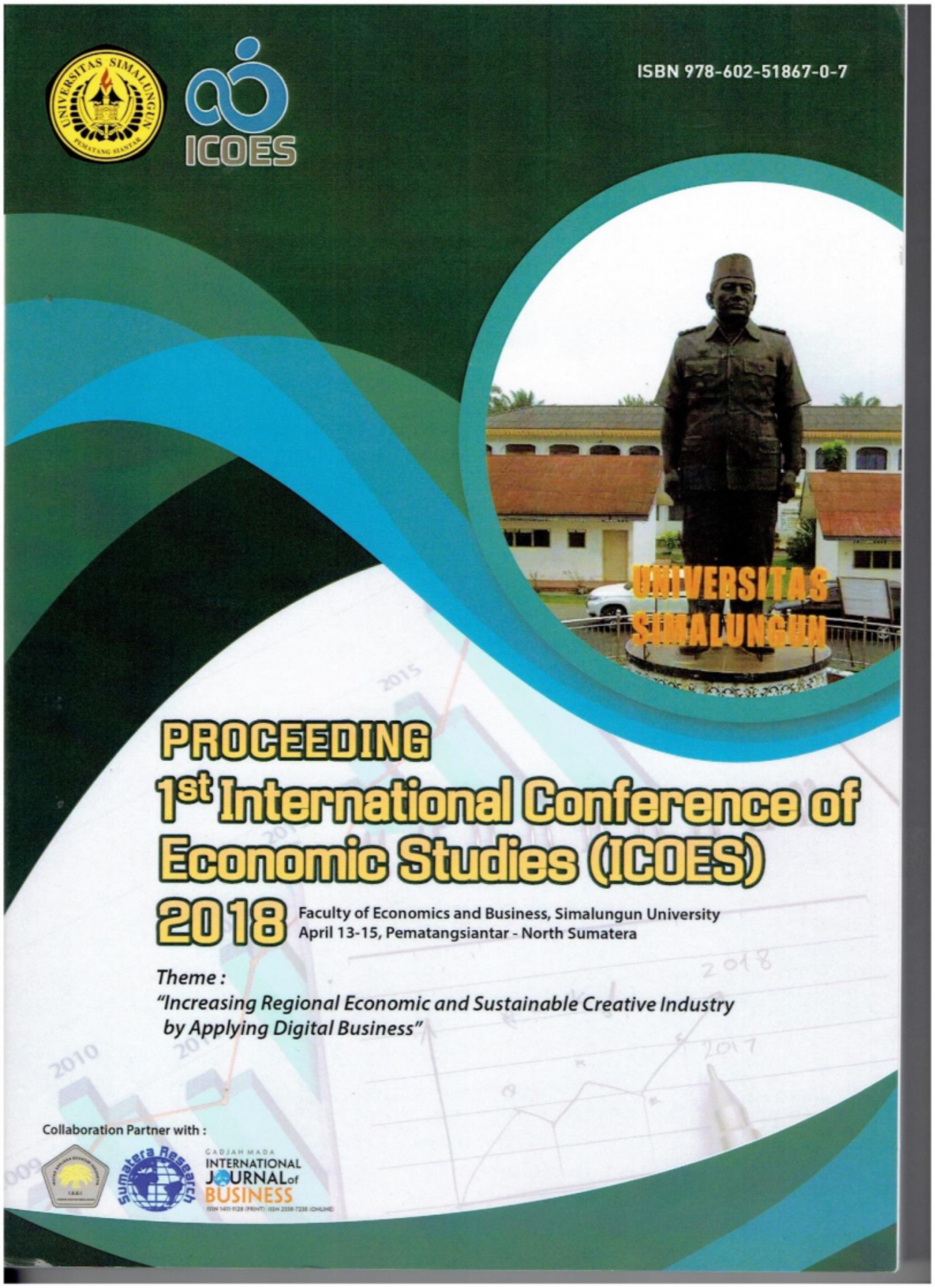

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FINANCIAL LITERACY, DEBT AND ITS BENEFITS IN HOUSEHOLD LIFE

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Keywords : *Financial Literacy, Benefit and Household Debt*

Abstract : *This study examines the effect of financial literacy on debt and its benefits in household life (study of households in Pekanbaru City, Riau, Indonesia), research design is survey research with purposive sampling technique obtained by 302 respondents, while the analytical tool used is multiple regression. From the results of this study we found a strong correlation between financial literacy and household debt of 0.96 or 96%. While the value of R-squared of 0.92, which means household debt can be explained by the financial literacy of 92% while the rest can be explained by other factors not examined in this study. Descriptively in this research found three dominant factor of someone be in debt : a) financial literacy itself that is ability to manage money and debt, b) unexpected, urgent needs, c) relatively small monthly income.*

1. INTRODUCTION

Accepted or not that debt in household life currently plays a role in improving the quality of life, lifestyle, and other necessities that households need, with household debt being able to buy, fulfilling what is needed in their daily needs. Encouragement to meet the standard of living, living neighbors with equipments and home appliances complete enough, demands to buy motor vehicles because they have considered the cost efficiency of having their own vehicles with other transports (such as becak, ojek, oplet, or taxi), demands to buy a home in monthly installments when compared to monthly rent or contract, demands to buy laptops, mobile phones to meet the needs of work or business and many other things that require a person to make calculations in the management of money by taking into account all the possibilities and efficiencies that can occur between using debt with no debt.

To pursue fun and lifestyle and social recognition (Barba and Pivetti, 2009) and imitating the lifestyle of the upper class by the household becomes the most likely consideration for increasing household consumptive debt and this condition can occur in both income permanent and non permanent households. Then McCloud (2010) states that debt on the other hand becomes a financial resource for most households, so debt becomes an alternative income from the difficulties faced by households in fulfilling their needs. Under what conditions can households enter the debt circle? conditions that are commonly encountered that households enter the circle of debt is due to urgency, sudden, needs that occur at that time because there is no savings or cash held to cover the needs, so some households make debt as a solution in overcoming scarcity of income.

Many aspects of household life are related to debt, when a person is just starting married or married the cost of a wedding party is partially financed with debt, after finishing the party thinking of how the debt can be repaid and even the already born child debt is not paid off, this condition continues on the way home life and other needs to be met such as school fees, tuition fees, medical expenses, pocket money, toll money, until the child completes his education, so how long a person is in a debt circle, this condition depends on what happened then and income support to what is needed. In short, in the reality of domestic life today, when linked to consumption patterns, consumption spending, consumption choices, debt play an active role and occupy a certain portion of household finances, where this contribution comes from the ease in obtaining debt in the form of money or goods from bank or non bank financial institutions (Johnson and Li, 2007; Mutezo, 2014).

Later in the structure of this study we try to show that the contribution given is the influence of financial literacy on debt, and the benefits of debt in the life of the household. Furthermore, this study is divided into several sections namely : 1) introduction, 2) literature review and hypothesis development, 3) research methods, 4) results and discussion, 5) conclusions, limitations, future research suggestions.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT.

a. Financial Literacy.

Lusardi's (2008) study explains that financial literacy deals with basic knowledge about managing money, credit or debt, savings, investments, and risks. Where such elements in financial literacy must be managed with certain knowledge and skills especially in managing debt (Mokhtar, et al, 2013). Furthermore, the Global Center for Financial Literacy (2014) states that good financial planning is an important factor in determining whether a household can manage money or debt in the household. To have financial literacy must have to go through a process that is through formal and non formal education, on the other hand financial literacy owned by household may be different from education level, income, gender and caution in financial decision (Definit, SEADI, OJK, 2013; Bank Indonesia and LDUI, 2014) coupled with family backgrounds, peer groups also contributed to the level of financial literacy (in Kennedy, 2013).

The financial literacy held by the household may affect the interest and the desire of the household in indebtedness (Mian and Sufi, 2011 dalam Brown, 2013) which has an effect on the rise or fall of indebted behavior and interest, which in turn is related to debt repayment behavior (Kamil, et al, 2014) as well as avoiding households from bankruptcy caused by the inability to pay off debts (Brown, et al, 2013). Another opinion from Imawati, et al (2013) mentions that financial literacy relates to household consumption patterns, if financial literacy increases, consumption patterns fall and tend to increase in the formation of funds for their old age, meaning that the higher the household financial literacy the higher the income (Rutherford and DeVaney, 2009; Definit, SEADI, OJK, 2013), so the assumption that applies here is that with high income households can avoid debt but this assumption does not apply in debt behavior, because high or low income households fall into the debt circle.

Financial literacy has important implications for household welfare, and is associated with high rates of return especially in debt (Lusardi and Mitchell, 2014). Therefore studies conducted on financial literacy indicate correlation with financial behavior and debt behavior in household life (Lusardi and Mitchell, 2007; Lusardi, 2008). Household skills in allocating money and debts for consumption options on goods and services, household skills in using income, household maturity in knowing price information, contributed to the household financial management skills (Lusardi and Mitchell, 2014) this is called financial literacy.

Furthermore, the size of the financial literacy dimension may refer to the limits issued by Definit, SEADI, and OJK. (2013) classifies financial literacy in two groups namely; basic financial literacy and advanced financial literacy. The basic concept used to develop a financial literacy questionnaire can refer to the concept and measurement of financial literacy Kempson et al (2005) in Definit, SEADI, and OJK. (2013) as the basic financial literacy of financial literacy relating to three domains namely: a) financial planning; (b) managing money; (c) make choices and financial information.

b. Household debt.

Household debt is defined as mortgage debt in all residential homes, real estate, consumer debt, credit card debt, personal debt, guaranteed and unsecured homeowners' debt, and unpaid bills from banks or other institutions ((Prinsloo, 2002; Chawla, 2013). Which can be a Modern Lender, are banks, credit card companies, and specialized mortgage lenders, money markets, capital markets. Loans or debts can be defined as simple contracts with extraordinary properties, in which one person lends something to others with the promise that it will be repaid in the future, with certain compensation in the form of interest borne by the borrower (Chawla, 2013, Argawal, 2013). Many people judge the debt as the cause of the financial crisis in the household, but in its history debt has actively contributed in serving the life of the household, the progress and welfare of the household partly due to the debt contribution (Argawal, 2013).

Therefore debt can contribute positively or negatively in the life of the household, The positive contribution of debt for the household that is; progress and welfare of households can be driven by debt (Argawal, 2013), debt can improve the quality of life, especially among the lower and middle classes, then debt can be considered as a substitute for wages (Barba and Pivetti, 2009) so that household debt becomes a significant predictor of household consumption behavior (Baker, 2014). Thus, household debt does not constitute a threat to household financial stability (Beer and Schürz, 2007). Short-term debt can increase household consumption and contribute to economic growth (in Muzeto, 2014). So there is debt as an alternative income (in Chien and Devaney, 2001).

On the other hand debt can contribute negatively; much debt leads to higher consumption spending (Mutezo, 2014) increase vulnerability in the household sector (Reiakvam and Haakon, 2013) reduce future spending and slow economic growth over the long term (in Mutezo, 2014) worsening the decline in household consumption (Baker, 2014). The rational behavior of debt in the opinion of a high-income person will not be involved with debt, and the small-income person will not be able to repay the debt, but in reality people in these two conditions are trapped in debt, on the other hand household debt is increased in part due to financial deregulation and financial market liberalization. In general, increased competition in the credit market contributes to lower costs and wider availability of consumer credit (Prinsloo, 2002) thus raising an assumption that the higher the income level the easier it is to pay off any debt (Beer and Schürz, 2007).

Debt behavior can lead to a wide range of impacts for owed households both economically correlated with poverty, social exclusion from society, and psychological chronic stress (Williams, 2004). Because debt and money itself are social creations, this fact and its nature can not be changed, human nature is highly colored by a market-based world, debt-based in life (Graeber, 2011). Ultimately debt is an important and useful part of modern life when it is well managed (Bank of England, 2010), from the above explanation can be built the hypothesis that is :

H1: financial literacy has a positive effect on household debt.

H1a: the dimensions of financial planning have a positive effect on household debt

H1b: financial management has a positive effect on household debt

H1c: information and financial assistance have a positive effect on household debt.

3. Research methods

This research use survey research design with purposive sampling method and sample used in this research is 302 respondents of household unit in Pekanbaru City, Riau, Indonesia. The sampling period is conducted within November 2017 through December 2017. This study uses the basic financial literacy concept developed by Kempson et al (2005) in Definit, SEADI, and OJK. (2013) that basic financial literacy deals with three domains: a) financial planning; (b) managing money; (c) make choices and financial information developed in 9 indicators as exogenous latent constructs.

As for the variable debt in households developed in 9 indicators based on the results of studies related to household debt are: a) Monthly income is relatively small; inequality of income distribution, low real wage, stagnant salary, b) Influence of visual media and online media: Internet, Advertising, Promotion on TV, c) Influence of nearest people or social environment: neighbors family, close friends, relatives, d) sudden needs or urgent needs, and shortcuts have goods, e) Can improve quality and lifestyle; social class and status, f) Financial / money governance and budget capability, g) Expansion and convenience of banks and non-banks; deregulation of banks, lax liquidity, aggressive promotion, low interest, j) Being an alternative source of income or wage replacement wages, k) household burdens increase as endogenous latent constructs, and analytical tools used are multiple regression.

4. RESULTS AND DISCUSSION

a. Descriptive Results

The results of descriptive research on 302 respondents obtained results in the category agree as follows: a) dimensions of financial planning ie; budgeting household expenditures and expenditures in the management of money and debt 70.2%, accounting for household consumption expenditure of 77.8%, making savings or pension funds for the elderly 71.2% stated in the category always has a good impact in the household, b) dimensions of financial management ie; can save money in using 52.6% money, stopping 85.7% unnecessary purchases and controlling, reviewing bills / debt on a monthly basis 82.7% stated in the frequent category gives a good impact in the household, c) dimensions of choice, information and financial assistance; providing money for unexpected expenses 77.8%, comparing and seeking price information before deciding 70.5%, seeking help and financial information 53.3% saying in the frequent category has a good impact in the household

Then from the reasons, dimensions and benefits of debt in the household descriptively obtained results namely; a small monthly income of 81.7%, promotion on the internet, advertising and other media 67.2%, influences by closest people 56.3%, urgent needs and shortcuts have an 80.4% goods, improved status, and 72.5% lifestyle, controlling and managing 82.4% debt, the ease of the bank or non-bank 57.3%, the debt of an option when the financial difficulties 56.9%, the increase in household burden 53.6%. This descriptive result gives various variations of results on the variables studied but still leads us to a conclusion that the financial literacy owned by a person gives influence to the behavior or actions of someone in managing money, especially from debt.

b. Statistic analysis

Statistical analysis of the research on the sample of 302 respondents obtained results in the model as follows:

$$Y = \beta o + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

$$Y = 2.679 + 1.428\ X_1 + 1.932 X_2 - 0.596 X_3 + \varepsilon$$

$$(7.215) \quad (17.025) \quad (26.196) \quad (-5.806)$$

P-values	< 0.05
R	$= 0.960$
R-squared	$= 0.921$

From the model it is known that the constant β_o value of 2,679 applies in the assumption that if financial literacy in its three dimensions is given a zero or no value in financial literacy then the household will remain in debt. While the value of $\beta_1, \beta_2, \beta_3$ as the trend or trend that occurs in every variable of financial literacy namely; value β_1 of 1.428 gives meaning that every increase in financial planning and financial control of one unit will increase the debt in the household, the value in β_2 of 1,932 gives the meaning that any increase in the management and use of household finance one unit will increase the debt in the household which is supported by the descriptive result that the increase of debt occurs because it has the ability to manage the money and debt of 82.4% respondents, mean H_{1a} and H_{1b} are accepted and these results are also supported by the study of Mian and Sufi (2011) in Brown (2013) with the analysis that quantitative financial literacy can reduce debt but in terms of quality there is an increase in the efficiency of debt allocation to prioritized needs, then financial literacy is also related to household financial planning and management, especially in debt repayment (Luzardi and Mitchell, 2014). Household skills in allocating money and debt, household skills in using income, household rigidity in price information, contribute to household financial management skills (Luzardi and Mitchell, 2014). The value of β_3 of negative 0.596 means that many people know the information and financial aid, that is information about the process and procedure to get the debt, financial advice that can increase or decrease interest or desire of someone to indebted then the action for debt becomes reduced or increased mean H_{1c} received, these results are supported by the study (Kamil, et al, 2014) that financial knowledge has an effect on debt behavior and repayment behavior while the ultimate goal of financial literacy is to reduce the interest to owe (Brown, et al, 2013).

Partially every variable that tested show significant result ($\alpha = 0.05$) where t count > from table 1,96. For the R value of 0.96 shows the closeness of the relationship between financial literacy and household debt. For the R value of 0.96 shows the closeness of the relationship between financial literacy and household debt. While the value of R-Squared shows the influence or contribution of financial literacy to household debt of 0.92 while the rest is influenced by other variables that have not been studied in this study, mean H_1 accepted because of financial literacy has a positive effect on household debt. On the other hand households have a reason until they decide to indebted, most of which decide to owe is the "forced to do" group, according to Kumar (2013). Basically most people do not want debt but debt can take someone to meet his needs, as if between the desires and needs are contradictory. Not necessarily desire is a necessity. Often desire is forced and perceived as a necessity. Finally, a lot of purchased desire with debt such as credit card bills, non-cash transactions in a certain place that forces a person to debt even though he does not want debt.

5. CONCLUSION

Under ideal conditions households use salary, wages, return on investment, operating income and other income adequate to cover expenses. But in reality most households are confronted and only dwell on income derived from salary, wages are constantly drained to cover their expenses, because there is no income other than salary or wages received by the husband or wife in the household, so that some households will take advantage of debt in meeting its needs. The results show that household debt can be explained by the financial literacy of 0.92 and the correlation of debt with household financial literacy including a very strong correlation. Then the role and benefits of debt in household life based on literature study and survey research are:

1) Debt can extend the smoothness of household consumption that can not rely on savings and inheritance (Reifner and Herwig, 2003)
2) Debt can serve as a bridge when the difficulty of money in meeting the needs until to obtain the desired needs (survey results of respondents)
3) Debt can meet the style and style of household life that is consumerism (Barba and Pivetti, 2009).
4) Debt can act as a savior when someone is in trouble, or unfavorable conditions in the household (survey results of respondents)
5) Debt is an option that can bring a household to improve the quality and welfare of its life as well as debt can bring into the disaster and catastrophe that destroy the household (survey results of respondents).

In this study we only use the financial literacy variables that are broken down into three dimensions that are used as exogenous latent variables and endogenous latent variables ie household debt with multiple regression analysis tools, for which the next researcher can add other variables and with analytical tools such as multivariate analysis .

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