

The Effect of Financial Literacy and Income Level on Children's Education Fund Planning

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ABSTRACT

This study examined the effect of financial literacy and income level on children's education fund planning. This research uses Structural Equation Modeling (SEM) techniques, with the Analysis Of Moment Structur (AMOS) application program. This study involved parents of students in three elementary schools in Karanganyar as respondents. The number of respondents involved was 150 student guardians. The results of this study show that financial literacy affects children's education fund planning, while income level does not affect children's education fund planning.

ABSTRAK

Kata Kunci:

Financial Literacy; Income Level; Children Education; Fund Planning; Children's education fund planning

Penelitian ini menguji pengaruh literasi keuangan dan tingkat pendapatan terhadap perencanaan dana pendidikan anak. Penelitian ini menggunakan teknik Structural Equation Modelling (SEM), dengan program aplikasi Analysis Of Moment Structur (AMOS). Penelitian ini melibatkan orang tua wali siswa di tiga sekolah di Karanganyar sebagai responden. Jumlah responden yang terlibat sejumlah 150 wali siswa. Hasil penelitian ini menunjukkan bahwa literasi keuangan berpengaruh terhadap perencanaan dana pendidikan anak, sementara tingkat pendapatan tidak berpengaruh terhadap perencanaan dana pendidikan anak.

INTRODUCTION

Everyone considers money as a means of survival. In life, money is a means of payment that is useful in meeting the needs of both primary and secondary human needs. Everyone certainly has different needs, so everyone has differences in using or allocating their money, some are able to manage their money well and some are not. Everyone is expected to make the most of the money he has by managing finances properly (Handi and Mahastanti, 2012). One of them is by doing financial planning.

Financial planning is the allocation of a portion of income for financial purposes in the future. Financial planning is the art of managing finances carried out by a group of families and individuals to achieve goals that are effective, efficient, and useful for family welfare (OJK, 2015). Financial planning is financial preparation or coordination of plans to prepare future desires and goals (Sobaya et al., 2016).

One form of financial planning is financial planning for children's education funds. Planning for children's education funds is a separate allocation of funds to meet children's educational needs in the future (Akbar, 2007). Planning education funds is important because considering that education funds have increased from year to year, the cost of living has increased, the economic situation is not always good, the physical condition of humans is not always healthy and the availability of various alternative financial products that can be used as a forum for financial planning (Unola and Linawati, 2014).

Children's education funds should be prepared early on, there are several things that must be considered in preparing children's education funds. First, gather information and make a choice of school. Second, planning the school budget. Third, Create a budget for other needs. Fourth, choose the appropriate instrument in preparing children's education funds (www.manulife.co.id). There are several types of investments that can be used in setting up children's education funds, namely education savings, education insurance, deposits, mutual funds, gold, and property.

Government targets housewives in introducing the financial services industry, this is because housewives have a major role in managing family finances and properties. One of the things OJK has socialized to housewives is about education funding planning. Based on the socialization carried out by the OJK, to prepare education funds for the future of children, you can use several investment instruments such as bank education savings, education insurance, mutual funds, investing in bonds, stocks, and pawnshop precious metals (OJK, 2013: 47-48). Financial planning for children's education funds is considered very important, because in fact the cost of education for children in Indonesia always increases every year. In this regard, it would be nice for parents to prepare their children's education funds from an early age so that they can provide the best education for their children (<http://personalfinance.kontan.co.id>). Therefore, planning a child's education fund is something that must be done by every parent.

Variables that affect children's education fund planning include financial literacy. A person must have knowledge in responding and implementing healthy personal finances to achieve financial well-being. Lack of knowledge about finance results in little access to financial institutions so that it can hinder prosperity. The extent to which a person's knowledge, attitudes, and implementation in using finance is called financial literacy (Widayati, 2012). Financial knowledge is formed when individuals have a set of skills and abilities that enable these individuals to utilize available resources to achieve goals. That way it can be interpreted that financial literacy will shape individual financial behavior. Financial behavior (financial behavior) is related to a person's financial responsibility for how to manage finances, including in making financial planning. Financial planning functions to manage income and expenses, create

awareness of the current financial situation, plan and create an evaluation and revision system for financial progress (Unola and Linawati, 2014).

Financial literacy is something that is really needed by housewives in making financial plans, especially in planning their children's education funds. Low financial knowledge will result in making financial plans that are wrong and cause a bias in achieving welfare when people are no longer productive (Byrne, 2017). This is in line with Hailwood and Widowson (2007) who argue that financial literacy will further influence how people invest, save, borrow, and manage finances. Financial skills here also place more emphasis on the ability to understand basic concepts from economics and finance, to how apply it properly. Lusardi and Mitchel (2007) define financial literacy as financial knowledge used to achieve prosperity. Nababan and Sadalia (2012) suggest that in financial literacy there are several financial aspects, namely in the form of basic personal finance, money management, saving and investment, credit and debt management, risk management.

Financial Literacy

Financial literacy is an insight into finance used to achieve prosperity (Lusardi and Mitchel, 2007). Financial literacy as knowledge to manage finances in making financial decisions (Chen and Volpe, 1998). Financial literacy is a provision of knowledge for everyone to avoid financial problems (Rasyid, 2012).

H1: Financial literacy has a positive effect on children's education fund planning.

Income Level

Income is the remuneration received by the factors of production within a certain period. Remuneration for this time can be in the form of rent, wages/salary, interest or profit. Personal income can be interpreted as all types of income, including income obtained without providing any activity, which is received by residents of a country (Sukirno, 2004: 37). Income as an additional company asset that has an impact on increasing the wealth of company owners, which aims to improve company performance and employee welfare (Munandar, 2006). The total amount of an individual's annual gross income that comes from various investment activities is called income or personal income (Andrew and Linawati, 2014).

H2: Income level has a positive effect on children's education fund planning.

Based on the description above, a research model can be made as follows:

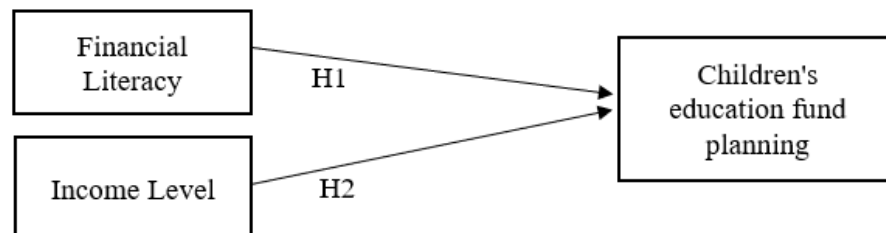


Figure 1. Research Model

METHOD

This is quantitative research. The respondents in this study were parents of students in three elementary schools in Karanganyar district as respondents. The distribution of the questionnaire was carried out online using the Google form. The sample in this study were 150 respondents. This research uses Structural Equation Modeling (SEM) techniques, with the Analysis of Moment Structur (AMOS) application program.

Table 1. Characteristics of Respondents

Characteristics	Frequency	Percentage %
Respondent Age		
< 30 Years	5	2.8%
31 – 37 Years	36	22.7%
38 – 44 Years	59	36.1%
45 – 51 Years	43	26.8%
>51 Years	17	11.6%
Respondent's Occupation		
Taking care of household	64	38.9%
Private employees	37	23.3%
civil servant	8	6.4%
Businessman	47	29%
Honorary teacher	1	0.6%
Employee	1	0.6%

Characteristics	Frequency	Percentage %
Trader	1	0.6%
Lecturer	1	0.6%
Respondent Income		
< IDR 2,000,000	34	20.3%
IDR 2,000,000 – IDR 3,000,000	69	41.3%
IDR 3,000,000 – IDR 4,000,000	47	28.5%
IDR 4,000,000 – IDR 5,000,000	8	5.8%
>IDR 6,000,000	3	4.1%

RESULT AND ANALYSIS

Research Instrument Test Results

The results of the factor analysis show that each statement item which is an indicator of Financial Literacy and children's education fund planning is declared valid because it has a loading factor > 0.5 so it can be concluded that the factor analysis test can be continued, even though there is one statement item on the financial literacy item that invalid. Reliability test results where each variable shows a number of more than 0.60. So it can be concluded that all variables in this study have met the Cronbach's alpha value ≥ 0.60 (Sugiyono, 2016) and can be declared reliable.

Table 2. Results of Goodness of Fit

<i>Goodness-of-fit</i> Indices	<i>Cut-off Value</i>	Results	Model Evaluation
<i>Chi-square</i> (χ^2)	Small Expected	207,858	-
<i>Degree's freedom</i>	Positive	118	fit
<i>Significance probabilities</i> (p)	≥ 0.05	0	Not fulfilled
CMIN/DF	≤ 2.00	1,762	fit
GFI	≥ 0.90	0.895	Not fulfilled
AGFI	≥ 0.90	0.83	Not fulfilled
TLI	≥ 0.90	0.939	fit
CFI	≥ 0.90	0.958	fit
RMSEA	≤ 0.08	0.067	fit

Analysis of the Goodness of Fit Model

Table 2 describes the Goodness-of-fit results. In this test value χ^2 yields a significance level of less than 0.05 with χ^2 of 207.858 indicates that the research model proposed has not met. Chi-Square is very sensitive to sample size, so other indicators are needed to produce a definite justification regarding model fit (Ferdinand, 2014). Hair, et al (2014) stated that evidence of model suitability apart from being able to see from the chi-square value and degree freedom can use 3 (three) or 4 (four) goodness of fit indices, namely CMIN/DF, CFI, and RMSEA, which are usually will provide sufficient information to evaluate a model. The suitability of the model in this study can be said to be good. It is known in table 2 that the goodness of fit Indices has been fulfilled, where the CMIN/DF value is $1.762 \leq 2.00$, the CFI value is $0.958 \geq 0.90$, and the RMSEA value is $0.067 \leq 0.08$. In general, the models used show a good level of conformity

Table 3. Regression Weights

			Estimates	SE	CR	p
Children's education fund planning	<---	Financial Literacy	0.827	0.13	6,352	***
Children's education fund planning	<---	TP	0.046	0.037	1.265	0.206

Table 3. The results of this test show that of the 2 paths analyzed, 1 path has a significant effect, namely the perception of the financial literacy variable that has a significant effect on the financial planning variable in children's education funds, as seen from the significance level (p) of the hypothesis test which is smaller than 5 %, while 1 path analyzed has an insignificant effect, as seen from the significance level (p) of the hypothesis test which is greater than 5%.

Discussion

Perceptions of financial literacy influence perceptions of children's education fund planning

The results of this study indicate that perceptions of financial literacy affect financial planning in children's education funds. It is possible that the higher the financial literacy, the better the financial planning for children's education funds. Skills in family financial management for housewives are very crucial. Having a good understanding in managing family finances can save the family from financial difficulties and achieve prosperity (Purwantini et al, 2024). This research supports previous research conducted by Putri and Miharti (2021) and Harli et al. (2015) that found empirical evidence that financial literacy has a significant negative effect on wasteful behavior. Understanding financial planning has a significant impact on the proportion of household savings (Muskananfol, 2013).

Perceived income level has no effect on perceptions of children's education fund planning

The results of this study indicate that perceived income levels have no effect on children's education fund planning. This is possible because housewives in allocating their income are more allocated in daily household needs, so they are less in allocating their income in children's education fund planning. This research does not support previous research conducted by Putri and Miharti (2021) and Andrew and Linawati (2014) that find a person's income level and financial knowledge have a significant relationship to financial behavior.

CONCLUSION

The results of this study indicate that perceptions of financial literacy affect children's education fund planning. This means that the level of financial literacy has an effect on children's education fund planning. Perceived income levels have no effect on financial planning for children's education funds. This means that high or low levels of income have no effect on children's education fund planning.

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