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How to manage finances in the lower middle society in rural areas?

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ABSTRACT : This study aims to determine the financial behavior of middle-to-village people and determine the factors that influence the financial behavior of local communities. Data were collected by conducting interviews directly with respondents. The questionnaire used refers to the national standard financial literacy series questionnaire issued by the Indonesian financial services authority. Respondents were randomly selected in one village in Indonesia of 60 respondents. Analysis of the data used is confirmatory factor analysis. Based on the results of the study showed that only 8% of rural communities have life and permanent disability insurance. The habits of rural communities tend not to have credit cards/loans, at 77.35%. A significant factor influencing their financial condition is the need for fund reserves as emergency funds ($p = 0.072$), investments ($p = 0.066$) and pension funds ($p = 0.032$). Rural communities, 60% have problems in managing finances, in other words, poor financial conditions. To improve rural financial conditions into good financial conditions, it is necessary to have savings as an emergency fund in a bank account, cash or precious metals at least 3 times the monthly costs, investment funds, and pension funds. Of these three factors, the most dominant factor is planning for pension funds.

KEYWORDS: *financial behavior, rural communities, lower middle class*

I. INTRODUCTION

Data from the Statistics Indonesia shows that the level of poverty in villages is greater than the level of poverty in cities. The high level of poverty in the village, in addition to being triggered by minimal income, is also triggered by inaccurate financial management. This inaccuratefinancial management can be caused by a very minimal level of financial knowledge of rural communities. Financial literacy is a basic requirement for everyone to avoid financial problems. Financial literacy is important to produce the right decision, where individuals who have insufficient knowledge experience various kinds of mistakes in their financial decisions(Lusardi & Mitchell, 2014).

The financial management of each household is very heterogeneous. Various economic theories have been investigated to create an appropriate model. Good financial decision making is becoming increasingly important(Grohmann, 2018). Although this applies to almost everyone, this decision is becoming more and more important for the middle class in developing countries, such as rural communities in Indonesia. To overcome these challenges and be wise in managing money, individuals need to have an understanding of good financial management. Research on literacy in developing countries has been previously researched by(Hu, Xu, & Zhang, 2019) focusing on poor people living in developing countries.

Financial difficulties are not only caused by the amount of income, but financial difficulties can also arise if there are mistakes in financial management such as mistakes in spending money only for consumption. OJK survey shows the low literacy of Indonesian people. The survey results showed that 21.84% of respondents classified as well literate and 75.69% classified as sufficient literate, and only 2.06% of respondents were less literate and 0.41% were not literate. The low level of financial literacy causes a person to not be able to make the right budget, is more likely to have problems with debt, is more likely to be involved in high-cost credit, and has little possibility of being able to plan for the future (Lusardi & Mitchell, 2014).

Financial literacy is an important aspect of one's life, and various studies have shown that financial literacy is closely related to well-being. Lusardi (2014) argues that financial literacy has an impact on financial decisions, so the lack of financial literacy can have an impact on the failure of old age planning, lack of participation in the stock market, and bad debt behavior. Also, the ability of people who are literate in planning and making the right financial decisions makes them able to achieve prosperity (Lusardi & Mitchell, 2007; Gutter &Copur, 2011) and satisfaction (Xiao, Tang, & Shim, 2009) in life they. Another study that showed the positive effect of financial literacy- the station was shown empirically. Good financial literacy has proven to be positive in pension planning (Clark R, Lusardi A, Mitchell OS, 2015), personal savings (Jappelli and Padula, 2013), and the proper use of debt (Stango and Zinman, 2009).

Bad financial behavior will have an impact on poor financial condition. Some of the bad financial decisions that have been made by many people include saving too little for retirement, spending more money, not paying bills on time, and buying things we regret (Lusardi, 2015. Also, most of them do not feel anxious about making mistakes, this is the lack of knowledge about the importance of financial management. This research is useful to find out the financial behavior of rural communities in Indonesia, thus it is expected to change the behavior patterns of people in managing money.

II. LITERATURE REVIEW

Financial literacy is closely related to a person's financial behavior. This relates to decisions made in financial management, so that someone will allocate their finances efficiently (Hilgert et al., 2003; Singh, 2014). Financial literacy is concerned with education and financial knowledge that leads to a person's ability to make decisions about the use of money. Financial literacy is very useful theory to explain the activities of the use of cash through a person's behavior (Lusardi and Mitchell, 2014).

Financial literacy plays an important role in maintaining financial condition stability, both now and in the future. Financial literacy is related to a person's mindset in managing the finances he has. Therefore, do not be surprised if the stability of financial conditions become different if someone does not have good knowledge. Financial literacy was first developed to study the relationship between literacy and retirement planning. Financially literate individuals will do good pension planning and are more likely to invest (Christiansen et al., 2008; Van Rooij et al., 2011a), have lower-cost debt (Lusardi and Tufano, 2015; Stango and Zinman, 2009) and has a well-diversified portfolio (Guiso and Jappelli 2008).

In general, in this study, researchers want to measure the behavior of individuals in saving, investing, insurance and debt. As research by Lusardi & Mitchell (2014) that the theory of financial literacy not only increases knowledge about finance but is also related to savings and investment behavior. The practice of financial behavior is behavior that is related to financial planning such as personal financial management, loans, savings and investment assets (Hilgert et al., 2003). This practice becomes the best practice if someone uses their money for future planning, such as: emergency funds, education funds, pension needs, low credit and self-protection (Xiao et al., 2014). An interesting thing was also stated by Fisher, P. J., & Hsu, C (2012), about people's life expectancy after retirement. After retirement, the greatest need for money for the elderly is his health. Especially, long-term care contributes the most to the economic life of the elderly. Social security and health insurance systems are the best practice in dealing with them (Fisher, P. J., & Montalto, C. P, 2011). Social security and health insurance are not only the responsibility of the government, even though in many countries such as Indonesia has required social insurance for health insurance for all citizens.

III. DATA AND METHODOLOGY

3.1 Data

The data used in this study are based on interviews with respondents who were randomly selected to represent a village. Respondents will be given counseling about good financial management. 65 respondents attended counseling. Before counseling about financial management, measurements are made on the habits of managing money.

3.2 Method

The measuring instrument used uses a standard questionnaire that has been linked by the financial services authority. This measurement tool consists of 10 question items, the answer to the question is yes or no. Table 1. Describes the questions used to measure the habit of managing money in rural communities.

Table 1 The 10-dimensional instrument measuring

1	My income is enough to pay for all the costs and needs in my life and my family every month.
2	I always set aside a minimum of 10% of monthly income, for future preparation.
3	I already have an Emergency Fund in a Bank account, cash or Precious Metals, worth at least 3 times the monthly living expenses.
4	I have planned and invested the Children's Education Fund up to university level
5	My total loan installments are not greater than 30% of my monthly income
6	I already have life insurance

7	I already have health insurance for my family
8	I have planned and built my Pension Fund,
9	All my debts will be paid off immediately when I die
10	I already have a legacy (provision) so that my wife/husband and children are not miserable after I die

Confirmatory factor analysis is one of the multivariate analysis methods that can be used to confirm whether the measurement model is built following what was hypothesized. In the confirmatory factor analysis, there are latent variables and indicator variables. Latent variables are variables that cannot be formed and built directly while indicator variables are variables that can be observed and measured directly.The general model of confirmatory factor analysis is (K.A. Bollen, 1989):

$$\mathbf{x} = \Lambda_X \xi + \delta \quad (1)$$

with:
x is a vector for q x 1 indicator variables
Λ_X is a matrix for the loading factor (λ) or coefficient which shows the relationship x with ξ size q x n
ξ (ksi), is a vector for n x 1 latent variables
δ vector for measurement error measuring q x 1

First Order Confirmatory Factor Analysis a latent variable is measured based on several indicators that can be measured directly.

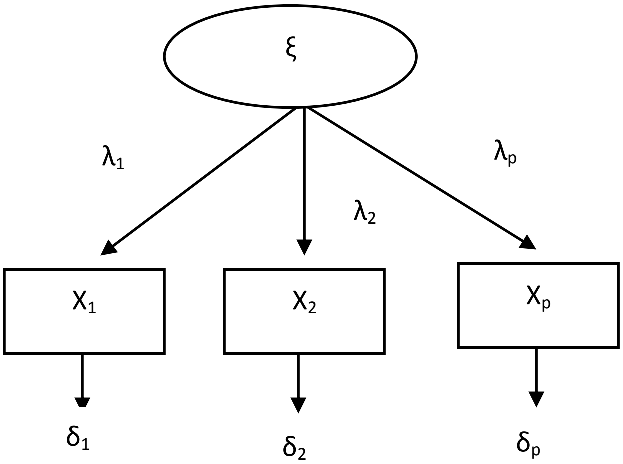

Figure 1. First-order confirmatory factor analysis

The variable X is the standard deviation of each average, so the covariance of the matrix **X** is the expected value of **XX '**. The covariance of matrix X is written as a function **(θ)** and represents it as **Σ (C)** where **Σ (θ) = E (XX')** covariance of matrix X for general factor analysis, Estimation of parameters in Confirmatory Factor Analysis (CFA) is generally based on the maximum likelihood method (ML).

IV. RESULT AND DISCUSSION

4.1 Behavioral attitude towards money

Table1, partially confirms our hypothesis based on a study conducted by (Xiao et al., 2014). In general, only 40% of rural middle-class rural people in Indonesia set aside a minimum of 10% as savings. The good thing based on this research is that most of the people 71.7% always use enough money for their needs every month.

Table 1. Saving attitude component (responses in percent)

X	Indicator	Yes
x1	My income is enough to pay for all the costs and needs in my life and my family every month.	71,7%
x2	I always set aside a minimum of 10% of monthly income, for future preparation.	40,0%

The best practice of money management is to set aside savings in preparation for the future. This is still very unusual for rural communities in Indonesia. Only a few people save a portion of their money for emergency funds of 26.7%. In fact, according to the research said by Turner & Yang (2006, fund funding is one of the financial practices that must be prepared. Plans of funds for saving children's education are also still very few who prepare it (38.3%).

Table 2. Investing attitude component (responses in percent)

X	Indicator	Yes
x4	I have planned and invested the Children's Education Fund up to university level	38,3%
x3	I already have an Emergency Fund in a Bank account, cash or Precious Metals, worth at least 3 times the monthly living expenses.	26,7%

Insurance purchase is a financial management practice that is no less important. Insurance-related to self-protection against risks that occur at any time such as the risk of death and the risk of health problems, and pensions. Only a few rural communities have around 10% life insurance. This is caused by the lack of correct information about the importance of insurance. Indonesian people, in general, are still few who believe in insurance, except insurance that is required by the government. Health insurance is required by the government to be owned by every family member, in this study as many as 75% of people studied already have health insurance. This is in line with the study of Hsu (2013) about the importance of social security systems and health insurance in influencing life expectancy Even pension funds have not become common for rural communities, in general, they do not prepare funds for retirement later. Only about 26.7% of the people already have funds to retire.

Table 3. Insurance attitude component (responses in percent)

X	Indicator	Yes
x6	I already have life insurance	10,0%
x7	I already have health insurance for my family	75,0%
x8	I have planned and built my Pension Fund,	26,7%

This Debt attitude compoment indicator refers to personal decisions to engage in debt transactions which include (1) loans from banks, (2) loans from friends or family members, and (3) use of credit cards. Each respondent was asked to indicate whether or not he has personal debt in each of the three forms. Most of the rural community, more than 60% have good habits, they are not able to surpass their abilities. This is very good, the society has a good culture not to be in debt.

Table 4. Debt attitude component (responses in percent)

X	Indicator	Yes
x5	My total loan installments are not greater than 30% of my monthly income	60,0%
x9	All my debts will be paid off immediately when I die	78,3%
x10	I already have a legacy (provision) so that my wife/husband and children are not miserable after I die	63,3%

4.2. Scale reliability and validity

Validity and reliability are important for the validity of confirmatory factor analysis. Table 5 shows the 10 valid indicators. Based on the results of a reliability analysis with Cronbach's alpha score 0.681, it can be concluded that this indicator is reliable. This is a good basis for answering the questions of the factors that influence financial habits.

Table 5. Validity

Indicator	validity	Indicator	validity
X1	0,572***	x6	0,284***
x2	0,381***	x7	0,398***
x3	0,569***	x8	0,605***
x4	0,48***	x9	0,409***
x5	0,395***	x10	0,472***

*** **significan 0,01**

4.3 Goodness of Fit

To answer what factors are considered important to the financial habits of this community is to do a confirmatory factor analysis test. Model evaluation is very important in interpreting the resulting model. It aims to assess whether the model is feasible or not. Table 6 explains the results of the model evaluation with some measure of model suitability that is often used to assess the feasibility of a model. With a hypothesis:

H0: Good model
H1: Model is not good

In Table 5, the value of x^2 is 35,856 and the probability is > 0.05. This means that H0 is accepted so that the population covariance variance matrix is not the same as the estimated covariant variance matrix, but keep in mind the value of x^2 is very sensitive to the number of samples so it needs another compatibility test. The value of AGFI = 0.942, TLI = 0.919 and CFI = 0.93 fulfilled the fit criteria which is above 0.90. Overall the model is acceptable. Based on the model suitability test, it can be said that the model is feasible.

Tabel 5. Goodness of Fit

The goodness of fit Index	cut off value	result	
chi-square		35,856	
probability	>=0,05	0,428	good
AGFI	>=0,9	0,942	good
TLI	>=0,90	0,919	good
CFI	>=0,90	0,937	good

4.4 Important factors influencing money behavior

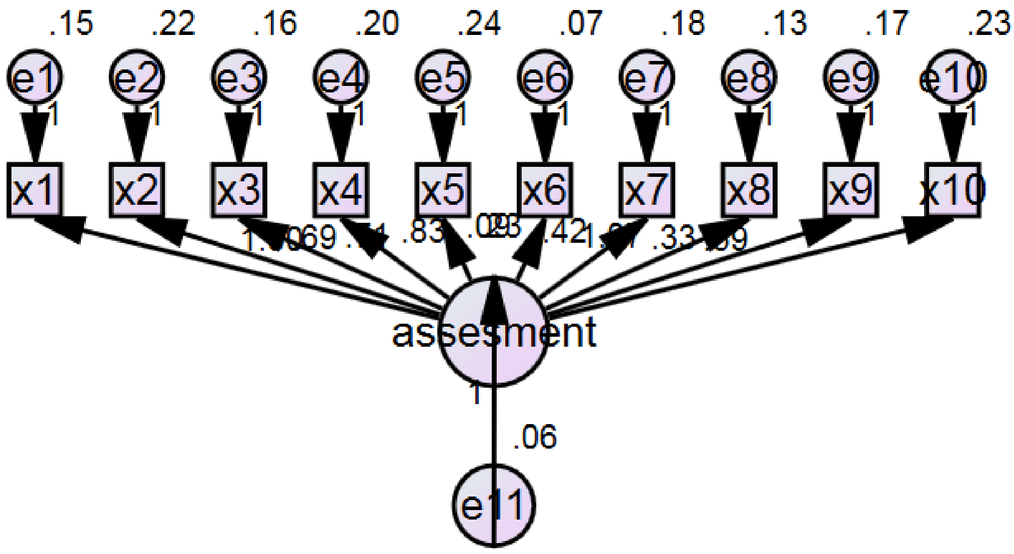

Figure 1. Standardize Estimate Value

The results of the analysis with CFA in Figure 1 and Table 6, can be seen that not all indicators significantly influence the habits of managing rural community finances. Important influential indicators are variable funds, education fund planning, and pension funds. In order based on the size of the loading factor, the community adopts the most important factors, namely the Pension Fund, Education Fund, and emergency funds.

Table 6. Standardize Loading Factor

			Estimate	S.E.	C.R.	P
x1	<---	assesment	.163	.562	1.702	.424
x2	<---	assesment	.688	.429	1.604	.109
x3	<---	assesment	.709	.394	1.799	.072
x4	<---	assesment	.826	.449	1.838	.066
x5	<---	assesment	.088	.371	.238	.812
x6	<---	assesment	.227	.211	1.076	.282
x7	<---	assesment	.416	.356	1.170	.242
x8	<---	assesment	1.069	.498	2.145	.032
x9	<---	assesment	.327	.331	.990	.322
x10	<---	assesment	.591	.419	1.412	.158

Emergency funds are considered an important factor and have a significant effect on rural communities with a significance value (0.072), and a loading factor of 0.709. However, the number of people saving emergency funds is only 26.7%. It turns out that this does not only happen in Indonesia, a similar study conducted by Lusardi et al. (2011). Lusardi highlighted savings for emergency funds in the United States, pointing out the lack of emergency fund savings for Americans. Even though the emergency fund is an important thing to watch out for. Financial behavior is very good if you set aside funds for the emergency fund, to avoid collapse and maintain financial stability.

The average education in rural communities is junior high school, only about 9 years of learning from primary school. The Indonesian government provides free fees for public schools from elementary schools to junior high schools. Most of the rural communities only take advantage of free fees to junior high school and cannot continue to higher levels for reasons of cost constraints. Education costs do require a large amount of money but can be tricked by saving the Education fund plan. The savings plan for Education funds is alternative financing used for higher levels. The Education Fund has a significant effect (0.066) with a loading factor of 0.826, again only a few groups of these communities save only 38.3%.

In addition to these two factors, there are influential indicators, namely pension funds. Pension plan planning is related to funds that are insufficient in spending during retirement. Pension preparation is important, Zabri et al (2016), pension funds are used for financial needs after retirement, the desire to help children or grandchildren financially, unpredictable economic strength, early retirement age, long life expectancy and funds anchor for a lifetime gift. Pension funds have a significant effect (0.032) with a loading factor of 1,068. In this research case study, only 26.4% of people had prepared their retirement, this was caused by the awareness of Indonesian people who were still low in preparing for the future. In Malaysia, a private retirement scheme has been held since 2012 to support workers preparing for retirement.

V. CONCLUSION

This research contributes to financial literacy in lower-class rural communities. In general, rural communities, have good habits in terms of forestry. Most of the money is not used to pay debts, installment loans, etc. It is different from self-protection from the risk of death and permanent disability. The thing that is not commonly done is life insurance ownership. Public awareness of the importance of insurance for risk management is still very low. Only around 10% of the people who care will buy life insurance for protection. Also, middle-class rural communities are already aware of the importance of saving for the future. This can be seen by assessing the indicators that most influence their financial needs, namely saving for pension funds, education funds, and emergency funds. Although there are still less than 40% of the people who have done it. This becomes good behavior for the community if they refract themselves to save for future planning.

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