EXPLANATORY ANALYSIS OF FINANCIAL PLANNING ON HOUSEHOLD FINANCIAL BEHAVIOR

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ABSTRACT

The purpose of this study is to analyse financial planning on the financial behaviour of household. Research method is using library research. From the discussion, it can be concluded that financial planning is the tool for the financial decision making for family. Financial planning is the process where someone can fulfil the requirement of daily life. It will be done by doing or implementing according to the planning process that he understand. Financial planning is very important to make sure that the life will be better for the people. Household financial behaviour is important to wealth building. Ignorance of financial concepts involves great uncertainty about the future. Financial planning has positive effects to financial behaviour of household entities. Financially secure families are able to contribute and foster community economic development.

Keywords: Financial Planning, Household Financial Behaviour

ABSTRAK

Penelitian bertujuan untuk menganalisa perencanaan keuangan pada perilaku keuangan rumah tangga. Metode penelitian menggunaka penelitian kepustakaan. Dari pembahasan penelitian ini, dapat disimpulkan bahwa perencanaan keuangan dapat disimpulkan bahwa literasi keuangan dan perencanaan keuangan dapat disimpulkan bahwa literasi keuangan dan perencenaan keuangan adalah alat untuk membuat keputusan keuangan di keluarga. Perencanaan keuangan adalah suatu proses dimana seseorang dapat memenuhi kebutuhan dari kehidupan sehari hari. Itu akan dilakukan dengan pengerjaan atau implemntasi dari proses perencanaan yang dia mengerti. Perencanaan keuangan sangatlah penting untuk memperhatikan hidup seseorang menjadi baik untuk orang lain. .Perilaku keuangan rumah tangga penting untuk pembangunan kekayaan. Ketidaktahuan pada konsep keuangan melibatkan ketidakpastian yang besar di masa depan. Perencanaan keuangan mempunyai efek yang positif ke perilaku keuangan rumah tangga. Keluarga yang aman secara keuangan dapat memberikan kontribusi dan mendorong pembangunan ekonomi dalam komunitas.

Keywords: *Perencanaan Keuangan, Perilaku Keuangan Rumah Tangga*

INTRODUCTION

The issues of financial education has been increasing this recent year which has been prompted by increasing complexity of financial product and responsibility on the part of individual for financial security. Individual is being offered a wide range of major banking companies, government agencies, consumer and community interest groups, and other organizations. Lack of working knowledge of financial concepts and tools for decision making will lead to financial literacies and ineffectiveness of money management. This can lead to the financial behaviour of individuals in household be different.

The forces of technology and market innovation, which has been driven in the competition in sophisticated industry, lead to the needs of financial planning for the future. Technological advances have transformed nearly aspect of life, including management, marketing, delivery, and processing products and services. Market innovation and competition has also changes the deregulation of banking industry. Changes in personal finances, demographic, and increasing in financial responsibilities has also increase in the importance of financial literacy and planning.

Some people can make better financial decisions than others do. Complexity in financial matters has led to the unwise decision making. Some of household have more financial assets than they used to with the savings for the retirement, insurance, living expenses, indebtedness, and other supporting for major life contingencies. However, many individuals make some poor choices in financial decision making. Some of households also invest all of their assets in a house where they live in. Some of them held the stock in their working company. Some of household possess only with the savings deposit with low interest rates or take out overpriced loans and sometimes are heavily indebted.

Household needs to focus on individuals or family's day to day money management and ability to plan for the long term financial goals. It is important to have behaviour to overcome financial crises from the money management in the family to reach economic well-being. It is also essential for the average family trying to decide how to balance its budget, buy a home, fund the children's education and ensure an income when the parents retire. People need to have the responsible for managing their own finance's , such as spend on holiday, invest in financial instruments, and other financial decisions which will affect the future financial decision.

Responsibility and risk for financial decision will shift increasingly to individuals and away from the financial institutions. When life expectancy is increasing, household will also expect for the high wealth. Financial literacy will guide them to choose the right savings or investments for themselves and may not be at risk of fraud. Household will be more aware to search the financial instruments for their needs and have positive effects on both investments levels and economic growth.

Financial planning can help ensure for the financial sector in making an effective contribution to real economic growth and poverty reduction. It will ensure household save enough to provide income in retirement and avoid high levels of debts that might result in bankruptcy. Household needs to concern on the bias of the information available on consumer financial literacy where individuals generally are lack an adequate financial background or understanding to navigate complex market. It can be a general believe that people are more financially literate than is really the case.

Far from the financial planning, financial decision making is influenced by financial behaviour such as impulsive judgments, emotions, temptations loss aversion, and procrastination. There are some biases can be profound for people heuristics, framing effect, and present bias. Financial conducts can be explained by some psychology on the way people make decisions. A major tendency of behavioural finance literature present bias is in on the underutilization of financial products from good experience towards present and bad experiences which can lead to procrastination. Temptation is an extreme form of time inconsistency where people value it at the time of consumption but not in the past or future context (Banaerjee and Mullainathan 2010).

Households have different amount of savings, lifetime earnings, and cash motives, cross sectional variability in time preferences, health, longevity, inheritance, and other needs. The relation between wealth accumulation and financial capabilities has received much less attention, because information on financial matters is sometimes unavailable. There has a boost research on the measurement of financial literacy and its effect on household behaviour (Rooij, Lusardi and Alessie 2007).

Households are in charge for securing their own financial well-being after retirement. Household needs to decide the amount of money to be saved and to be allocated to their retirement wealth. Investment opportunities and financial markets have more complex and it permit individuals to invest in a broad range of assets and securities. It is also very hard to navigate the new financial system in the financial crisis, and effect of the mistakes can be devastating. (Lusardi 2009).

Individuals can avoid mistakes by consulting with those who are more knowledgeable, including financial professionals with little personal knowledge. However, individuals must also understand whether financial literacy matters in decision making which influence financial behaviour in the characteristics of the high talents and ability, or patience, and correlation with financial decision making.

Financial planning takes role in the financial decision making. It plans the investing and building wealth, includes every spending using credit cards, spending, planning for the family, children’s education fund, saving for retirement, and protecting for the future. Financial planning gives plan to achieve financial goals in different life stages. Looking beyond the financial crisis, individuals and policymakers has new concern to the future, mainly as the Baby Boom generation prepares for the retirement.

Most research on financial literacy focuses on the cognitive dimension of the construct and relies on a test measure of what people know or understand about financial concepts. The objective approach is most often conducted by economist and other researched in setting up discussion around demographic characteristics and asks about financial behaviours and activities (Hasing 2013). There are also test in many research studies to explain much different financial behaviour, such as retirement planning (Parker 2012), wealth accumulation, stock investing, banking, and inflation expectations (Tokat 2012).

People need to know about their financial future because it is important in order to accomplish. There is no single segment of our lives that is not affected by the financial planning because it is a process where people will deal with the life. With the financial literacy and financial planning, household financial behaviours will be affected with the best decision making has been made to achiever the certain goals.

LITERATURE

Financial Planning

Financial planning is the process of setting, planning achieving, and reviewing your life goals through the proper management of your finances. (Family 2016). Financial planning is a lifelong process where the earlier started to plan; the sooner individuals can enjoy the benefit within the expected period. Financial plan bring together all aspects of financial literacy to achiever personal goals. Individuals need to review back financial plan regularly to get the goals.

Financial plan can help to satisfy needs by monitoring savings and expenses, providing financial cushion to deal with unexpected crises, amassing enough wealth to meet retirement, and providing protection for the family if something goes wrong (Kempsom 2009). Underlying the professional practice of financial planning, there are three basic functions (Council 2015), include collection of investor information, analysis on the individual's current situation and identifies and evaluate appropriate strategies, and recommendation to help optimize investor's situation. Individual starts with the financial planning by setting debt reduction as goals, setting saving goals by establishing emergency fund, and setting certain percentage of income. Individuals set for a spending plan with the budget, spending and saving goals, and stick for those plans (Baetem 2014).

Financial planning varies in scope and complexity ranging from planning advice that is straightforward and narrow, requiring limited integration across financial planning areas to those engagements that are complex and involved requiring extensive integration cross financial planning areas. It is the financial planners' ability to competently and professionally gain to the financial goals, needs and priorities, and the interdependencies among the individuals to gain greater values.

Financial planning is a disciplined, multistep process of assessing an individual's current financial and personal circumstances against future desired state and developing strategies that help personal goals, needs and priorities in a way to aims the allocation of resource.

Financial planning consists of areas in cash flow management, risk management, investment planning, retirement planning, tax planning, and estate planning (IFPAS 2014). Uncertainty in economic climate, financial planning leads to better outcomes for those who take the time and make the effort to plan. Planners show themselves to be more confident about their financial making ability, able to save more money with their progress in meeting saving goals.

Financial management focuses on the current and future financial position of individuals which is characterized by net worth, cash flow, and budget. Net worth statements reflects the financial position at a point in time. Information regarding income and cost of living allows to anticipate future net worth. Insurance and risk management focus on strategies designed to manage the exposure to an unexpected financial loss due to death, health issues, property damage, business and other risks. It can be done by comparing risk exposure to the level of available assets and insurance coverage in place to assess gaps and prioritize risk management needs. Investment planning focuses on how to best manage investments assets based on experience, attitudes, objectives, time horizon, risk tolerance and need for income. It involves consideration of current investment holdings, including not only cash, bonds and stocks, lands and real estate holdings.

Retirement planning focuses on financial wellbeing after employment has stopped. It involves a comparison of the desired lifestyle in retirement to their current retirement asset, planned savings, and expected source of retirement income. Retirement savings must be carefully monitored as circumstances change over time. Tax planning focuses on current and future tax obligations and strategies employed to minimize or defer taxation on personal or business income. Tax planning strategies are designed to help strengthen financial position in current and future tax periods and better enable to meet personal goals, needs, and priorities. Tax planning is a key financial planning area since financial decisions will generally have tax implications.

In estate planning, it focuses on payment of expenses and obligations at death and obligations at death and the transfer of assets to successors under and outside the will. In legal aspects, relate the relationship in household or other party obligations which will give impact to the whole financial goals. Financial planning needs to overlay the functions and complete set of fundamental abilities in cognitive abilities and judgment.

Financial plan is written report that assesses an individual's current financial situation and includes the relevant personal and financial assumptions, information analysis, evaluation of financial strategies and recommendations to assist in achieving an individual's personal goals, needs and priorities (Bank 2012). Developing a comprehensive financial plan is a process. It establishes and defines the professional relationship, gather information data and financial goals, together with the status, having the knowledge of financial instruments, written down the financial plan and monitor the recommendation (Raben 2013).

Household Definition

Household surveys in developing countries is essential sources of individual level data for policy planning in low resource settings with administrative systems which emphasis on comparability across the time and space (Sara 2011). Household definition usually based on combinations of eating, sleeping, and sharing of economic livelihoods. It can be defined as a person or a group of persons, related or unrelated who live together and share a common source of food. Household can be measure by the way of measuring wealth/ poverty/ access to facilities which influence the health. It is recognition of importance of society's basic unit as influence upon members' well-being. Household is common dimension of common head.

The household has been seen as wider lens of family, marriage, and kinship and have primarily concerned with defining the relationship between the family and the household Economist came to any analysis of the household from their entirely focus on the individuals (as issuer) and the firm (as producer) to the neglect of the family and has been concerned primarily with defining the household in relation to production and consumption.

Household was defined as a person or group of persons, related or unrelated, who live together in the same dwelling unit, who make common provisions for food and regularly take their food from the same pot or share the same grain house or who pool their income in the purpose of food (Dambula 2012). One of the background characteristics used is wealth index. Education is a key determinant of lifestyle and status an individual enjoys in society. It affects many aspects of life, including demographic and health behaviour. Educational attainment has strong effects on behaviour, related to the health and finance.

Economist is relatively silent on the whole issue of composition and structure of household. There is interest on the activities and behaviour of household. Functional definition of the household is complicated by the fact that the household can be defined by different functions which do not necessarily coincide, collective production, consumption, investment, or ownership. Household can be said as unit of consumption. It is a unit which organizes the consumption of a collective fund of material foods. The household is sometimes called the "hearth-hold" in that all members of the household are seen to share the food from common hearth. Household often encompasses one or more conjugal units. People can be defined based on the unit of production, consumption, investment, ownership, or residence. The composition of the household is likely to vary with the definition chosen. The household defined those who jointly own ancestral property, as a unit of ownership which may well include more than one conjugal unit. The household formation or dissolution is their emphasis on variations in household structure. Economist also focuses on the relationship between the household and market for land, labour, and credit with the wider social groups.

It has no longer recognized that household is not an undifferentiated grouping of people with share with share and equal access for resources for and benefits from production. Household are the systems of resource allocation. Individual members are assumed to share some goals, benefits, resources, taking independent positions on some, and to be conflict in with others. Household economy sometime only depends not only in number of activities, by different members of household, but also multiple alliances with and beyond the household.

The objectives of household are to maximize utilities, level of satisfaction, consumption the optimal combination of goods and leisure. Household is assumed to purchase anything it consumes with a given price for each goods. The total amount the household can consume is constrained by its income level, which is determined by the amount of labour time it sells at the going wage rate. The optimal combination of goods and leisure occurs where the contribution to household satisfaction of each additional consumption item or leisure time are the same.

Financial Behaviour

Financial Behaviour affects the financial decision making and attitudes to risk (Schroders 2014). Financial decisions are difficult and it is influenced by impulsive judgments, emotions, temptations, loss aversion, and procrastination (Bank 2015). The consequences of financial decision making can be profound for people in poverty, or on the edge of poverty, because people lack a margin for error. There are systematic biases in decision making with several factors in these biases. People strive for simplification when confronted with difficult situations. The way financial products and tools are presented can shape their decisions on the framing effects. People preferences can be affected by acute aversion to uncertainty (loss aversion) and ambiguity. Emotions and the desire for immediate gratification (Present bias) often win out against foresight. People need carefully consider all costs and benefits before making a decision which can be explained by finding from psychology on how people make decisions (Shiller 2014).

People will tend to experiences where losses loom larger than gains. Experimental studies on human decision making have demonstrated that people interpret the outcomes of financial prospects in terms of gains and losses in comparison to a reference point, such as the status quo, and subsequently put more weight on potential losses than on gains in their decisions (Wakker 2010). People will feel too shy away from investment opportunities that are profitable over time, on average, but that might expose them to a loss at any given time. Many people hold no risky investments at all (Guiso 2013). People are unwilling to sell investments that turned out poorly. By holding on to these investments, they avoid actually realizing losses, hoping to break even after future prices increases. In comparison, people are often too eager to realize gains. The pattern of holding on to “loser” and selling “winners” violates basic principles of learning about the quality of the investments. Gains signal potentially good investments, losses signal poor ones. Tendency to overvalue losses and undervalue gains can lead to economically significant welfare losses. In an experimental survey with real monetary payments, the more strongly an investor was affected by superficial (economically irrelevant) gain loss framing, the worse the investor scored on a broad index of economic well-being (Cardenas and Carpenter 2013).

People have a tendency to frame financial decisions in a narrow way, rather than considering their overall financial situations A major tendency identified by the behavioural finance literature that accounts for the underutilization of financial products is present bias. This leads decision makers to shift good experiences (consumption) towards the present and bad experiences (making difficult) decisions about how much to save) toward the future leading to overconsumption and procrastination. It is also implies that people might be patient when weighing one future payoff against another but become very impatient when making similar choices involving the present. Temptation is an extreme form of time inconsistency; people may value some good or payoff only at the moment of consumption, or an impulse, but not in the context of the past or the future (Banarjee 2010).

Impatience is strongly correlated at the individual level with low savings and imprudent financial planning (Moffit, Daniel and Dickson 2010) .The flips ide of saving is borrowing. A particular expensive way to borrowing maintaining revolving balances on the credit card. Costly credit card borrowing has been shown related to time inconsistent, present bias preference (Meirer 2010). People have limited attention and mental resources. Willpower and attention are limited cognitive resources. In times of acute scarcity, financial decisions are strongly demands on these resources. When cognitive resources are overtaxed, decision quality typically suffers, as decisions are driven by emotional impulse and narrow short term focus

(Mulatinathan 2012), People also have tendency to frame financial decisions in a narrow way, rather than considering their overall situations (Hasting 2012).

Behaviour is influenced by the social psychology of the advice relationship. Financial advice is offered by multiple people who often have diverging incentives and differing information. Structuring policy for financial advice therefore requires taking account of the possible self-interests of the agents who give advice, the content and quality of information. Structuring policy for financial advice therefore requires taking account to the possible self-interest of the agents who give advice, the content and quality of the information that is collected from and given to the person being advised (the advisee). Disclosure requirements can have perverse effect on the products agents recommend, since agents can shift their recommendation from those products to the other products which commission still remain (Anagol 2013).

There are some policies to improve the quality of household financial behaviour in making financial decisions. There are several policies regarding the improving financial policies. It begins with how choices are framing and actually change the choices of the people offered. Decision and outcomes often can be improved at virtually zero costs by choosing the description carefully. Many studies have demonstrated the power of framing effects. It illustrates the effectiveness of framing in an experiment where repayments were presented either in dollar amounts or as interests (Bertrand 2011). One of the best established finding in the behavioural finance literature concerns the power of defaults. Defaults are ubiquitous in the administration of financial choices for the individuals. It also can increase the effectiveness of microfinance more effectives. There are several experimental studies in US show that simple, timely text message reminding people to save improve saving rates earlier with established goals (Karlan 2012).

Financial behaviour needs to have commitment by fighting temptation. It can be done by simplifying and targeting financial education, and utilizing emotional persuasion. A psychologically informed understanding of decision making can help policy makers to improve the effects of financial policy in helping individuals achieve their financial goals.

DISCUSSION

Nowadays, people are more concerned on their financial matters due to high needs, economics, surrounding and other factors. Mainly in the current financial crisis, individuals are impacted with the moments of financial trouble. Children and youth are influenced by household finance complexities (McCormick 2009). Financial distress is not only for individuals, but affects family, and communities which have been widely discussed in media. There are challenges for adults struggling for high rates of indebtedness, diminished incomes, negligible saving, and financial services marketplace replete with complicated product offerings.

Financial market has been increasingly offered their products for the community, individual, household, and consumers. In the financial crisis, people have used more on the mortgage borrowing and consumer credit with the amount of money borrowed to be considered. People can find alternative financial services, including pay day loan, leasing, credit card, and similar debt. Besides that, people will also think on the changes in the pension parts which have increasingly responsible for saving, investing, and accumulating wealth onto workers. Unsecure borrowing in individuals has become problems for households. It can be a burden which can be considered as indicator of the financial distress (Rio 2009). The increase in the indebtedness of the young is the greater tendency of debt problems.

Besides the financial distress which can lead to financial situation of the individuals in household, individual cannot perform simple economic calculations and lack knowledge of basic financial concepts (Lusardi 2009). They need to know the basic of interest compounding, differences between nominal and real values, and the basics of risk diversification. Illiteracy can be licked to lack of retirement planning, lack of participation in financial market, and poor borrowing behaviour. However, several initiatives need to be undertaken to foster savings and financial security. There are much more can be done to improve the effectiveness of the financial education program. Individuals have a lifetime expected utility, which is the expected value of the sum per period utility discounted to the present from the current age to oldest attainable age.

Financial planning is essential in maintain a stable financial household. Financial crisis can be prevented with good financial planning and achieving financial stability will also help to overcome financial matters. Financial problems are common in today’s society. The problems can be troubles in paying the bills, accumulating credit card debt, or being forced to put a second mortgage. The prevention from financial problems can be organized and prepared by creating budget and developing a spending plan to get rid of debt and save money. There are some ways to prepare a family budget, which are: create a list of all monthly income, plan for the spending and saving, set aside amount of savings, develop a budget and follow it in a disciplined manner.

Competencies in financial matters are surely useful, where households have more financial assets and service loans to be managed carefully. The quality of financial decisions is closely related to the decision makers' level of financial literacy. The effect of improved knowledge on behaviour can be found by numerous possible causes. Financial socialization will play as key role in financial behaviour. It refers to the process where individual acquire not to theoretical knowledge but also to learn the attitudes and behaviours. It tends not to address issues of family background in parental teaching. Starting from kids in household, they need to be trained in financial literacy. Household needs to understand the interest, inflation, and diversification.

Research in behavioural finances shows that many households are being increasingly undertake their own financial planning for retirement. Many household do not in fact make optimal savings and investment decisions, and the realization that these choices may well lead to unacceptable standards of living has also increased economic anxiety (Hung, Parker and Yoong 2009). With the increasingly demand for the needs of the financial planning for the future, financial education is needed in the aspect of making financial decisions.

Financial planning as the process of estimating capital required. It has many objectives to look forward to determining capital requirements, capital structure, framing financial policies and maximization of resources

The financial behaviour is influenced by lots of factors as the key behavioural responses in financial decision making. The anchoring and adjustment on the cognitive ability to choose the financial instruments will be the starting point for the final decisions. There are influenced also by choice of preference, confirmation bias, loss aversion, overconfidence, temporal framing on present consumption, narrow framing on present situation, present bias on the cost and benefits immediately, and risk aversion. Some people also having a herding as a phenomenon where they take the same action from the information concerning the number of previous transactions in the market relevant to explain herding propensity among investors. Individuals have different behaviour towards the credit cards, investments, loans, insurance and financial counselling. Self-assessment of financial literacy appears to be more valuable as the indicator for discussing financial behaviour

There are some pints contribute key inside the key insights into social and behavioural influences on financial decision making. Policy interventions include changing default options, using social networks, employing nudes and remainder, offering commitment devices, simplifying financial education, and using emotional persuasion.

SUMMARY

In the household financial responsibility, where each individual is in charge of their financial wellbeing and where financial markets offer new and complex of financial products, financial literacy and planning is important in the relation with financial behaviour. It is impossible to succeed in this modern world without the ability to read and write, include the literate in today's financial system of economic and finance. A well designed financial literacy instrument that capture financial education increase human capital needed to behave appropriately to enhance financial well-being.

Financial stability is achieved when household is able to meet day to day financial obligations, including a saving plans, reducing debt to a controllable level, and establishing a an emergency fund equal to 3-6 month living expenses. Financial planning evolves the plan that changes according to the life of stages and it takes responsibility on personal finance of household,

Financial behaviour is influenced by psychological to individuals in household. There are some behavioural biases affects financial decision making and attitude to risk. Anxiety will involve emotional engagement in short term decision making. Individual with a loss aversion bias will feel more on the losses to a greater extent than gains. There is projection bias of tendency to falsely project current feeling in the future. When individuals in household try to foresee their future emotional state, they can make mistakes and forgetting to outcome using financial literacy and financial planning. It can be bias on irrational perception of money for the nominal terms rather than real terms. The herd influence from other people will also influence the behaviour of household for following the trend in financial decisions. Present bias for looking the present moment will guide them incorrectly to do the right things. Sometimes, overconfidence and over optimism bias will be dangerous if making decisions based on opinions rather than fact. Improving generally higher level of education has positive side effects which boost financial literacy and improve financial behaviour.

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