The Influence of Financial Literacy on Debt Management Behavior (Study on Millennial Generation in Bandung)

Faishal Dzaky Affianto[1] and Maya Sari[2]

[1,2] Universitas Pendidikan Indonesia, Bandung, Indonesia
faishaldza19@gmail.com

Abstract. Everyone has needs and desires that must be met to achieve life goals, requiring effort to fulfill them for satisfaction and well-being. The "sandwich generation" is a term that refers to individuals facing financial challenges, particularly financial instability, due to the burden of supporting both older and younger generations. This generation often experiences financial strain from double spending, leading to reliance on debt. The sandwich generation consists largely of millennials, known for their high consumer lifestyle and frequent dependence on debt to satisfy their wants. Financial literacy plays a key role in supporting sound financial planning and management, helping to maintain financial stability and reduce the risk of excessive debt. This research uses a descriptive and verification approach to explore financial literacy's impact on debt management behavior. A quantitative method was employed, with questionnaires distributed to 270 millennial respondents in Bandung. Simple linear regression analysis showed that financial literacy positively influences debt management behavior, meaning that higher financial literacy correlates with improved debt management behavior.

Keywords: Debt Management Behavior, Financial Literacy, Millennial Generation, Sandwich Generation.

1 Introduction

Every individual has needs and desires that must be fulfilled in life to achieve a goal. In fulfilling needs and desires, each individual will make efforts by working to earn income [1]. As living creatures, humans have various needs necessary to survive. This is generally known as the need for food, clothing, shelter, and other necessities to achieve life satisfaction and well-being [2]. These needs produce an urge within humans to obtain the goods or services needed to fulfill these needs. In reality, obtaining various needs can be done through one's efforts, with the help of others, or depending on the help of others due to limited ability to fulfill one's own needs [3].

Dorothy Miller introduced the sandwich generation and defined it as individuals responsible not only for themselves but also for their parents and adult children [4]. However, the definition of the sandwich generation continues to develop until the financial obligations are borne, including parents and children who have grown up and involving the older and younger generations in family relationships [5]. There has been a visible

increase in the financial burden borne by the second generation, referred to as the sandwich generation [6]. People in this generation range in age from 30 to 40 years who are not yet married or are already married [7].

The sandwich generation often experiences financial instability due to this double spending, which can force them to rely on loans or credit to balance these responsibilities and their financial limitations [6]. The sandwich generation needs to develop careful and sustainable financial management strategies. By taking proactive steps, the sandwich generation can reduce financial stress, avoid excessive debt accumulation, and create a better balance between caring responsibilities and their family's financial stability [8].

The sandwich generation's current condition matches the millennial generation's age range, whose birth years are 1981 to 1996 or aged 27 to 42 years [9]. On the other hand, the millennial generation must fulfill their needs; they will also tend to overspend their income to fulfill desires by shopping that has its charm, indicating that humans today tend to live in a consumptive pattern without fully understanding the urgency of financial knowledge and management [10]. This is because one of the factors of high consumer behavior is technological advances, which make it easy to utilize the internet network to access information and provide a lot of visualization of information about products and services [11]. The behavior of the millennial generation, in general, regarding consuming goods and services tends to be excessive and consumptive and tends to fulfill desires rather than needs. As a result, debt behavior becomes almost inevitable, with several individuals having to take out loans or go into debt to meet all their consumer desires [10].

In the conditions explained, millennials and/or the sandwich generation are vulnerable to debt behavior to fulfill their needs and/or desires. This generation tends to like to take debt online, depending on the individual and the situation at hand. This is because online debt providers offer advantages in speed and ease of access to debt online. A fast and easy process tempts them without facing complicated procedures and long hours at banks or conventional financial institutions [4]. Millennials who lack financial knowledge about personal finance and debt management tend to engage in debt behavior online [12]. They are not fully aware of the risks and consequences associated with taking on debt online, including high interest rates, additional fees, and the impact on credit scores. This can lead to risky debt [10].

There is a polemic related to online loans that arise because one of them is the low level of financial literacy among Indonesian people. This condition can potentially result in borrowers in online loan services being trapped in heavy debt and having difficulty paying off installments [13]. So, someone needs to know the importance of good financial literacy. Financial literacy is a basic need for a person to avoid financial problems. To achieve financial prosperity, a person must have financial literacy and an attitude toward implementing healthy personal finance, which is often called financial literacy [14].

Research conducted by [15] states that financial literacy influences debt behavior. This is supported by several studies conducted by [10], [16-18]. However, research by [19] stated that financial literacy does not influence debt behavior.

Based on the background and explanation that has been described and the inconsistencies in the results of previous studies regarding the factors that influence debt behavior, it is interesting for researchers to take a theme related to debt behavior with research subjects of the Millennial Generation in Bandung City. Factors predicted to influence debt behavior among the millennial generation are financial literacy. To obtain results and solutions, researchers will conduct research titled "The Influence of Financial Literacy on Debt Management Behavior (Study of the Millennial Generation in Bandung)."

2   Methods

This research adopts a quantitative approach, which details social phenomena through the collection of numerical or quantitative data, which is then analyzed using specific statistical methods. This data was obtained through the use of a questionnaire filled out by respondents within a period of 4 months from May 2023 to August 2023, disseminated to the millennial generation in Bandung, containing questions or statements related to attitudes (financial literacy and debt behavior) that occurred in the past, present or recently. This question or statement has an objective nature so that each individual can provide a different interpretation.

The research design used is explanatory research, which aims to explain cause-and-effect relationships and reasons and provide an overview of the relationship between variables through hypothesis testing. Through this approach, this research seeks to answer questions about what, how, and why this phenomenon occurs.

Research design refers to the planning and arrangement of elements that researchers will observe to obtain answers to predetermined questions related to the research topic. This design provides a comprehensive overview that includes the research program, problem selection, theory development, and hypothesis formulation, as well as the operational implications of the hypothesis, which are then analyzed using the data that has been collected.

3   Results and Discussion

3.1   Characteristics of Respondents

From the questionnaires carried out by researchers, 270 respondents were obtained who met the requirements and could be used in further data analysis in this research. From the questionnaire, the following data composition was obtained:

The demographic analysis of respondents reveals that the majority fall within the age range of 27 to 30 years, accounting for 105 individuals, followed by 83 respondents aged between 31 and 34 years. Additionally, 53 respondents fall within the broader age range of 25 to 38 years, while 29 belong to the 39 to 42-year-old category. This distribution suggests that a significant proportion of participants are in their late twenties to early thirties, an age group often associated with career growth and stability. Regarding gender distribution, male respondents slightly outnumber females, with 139 men

compared to 131 women. This near-balanced ratio indicates a relatively even gender representation, albeit with a slight male dominance, which could have implications for the study's findings depending on the industry or professional context under investigation. In this study, 156 respondents stated that they were married, and 114 other respondents were not married. Meanwhile, according to their latest education, respondents were dominated by Strata-1 graduates, with 147 respondents.

Of the 270 respondents, 124 work as private employees, 45 as entrepreneurs, 62 as civil servants, 12 as Soldier/Police officer, and 27 as housewives. Based on their income, most respondents have an income of IDR 5,000,000 to IDR 7,500,000 - as many as 110 respondents. The second largest were those who had income <Rp5,000,000, - 52 respondents. 46 respondents had an income of IDR 7,500,000 to IDR 10,000,000. A total of 42 respondents had an income of IDR 10,000,000 to IDR 15,000,000. And 20 other respondents had an income of >Rp15,000,000.

The following characteristic obtained from respondents' answers is expenditure allocation, where each respondent can choose one or more answers. The answer options for this question are parents, in-laws, siblings, children/wives, and/or none. 89 respondents chose the parent option, 29 chose the in-laws option, 49 chose the sibling option, 120 chose the child/wife option, and 56 did not have an allocation for expenses for parents, in-laws, siblings or children, and wife.

In the question regarding the nominal debt taken, it showed that nine respondents answered that they took debt<Rp1,000,000,-; A total of 171 respondents answered that they had taken debt between Rp1,000,000 to Rp20,000,0000; as many as 28 respondents answered that they had taken debt between IDR 20,000,000 to IDR 40,000,000; as many as 22 respondents answered that they had taken debt between Rp40,000,000 to Rp60,000,000; as many as eight respondents responded that they had taken debt between Rp60,000,000 to Rp80,000,000; as many as four respondents answered that they took debt between Rp80,000,000 to Rp100,000,000; A total of 16 respondents answered that they had taken debt between Rp100,000,000 to Rp250,000,000; and 12 respondents answered that they had taken debt between >Rp250,000,000.

In the question regarding debt sources, the source of debt from individuals was chosen by 21 respondents, the source of debt from commercial banks was selected by 110 respondents, the source of debt from BPR was chosen by 24 respondents, the source of debt from cooperatives was selected by 33 respondents, the source of debt from online loans was chosen by 63 respondents, as well as the source of Pay later debt selected by 19 respondents.

From the data processing, there were also questions regarding respondents' debt needs, which stated that 129 respondents had debt needs for daily needs, while 98 respondents had debt needs for house or rent installments. 48 respondents had car or motorbike installments for their debt purposes. Also, as many as 75 respondents also need to borrow money for their children's education costs. 78 respondents required to go into debt to fulfill their desires. 93 respondents required to take on debt to help with family needs (parents, in-laws, and/or siblings). 10 respondents chose other debt needs as for business capital.

It shows from the respondents that as many as 225 respondents answered that they could pay debts according to the debt repayment period determined by the borrower

and debt provider. However, it is unfortunate that as many as 45 respondents could not pay their debts within the specified period. In this case, as many as 100 respondents had obstacles in paying their debts, while as many as 170 respondents had no barriers in paying their debts.

3.2 Descriptive Analysis

In this research, financial literacy is measured by five indicators, namely general financial knowledge, savings, loans, insurance, and investment. Interpretation of the results of this descriptive analysis uses the Respondent's Achievement Level. The general financial knowledge and savings indicators have the same TCR percentage of 86.7%, the loans indicator has a TCR percentage of 88%, the insurance indicator has a TCR percentage of 87.3%, and the investment indicator has a TCR percentage of 87.7%.

Debt behavior has three indicators: inability to prevent large expenditures compared to income, reluctance to keep spending in line with income levels, and willingness to make unusual expenditures. The first indicator has a TCR percentage of 84%, the second indicator has a TCR percentage of 84%, and the third indicator has a TCR percentage of 85%.

3.3 Verification Data Analysis

Normality Testing.
This normality test uses the Kolmogorov-Smirnov test, which shows that the significance value of the research data normality test is 0.200. This value is greater than 0.05, which is denoted as $0.200 > 0.05$, so the research variable data can be stated to have a normal distribution of data. As well as in the pp plots graph and histogram, the normality test shows the spread of data around the diagonal line and in the diagonal direction, and the histogram graph gives a pattern deviating to the right. So, from the regression, it can be concluded that the population meets the assumption of a normal distribution.

Linearity Testing.
From the results of the Linearity Test, it can be seen that the value of the Deviation from Linearity Sig. is 0.136. This value states more than 0.05, denoted as $0.136 > 0.05$. Therefore, it can be concluded that from the two variables, namely financial literacy and debt management behavior, there is a linear relationship between the millennial generation in Bandung.

3.4 Simple Linear Regression Analysis

Simple Linear Regression Analysis shows the results of a simple regression calculation so that it can be seen that the α value has a positive value of 14.555 and the regression coefficient (b) has a negative value of 0.305. The analysis results show that the probability value (Sig.) of the financial literacy variable is 0.000. According to the values

obtained from the output results, a simple linear regression model can be described with the following equation:

Debt Management Behavior = α + b Financial Literacy + ε = 14,555 + 0,305 Financial Literacy + ε   (1)

This means that if the financial literacy increases by one unit, the debt management behavior will increase by 0.305 because the relationship shows a positive relationship. The results of this analysis show that the probability value of the financial literacy variable is 0.000. If this value is less than 0.005, the financial literacy variable can be stated to have a positive influence, or the hypothesis is accepted on the debt management behavior variable.

3.5   Hypothesis Test

F Test.
In this test, data can be obtained, such that the Fcount value is 285.536 and the significance value is 0.000. The Fcount value is greater than Ftable, which has a value of 3.876, and the significance value is less than 0.05. It can be denoted $285.536 > 3.876$ and $0.000 < 0.05$ so H0 is rejected and Ha is accepted, which means that there is an influence of financial literacy on debt management behavior in the millennial generation in Bandung.

T-test.
The t-test in this research shows that financial literacy has a calculated tvalue of 16.898. This value in the hypothetical area is greater than ttable $16.898 > 1.65$. And the significance value is $0.000 < 0.05$. It can be concluded that H0 is rejected and Ha is accepted, which can be interpreted as financial literacy having a positive and significant effect on debt management behavior. This indicates that the greater the financial literacy, the better the debt management behavior.

4   Conclusions

The results of testing carried out on the hypothesis show that financial literacy has a positive influence on debt management behavior. This can be proven by the significance value in the t-test, $16,898 > 1.65$. Testing the significance of the regression or Ftest shows the Fcount $285.536 > Ftable\ 3.876$ results and a significance value of $0.000 < 0.05$. This means that the higher a person's level of financial literacy, the better their debt management behavior. Financial literacy refers to an individual's understanding of financial concepts, including general knowledge of finance, savings, insurance, and loans and credit.

    People with high financial literacy tend to understand more about the financial implications of debt, the risks involved, and how to manage financial obligations wisely. On the other hand, debt management behavior is related to an individual's decision to

borrow money, such as applying for a loan or credit, to meet certain needs or goals. A higher level of financial literacy can result in a better understanding of the implications of debt and the ability to choose the most profitable option appropriate to one's financial situation. Thus, this statement implies that individuals with good financial literacy tend to be more aware of the consequences of debt and have the skills to manage finances better. Therefore, they will be more careful in taking out debt and tend to have more controlled debt management behavior.

This is in line with the TPB Theory, which explains that a person's actions are influenced by conscious intentions and are based on rational considerations about the impacts that may arise from those actions [15]. Financial literacy can encourage someone to take out debt or loans. Before deciding to take on debt, a person must have a strong understanding of financial literacy to make good financial decisions [10].

This research follows the results of research conducted by [20], which states that there is a significant relationship between financial literacy and the debt behavior of Croatian citizens. The study concluded that residents with higher financial literacy tend to be wiser in debt behavior than those with lower financial literacy. Research conducted by [21] supports the results of this research, where financial literacy influences debt behavior.

According to research [22], financial literacy also influences a person's debt management behavior [23]. Good financial literacy will keep someone away from financial illiteracy, one of which is spending more income, which triggers debt behavior. This illustrates the need for good financial literacy to be wiser in managing finances to reduce the risk of having debt. The findings from this research are in line with [10], [16-18], who stated that financial literacy has a positive influence on debt management behavior. However, this differs from research conducted by [24] and [19], which states that financial literacy significantly negatively influences debt management behavior.

Debt management behavior is an individual's action or decision to use financial resources that he or she does not currently have by borrowing money or obtaining credit from a financial institution or other party to meet needs or finance certain goals. This may include applying for a loan, using a credit card, or utilizing other forms of debt. The impact and consequences of debt management behavior can range from financial benefits and progress to the risk of excess debt and financial difficulties if not managed wisely.

The financial literacy indicators used in the research also align with the indicators proposed by [25]. Understanding finance profoundly influences how individuals manage their debts, encompassing budgeting, debt risks, and interest rates. This knowledge empowers informed decision-making, helping individuals grasp the financial implications of debt choices, avoid impulsive behavior, and align borrowing with their financial objectives. With this awareness, individuals can effectively manage debt, minimizing negative impacts on their financial well-being.

Additionally, expertise in savings, loans, insurance, and investments are pivotal indicators of financial literacy impacting debt management behaviors. Knowledge of savings emphasizes the importance of financial preparedness, reducing reliance on debt for emergencies or goals. Understanding loans enables informed borrowing decisions, optimizing terms, and minimizing risks. Proficiency in insurance shields against

unforeseen financial burdens, reducing immediate debt reliance. Finally, investment knowledge fosters sustainable wealth growth, offering alternatives to debt for achieving financial goals. These facets empower individuals to navigate debt responsibly and enhance their financial resilience.

Someone with rational thinking tends to involve a careful analytical process in deciding about taking on debt. This rational approach thoroughly assesses various factors, such as interest rates, loan terms, additional fees, and repayment capabilities. A person will consider the long-term implications of debt on their financial condition and compare the benefits of debt with the associated risks. In this case, rational thinking allows a person to make more informed debt decisions and minimizes the potential negative impact on financial stability.

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