



# The Effect of Financial Literacy, Locus of Control, and Financial Stress on Financial Well-Being: Evidence from Middle-Income Households in Indonesia

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**Abstract.** Financial well-being has become an increasingly important topic in understanding how individuals manage their finances amid rising living costs and economic uncertainty. This study aims to examine the influence of financial literacy, locus of control, and financial stress on the financial well-being of middle-income households in Jakarta, Indonesia. Using a quantitative approach with a cross-sectional design, data were collected from 171 respondents selected through purposive sampling. Data were analyzed using Partial Least Squares–Structural Equation Modeling (PLS-SEM). The results indicate that financial literacy and locus of control have a significant positive effect on financial well-being, while financial stress has a negative but insignificant effect. These findings suggest that improving financial literacy and fostering a strong internal locus of control can improve the financial well-being of middle-income households. Meanwhile, reducing financial stress does not necessarily translate into improved financial well-being. This study emphasizes the need for the government and financial institutions to implement financial literacy programs and encourage sustainable financial behavior to improve the stability and economic resilience of the middle class in Indonesia.

**Keywords:** Financial Well-Being, Financial Literacy, Locus of Control, Financial Stress, Middle-Income Households

## 1 Introduction

Subjective well-being generally includes cognitive evaluations such as overall life satisfaction or satisfaction within specific domains such as health, employment, and relationships [1]. However, the ability to achieve and maintain financial well-being is essential for both individuals and families, as improvements in financial well-being can enhance overall quality of life [2][3]. Financial well-being is not only a dimension of life quality but also a social determinant of health, particularly for low-income groups that struggle to meet basic needs or manage unexpected expenses and emergencies [4]. Research on financial well-being has expanded rapidly since the 2008 economic crisis [5]. To date, financial well-being remains a relevant topic as it aligns with government

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objectives in assessing economic development and designing policy interventions to achieve the Sustainable Development Goals (SDGs) 2030 related to poverty reduction, health, well-being, and reducing inequalities within and among countries [6][7][8].

This study focuses on the financial well-being of the middle-income group, often characterized as “not poor but difficult to become rich.” The middle-income class accounts for approximately 20.5% of Indonesia’s total population and contributes to nearly half of the nation’s household consumption. In the context of developing countries such as Indonesia, examining financial well-being among middle-income households is particularly important because this group remains relatively vulnerable to economic shocks and the risk of “downward mobility” [9]. Based on the National Socio-economic Survey (Susenas) processed by Bank Mandiri, the number of middle-income individuals in Indonesia reached 47.85 million in 2024, a significant decrease compared to 57.33 million in 2019 [10]. From a fiscal policy perspective, changes in subsidy mechanisms and the implementation of strategic programs are part of the government’s efforts to stimulate economic growth; however, such policies may inadvertently weaken the purchasing power of the middle class [10]. Generally, the middle-income population earns enough to meet basic needs such as food, clothing, and housing, while also being able to afford secondary needs such as quality education, better healthcare, and lifestyle consumption including travel and entertainment. The definition of middle-income households varies, but institutions such as the World Bank and Indonesia’s Central Statistics Agency (BPS) use monthly income thresholds to identify this group [11].

According to BPS, in 2024, the income range for Indonesia’s middle-income households was between IDR 2,040,262 and IDR 9,909,844 per capita per month, while their average monthly expenditure was approximately IDR 3.35 million [10]. BPS also reported that in 2022, Jakarta had the highest cost of living in the country, averaging around IDR 14.88 million per month [12]. High economic pressure, including income uncertainty and limited career prospects, combined with rising living costs—especially in major urban areas—creates challenges for Indonesian households in managing their financial behavior, particularly in monitoring expenses [13]. Therefore, this study focuses on middle-income households, although previous studies have predominantly examined low-income or urban populations [14][15].

The Behavioral Finance Theory posits that individuals’ financial decisions are not entirely rational but are influenced by psychological and emotional factors [16]. Consistent with this theory, Nofsinger (2016) emphasized that psychology and emotions play a critical role in shaping financial decision-making [17]. Within the context of financial well-being, this theory provides a useful framework for understanding how differences in financial literacy, perceived self-control, and financial stress affect individuals’ financial behaviors and responses to real-world financial situations. Higher levels of financial literacy enhance knowledge, confidence, and motivation to make informed financial decisions, which ultimately contribute to better financial well-being [18].

Another psychological factor that influences financial behavior is locus of control (LOC), derived from Social Learning Theory (Rotter, 1966), which explains individual perceptions of control over events and the degree of personal responsibility they assume

for life outcomes [13]. Globally, public health concerns such as depression, anxiety, and stress remain among the most pressing issues. Insufficient financial well-being can lead to financial stress, which negatively affects physical and mental health, as well as productivity at work, due to inadequate income to cover basic needs [19]. Consequently, this study also investigates financial stress as a psychological factor that may negatively affect financial well-being [5][20]. While overall well-being varies across income groups, current financial management stress and perceived future financial security may have distinct antecedents [3].

Building on the discussion above, this study aims to analyze whether financial literacy, locus of control, and financial stress influence the financial well-being of middle-income households in Jakarta, Indonesia.

## **2 Literature Review**

### **2.1 Behavioral Finance**

Behavioral Finance Theory serves as the main conceptual foundation of this study. This theory departs from the notion that individuals are not always rational in making financial decisions, as such decisions are often influenced by psychological and emotional factors [16]. In the context of financial well-being, Behavioral Finance plays a crucial role in explaining how individuals behave in real financial situations [21]. Consistent with this theory, Nofsinger (2016) emphasized that psychology and emotions have a significant impact on financial decision-making [17]. The central focus of this theory is to understand how psychological factors can shape financial decisions, which in turn affect one's overall financial well-being. Factors such as financial literacy, locus of control, and financial stress are manifestations of behavioral and psychological aspects that influence an individual's ability to achieve financial satisfaction and stability [3][7][15][20][22][23][24].

### **2.2 Financial Literacy (FL)**

Financial literacy refers to the knowledge of basic financial concepts [19], which enables individuals to make informed and effective financial decisions [25]. It is an essential factor influencing one's behavior in avoiding financial risks and emotional bias, as it reflects an individual's ability, confidence, motivation, and participation in making rational financial choices [18]. Higher financial literacy helps individuals select and utilize financial products and services more effectively [26]. Those with greater financial literacy tend to manage personal finances more efficiently, make wiser financial decisions, and use various financial instruments to improve their financial well-being [7].

### **2.3 Locus of Control (LoC)**

The Locus of Control (LoC) theory was first introduced by Julian Rotter in 1966 [23]. Locus of control refers to an individual's belief regarding the extent to which they have control over events that affect their lives [15][23]. This belief influences how individuals make decisions and respond to various challenges [27]. There are two main perspectives of LoC: internal and external. An external locus of control refers to the perception that outcomes are determined by external factors such as luck, environment, or other people, whereas an internal locus of control refers to the belief that one's actions determine life outcomes and satisfaction [15]. Individuals with a strong internal locus of control are more likely to experience better financial well-being because they believe their future depends on their own efforts rather than on others [23]. In this study, the focus is on internal locus of control, which represents self-control that originates from within the respondent [28].

### **2.4 Financial Stress (FS)**

Financial stress is a condition in which an individual lacks sufficient financial resources to meet basic or essential daily needs [15]. It also reflects feelings of fear and anxiety about not having enough money, which can lead to an inability to fulfill daily necessities [14][23]. Financial stress is often associated with reduced financial satisfaction, poor financial management, and diminished mental health. In this study, financial stress is viewed as a psychological factor that can potentially weaken an individual's financial stability and overall financial well-being.

### **2.5 Financial Well Being**

Financial well-being refers to a condition in which an individual is able to meet basic life needs, including the ability to cover current expenses from current income, save regularly, manage financial problems effectively, maintain a stable level of debt, and feel overall satisfaction with their present financial situation [22]. Financial well-being can be assessed from both objective and subjective perspectives. The objective perspective is measured through tangible indicators such as income level, savings amount, liquidity, creditworthiness, and debt level, while the subjective perspective involves emotional evaluations of various life aspects such as cognitive, emotional, health, employment, and financial conditions [15]. Research on financial well-being has shown that it represents a subjective evaluation of one's current and future financial situation [19]. Achieving financial well-being requires progressive steps in financial management—from mastering basic financial skills to developing comprehensive financial planning abilities [29].

### **2.6 The Effect of Financial Literacy (FL) on Financial Well-Being (FWB)**

Financial literacy plays a crucial role in providing individuals with the knowledge and financial benefits necessary for effective decision-making [26]. A solid understanding

of financial concepts enables individuals to make wiser financial choices, feel more secure, and develop confidence when facing financial challenges [22]. The level of financial knowledge has a direct impact on an individual's income, which ultimately affects their financial satisfaction [30]. Improving financial literacy also enhances awareness of one's financial situation, allowing individuals to better understand their current condition, plan for future needs, and broaden their comprehension of financial information [31]. Higher levels of financial literacy increase one's understanding of financial concepts and risks, as well as the ability, motivation, and confidence to apply financial knowledge in daily life—leading to improved financial well-being [18]. Individuals with strong financial literacy are more likely to use their knowledge, information, and skills to support and sustain their financial well-being [32].

H1: Financial literacy has a positive effect on financial well-being.

## **2.7 The Effect of Locus of Control (LoC) on Financial Well-Being (FWB)**

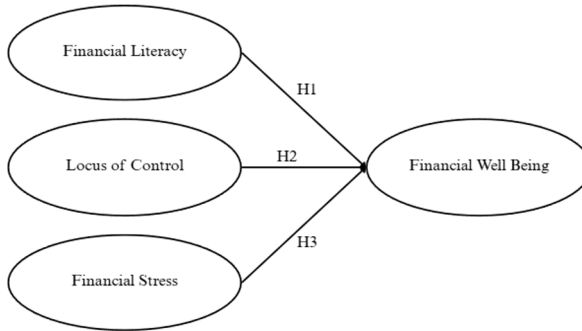
In personal finance, locus of control is closely related to financial satisfaction and the ability to manage savings. A higher internal locus of control positively affects the level of savings, total wealth, and investment, which in turn leads to greater financial well-being [33]. Individuals who believe that their actions determine life outcomes and satisfaction tend to experience higher levels of financial confidence and security regarding their future finances [15].

H2: Locus of control has a positive effect on financial well-being.

## **2.8 The Effect of Financial Stress (FS) on Financial Well-Being (FWB)**

Financial stress arises when individuals struggle to meet their most basic needs, creating both mental and physical strain that directly affects their financial well-being [15]. It may result from a low level of psychological resilience in dealing with financial difficulties and can have negative consequences not only for the individual but also for those around them [31]. As financial stress increases, individuals experience financial shortages and reduced financial stability, ultimately lowering their overall financial well-being [14]. Therefore, financial stress is expected to have a negative effect on financial well-being [14][15][23].

H3: Financial stress has a negative effect on financial well-being.



**Fig. 1.** Research framework  
Source : Researcher (2025)

### 3 Research Method

This study employs a quantitative approach with a cross-sectional method aimed at examining the influence of financial literacy, locus of control, and financial stress on financial well-being among middle-income households in Jakarta. The study population consists of middle-income households, with a total of 171 respondents selected using a purposive sampling technique based on specific criteria, namely income range and the ability to independently meet their personal or family living expenses. Data were collected through a questionnaire using a five-point Likert scale (1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, and 5 = strongly agree) and analyzed using the Structural Equation Modelling–Partial Least Squares (SEM-PLS) method with SmartPLS software. The analysis included testing of the outer model (construct validity and reliability) and the inner model (path coefficient,  $R^2$  value, and significance of relationships among variables using bootstrapping). The entire research process was conducted in compliance with ethical research standards, including informed consent from participants and the confidentiality of respondent data.

### 4 Results and Discussions

A total of 180 respondents initially participated in this study. The inclusion criteria for respondents were as follows:

- individuals aged between 18 and 60 years;
- having a monthly income ranging from IDR 2,040,262 to IDR 9,909,844 in Jakarta; and
- being financially independent in managing living expenses such as rent or mortgage, utilities, and personal bills.

Moreover, a convenience sampling method was implemented, in which all questionnaires were electronically distributed to respondents who met the specified sampling

criteria. After screening for data quality, nine responses were identified as outliers, resulting in 171 valid datasets used for analysis.

Based on the respondent profile, the results reveal that the majority of respondents were female (61.67%), while 42.22% were heads of households. In addition, most respondents (63.89%) were unmarried.

**Table 1.** Respondents characteristic

Category	Amount	Percentage
Domicile	Jakarta	100%
Income / month	IDR 2.040.262 – Rp 9.909.844	100%
Age		
18 – 24 years old	69	38,33%
25 – 44 years old	100	55,56%
45 – 60 years old	11	6,11%
Gender		
Male	69	38,33%
Female	111	61,67%
Household Head		
Yes	76	42,22%
No	104	57,78%
Marital Status		
Single	115	63,89%
Married	61	33,89%

Source : primary data processing results (2025)

#### 4.1 Outer-Model Measurement Analysis

The outer-model measurement analysis was conducted to evaluate whether all data in this study were valid and reliable. The assessment of convergent validity was performed using the outer loadings values, which are considered acceptable when each indicator demonstrates a loading value greater than 0.7 and the Average Variance Extracted (AVE) exceeds 0.5. If the loading value of an indicator is below 0.7, the indicator should be removed or excluded from the model [34].

**Table 2.** Outer loading

	FL	FS	LoC	FWB	AVE
FL1	0.781				0,525
FL2	0.706				
FL7	0.704				
FL9	0.705				
FS2		0.771			0,743
FS4		0.825			
FS5		0.977			
LC1			0.776		0,592
LC4			0.752		
LC5			0.781		

	FL	FS	LoC	FWB	AVE
SFWB1				0.804	0,604
SFWB2				0.750	
SFWB5				0.830	
SFWB6				0.730	

Source : SmartPLS data processing results (2025)

**Table 3.** Discriminant validity assessment

	FL	FS	FWB	LoC
FL	0.725			
FS	0.249	0.862		
FWB	0.583	0.104	0.779	
LoC	0.323	0.158	0.313	0.770

Source : SmartPLS data processing results (2025)

**Table 4.** Reliability assessment

	Composite Reliability
Financial Literacy	0.815
Financial Stress	0.896
Financial Well Being	0.861
Locus of Control	0.813

Source : SmartPLS data processing results (2025)

Based on the table above, all research variables have Cronbach’s Alpha values greater than 0.70 (Tables 2, 3, and 4), and all constructs demonstrate composite reliability values above 0.70 [34]. Therefore, the instruments used in this study have met the criteria for both validity and reliability.

### 4.2 Inner-Model Measurement Analysis and Hypothesis Testing

After conducting the outer-model measurement analysis, the inner-model analysis was carried out to evaluate the relationships among the variables discussed in this study.

**Table 5.** R-squared analysis

	R Square	R Square Adjusted
FWB	0.360	0.348

Source : SmartPLS data processing results (2025)

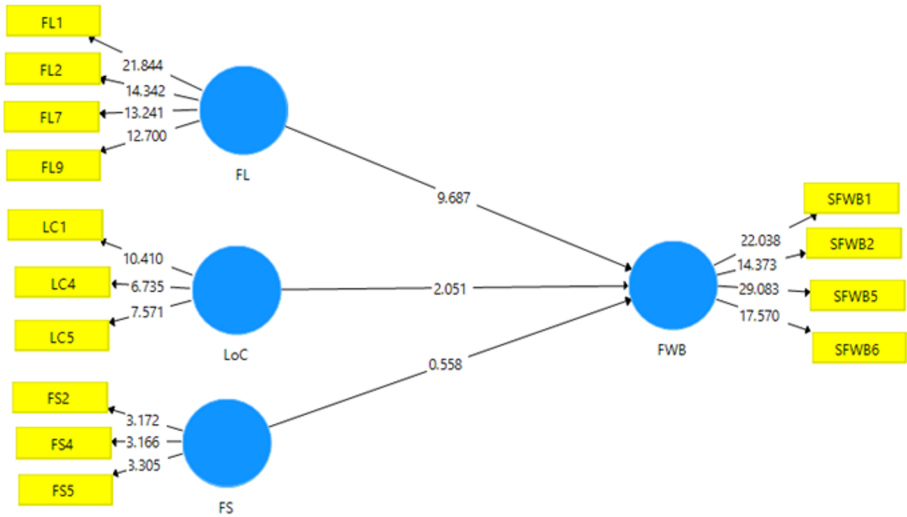
From Table 5, it can be seen that the R-Square value is 0.360 (or 36%). This indicates that 36% of the variance in financial well-being can be explained by the variables financial literacy, locus of control, and financial stress. Meanwhile, the remaining 64% of the variance in financial well-being is influenced by other factors not examined in this study.

The results of the hypothesis tests are presented as follows:

**Table 6.** Direct effect result

	Original Sample (O)	Sample Mean (M)	P Values	Conclusion
FL → FWB	0.550	0.553	0.000	Significant Effect
LoC → FWB	0.145	0.158	0.044	Significant Effect
FS → FWB	-0.056	-0.051	0.573	Not Significant Effect

Source : SmartPLS data processing results (2025)



**Fig. 2.** Bootstrapping analysis

Source : SmartPLS data processing results (2025)

### 4.3 Hypothesis Testing Results

The first hypothesis (H1) testing for the direct effect in Table 6 reveals that the coefficient value of financial literacy on financial well-being is 0.550 ( $p\text{-value} = 0.000 < 0.05$ ). It can be concluded that financial literacy has a significant positive effect on the financial well-being of middle-income households. This finding is consistent with several previous studies [14], [22], [30], [31], [32], [35]. The results show that financial literacy significantly enhances the financial well-being of middle-income households in Jakarta. A sound understanding of financial concepts enables individuals to make wiser financial decisions, feel more secure, and develop confidence in facing financial challenges [22]. The level of financial understanding influences an individual's income, which subsequently affects their financial satisfaction [30]. Increasing financial literacy also strengthens awareness of financial aspects, helping individuals understand their financial situation, plan financial needs for the present and future, and gain deeper insight into financial information [31]. Financial knowledge regarding saving, investing, and spending is essential to ensure financial well-being [14]. However, a

different result was found in the study of Mahzdan et al. (2022) [15], which reported that financial literacy had a negative effect on financial well-being. This was because individuals in lower economic strata with higher financial literacy tended to worry more frequently about financial problems compared to those with lower literacy levels. The difference in findings may be due to income-level variations among respondents—middle-income individuals with higher financial literacy tend to have better financial understanding, enabling them to manage finances more effectively and feel less anxious about their financial situation.

The second hypothesis (H2) testing for the direct effect in Table 6 reveals that the coefficient value of locus of control on financial well-being is 0.145 ( $p$ -value = 0.044 < 0.05). It can be concluded that locus of control has a significant positive effect on the financial well-being of middle-income households. The results of this study are consistent with findings by Mahzdan et al. (2022) and She et al. (2022), who reported that locus of control has a significant impact on financial well-being [15], [33]. Locus of control plays an important role in financial decision-making, as individuals with a higher internal locus of control tend to feel capable of managing events that affect them [33]. Indonesia's middle class continues to face challenges related to economic stability, social uncertainty, inflation, and global economic changes—all of which affect their purchasing power and quality of life [11]. Individuals who believe that their actions determine life outcomes and satisfaction tend to have greater confidence and security regarding their financial future. A sense of control over one's own actions enhances positive motivation and the willingness to act toward a better life and future [15]. These findings, however, differ from those of Iramani and Lutfi (2021) and Sutini and Wiyanto (2024), likely due to differences in respondent characteristics [28], [29].

The third hypothesis (H3) testing for the direct effect in Table 6 shows that the coefficient value of financial stress on financial well-being is  $-0.056$  ( $p$ -value = 0.573 > 0.05). It can be concluded that financial stress has a negative but insignificant effect on the financial well-being of middle-income households. When financial stress improves, it does not necessarily imply that financial well-being will deteriorate [20]. The results of this study are inconsistent with those of Rahman et al. (2021) and Mawadah & Sumiati (2024), who found that the higher an individual's financial stress, the lower their level of financial well-being. One possible reason for this difference is that previous studies focused on low-income households, where financial stress is often caused by insufficient income allocated to vehicle or housing maintenance, personal loans for essential needs, and inadequate budgeting [14]. Although middle-income households remain vulnerable to economic shocks, they generally have sufficient income to meet basic needs such as food, clothing, and housing, and they are also able to afford secondary needs such as quality education, better healthcare, and lifestyle consumption including travel and leisure activities [11]. Families with higher monthly income and greater wealth are better able to avoid the financial stress associated with difficulties in meeting the cost of living [28].

## 5 Conclusions, Suggestions, and Limitations

Financial well-being is one of the most critical issues in household financial management. This study examined financial well-being using a sample of 171 middle-income households in Jakarta, Indonesia. Based on the findings, improving financial well-being among middle-income households can be achieved through efforts to strengthen financial literacy and develop a more positive locus of control in personal financial management. The government and financial institutions should expand financial education programs that not only focus on basic financial knowledge but also emphasize discipline, long-term planning, and the ability to control financial behavior in the face of economic pressure. Furthermore, strategic policies are needed to encourage the middle-income population to enhance their household financial planning capacity, ensuring stability and reducing the risk of “downward mobility” when confronted with economic uncertainty such as inflation or income decline. Financial mentoring programs for productive households, implemented through formal institutions or local economic communities, can also serve as effective measures to strengthen the financial resilience of Indonesia’s middle class. The finding that financial stress does not significantly affect financial well-being suggests that financial stress does not always reflect financial incapacity but may be related to psychological factors and individual perceptions of economic pressure. Therefore, it is essential for middle-income households to strengthen self-control and financial planning skills so that financial stress does not negatively impact their overall well-being. Simple efforts such as disciplined spending management, cultivating saving habits, and diversifying income sources or investments can help maintain household financial stability. From a policy perspective, this study highlights the importance of continued government and financial authority initiatives to enhance financial literacy and inclusion programs, focusing not only on increasing knowledge but also on promoting sustainable financial behavior. The combination of strong financial literacy and a positive locus of control plays a significant role in improving the financial well-being of middle-income households in Indonesia.

The researcher acknowledges several limitations of this study. First, the sample was limited to middle-income households with an income range of IDR 2,040,262 to IDR 9,909,844 per capita per month. Meanwhile, the cost of living in major urban areas such as Jakarta averages around IDR 14.88 million per month, indicating that the financial characteristics of the respondents may not fully represent the diverse economic conditions across Indonesia. Therefore, future research is recommended to broaden the scope of respondents by including specific professional groups or Micro, Small, and Medium Enterprises (MSMEs) to gain a more comprehensive understanding of the factors influencing financial well-being across different socioeconomic contexts in Indonesia. Second, the cross-sectional research design only captures the relationships among variables at a single point in time, and thus cannot fully establish causal relationships. Third, the data in this study were obtained through self-reported questionnaires, which may be subject to perception bias or social desirability bias. Moreover, this study focused solely on perceptual indicators of financial well-being without incorporating objective financial measures such as savings level, asset

ownership, or debt burden, which could provide a more comprehensive depiction of actual financial conditions. Finally, the research model included only three main independent variables—financial literacy, locus of control, and financial stress—so future studies are encouraged to incorporate additional factors such as financial self-efficacy, financial behavior, or social support to develop a more holistic understanding of the determinants of financial well-being.

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