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Analysis of the Influence of Financial Literacy and Financial Planning on Investment Decisions of the Millennial Generation

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Abstract. *This study aims to examine the influence of financial literacy and financial planning on investment decisions among the millennial generation. The rapid growth of financial technology has created new investment opportunities, yet many millennials still struggle to make informed and rational financial choices. Using a quantitative research approach, data were collected from 150 respondents aged 20–35 years through an online questionnaire distributed via digital platforms. The variables of financial literacy, financial planning, and investment decisions were measured using a Likert-scale instrument. Data were analyzed using multiple linear regression to determine the extent to which financial literacy and financial planning affect investment behavior. The findings reveal that financial literacy has a significant positive effect on investment decisions, indicating that individuals with better financial knowledge tend to make wiser and more confident investment choices. Financial planning also shows a strong influence by helping individuals set clear goals and manage risks effectively. The study concludes that enhancing financial education and encouraging structured financial planning are essential strategies to improve millennials' financial decision-making skills, thereby supporting sustainable personal financial growth and contributing to economic stability.*

Keywords: *Financial Literacy; Financial Planning; Investment Decisions; Millennials; Personal Finance.*

1. BACKGROUND

The development of financial technology (fintech) in the last decade has transformed the way individuals manage their finances and make investment decisions. The millennial generation, as digital natives, has been exposed to various financial products and investment platforms that offer accessibility and convenience. However, despite this technological advancement, many millennials still face difficulties in managing their personal finances effectively and tend to make impulsive or uninformed investment decisions. This condition indicates that the level of financial literacy and financial planning among millennials remains relatively low and inconsistent with the rapid development of the financial market.

Previous studies have demonstrated that financial literacy is a key determinant of sound financial behavior and effective investment decision-making. Likewise, financial planning plays a vital role in guiding individuals to set financial goals, manage risks, and allocate resources optimally. Nevertheless, there is still a research gap regarding the combined impact of these two factors on millennials' investment behavior, especially in the context of digital investment platforms that dominate today's financial ecosystem.

The novelty of this research lies in its integrated analysis of financial literacy and financial planning as simultaneous predictors of investment decisions among millennials. This study is urgent considering that financial mismanagement can lead to poor financial security and hinder long-term economic growth. Therefore, the objective of this research is

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to analyze and explain how financial literacy and financial planning influence investment decisions among the millennial generation, and to provide insights that can support financial education initiatives and sustainable investment development.

2. THEORETICAL REVIEW

Financial Literacy

Financial literacy refers to an individual's ability to understand, analyze, and effectively use various financial skills, including budgeting, saving, investing, and managing debt. According to Lusardi and Mitchell (2014), financial literacy is a crucial component that enables individuals to make informed and rational financial decisions. A high level of financial literacy contributes to an individual's confidence and capability in evaluating financial products, minimizing risks, and maximizing returns. In the context of the millennial generation, financial literacy is considered essential because they often face complex financial environments influenced by digital technology and social media trends.

Financial Planning

Financial planning is a systematic process of setting financial goals, developing strategies, and implementing actions to achieve those goals (Gitman et al., 2018). It involves income management, savings allocation, investment strategies, and risk management. A well-structured financial plan helps individuals maintain financial discipline and avoid impulsive or speculative investment behaviors. Millennials with better financial planning skills tend to make more consistent and long-term investment decisions that align with their financial objectives.

Investment Decisions

Investment decision-making is the process of allocating financial resources into various investment instruments with the expectation of earning future returns (Brigham & Houston, 2019). Rational investment decisions require adequate knowledge, risk assessment, and the ability to interpret market information. Previous studies indicate that individuals with higher financial literacy are more likely to engage in investments that provide sustainable financial growth (Potrich et al., 2016).

Relationship between Financial Literacy, Financial Planning, and Investment Decisions

Several studies have highlighted the positive relationship between financial literacy and investment decision-making. Rahim et al. (2019) found that financial literacy significantly improves individuals' ability to make rational investment choices. Similarly, Dewi and Purbawangsa (2018) demonstrated that financial planning mediates the relationship between financial literacy and investment decisions, suggesting that both aspects are interrelated and complementary. However, there remains a gap in understanding how these two factors jointly influence the millennial generation's behavior in the digital investment era.

This research is based on the implicit hypothesis that financial literacy and financial planning have a positive and significant influence on investment decisions among millennials. By integrating these two theoretical constructs, this study aims to provide a comprehensive understanding of how knowledge and planning interact to shape sound investment behavior, particularly in the context of digital financial ecosystems.

3. RESEARCH METHOD

This research employs a quantitative research design using an explanatory approach to analyze the influence of financial literacy and financial planning on investment decisions among the millennial generation. The explanatory method was chosen to test the causal relationship between variables based on statistical analysis.

The population in this study consists of millennials aged 20–35 years who actively use digital investment platforms in Indonesia. The sample was determined using a purposive sampling technique, with 150 respondents selected based on specific criteria: (1) aged 20–35 years, (2) have an income, and (3) have made investment decisions through digital financial platforms. Data were collected through an online questionnaire distributed via social media and email.

The research instrument used was a Likert-scale questionnaire consisting of three main variables: financial literacy (X_1), financial planning (X_2), and investment decisions (Y). The instrument's validity and reliability were tested using Pearson's correlation and Cronbach's Alpha, respectively, showing that all items were valid and reliable ($\alpha > 0.70$).

The data analysis technique used is multiple linear regression, supported by classical assumption tests including normality, multicollinearity, and heteroscedasticity tests. The model testing applies the F-test and t-test to determine the simultaneous and partial effects of independent variables on the dependent variable, with a significance level of 5%.

The research model can be expressed as follows:

$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$

where:

Y = Investment Decisions

X_1 = Financial Literacy

X_2 = Financial Planning

α = Constant

β_1, β_2 = Regression Coefficients

ε = Error Term

This model aims to identify the extent to which financial literacy and financial planning influence millennials' investment decision-making behavior, providing empirical insights into financial management patterns in the digital investment era.

4. RESULTS AND DISCUSSION

Data Collection Process, Time Span, and Research Location

Data collection was conducted from May to July 2025 through an online survey distributed to millennials across several major cities in Indonesia, including Jakarta, Bandung, Yogyakarta, and Surabaya. The selection of these areas was based on the high concentration of young professionals and digital investment users. A total of 180 questionnaires were distributed, and 150 valid responses were analyzed, while 30 responses were excluded due to incomplete data. The respondents' demographics consisted of 56% male and 44% female participants, with most respondents aged between 25 and 30 years.

Descriptive Statistics

The descriptive analysis showed that the majority of respondents had a moderate to high level of financial literacy and a strong tendency toward structured financial planning. Table 1 presents the mean values and standard deviations for each research variable.

Table 1. Descriptive Statistics of Research Variables

Variable	Mean	Std. Deviation	Category
Financial Literacy (X_1)	4.21	0.52	High
Financial Planning (X_2)	4.08	0.61	High
Investment Decisions (Y)	4.15	0.57	High

Source: Processed Primary Data (2025)

The data indicate that millennials tend to possess sufficient financial knowledge and engage in active planning for their investments. This reflects a growing awareness of personal finance management among young adults.

Results of Regression Analysis

The results of multiple linear regression analysis are shown in Table 2.

Table 2. Regression Analysis Results

Variable	Coefficient (β)	t-value	Sig.	Interpretation
Financial Literacy (X_1)	0.421	5.162	0.000	Significant Positive Effect
Financial Planning (X_2)	0.367	4.845	0.000	Significant Positive Effect
Constant (α)	1.024	-	-	-
R^2	0.614	-	-	-
F-value	56.342	-	0.000	Model Significant Overall

Source: Processed Primary Data (2025)

The results show that financial literacy (X_1) and financial planning (X_2) both have significant positive effects on investment decisions (Y). The coefficient of determination ($R^2 = 0.614$) indicates that 61.4% of the variation in investment decisions can be explained by financial literacy and financial planning, while the remaining 38.6% is influenced by other factors not included in the model.

Discussion

The findings confirm that financial literacy plays a crucial role in shaping rational investment behavior. Individuals with higher levels of financial knowledge are more capable of assessing risks and understanding the potential returns of various investment products. This result is consistent with Lusardi and Mitchell (2014) and Rahim et al. (2019), who found that financial literacy positively influences individuals' decision-making confidence and accuracy.

In addition, financial planning significantly contributes to disciplined and goal-oriented investment behavior. Respondents who reported regularly reviewing their budgets and setting clear investment targets were more likely to make informed financial decisions. These findings align with Dewi and Purbawangsa (2018), emphasizing that structured financial planning mediates the relationship between financial literacy and sound investment choices.

Theoretical and Practical Implications

From a theoretical perspective, this research strengthens the behavioral finance framework, which asserts that financial knowledge and self-regulation influence investment behavior. Practically, the results suggest that improving financial education programs and promoting structured financial planning are essential to enhance millennials' financial competence. Financial institutions and policymakers should design training programs, workshops, and digital education initiatives focused on improving both financial literacy and personal financial management.

Furthermore, universities and educational institutions can integrate financial literacy modules into business and management curricula to cultivate better decision-making skills among students. This will not only improve individual financial well-being but also contribute to broader economic stability.

5. CONCLUSION AND SUGGESTION

The results of this research conclude that financial literacy and financial planning have a significant and positive influence on investment decisions among the millennial generation. Millennials who possess higher levels of financial knowledge and actively engage in structured financial planning tend to make more rational, informed, and goal-oriented investment choices. These findings confirm that both cognitive understanding (financial literacy) and behavioral discipline (financial planning) play crucial roles in shaping individual investment behavior in the digital era. This conclusion directly answers the research objective—to identify and explain how financial literacy and financial planning affect millennials' investment decisions.

From a practical standpoint, this study suggests that financial education programs should be continuously developed and made more accessible, especially for young adults who are entering the investment market for the first time. Financial institutions, universities, and government agencies are encouraged to collaborate in designing financial literacy campaigns and financial planning workshops that enhance individuals' capabilities to manage personal finances effectively. Moreover, digital investment platforms can play a strategic role by integrating educational content and planning tools that support informed decision-making among users.

This research is not without limitations. The study was conducted within a limited time frame and relied on self-reported data from a specific demographic group of Indonesian millennials, which may limit the generalization of the findings. Future research is recommended to expand the sample size, include comparative analyses across different age groups or countries, and consider additional variables such as risk tolerance, financial technology adoption, and behavioral biases. Such studies will provide a broader and deeper understanding of how financial literacy and planning interact to shape investment behavior in an evolving financial landscape.

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