

## THE PRACTICE AND MEANING OF MENTAL BUDGETING IN HOUSEHOLD FINANCIAL MANAGEMENT IN POOR FAMILIES IN MADIUN REGENCY: A PHENOMENOLOGICAL STUDY

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### *Abstrak*

*Pengelolaan keuangan rumah tangga pada keluarga miskin merupakan aspek penting dalam menjaga keberlangsungan ekonomi dan kesejahteraan keluarga. Penelitian ini bertujuan untuk mengidentifikasi dan menganalisis praktik serta pemaknaan mental budgeting dalam pengelolaan keuangan rumah tangga pada keluarga miskin di Kabupaten Madiun. Penelitian ini menggunakan pendekatan kualitatif dengan metode fenomenologi. Informan dalam penelitian ini berjumlah dua belas orang yang terdiri atas ibu rumah tangga, kepala keluarga, aparat desa, dan pendamping Program Keluarga Harapan (PKH). Pengumpulan data dilakukan melalui wawancara mendalam dan observasi, kemudian dianalisis secara tematik. Hasil penelitian menunjukkan bahwa mental budgeting memiliki peran penting dalam pengelolaan keuangan rumah tangga, khususnya dalam membantu ibu rumah tangga mengatur pengeluaran agar lebih hemat. Namun, praktik mental budgeting yang diterapkan masih menghadapi berbagai kendala, seperti pembagian anggaran yang ketat namun kurang fleksibel, keterbatasan pendapatan yang memengaruhi prioritas pengeluaran, pemisahan dana berdasarkan sumber pendapatan, minimnya pencatatan pengeluaran, serta ketergantungan pada utang sebagai solusi darurat. Temuan ini sejalan dengan penelitian terdahulu yang menegaskan bahwa mental budgeting dipengaruhi oleh faktor psikologis dan sosial. Oleh karena itu, penelitian ini merekomendasikan perlunya peningkatan literasi keuangan, pembiasaan pencatatan pengeluaran, serta penguatan pemahaman mental budgeting yang lebih terstruktur dan fleksibel guna meningkatkan kesejahteraan keluarga miskin.*

***Kata Kunci: Mental budgeting, Mental Accounting, Pengelolaan keuangan rumah tangga***

***Abstract***

*Household financial management in poor families is a crucial aspect in maintaining economic sustainability and family well-being. This study aims to identify and analyze the practices and meanings of mental budgeting in household financial management among poor families in Madiun Regency. This study used a qualitative approach with a phenomenological method. Twelve informants participated in this study, consisting of housewives, heads of families, village officials, and Family Hope Program (PKH) facilitators. Data were collected through in-depth interviews and observations, then analyzed thematically. The results indicate that mental budgeting plays a significant role in household financial management, particularly in helping housewives manage expenses more economically. However, the practice of mental budgeting still faces various obstacles, such as strict but inflexible budget allocations, limited income that influences spending priorities, separation of funds based on income sources, minimal recording of expenses, and reliance on debt as an emergency solution. These findings align with previous research that confirms that mental budgeting is influenced by psychological and social factors. Therefore, this study recommends improving financial literacy, fostering the habit of recording expenses, and strengthening a more structured and flexible understanding of mental budgeting to improve the welfare of low-income families.*

***Keywords: Mental Budgeting, Mental Accounting, Household financial management***

**A. INTRODUCTION**

Household financial management is a crucial aspect of maintaining family well-being. In poor families, limited income makes financial decision-making more complex and demanding. Limited income requires families to prioritize, delay consumption, and carefully manage expenses to ensure basic needs are met. In these circumstances, one psychological mechanism at play is mental budgeting. Mental budgeting is a subset of mental accounting, which is the tendency of individuals to mentally group income and expenses into specific categories. In this way, individuals establish limits for each expenditure category, thereby controlling consumption behavior.

Mental accounting refers to how individuals psychologically separate various economic categories in their lives. For example, someone might separate a weekly food budget from an entertainment budget or a monthly clothing budget (Heath, C., & Soll, 1996; Rosalina et al., 2021;

Pasek, 2024). In this context, mental budgeting relates to how individuals set goals for their money, plan expenses, or determine how much they want to save. This narrower form of mental accounting is known as mental budgeting, which fundamentally contradicts traditional economic assumptions about the functional equivalence of money (Thaler, 1990; Chudziak, 2024). Furthermore, mental accounting encompasses other aspects, such as how individuals label income and assets. Thus, mental budgeting can be influenced by the source of the money, such as whether it comes from a salary, inheritance, or gift. (Javareshk et al., 2024).

Research on mental accounting was initially conducted in the laboratory by presenting participants with scenarios and asking them to make decisions or make judgments (Tversky, A., & Kahneman, 1981; Karlsson et al., 2024; Javareshk et al., 2024). Studies (Antonides et al., 2011; Reinholtz et al., 2015) show that individuals are more likely to report spending on vacations when the money is described as a gift, compared to when it is described as a work bonus. Another study (Epley, N., Mak, D., & Idson, 2006) found that consumers were more willing to spend when the income was labeled as a bonus than when the income was labeled as a rebate.

This research was conducted in Madiun Regency on poor families with the number of poor people in Madiun Regency decreasing by 1.56 thousand people, from 73.15 thousand people in March 2024 to 71.59 thousand people in March 2025 or experiencing a decrease of 2.13 percent, but the Poverty Line of Madiun Regency in March 2025 was IDR 476,506 per capita per month. Compared to March 2024 which had a Poverty Line of IDR 460,205.00, in other words the Poverty Line increased by IDR 16,301.00 per capita per month. (BPS, 2025), The increase in the Poverty Line from IDR 460,205 to IDR 476,506 per capita per month shows that the cost of meeting basic needs such as food, transportation, energy, and other essential needs is getting more expensive. In other words, although the number of poor people has decreased statistically, the economic burden faced by the community has actually increased. Rising prices of basic necessities, inflation, and changes in expenditure structures can all contribute to the rise in the poverty line.

Based on researchers' observations, poor families in Madiun Regency generally adhere to very strict budget allocations, such as for food, electricity, and school fees. However, this budget allocation lacks flexibility when urgent needs arise. Limited income makes it difficult for them to maintain spending priorities. In some cases, more important needs, such as health care or education, are neglected due to short-term consumption, especially when influenced by emotional or social impulses, such as buying fast food or following certain trends. Some families separate money based on its "origin," such as social assistance (PKH), daily work earnings, or gifts. Often, the assistance money is considered extra and used for non-priority needs. Many poor families do not record daily expenses. Small expenses such as snacks, phone credit, extra gasoline, or children's needs often go unnoticed, quickly draining the budget. When one budget item is insufficient, poor families often struggle to find solutions and ultimately resort to emergency measures such as short-term debt. This debt typically originates from village shops, neighbors, small-scale online loans, or savings and loan cooperatives. This pattern indicates that financial management practices are suboptimal and prone to creating additional financial burdens. Given this phenomenon, researchers believe it's crucial to delve deeper into the practices and meanings of mental budgeting applied by poor families in their daily financial management. This analysis is expected to provide a concrete picture of how they plan, manage, and adjust their budgets under limited resources.

## **B. METHOD**

### **1. Mental Accounting**

#### **a. Aspects of Mental Accounting**

Mental accounting theory explains that individuals unconsciously separate various economic decisions and transactions into specific "mental categories." This separation is not always the same as mental budgeting, but encompasses several key aspects, such as: hedonic editing, grouping

gains and losses, labeling income and assets, concurrent borrowing and saving, and mental budgeting itself.

## **1. Hedonic Editing**

Hedonic editing (or framing) relates to how individuals evaluate combinations of gains and losses. Based on prospect theory, Thaler (1985) found that people prefer to separate gains rather than combine them. Conversely, people prefer to combine losses rather than separate them. However, research by Thaler & Johnson (1990) shows that this rule does not always apply, especially if gains and losses occur at different times. When individuals have experienced a previous loss, they often prefer to separate subsequent losses. This pattern, which does not fully conform to the rules of hedonic editing, is called quasi-hedonic editing. In the context of investing, investors tend to place their stocks into a separate mental account (Thaler, 1999). They are often reluctant to sell stocks that are losing money, even though they have already made a profit in another account—a phenomenon known as the disposition effect (Odean, 1998; Shefrin & Statman, 1987).

## **2. Categorization of Gains and Losses**

A transaction is more easily assigned to a particular category if the item fits the characteristics of that category. For example, buying concert tickets is more easily considered an “entertainment expense” than buying expensive wine (Heath & Soll, 1996). Category norms such as these facilitate the classification process (Kahneman & Miller, 1986). This categorization is important because it determines whether a category's budget is considered remaining or exhausted.

## **3. Labeling Income and Assets**

Several other factors influence how an individual “edits” combinations of gains and losses, such as the temporal proximity of the gain and loss (Cowley, 2008) and the ability to restore psychological resources, such as emotional resilience, after experiencing a loss (Linville & Fischer, 1991). For example, a gain that occurs after a loss can provide a “buffer” effect that makes the loss less painful.

The assignment or labeling of income and assets is an important aspect of mental accounting. The way individuals label money influences how they spend it. First, labeling income as current income, an asset, or future income is associated with differences in consumption propensities (Shefrin & Thaler, 1988). Income perceived as current income tends to be spent more quickly. Income perceived as future income actually encourages lower spending. Second, small windfalls are generally easier to spend than regular income (Abdel-Ghany et al., 1983). Conversely, large amounts of income are often labeled as assets and therefore spent less frequently. Furthermore, bonus money is easier to spend than income perceived as a return, such as a tax refund (Epley et al., 2006). Research by Kooreman (2000) also found that spending on children's clothing was more responsive to changes in child support than to changes in other income sources. These findings suggest that labeling influences how income is translated into spending. This labeling is important in economic policy. To encourage consumption, governments are more effective in providing small, incremental payments to households than large, lump-sum payments, because small payments tend to be considered income, while large payments are classified as assets and are spent less frequently (Epley & Gneezy, 2007; Thaler, 1990). In addition, money that is mentally allocated to one spending category is usually spent in that category, even if the item is unavailable or less expensive than expected (O'Curry, 1996). For example, a cash refund for a record album is more likely to be used to buy another record album than if the refund came from a CD (Henderson & Peterson, 1992).

The method used in this study is a qualitative method that uses the theoretical basis of phenomenological studies. In this qualitative research, it is to reveal the phenomena that occur in a household life. Qualitative research is a methodology borrowed from disciplines such as sociology and anthropology that is adapted to educational settings. According to (Creswell, 2007) there are 5 approaches in qualitative research, namely: narrative, phenomenology, grounded theory, ethnography, and case studies. The approach to this research is phenomenology. Phenomenological studies do not focus on the life of an individual but rather on concepts or

phenomena, and this form of study seeks to understand the meaning of individual experiences about this phenomenon. This study uses a qualitative approach with the phenomenological method. chosen because the study aims to explore the life experiences, ways of thinking, and subjective meanings of poor families in applying mental budgeting to household financial management. The location of the research was carried out in Madiun Regency, specifically in several villages/sub-districts that have a poor family category according to DTKS (Integrated Social Welfare Data) data or data from the Social Service/Village Government. The research subjects were poor families who received social assistance (PKH, BPNT, or BLT). They had low and irregular incomes and managed their finances independently. Informant selection techniques: purposive sampling and snowball sampling. The number of informants was 12 people, consisting of: Four housewives (expenditure determinants), Four heads of families, Two community leaders/RT heads (supporting informants), one PKH companion or village official (triangulation informant), in-depth interviews, observation and documentation.

The mental budgeting practices practiced by poor families in Madiun Regency demonstrate a number of challenges in household financial management that impact long-term well-being. One major factor affecting budget management is limited income, which forces families to survive on a very limited budget. This forces them to prioritize basic needs, such as food and education, while often neglecting more important needs, such as healthcare.

Separating money based on income sources, such as social assistance or daily earnings, creates a tendency to view these funds as "extra" and more flexible funds, even though social assistance should be focused on long-term needs. This practice illustrates the importance of a better understanding of budget management, and how it should prioritize needs and ensure no funds are wasted.

The lack of recording of daily expenses is an additional problem. Seemingly small expenses, such as snacks or extra gasoline, are not properly recorded and ultimately cause them to accumulate, disrupting the stability of the family budget. Therefore, improving financial literacy

and adopting better spending habits can help poor families become more aware and responsible in managing their finances. Debt is an emergency solution often resorted to by poor families when facing budget shortfalls. However, this debt is usually short-term and comes from unsecured sources, such as village stalls or online loans. This pattern indicates that poor families often lack access to formal and secure financial services, which could provide better and more structured financing alternatives.

Overall, household financial management among poor families in Madiun Regency still requires improvement, particularly in terms of more thorough budget planning, expense recording, and understanding spending priorities. Therefore, efforts are needed to increase their understanding of the importance of a more structured and flexible mental budgeting, as well as provide better access to financial services that can help them manage their expenses more effectively and efficiently. These results align with previous research (Habibah et al., 2018), which found that attitudes, subjective norms, and perceived behavioral control significantly influence households' intentions to implement mental budgeting. These intentions, in turn, influence actual household financial management behavior. These findings indicate that mental budgeting practices are the result of psychological and social processes, not just rational decisions.”, According to (Ginting et al., 2022) shows that mental accounting influences the way individuals understand and manage pocket money during pandemics and endemics, According to (Rosalina & Rahmi, 2022) found that mental budgeting and culture have a significant influence on household financial management through commitment, showing the importance of mental budgeting in the domestic financial context.

## **C. RESULTS AND DISCUSSIONS**

Based on the research findings, mental budgeting plays a crucial role in household financial management among poor families in Madiun Regency, helping housewives, particularly those who determine financial expenditures, become more economical and manage their finances.

Twelve informants participated: four housewives (Mrs. Tika, Mrs. Helda, Mrs. Ida, Mrs. Elis), four heads of families (Mr. Rohman, Mr. Agus, Mr. Banu, and Mr. Sarto), two village officials (Mr. Alex, Mr. Agus), and one Family Hope Program (PKH) facilitator (Mr. Muhammad Slamet). This study aims to identify and analyze the practices and meanings of mental budgeting applied by poor families in Madiun Regency in managing household finances. Based on findings from interviews and observations, several patterns and behaviors emerged related to how they organize and plan their daily financial budgets.

### 1. Tight and Limited Budget Allocation

Poor families in Madiun Regency tend to have very tight budget allocations, with primary priorities being prioritized on basic needs such as food, electricity, and children's education. Most families focus on managing their budgets based on primary needs, despite limited income. However, this tight budget allocation is often not accompanied by sufficient flexibility when unexpected, urgent needs arise, such as healthcare costs or family care needs.

### 2. Income Limitations Affect Spending Priorities

The limited income experienced by poor families requires them to make highly selective decisions in determining spending priorities. In some cases, more important needs, such as healthcare or education, are replaced by short-term consumer spending that arises in response to emotional or social impulses, such as buying fast food or following popular trends. This phenomenon reflects an imbalance in mental budgeting, leading to shifts in spending priorities that are not aligned with long-term needs.

### 3. Financial Management Practices Based on Income Source

Some families separate their money based on the "origin" of their income, such as social assistance (Family Hope Program/PKH), daily income, or gifts. This practice often indicates that social assistance or additional funds are considered more flexible funds, which are then used to meet less important or even consumptive needs, rather than priority needs such as health and education. This situation reflects a lack of awareness or well-planned budget management, as

assistance that should be used to support basic needs is at risk of not being channeled to the appropriate items.

#### 4. Lack of Recording of Expenditures and Budgetary Awareness

Many poor families fail to record their daily expenses, especially small, seemingly trivial expenses like snacks, phone credit, extra gasoline, or children's urgent needs. This lack of awareness of the amount of expenses causes budgets to quickly deplete, especially if these expenses are recurring in small but consistent amounts. This indicates that many poor families lack a structured and detailed financial management system.

#### 5. Taking on Debt as an Emergency Solution

When one budget item is insufficient, poor families often find themselves in an emergency and resort to extreme measures such as borrowing. This debt typically comes from informal sources such as village stalls, loans from neighbors, or even small online loans. This pattern indicates that their financial management is suboptimal and they are vulnerable to additional economic burdens that can worsen the family's financial situation, especially if not managed wisely.

### D. CONCLUSIONS

This research has successfully uncovered the practices and meanings of mental budgeting applied by poor families in Madiun Regency in managing their household finances. Based on the findings, it can be concluded that:

#### a. Strict but Inflexible Financial Management Practices

Poor families in Madiun Regency tend to allocate their budgets very strictly for basic needs such as food, electricity, and education. However, this budget allocation is often not accompanied by sufficient flexibility to deal with sudden or unexpected needs. This makes it difficult for families to cope with emergencies that require additional expenditures, such as healthcare costs.

#### b. The Importance of Spending Priorities Disrupted by Social and Emotional Impulses

The inability to maintain rational spending priorities often results in poor families opting for short-term consumptive spending, which is more influenced by emotional or social impulses, such as buying fast food or following trends. This indicates that although budgets are prioritized for basic needs, there is a tendency to neglect more important long-term needs, such as health and education.

### **c. Lack of Expenditure Recording**

Many poor families do not record their daily expenses, especially small, seemingly insignificant expenses that can add up quickly. This lack of awareness of the amount of expenses leads to deficiencies in budget management, which risks quickly depleting the family budget and causing greater financial difficulties.

### **d. Reliance on Debt as an Emergency Solution**

When budgets are insufficient, poor families are often forced to seek solutions by borrowing, whether from village stalls, small online loans, or savings and loan cooperatives. Although this debt is often used as a short-term solution, this habit increases the family's economic burden and risks causing more serious financial problems in the future.

### **e. Suboptimal Budgeting Mentality**

Overall, the budgeting mentality adopted by poor families is still suboptimal. Families tend to manage their finances in a less structured and flexible manner, prioritizing short-term expenses over financial planning that focuses on long-term needs.

Thus, this study demonstrates an urgent need to improve understanding of a more structured and flexible budgeting mentality among poor families, as well as provide support in the form of financial education and better access to formal financial services. It is hoped that this will help poor families in Madiun Regency to be more effective in managing their household finances and improve overall economic well-being.

## **E. SUGGESTIONS**

### **1. Financial Education for Poor Families**

The government and social institutions need to improve financial education programs that can help poor families understand how to better plan, record, and manage their budgets, as well as provide an understanding of the importance of prioritizing spending.

### 2. Improving Access to Formal Financial Services

Efforts need to be made to improve poor families' access to formal financial services that can help them manage their finances in a more structured manner and avoid dependence on informal loans that are vulnerable to financial risks.

### 3. Flexibility in the Budget Distribution System

A more flexible mental budgeting system, which takes into account the possibility of unexpected needs, should be introduced so that poor families can better manage their finances without neglecting important, unexpected needs.

With a more systematic approach to financial management and a deeper understanding of mental budgeting, it is hoped that the economic conditions of poor families in Madiun Regency will be more stable and managed more effectively.

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