

MEXICO



DEMOGRAPHICS AND MACROECONOMICS

Nominal GDP (EUR bn)	12 078
GDP per capita (USD)	10 183
Population (000s)	106 683
Labour force (000s)	45 111
Employment rate	96.5
Population over 65 (%)	5.6
Dependency ratio ¹	13.2

Data from 2008 or latest available year.
 1. Ratio of over 65-year-olds the labour force.
 Source: OECD, various sources.

COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- New labour-force entrants in Mexico are obliged to join the new, funded and privately managed defined-contribution scheme.
- There is also a minimum pension.

Private pensions: occupational (voluntary)

- Occupational pension plans

Private pensions: personal (mandatory)

- SIEFORES: mandatory contributions
- ISSTE: mandatory contributions

Private pensions: personal (voluntary)

- SEIFORES: voluntary contributions

Source: OECD Global Pension Statistic.

PENSION FUNDS DATA OVERVIEW

	2001	2002	2003	2004	2005	2006	2007	2008
Assets								
Total investments (National currency millions)	248,558	325,008	401,536	481,897	839,851	1,065,371	1,221,351	1,354,781
Total investments, as a % of GDP	3.90	4.73	5.31	5.63	9.11	10.30	10.93	11.22
Of which Assets overseas, as a % of Total investment:								
• Issued by entities located abroad	ND	ND	ND	ND	0.43	2.96	7.03	5.65
• Issued in foreign currencies	ND	0.27	0.10	3.15	0.99	1.57	0.84	1.66
By financing vehicle (as a % of Total investments)								
• Pension funds	100.00	100.00	100.00	100.00	99.07	98.73	92.19	92.76
• Book reserves	ND	ND	ND	ND	ND	ND	ND	ND
• Pension insurance contracts	NA	NA	NA	NA	NA	NA	NA	NA
• Other financing vehicle	ND	ND	ND	ND	0.93	1.27	7.81	7.24
By pension plan type								
• Occupational assets	ND	ND	ND	ND	239,886	325,195	349,594	357,390
• % of DB assets	ND	ND	ND	ND	96.76	95.83	95.74	95.75
• % of DC (protected and unprotected) assets	ND	ND	ND	ND	3.24	4.17	4.26	4.25
• Personal assets	248,558	325,008	401,536	481,897	599,965	740,176	871,757	997,390
Structure of Assets (as a % of Total investments)								
Cash and Deposits	0.15	0.22	0.00	0.00	0.00	0.00	0.00	0.02
Fixed Income	99.85	99.78	100.00	99.43	87.20	83.03	82.61	82.60
Of which:								
• Bills and Bonds issued by the public and private sector	99.85	99.78	100.00	99.43	87.20	83.03	82.61	82.60
• Loans	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Shares	0.00	0.00	0.00	0.00	11.24	13.58	12.67	10.98
Land and Buildings	0.00	0.00	0.00	0.00	0.01	0.01	0.01	0.01
Other Investments	0.00	0.00	0.00	0.57	1.55	3.38	4.72	6.40
Contributions and Benefits								
Total Contributions, as a % of GDP	0.99	0.83	0.78	0.75	0.75	0.98	0.86	1.20
• Employer Contributions, as a % of Total contributions	87.69	84.62	84.52	84.83	85.18	ND	ND	ND
• Employee Contributions, as a % of Total contributions	12.31	15.38	15.48	15.17	14.82	ND	ND	ND
Total Benefits, as a % of GDP	0.02	0.02	0.08	0.05	0.06	0.20	0.24	0.25
• % of benefits paid as a Lump sum	ND	ND	ND	ND	ND	ND	ND	ND
• % of benefits paid as a Pension	ND	ND	ND	ND	ND	ND	ND	ND
Membership (in thousands of persons)¹								
Total membership	26,636	29,601	31,398	33,316	36,362	38,510	39,776	40,509
• % of Active membership	99.56	99.39	100.00	100.00	99.88	99.87	99.83	99.82
Of which: % of Deferred membership	55.31	58.25	60.66	61.36	60.90	61.54	60.06	61.48
• % of Passive membership	0.44	0.61	0.00	0.00	0.12	0.13	0.17	0.18
Other beneficiaries	ND	ND	ND	ND	ND	ND	ND	ND
Number of Pension Funds/Plans								
Total number of funds	16	14	12	26	1,483	1,495	1,660	1,717
Total number of plans	ND	ND	ND	ND	1,653	1,703	1,794	1,805

Note: The increase in 2005 is due to the new occupational pension plans registered with CONSAR.

1. Membership figures reflect 'membership' rather than 'people'. Therefore a person may be a member of more than one types of plan at any one time, particularly if the person has a number of employments in the year.

ND = data not available
NA = data not applicable

Source: OECD, Global Pension Statistics

MEXICO: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

The Government guarantees a minimum old age pension to all members of the private pension system who, at retirement, have not accumulated enough funds in their personal accounts to finance a pension of an amount equal to or greater than the minimum pension. The guaranteed minimum pension is set equal to Mexico City's minimum wage (about 40% of the average wage). It is indexed to the price level and will therefore decline relative to average wages over time. To qualify for the minimum pension, a worker also has to contribute to the system for 1,250 weeks (approximately 25 years). The retirement age is 65 for men, 60 for women.

OCCUPATIONAL VOLUNTARY

Coverage

Employers may establish an occupational pension on a voluntary basis, while employees are usually automatically enrolled in a plan as part of their employment contract. In 2007 the occupational pension system covered less than 3% of the labour force.

Typical Plan Design

Defined benefit plans are usually based on final salary – the last month or year prior to termination of employment. Retirement ages vary, but in most plans (over 60%) the age is over 60. Benefits may be paid in any form, with 80% of plans paying out benefits in annuities and 20% in lump sums.

Taxation

Contributions are tax-exempt up to a ceiling of 12.5% of payroll, while benefits are taxed at standard income rates.

PERSONAL MANDATORY

Coverage

Participation in the private scheme is mandatory for all employees, whether they contributed to the old pension system or not. The self-employed are not required to participate. Public employees were originally excluded from the new system, but those who joined the civil service after legislation was reformed in 2008 are covered.

Contributions

Under the mandatory retirement account system, employers (5.15%), employees (1.125%), and the government (0.225%) together contribute a total of 6.5% of taxable income to individual accounts. Unlike many other Latin American countries, where disability and old-age survivor insurance schemes are separate private contracts funded solely by employees, Mexico's IMSS (the country's old social security system) administers these programmes, financed by contributions totalling 2.5% of taxable income (0.625% from employees, 1.75% from employers, and 0.125% from the government).

Benefits

The system is defined contribution in nature. Retirement benefits become available at the age of 65 after 1,250 weeks of contributions, and disability and life insurance benefits after 250 weeks of contributions. Those employees who reach retirement age without having contributed for the required number of weeks may withdraw the entire balance of their retirement account as a lump sum. Employees may retire early when the balance of their account can yield benefit equal to, or greater than, 30% of the minimum pension in force at the time. Upon retirement, workers may either use the proceeds of their account to purchase an annuity from an insurance company, or make gradual withdrawals.

Employees who contributed under the old pay-as-you-go (PAYG) pension plan may choose either to receive their benefits in accordance with that system, or to use their savings under the private scheme. If they choose the PAYG benefit arrangement, the balance of their individual account is transferred to the government.

Fees

As of 2008 fees may be determined only as percentages of assets under management. In 2007, they accounted for over 2%.

Taxation

Investment income is tax-exempt. Members' contributions are taxed, while employers' contributions may be deducted from profits for tax purposes. Benefits are tax-exempt up to a ceiling set at nine times the annual minimum salary. Benefits above this limit are taxed as income.

PERSONAL VOLUNTARY

Coverage

Both employees and the self-employed may participate in the voluntary pension scheme. Federal state employees and those who work for certain public organisations and municipalities may also make voluntary contributions.

Contributions

Supplementary contributions to a mandatory pension fund are permitted and can be paid by employers and/or the employees, either regularly or on an *ad hoc* basis. They do not enjoy tax relief.

Benefits

Members can transfer all, or part of, their savings to an individual capitalisation account when they retire in order to increase the size of their pensions. Additionally, they may withdraw their voluntary social security savings at any point in their working life, and not only on retirement.

MARKET INFORMATION

Occupational voluntary

In 2007 there were over 1 700 occupational pension plans with a total of more than 1.1 million members. Half of these plans were administered by banks, accounting for over 80% of total assets under management, or over MXN 330 billion (USD 30 billion).

Personal mandatory

In 2005 the mandatory private pension system had around 35 million members, and 19 AFOREs were managing its assets in 2007. Individuals are free to choose their AFOREs, which are regulated and supervised by the National Commission for the Retirement Savings System (CONSAR). A law passed in 2007 instituted an individual retirement account programme for civil servants and created a special AFORE, called the *PensionISSSTE*, to manage the scheme for its first three years. Public employees may switch to another AFORE only once the three-year period has elapsed.

Since 2008, each AFORE has been allowed to offer five SIEFOREs (SIEFORE 1 to 5) with different types of investment strategies and risk levels.

In December 2005 pension fund management companies had accumulated assets equivalent to over MXN 601.1 billion (USD 55.2 billion), or 7% of Mexico's GDP.

There are no legal requirements for a minimum rate of return to be credited to a member's individual account.

Personal voluntary

At the end of 2005 around 163 000 workers had signed up to voluntary savings accounts, with pension funds having accumulated assets equivalent to MXN 2.0 billion (USD 185 million).

REFERENCE INFORMATION

KEY LEGISLATION

The CONSAR Circular 15-12 of 2004 authorised changes in investment regulation, which included the creation of SIEFORE 2 and the approval of new types of investment instruments and foreign securities.

The Retirement Saving System Law of 1996 defines the structure and powers of CONSAR and regulates the establishment, operation, and supervision of AFOREs and SIEFOREs.

KEY REGULATORY AND SUPERVISORY AUTHORITIES

The *Comision Nacional del Sistema de Ahorro para el Retiro* (CONSAR), or National Commission for the Retirement Savings System, regulates and supervises the private fund management companies (AFOREs);

www.consar.gob.mx/.

KEY OFFICIAL STATISTICAL REFERENCE AND SOURCES ON PRIVATE PENSIONS

Comision Nacional del Sistema de Ahorro para el Retiro (CONSAR), or National Commission for the Retirement Savings System; www.consar.gob.mx/.

OECD, Global Pension Statistics project, www.oecd.org/daf/pensions/gps.

OECD Est. Gross Replacement Rate Mandatory Pensions, Average Earner 2009







