

IOPS COUNTRY PROFILE: MEXICO



DEMOGRAPHICS AND MACROECONOMICS

Nominal GDP (MXN bn)	28 535
GDP per capita (USD)	7 720
Population (000s)	126 014 (2020 Census)
Labour force (000s)	59 480 (Q3, 2022)
Employment rate	96.8
Population over 65 (%)	8.0
Dependency ratio ¹	12.0

Data 2020 or the 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

- Non contributory pension
- Minimum pension

Private pensions: occupational (voluntary)

- Occupational pension plans

Private pensions: personal (mandatory)

- Retirement Savings System

Private pensions: personal (voluntary)

- Voluntary contributions in the Retirement Savings System
- Personal pension plans

Source: OECD Global Pension Statistic.

MEXICO: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

There is an old-age pension (Pensión para Adultos Mayores) that is a non-contributory safety-net program funded by the federal budget. It covers people aged 65 and older. It provides a financial support of MXN 1,925 per month, and will be increased to MXN 2,406 for year 2023 and MXN 3,000 for year 2024, which will remain only adjusted by the inflation rate each year.

Also, the Government guarantees a pension to all members of the private pension system who fulfil the requirements at retirement, and have not accumulated enough funds in their individual accounts to finance a pension of an amount equal to or greater than the guaranteed pension. The guaranteed pension is set depending on the age, years of service and salary level of the worker. It is indexed to the price level and will therefore decline relative to average wages over time. To qualify for the guaranteed pension, a worker also has to contribute to the system for 775 weeks for year 2022, and they will increase 25 weeks in January of each year until they reach in year 2031¹ a 1,000 weeks (approximately 20 years). The retirement age is 65, and the early retirement age is 60.

In 2020, the amount of the guaranteed pension per month for private workers is described in the table of the mentioned Social Security Law, according to the age, wage and years of service upon retirement. The guaranteed pension for public workers of year 2022 is a monthly amount of MXN 5,677.5, which is adjusted by inflation each year. The guaranteed pension is paid in the beginning with the existing balance in the individual account, and when this balance is depleted, is funded from the federal budget.

OCCUPATIONAL VOLUNTARY²

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, with opt out option. In 2022, the occupational pension system covered around 2 million private employees.

Typical Plan Design

40% of the total pension plans are defined benefit (DB) plans that are usually based on final salary – the last month or year prior to termination of employment.

Retirement ages vary, but in most plans the age is over 60.

Benefits may be paid in any form; some have only one option and the most prevalent form is the lump sum with 82.1% of the plans offering this option and for plans offering other options

¹ As mentioned in the “Cuarto Transitorio” of the Social Security Law approved on December 16th, 2020. <https://www.imss.gob.mx/sites/all/statics/pdf/leyes/LSS.pdf>

² Survey obtained by CONSAR, although the occupational voluntary plans are not supervised by CONSAR, in which the information is gathered for the fiscal year end of 2021, and the results are published in October 2022. Link of report: [https://www.consar.gob.mx/gobmx/aplicativo/sirepp/\(S\(l5zkxrutwnrz5lxhfydy1kf\)\)/Docs/Estadisticas_Registro_2022.pdf](https://www.consar.gob.mx/gobmx/aplicativo/sirepp/(S(l5zkxrutwnrz5lxhfydy1kf))/Docs/Estadisticas_Registro_2022.pdf)

the prevalence of lump sums is 88.1%. The other options are different types of annuities like lifetime, joint with the spouse and lifetime, with certain guaranteed years, etc.

Taxation

Contributions are tax-exempt up to a ceiling of 12.5% of payroll, while benefits are taxed at standard income rates when they are withdrawn before age of 65 years.

PERSONAL MANDATORY

Coverage

Participation in the private scheme (AFORE) 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 private system, but those who joined the civil service after legislation was reformed in 2008, are covered.

Contributions

For private sector:

Employers (5.15%), employees (1.125%), and the government (0.225%) together contribute a total of 6.5% of taxable income to individual accounts, up to a ceiling of 25 times the minimum wage. Also, the government pays an additional contribution called “social quota” for salaries under 15 times the “Unidad de Medida y Actualización”, UMA³. From year 2023, the government will re-distribute its contribution reinforcing salaries below 5 times UMA, in order to grant the 15% of the total contribution, and the employers will be gradually increasing the current percentage, until the whole contribution reaches 15% of the salary in year 2030.

Artículo 168. Las cuotas y aportaciones a que se refiere el artículo anterior serán:

- I. En el ramo de retiro, a los patrones les corresponde cubrir el importe equivalente al dos ciento del salario base de cotización del trabajador.
- II. En los ramos de cesantía en edad avanzada y vejez:
 - a) Los patrones cubrirán la cuota que corresponda sobre el salario base de cotiza calculada conforme a la siguiente tabla:

Salario base de cotización del trabajador	Cuota Patronal
1.00 SM*	3.150%
1.01 SM a 1.50 UMA**	4.202%
1.51 a 2.00 UMA	6.552%
2.01 a 2.50 UMA	7.962%
2.51 a 3.00 UMA	8.902%
3.01 a 3.50 UMA	9.573%
3.51 a 4.00 UMA	10.077%
4.01 UMA en adelante	11.875%

*Salario Mínimo

** Unidad de Medida y Actualización

The government supplements the total contribution with a social contribution called the social quota to support affiliates and thus increase the final account balance. This social quota depends on the salary level. It is provided for each day of contribution and is updated quarterly in line with inflation, until 2022.

At the end of 2022 the social quota is:

³ UMA = Unit of measurement and adjustment. INEGI: <http://en.www.inegi.org.mx/temas/uma/> .

<u>Wage</u>	<u>Social quota per day</u>
Up to 1 minimum wage	MXN 6.81724
Between 1.01 and 4 times the minimum wage	MXN 6.53319
Between 4.01 and 7 times the minimum wage	MXN 6.24913
Between 7.01 and 10 times the minimum wage	MXN 5.96508
Between 10.01 and 15 times the minimum wage	MXN 5.68103

From year 2023, it is described in the Social Security Law, Article 168 and Tercer Transitorio approved in December 16th, 2022 (<https://www.imss.gob.mx/sites/all/statics/pdf/leyes/LSS.pdf>)

The screenshot shows a web browser displaying the 'Ley del Seguro Social' page. The main content is a table titled 'Salario base de cotización del trabajador' and 'Cuota Social'. The table lists wage brackets and their corresponding social contribution amounts in Mexican pesos.

Salario base de cotización del trabajador	Cuota Social
1.00 SM*	\$ 10.75
1.01 SM a 1.50 UMA**	\$ 10.00
1.51 a 2.00 UMA	\$ 9.25
2.01 a 2.50 UMA	\$ 8.50
2.51 a 3.00 UMA	\$ 7.75
3.01 a 3.50 UMA	\$ 7.00
3.51 a 4.00 UMA	\$ 6.25

*Salario Mínimo
** Unidad de Medida y Actualización

Párrafo con tabla reformado DOF 16-12-2020

Los valores mencionados del importe de la cuota social, se actualizarán trimestralmente de conformidad con el Índice Nacional de Precios al Consumidor, en los meses de marzo, junio, septiembre y diciembre de cada año.

Fracción reformada DOF 26-05-2009

Estas cuotas y aportaciones al destinarse al otorgamiento de pensiones y demás beneficios establecidos en esta Ley, se entenderán destinadas al gasto público en materia de seguridad social.

Párrafo reformado DOF 26-05-2009

Artículo 169. Los recursos depositados en la cuenta individual de cada trabajador son propiedad de éste con las modalidades que se establecen en esta Ley y demás disposiciones aplicables.

Estos recursos son inembargables y no podrán otorgarse como garantía. Lo anterior no será aplicable para los recursos depositados en la subcuenta de aportaciones voluntarias.

And for a restricted period, Tercer Transitorio of the same Social Security Law, establishes an additional

“social quote” for some higher salaries:

The screenshot shows a PDF document titled "Ley del Seguro Social" with page number 148. The document contains the following text:

III. En los ramos de cesantía en edad avanzada y vejez, el Estado seguirá realizando una contribución igual al siete punto ciento cuarenta y tres por ciento del total de las cuotas patronales.

Tercero. La cuota a cargo del Gobierno Federal prevista en el artículo 168, fracción IV, de la Ley del Seguro Social será aplicable a partir del 1 de enero de 2023.

Del 1 de enero al 31 de diciembre de 2023, el Gobierno Federal cubrirá mensualmente en los ramos de cesantía en edad avanzada y vejez, una cantidad por cada día de salario cotizado, por concepto de cuota social para los trabajadores que ganen de cuatro punto cero uno hasta siete punto cero nueve veces la Unidad de Medida y Actualización, que se depositará en la cuenta individual de cada trabajador asegurado conforme a la tabla siguiente:

Salario base de cotización del Trabajador	Cuota social
4.01 a 5 UMA*	\$2.45
5.01 a 6 UMA	\$1.80
6.01 a 7.09 UMA	\$1.00

*Unidad de Medida y Actualización

Los valores mencionados del importe de la cuota social, se actualizarán trimestralmente de conformidad con el Índice Nacional de Precios al Consumidor, en los meses de marzo, junio, septiembre y diciembre de 2023.

Cuarto. En la fecha en que entre en vigor el presente Decreto las semanas de cotización que se requieren para obtener los beneficios señalados en los artículos 154 y 162 de la Ley, así como para el cálculo de la pensión garantizada prevista en el artículo 170 serán **setecientos** cincuenta, y se incrementarán anualmente veinticinco semanas hasta alcanzar en el año 2031 las establecidas en

For public sector:

Employees (6.125%) and the government as employer (5.175%) together contribute a total of 11.3% of the employee’s basic salary for contributions. The government supplements the total contribution with a flat-rate social quota. It is paid for each day of contribution for workers earning less than 10 times the minimum wage. For the last quarter of year 2022, the social quota is MXN 5.68103 for all salaries (one minimum wage to 10 UMA which is the ceiling of the salary for government employees).

Benefits

The system is defined contribution in nature. Retirement benefits become available at the age of 65 after 1,000 weeks of contributions from year 2031 (775 for year 2022 and increasing 25 weeks every year until 1,000 weeks), 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 their balance’s account can yield benefit equal to, or greater than, 30% of the guaranteed 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, make programmed withdrawals or both options.

Private 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.

In 2007, public employees had to choose between the private system or staying under the previous law. Employees who move to the private system received a “recognition bond”, paid by the federal government, acknowledging their rights for the periods of time in which they made contributions prior to the reform. Those who had no individual account at the time of the reform were automatically registered in the private system.

Fees

Since 2008 fees may be determined only as percentages of assets under management. In 2022, the average fee is 0.0566%.

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 fifteen 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 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, as they didn’t enjoy tax relief.

MARKET INFORMATION

Occupational voluntary

In 2021, there were over 2906 occupational pension plans with a total of more than 1.6 million members. Almost a half of plans assets were administered by banks, accounting for almost MXN 230 billion (USD 13.3 billion).

Personal mandatory

At the end of 2021, the mandatory private pension system had around 72 million individual accounts, and 10 AFOREs were managing its assets. Individuals are free to choose their AFORE, which are regulated and supervised by the National Commission for the Retirement Savings System (CONSAR).

From 19 December 2019, each AFORE has been allowed to offer ten pension funds called Generational SIEFORES (Basic SIEFORES: initial Siefore, 90-94 Siefore, 85-89 Siefore,..., 55-59 Siefore, and Pensions Siefore, all related to year in which the worker was born) with different types of investment strategies and risk portfolios glidepaths, considering the time horizon of a 65 years old retirement age.

In November 2022 pension fund management companies had accumulated assets equivalent to over MXN 5 trillion (USD 257 billion), or 18% 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 November 2022, pension funds had accumulated assets equivalent to MXN154,527.5 million (USD 8 billion) by voluntary contributions⁴.

REFERENCE INFORMATION

KEY LEGISLATION

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)

<https://www.gob.mx/consar/>.

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; <https://www.gob.mx/consar/>.

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

⁴ Voluntary contributions: <https://www.consar.gob.mx/gobmx/aplicativo/siset/CuadroInicial.aspx?md=2>