

IOPS COUNTRY PROFILE: MEXICO



DEMOGRAPHICS AND MACROECONOMICS

Nominal GDP (MXN bn)	19 540
GDP per capita (USD)	7 720
Population (000s)	122 746
Labour force (000s)	54 035
Employment rate	96.5
Population over 65 (%)	7.9
Dependency ratio ¹	18.0

Data from 2016 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

- 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.

PENSION FUNDS DATA OVERVIEW

	2008	2009	2010	2011	2012	2013	2014	2015
Assets								
Total investments (National currency millions)	1,354,781	1 407 867	1 665 112	1 852 060	2 193 025	2 370 177	2 676 924	2 821 237
Total investments, as a % of GDP	10.03	11.66	12.55	12.75	14.06	14.74	15.56	15.61
Of which Assets overseas, as a % of Total investment:								
• Issued by entities located abroad	5.65	6.90	7.61	8.44	10.67	12.55	13.28	12.73
• Issued in foreign currencies	1.66	2.32	3.74	3.43	3.21	3.14	3.14	3.38
By financing vehicle (as a % of Total investments)								
• Pension funds								
• Book reserves								
• Pension insurance contracts								
• Other financing vehicle								
By pension plan type								
• Occupational assets	231,871	256,681	280,215	285,819	289,799	319,330	303,543	280,274
• % of DB assets	100.00	100.00	100.00	100.00	99.38	98.56	97.86	97.11
• % of DC (protected and unprotected) assets	0.00	0.00	0.00	0.00	0.62	1.44	2.14	2.89
• Personal assets	997,390	1,151,186	1,384,897	1,566,241	1,903,227	2,050,847	2,373,381	2,540,963
Structure of Assets (as a % of Total investments)								
Cash and Deposits	0.02	1.06	0.48	0.32	0.61	0.90	0.83	0.97
Fixed Income	79.40	81.49	80.02	80.15	77.00	74.21	75.34	75.95
Of which:								
• Bills and Bonds issued by public administrator	62.97	66.92	62.89	63.24	60.54	56.75	55.92	54.85
• Bonds issued by the private sector	16.43	14.57	17.13	16.91	16.45	17.46	19.41	21.09
Loans	ND	ND	ND	ND	ND	ND	ND	ND
Shares	11.84	15.26	16.22	16.80	19.27	22.66	22.42	20.58
Land and Buildings	0.01	0.01	0.01	0.01	0.01	0.02	0.03	ND
Mutual funds (CIS)	2.95	2.76	2.36	2.17	2.70	1.92	1.68	2.41
Unallocated insurance contracts	NA	NA	NA	NA	NA	NA	NA	NA
Hedge funds	NA	NA	NA	NA	NA	NA	NA	NA
Private equity funds	NA	NA	NA	NA	NA	NA	NA	NA
Other Investments	5.77	-0.58	0.91	0.55	0.35	0.23	-0.32	0.09
Contributions and Benefits								
Total Contributions, as a % of GDP	1.18	0.94	0.96	0.94	0.92	0.95	1.00	1.01
• Employer Contributions, as a % of Total contributions	ND	ND	ND	ND	17.39	18.27	18.16	19.76
• Employee Contributions, as a % of Total contributions	ND	ND	ND	ND	82.59	81.73	81.84	80.24
Total Benefits, as a % of GDP	0.21	0.28	0.28	0.28	0.27	0.40	0.45	0.45
• % of benefits paid as a Lump sum	ND	ND	ND	ND	ND	66.89	72.91	72.27
• % of benefits paid as a Pension	ND	ND	ND	ND	ND	33.11	27.09	27.73
Membership (in thousands of persons) ¹								
Total membership								
• % of Active membership								
Of which: % of Deferred membership								
• % of Passive membership								
Other beneficiaries								
Number of Pension Funds/Plans								
Total number of funds								
Total number of plans								
ND = data not available								
NA = data not applicable								
Source: OECD, Global Pension Statistics								

MEXICO: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

There is an old-age pension (Pensión para Adultos Mayores) that is a means-tested noncontributory safety-net program funded by the federal budget. It covers people aged 65 and older who do not receive a contributory pension or disability benefits higher than MXN 1 092 per month. It provides a financial support of MXN 580 per month.

Also, 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. 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.

In 2016, the amount of the minimum pension was MXN 2 765 per month for private workers and MXN 4 310 for public workers. 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 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 2015 the occupational pension system covered 2.5% of the labour force.

Typical Plan Design

46.2% 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, with 75.9% of amount withdrawn by annuities and 24.1% by lump sums.

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 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.

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.

At the end of 2016 the social quota was:

<u>Wage</u>	<u>Social quota per day</u>
Up to 1 minimum wage	MXN 5.04730
Between 1.01 and 4 times the minimum wage	MXN 4.83700
Between 4.01 and 7 times the minimum wage	MXN 4.62670
Between 7.01 and 10 times the minimum wage	MXN 4.41640
Between 10.01 and 15 times the minimum wage	MXN 4.20610

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. During the first quarter of 2017, the social quota was MXN 4.20610.

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 programmed withdrawals.

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 2016, the average fee is 1.06%.

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 organizations 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.

MARKET INFORMATION

Occupational voluntary

In 2015 there were over 2 017 occupational pension plans with a total of more than 1.4 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 2016 the mandatory private pension system had around 57 million members, and 11 AFOREs were managing its assets. Individuals are free to choose their AFOREs, which are regulated and supervised by the National Commission for the Retirement Savings System (CONSAR).

Since 2008, each AFORE has been allowed to offer five pension funds called SIEFORES (SIEFORE 0 to 4) with different types of investment strategies and risk levels.

In December 2016 pension fund management companies had accumulated assets equivalent to over MXN 2.8 trillion (USD 133.6 billion), or 14.4% 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 2016 pension funds had accumulated assets equivalent to MXN 43.6 billion (USD 2.5 billion) by voluntary contributions.

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.