



MEXICO

Mexico: pension system in 2008

Old-age pensions are covered under a defined contribution scheme mandatory for private sector workers, privately managed and funded. The contributions are made by workers, employers and government. There is a minimum pension for those who listed at least 24 years.

		Key indicators	
		Mexico	OECD
Average earnings	MXN	76 000	452 800
	USD	6 800	40 600
Public pension spending	% of GDP	1.4	7.0
Life expectancy	at birth	76.2	78.9
	at age 65	82.8	83.1
Population over age 65	% of working-age population	11.3	23.6

Qualifying conditions

Normal retirement age is 65 for men and women, subject to 1 250 weeks (around 24 years) of contribution.

Benefit calculation

Funded scheme

Workers and employers contribute a total of 6.275% of earnings to an individual account, to which is added a government contribution equivalent to 0.225% of earnings. An additional 5% contribution is made to an individual housing account (a scheme known as Infonavit) which reverts to the retirement account when it is not used. Finally, the government contributes a fixed amount indexed quarterly to inflation into all individual retirement accounts per day of contribution called *cuota social* or social fee. As of May 2009, the Social Security Law was amended in order to establish a progressive social fee, seeking to benefit workers who earn the lowest salaries. The first progressive social fees published were as follows: for workers who earn up to one minimum wage, the social fee is MXN 3.87077; for those who earn between 1.01 and 4 times the minimum wage, MXN 3.70949; for those in the 4.01 to 7 times the minimum wage bracket, MXN 3.54820; for those in the 7.01 to 10 times the minimum wage bracket, MXN 3.38692 and finally, for those who earn between 10.01 and 15 times the minimum wage, MXN 3.22564. The social fee is indexed to inflation every three months.

There is a ceiling on contributions which is 25 times the minimum wage.

The calculations assume that the individual converts the accumulated account balance (discounting a survival insurance that must be bought to cover the survivors' benefits) into a price-indexed annuity at normal pension age. Annuity rates are sex-specific.

Minimum pension

The minimum pension is equivalent to the same 1997 real minimum wage value indexed to inflation (MXN 21 836.08 in 2008). The link to the real minimum wage (Minimum wage: MXN 18 932.40 in 2008) means that the minimum pension is effectively price-indexed.

Variant careers

Early retirement

Early retirement is possible from age 60 for men and women. Conditions are that the worker is not employed and that at least 1 250 weekly contributions have been made.

Members may retire at any age if the accumulated capital in their account allows them to buy an annuity that is at least 30% higher than the minimum guaranteed pension. In this case, the member does not have to complete the 1 250 weeks of contributions.

Late retirement

It is possible to defer the pension after age 65.

Childcare

There are no credits for periods spent out of paid work due to childcare responsibilities.

Unemployment

There are no credits for periods of unemployment.

However, Article 191, Fraction II, of the Mexican Social Security Law, states that when a worker is unemployed, he/she will have the right to withdraw some money from his/her old age/retirement sub-account. Unemployed members whose individual account has been open for at least 5 years may withdraw the lower of the equivalent of 90 days of their salary or 11.5% of their account balance. Unemployed members whose individual account has been open for at least 3 years and have paid at least 2 years of contributions may withdraw up to 30 days of their salary with a limit of 10 minimum monthly wages.

The workers can claim this amount from the forty-sixth natural day in which they were unemployed. In order for the worker to be eligible for this benefit, they must have credit in their corresponding account statements.

Personal income tax and social security contributions

Taxation of pensioners

The allowance for pensioners is set at 9 times the minimum wage *i.e.* no tax is paid on pensions up to this level.

Taxation of pension income

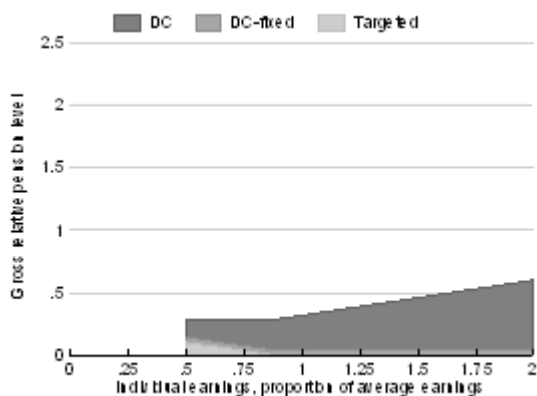
There is no special relief for pension income above the higher allowance.

Social security contributions paid by pensioners

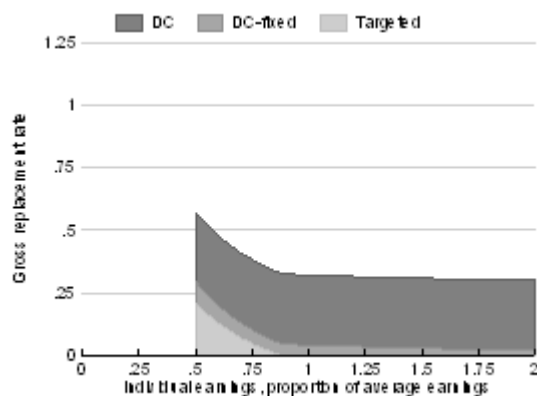
Pensioners do not pay social security contributions.

Pension modelling results: Mexico

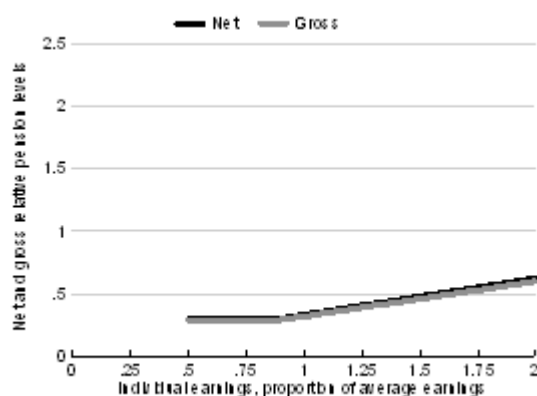
Gross relative pension level



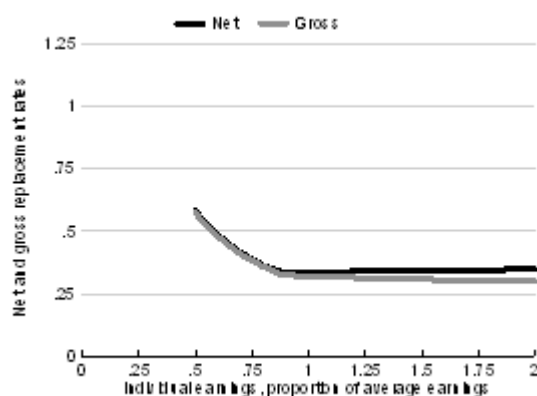
Gross replacement rate



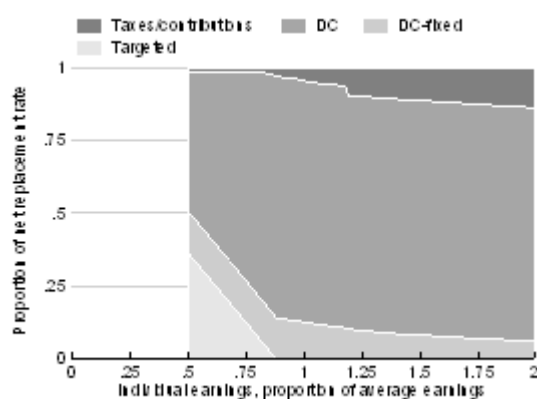
Net and gross relative pension levels



Net and gross replacement rates



Sources of net replacement rate



Taxes paid by pensioners and workers



Men Women (where different)	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1	1.5	2
Gross relative pension level (% average gross earnings)	28.7	28.7	28.7	30.9	44.4	57.9
Net relative pension level (% net average earnings)	29.9	29.9	29.9	28.7	39.6	51.6
				32.2	46.3	60.3
				29.9	41.3	53.8
Gross replacement rate (% individual gross earnings)	46.3	57.5	38.3	30.9	29.6	28.9
Net replacement rate (% individual net earnings)	46.9	58.2	38.8	28.7	26.4	25.8
				32.2	33.3	33.5
				29.9	29.7	29.9
Gross pension wealth (multiple of average gross earnings)	7.2	8.9	5.9	4.8	4.6	4.5
Net pension wealth (multiple of average net earnings)	8.1	10.0	6.7	5.0	4.6	4.5
				4.8	4.6	4.5
				5.0	4.6	4.5