



MEXICO

Mexico: pension system in 2006

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	73 200	390 200
	USD	6 700	35 800
Public pension spending	% of GDP	1.3	7.2
Life expectancy	at birth	75.7	78.9
	at age 65	83.0	83.4
Population over age 65	% of working-age population	9.9	23.8

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 5.5% of the 1997 real minimum wage indexed to inflation into all individual retirement accounts; this is considered to be the equivalent of a basic pension component here, amounting to 1.4% of average earnings.

There is a ceiling on contributions which is 24 times the minimum wage (July 2006-June 2007) and 25 times the minimum wage thereafter.

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 20 225.40 in 2006). The link to the real minimum wage 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.

Workers who leave the labour market permanently and who have not met the minimum pension requirements may withdraw the entire balance from their defined contribution (Afore) account.

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. The amount permitted to withdraw is the smaller of 75 days of the worker's wage base of quotation of the last 250 weeks, or 10% of the balance of his/her old age/retirement sub-account. The workers can claim this amount from the forty-sixth day of unemployment. Workers are eligible for this benefit, if they have credit in their corresponding account statements, and have not made any withdrawals in the last five years.

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

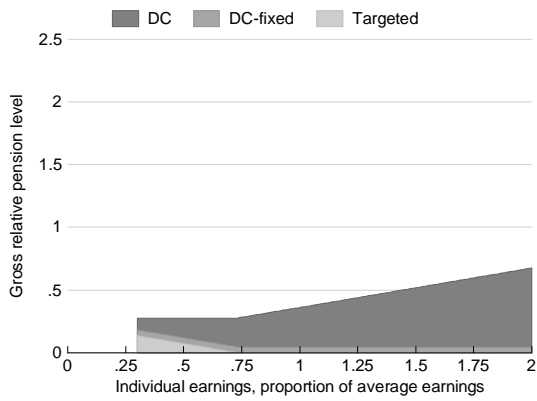
There is no special relief for pension income above the higher allowance.

Social security contributions paid by pensioners

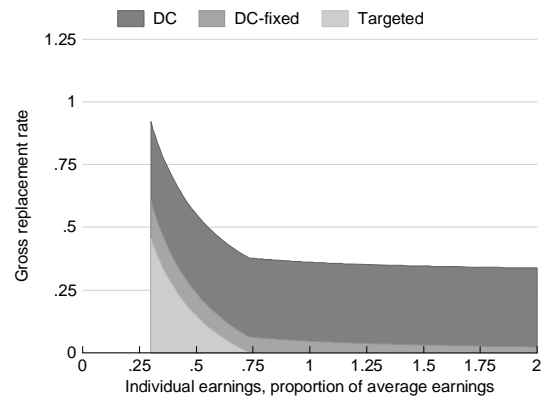
Pensioners do not pay social security contributions.

Pension modelling results: Mexico

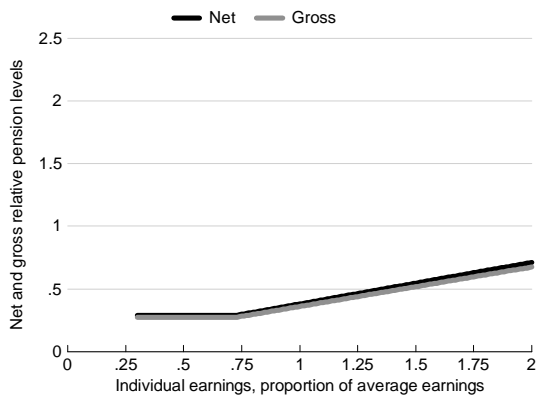
Gross relative pension level



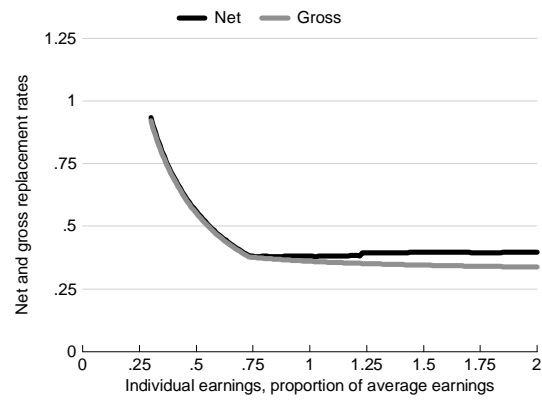
Gross replacement rate



Net and gross relative pension levels



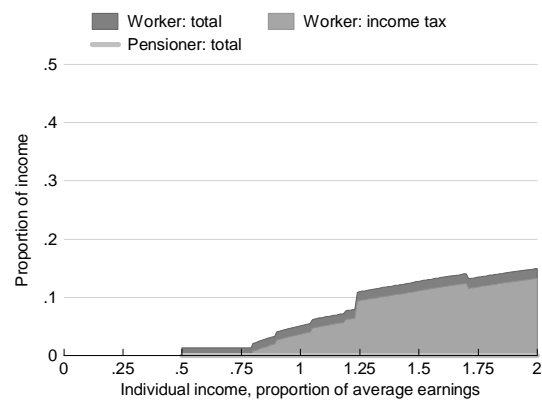
Net and gross replacement rates



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	31.3	27.6	28.2	36.1	51.8	67.5
(% average gross earnings)	27.6		27.6	29.9	42.9	56.0
Net relative pension level	33.0	29.1	29.7	38.0	54.6	71.2
(% net average earnings)	29.1		29.1	31.5	45.3	59.0
Gross replacement rate	36.9	55.3	37.6	36.1	34.5	33.7
(% individual gross earnings)	32.5		36.8	29.9	28.6	28.0
Net replacement rate	38.0	56.0	38.1	38.0	39.6	39.7
(% individual net earnings)	33.5		37.3	31.5	32.8	32.9
Gross pension wealth	4.9	7.3	5.0	4.8	4.6	4.5
(multiple of average gross earnings)	5.2	8.9	5.9	4.8	4.6	4.5
Net pension wealth	4.9	7.3	5.0	4.8	4.6	4.5
(multiple of average net earnings)	5.2	8.9	5.9	4.8	4.6	4.5