

# Mexico

## Mexico: Pension system in 2016

Mexico's retirement income system has three components: a means-tested age pension called 65+; a mandatory defined contribution system with a minimum pension; and other individual and occupational private plans. In addition States, local authorities and public universities have their own independent pension systems.

## Key indicators: Mexico

		Mexico	OECD
Average worker earnings (AW)	MXN	112 827	759 365
	USD	5 441	36 622
Public pension spending	% of GDP	2.3	8.2
Life expectancy	at birth	77.4	80.9
	at age 65	19.3	19.7
Population over age 65	% of working- age population	11.4	27.9

StatLink  <http://dx.doi.org/10.1787/888933635826>

### Qualifying conditions

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

### Defined contribution

Out of the total contribution of 6.5% of individual earnings to an individual account; workers contribute 1.125%, employers contribute 5.150%, and the government contributes 0.225%. An additional 5% contribution is made by the employer to an individual housing sub-account (a scheme known as INFONAVIT) which reverts to the retirement account when it is not used. There is a ceiling on contributions at 25 times the minimum wage.

In addition, the government contributes a progressive amount into individual retirement accounts per day of contribution called *cuota social* or social fee. As of December 2016 the social fees were as follows: for workers who earn up to one minimum wage, the social fee is MXN 5.14119; for those who earn between 1.01 and four times the minimum wage, MXN 4.92698; for those in the 4.01 to seven times the minimum wage bracket, MXN 4.71275; for those in the 7.01 to ten times the minimum wage bracket, MXN 4.49854 and finally, for those who earn between 10.01 and 15 times the minimum wage, MXN 4.28432. For higher wage earners there is no social fee contribution. The social fee is indexed to inflation every three months.

### Benefit calculation

At retirement, the individual converts the accumulated account balance (discounting the premium for survivors' benefits insurance) into a price-indexed annuity or a programmed withdrawal. Annuity rates consider an increasing life expectancy and are sex-specific.

The pensioner, who opts for the alternative of programmed withdrawals, can purchase a life annuity at any time if the monthly life annuity value is greater than the guaranteed pension.

### Minimum pension

At retirement, if a worker is aged 65 and has contributed for at least 1 250 weeks (around 24 years) in the private sector, but the assets accumulated in their individual account are not enough to at least buy an annuity equivalent to the minimum pension they are entitled to the minimum pension. This guaranteed pension is paid in the beginning with the existing balance in the individual account, and when this balance is depleted, the pension is funded from the federal budget.

The minimum (guaranteed) pension is equivalent to MXN 33 180.36 annually (December 2016) and is indexed to inflation every year.

### **Negative statement – Negativa de pension**

At retirement, if the individual has contributed for less than 1 250 weeks, they are not entitled to a pension and get a negative statement “negativa de pension”. Then, they get a lump sum of the resources accumulated in their individual accounts.

### **Non-contributory means tested old age pension or safety net 65+**

Old age pension called 65+ is targeted to all individuals that have reached the age of 65 and doesn't have a pension from a social security institute. The monthly amount paid to each beneficiary is MXN 580.

### **Variant careers**

#### ***Early retirement***

Early retirement is possible from age 60 up to 64 for men and women if the worker is not employed and at least 1 250 weekly contributions have been made.

Members may retire at any age prior to 60 years old if the accumulated balance in their individual account allows them to buy a life annuity that is at least 30% higher than the minimum guaranteed pension (of each sector). In this case, the worker still has to complete the 1 250 weeks of contributions.

#### ***Late retirement***

It is not mandatory to retire at 65. It is possible to defer the pension after age 65.

#### ***Unemployment***

When a worker is unemployed, they will have the right to withdraw some money from their old-age/retirement sub-account once every five years.

Unemployed members may withdraw the minimum amount between 90 days of their average salary during the last 250 weeks in which they paid contributions or 11.5% of the balance of their old-age/retirement sub-account. This benefit may be distributed in a maximum of six monthly instalments. Unemployed members whose individual accounts were opened at least three years in advance of the unemployment spell and have paid at least two years of contributions may withdraw, in only one instalment, up to 30 days of their salary with a limit of ten minimum monthly wages.

### **Personal income tax and social security contributions**

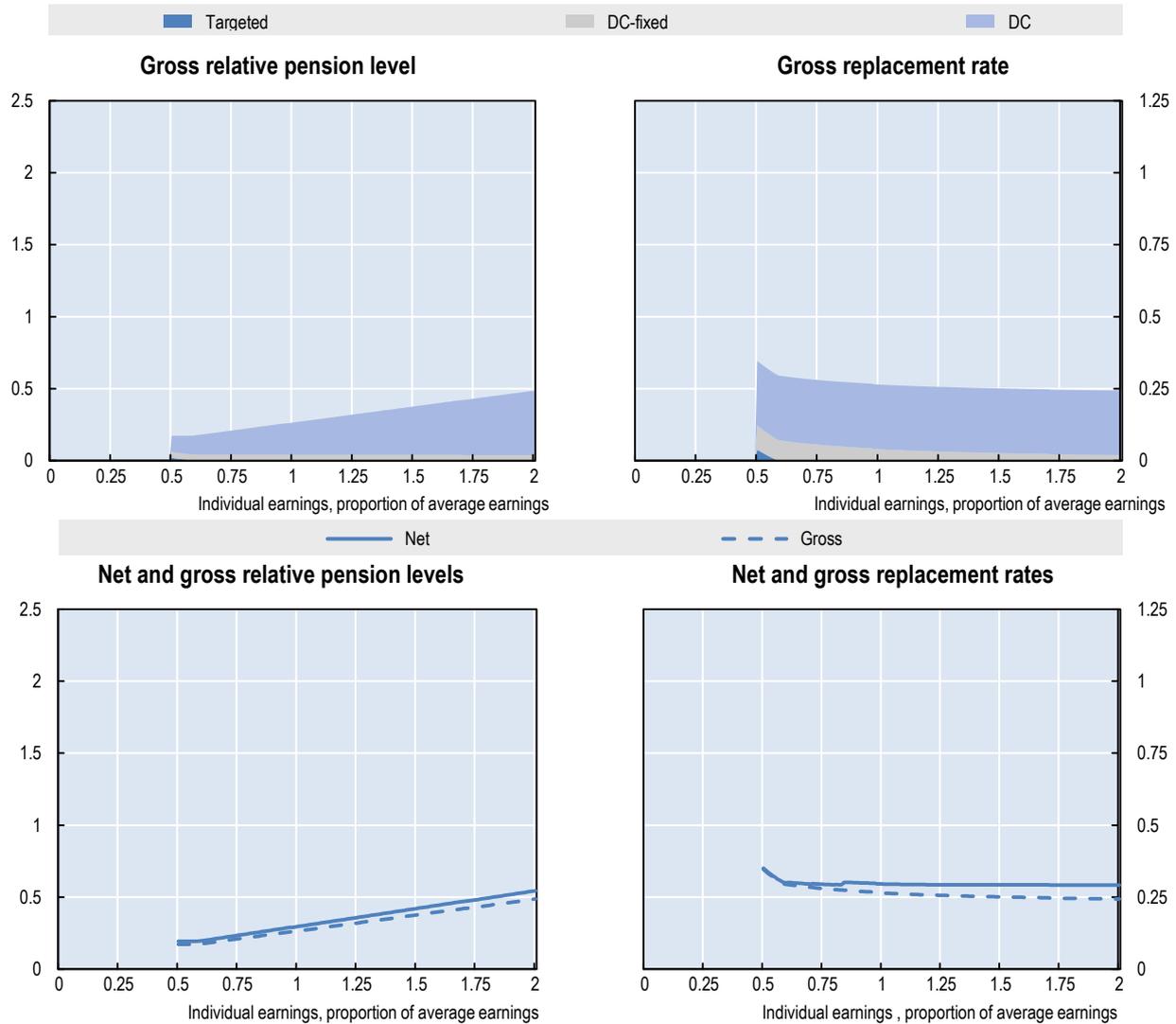
#### ***Taxation of pension income***

For pension payments there is an exemption of up to 15 times the minimum wage *i.e.* no tax is paid on pensions up to this level.

For lump sum withdrawals, the exemption is set at 90 minimum wages for each year in which contributions were paid.

For all the amounts higher than these thresholds a tax is applied according to the income tax law.

## Pension modelling results: Mexico in 2061 retirement at age 65 (men)



Men	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Gross relative pension level (% average gross earnings)	17.3	21.0	26.4	37.7	48.7	71.0
Net relative pension level (% net average earnings)	19.4	23.5	29.6	42.1	54.5	79.3
Gross replacement rate (% individual gross earnings)	34.7	28.0	26.4	25.1	24.3	23.7
Net replacement rate (% individual net earnings)	35.1	29.5	29.6	29.3	29.2	29.3
Gross pension wealth (multiple of individual gross earnings)	6.2	5.0	4.7	4.5	4.3	4.2
Net pension wealth (multiple of individual net earnings)	6.3	5.3	5.3	5.2	5.2	5.2

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 90%. Labour market entry occurs at age 20 in 2016. Tax system latest available: 2015.

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