

Mexico

Mexico: Pension system in 2018

Mexico's retirement income system has three components: a means-tested age pension called 65+; a mandatory defined contribution system with a guaranteed 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	122 208	800 264
	USD	6 350	41 584
Public pension spending	% of GDP	2.2	8.0
Life expectancy	at birth	75.0	80.7
	at age 65	17.6	19.7
Population over age 65	% of working-age population	13.2	31.2

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Qualifying conditions

Normal retirement age is 65 for men and women, depending on a contribution period of 1 250 weeks (around 24 years) 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%. The employer makes an additional 5% contribution 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 Unit of Measurement and Upgrade (UMA)¹.

In addition, the government contributes a progressive amount per day of contribution into the individual retirement accounts called *cuota social* or social fee. As of December 2018 the social fees were as follows: for workers who earn one minimum wage, the social fee is MXN 5.63710; for those who earn between 1.01 times the minimum wage and four times the daily value of UMA, MXN 5.40222; for those in the bracket from 4.01 to seven times the daily value of UMA, MXN 5.16734; for those in the 7.01 to 10 times the daily value of UMA bracket, MXN 4.93246 and finally, for those who earn between 10.01 and 15 times the daily value of UMA, MXN 4.69758. For higher levels of wage there is no social fee contribution. The social fee is indexed to quarterly inflation.

Benefit calculation

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

The pensioner who decides on a programmed withdrawal can obtain a life annuity at any time, if the monthly life annuity value is greater than the guaranteed pension.

¹ The Unit of Measurement and Upgrade (UMA) is the economic reference in pesos to determine the amount of payment from obligations and alleged assumptions provided for in the federal law, for the states and Mexico City, as well as in legal provisions emanating from all of the above. As of December 2018 the daily UMA was MXN 80.60, the monthly UMA is MXN 2 450.24 (calculated by multiplying its daily value by 30.4), and its annual value is MXN 29 402.88, calculated by multiplying the monthly value by 12.

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 balance in the individual account is not enough to, at least buy an annuity equivalent to the guaranteed pension, they are entitled to get the guaranteed pension. This pension is paid from 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 36 617.16 annually (December 2018) and it is indexed to inflation every year.

Negative statement – *Negativa de pension*

If the individual has contributed for less than 1 250 weeks and has reached retirement age, they are not entitled to a pension and therefore get a negative statement “*negativa de pension*” and receive the resources accumulated in their individual account as a lump sum payment.

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

Old age pension called 65+ is targeted to all individuals above age 65 who don't receive a contributory pension greater than MXN 1 902.00 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 paid.

Members of the social security institution may retire at any age prior to 60 years old if the accumulated balance in their individual account is enough to buy a life annuity at least 30% higher than the guaranteed pension, and after the payment for the survival premium of the beneficiaries insurance. In this case, the worker still has to accumulate the 1 250 weeks of contributions.

Late retirement

It is possible to defer the pension after age 65.

Unemployment

An unemployed worker will have the right to withdraw a percentage of the old-age/retirement sub-account, once every five years.

If the individual account was opened five years or more in advance of the unemployment event, the amount that can be withdrawn is the minimum of 90 days of their average salary during the last 250 weeks in which they paid contributions or 11.5% of the balance of the old-age/retirement sub-account. This benefit may be distributed in a maximum of six monthly instalments. Unemployed members that opened the account at least three years in advance of the unemployment event, and have paid at least two years of contributions, may withdraw in one instalment up to one month of salary with a cap of ten minimum monthly wages.

Personal income tax and social security contributions

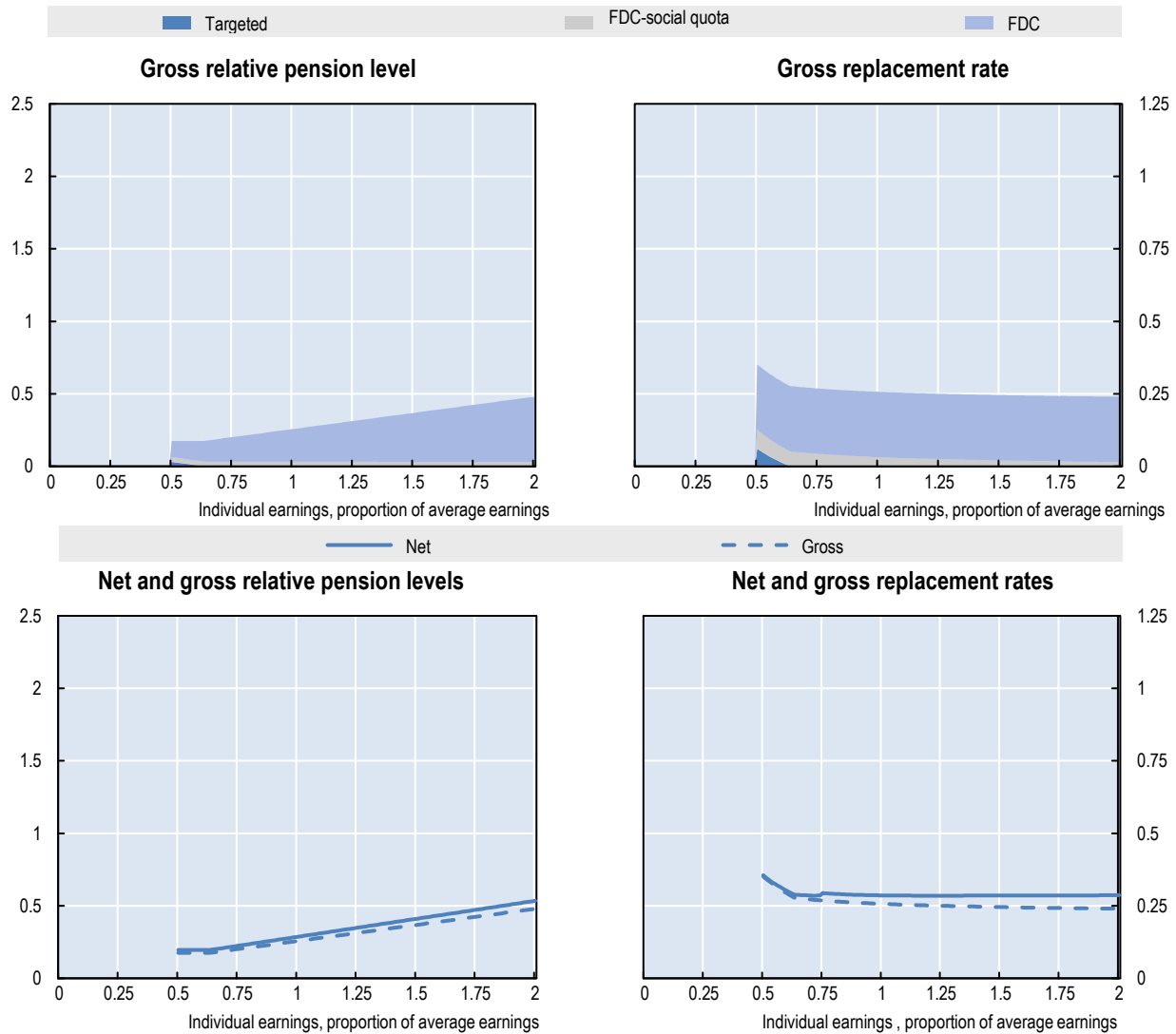
Taxation of pension income

For pension payments there is an exemption of up to 15 times the daily UMA *i.e.* no tax is paid below this level of daily pension.

For lump sum withdrawals, the exemption is set at 90 daily UMA 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 <i>Women (where different)</i>	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Gross relative pension level (% average gross earnings)	17.6	20.1	25.7	36.8	48.0	69.0
Net relative pension level (% net average earnings)	19.6	22.4	28.6	41.0	53.5	76.9
Gross replacement rate (% individual gross earnings)	35.1	26.8	25.7	24.6	24.0	23.0
Net replacement rate (% individual net earnings)	35.6	29.4	28.6	28.6	28.6	28.4
Gross pension wealth (multiple of individual gross earnings)	5.8	4.5	4.3	4.1	4.0	3.8
Net pension wealth (multiple of individual net earnings)	5.9	4.9	4.8	4.8	4.8	4.7

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 22 in 2018. Tax system latest available: 2018.

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