

# Mexico

## Mexico: Pension system in 2020

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	131 163	841 769
	USD	6 105	39 178
Public pension spending	% of GDP	2.7	7.7
Life expectancy	at birth	75.0	80.6
	at age 65	17.6	19.7
Population over age 65	% of working-age population	13.2	30.4

## Qualifying conditions

Due to the pension reform approved in December 2020, the Normal retirement age is 65 for men and women, depending on a contribution period of 750 weeks (around 14.4 years) in force since year 2021, this period will be increasing 25 weeks per year until it remains in 1,000 weeks, for the private sector.

## Defined contribution

Out of the total contribution of 6.5%, which included: 1.125% contribution of employees, 0.225% from government and 2% for retirement and 3.15% which will be increasing for the next ten years to be equal to 15% of individual earnings to an individual account; workers will still contribute 1.125%, employers contribute 5.150% and it will increase it up to 13.875% (the actual 2% for retirement, plus the 3.15% which will be increasing over time, as shown in the following table up to 11.875%) beginning in year 2023 and depending on salary levels, the government contribution of 0.225% will be in force until year 2023 in which it will be eliminated. 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)<sup>1</sup>.

The increase of the employer contribution depends on the salary and it will increase as follows:

Salary base for Contributions	2023	2024	2025	2026	2027	2028	2029	2030
<b>1.0 SM*</b>	3.150%	3.150%	3.150%	3.150%	3.150%	3.150%	3.150%	3.150%
<b>1.01 to 1.5 UMA**</b>	3.281%	3.413%	3.544%	3.676%	3.807%	3.939%	4.070%	4.202%
<b>1.51 to 2 UMA</b>	3.575%	4.000%	4.426%	4.851%	5.276%	5.701%	6.126%	6.552%
<b>2.01 to 2.5 UMA</b>	3.751%	4.353%	4.954%	5.556%	6.157%	6.759%	7.360%	7.962%
<b>2.51 to 3 UMA</b>	3.869%	4.588%	5.307%	6.026%	6.745%	7.464%	8.183%	8.902%
<b>3.01 to 3.5 UMA</b>	3.953%	4.756%	5.559%	6.361%	7.164%	7.967%	8.770%	9.573%
<b>3.51 to 4 UMA</b>	4.016%	4.882%	5.747%	6.613%	7.479%	8.345%	9.211%	10.077%

<sup>1</sup> 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.

<b>4.01 to 25 UMA</b>	4.241%	5.331%	6.422%	7.513%	8.603%	9.694%	10.784%	11.875%
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\* Minimum wage, MXN\$141.70 (daily as of January 2021). \*\* Unit of Measurement and Upgrade (MXN\$86.88 daily until Feb 2021).

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 2020 the social fees were as follows: for workers who earn one minimum wage, the social fee is MXN 6.03912; for those who earn between 1.01 times the minimum wage and four times the daily value of UMA, MXN 5.78749; for those in the bracket from 4.01 to seven times the daily value of UMA, MXN 5.53586; for those in the 7.01 to 10 times the daily value of UMA bracket, MXN 5.28423 and finally, for those who earn between 10.01 and 15 times the daily value of UMA, MXN 5.03260. For higher levels of wage there is no social fee contribution. The social fee is indexed to quarterly inflation. These scheme will be in force until December 2022.

Due to the reform the new schedule of the “*cuota social*” will be as follows beginning in January 1, 2023:

Salary base for Contributions	“Cuota social”
1.00 SM*	\$10.75
1.01 SM to 1.50 UMA**	\$10.00
1.51 to 2.00 UMA	\$9.25
2.01 to 2.50 UMA	\$8.50
2.51 to 3.00 UMA	\$7.75
3.01 to 3.50 UMA	\$7.00
3.51 to 4.00 UMA	\$6.25

\* Minimum wage, MXN\$141.70 (daily as of January 2021). \*\* Unit of Measurement and Upgrade (MXN\$86.88 daily until Feb 2021).

Only for year 2023, there will be a special “*cuota social*” for salaries between 4.01 and 7.09 UMA, as follows:

Salary base for Contributions	“Cuota social”
4.01 a 5 UMA	\$2.45
5.01 a 6 UMA	\$1.80
6.01 a 7.09 UMA	\$1.00

## Benefit calculation

Upon retirement, the individual uses the accumulated account balance (discounting the premium for survivors’ benefits insurance) to acquire a price-indexed annuity and/or a programmed withdrawal or a combination of both products. Annuity rates consider an improvement in 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 or equal to the guaranteed pension.

## Guaranteed pension

At retirement, if a worker is aged 60 and has contributed for at least 750 weeks (around 14.4 years) in the private sector, increasing 25 weeks after year 2021 until 1 000 weeks, 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 an annuity of 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 government budget.

The guaranteed pension is equivalent to MXN 39 471.96 annually (December 2020) and it is indexed to inflation every year on February.

The guaranteed monthly pension will be determined with the number of weeks of contributions, the age of retirement, and the career average salary as input of the following table, and it will be indexed to annual inflation in February of each year:

Salary of contributions	Age	Weeks of contribution										
		1000	1025	1050	1075	1100	1125	1150	1175	1200	1225	1250
1 SM* to 1.99 UMA**	60	2,622	2,716	2,809	2,903	2,997	3,090	3,184	3,278	3,371	3,465	3,559
	61	2,660	2,753	2,847	2,941	3,034	3,128	3,221	3,315	3,409	3,502	3,596
	62	2,697	2,791	2,884	2,978	3,072	3,165	3,259	3,353	3,446	3,540	3,634
	63	2,734	2,828	2,922	3,015	3,109	3,203	3,296	3,390	3,484	3,577	3,671
	64	2,772	2,866	2,959	3,053	3,147	3,240	3,334	3,427	3,521	3,615	3,708
	65+	2,809	2,903	2,997	3,090	3,184	3,278	3,371	3,465	3,559	3,652	3,746
2.0 to 2.99 UMA	60	3,409	3,530	3,652	3,774	3,896	4,017	4,139	4,261	4,383	4,504	4,626
	61	3,457	3,579	3,701	3,823	3,944	4,066	4,188	4,310	4,431	4,553	4,675
	62	3,506	3,628	3,750	3,871	3,993	4,115	4,237	4,358	4,480	4,602	4,724
	63	3,555	3,677	3,798	3,920	4,042	4,164	4,285	4,407	4,529	4,651	4,772
	64	3,604	3,725	3,847	3,969	4,091	4,212	4,334	4,456	4,577	4,699	4,821
	65+	3,652	3,774	3,896	4,017	4,139	4,261	4,383	4,504	4,626	4,748	4,870
3.0 to 3.99 UMA	60	4,195	4,345	4,495	4,645	4,795	4,945	5,094	5,244	5,394	5,544	5,694
	61	4,255	4,405	4,555	4,705	4,855	5,005	5,154	5,304	5,454	5,604	5,754
	62	4,315	4,465	4,615	4,765	4,915	5,064	5,214	5,364	5,514	5,664	5,814
	63	4,375	4,525	4,675	4,825	4,975	5,124	5,274	5,424	5,574	5,724	5,874
	64	4,435	4,585	4,735	4,885	5,034	5,184	5,334	5,484	5,634	5,784	5,933
	65+	4,495	4,645	4,795	4,945	5,094	5,244	5,394	5,544	5,694	5,844	5,993
4.0 to 4.99 UMA	60	4,982	5,160	5,338	5,516	5,694	5,872	6,050	6,228	6,405	6,583	6,761
	61	5,053	5,231	5,409	5,587	5,765	5,943	6,121	6,299	6,477	6,655	6,832
	62	5,124	5,302	5,480	5,658	5,836	6,014	6,192	6,370	6,548	6,726	6,904
	63	5,196	5,373	5,551	5,729	5,907	6,085	6,263	6,441	6,619	6,797	6,975
	64	5,267	5,445	5,623	5,801	5,978	6,156	6,334	6,512	6,690	6,868	7,046
	65+	5,338	5,516	5,694	5,872	6,050	6,228	6,405	6,583	6,761	6,939	7,117
5.0 + UMA	60	5,769	5,975	6,181	6,387	6,593	6,799	7,005	7,211	7,417	7,623	7,829
	61	5,851	6,057	6,263	6,469	6,675	6,881	7,087	7,293	7,499	7,705	7,911
	62	5,933	6,140	6,346	6,552	6,758	6,964	7,170	7,376	7,582	7,788	7,994
	63	6,016	6,222	6,428	6,634	6,840	7,046	7,252	7,458	7,664	7,870	8,076
	64	6,098	6,304	6,510	6,716	6,922	7,128	7,334	7,540	7,746	7,953	8,159
	65+	6,181	6,387	6,593	6,799	7,005	7,211	7,417	7,623	7,829	8,035	8,241

### Negative statement – Negativa de pension

If the individual has contributed for less than 750 weeks, increasing 25 weeks per year after year 2021 until 1 000 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+

In year 2020, the old age pension program was included in the article 4 of the Mexican Constitution and it is targeted to all individuals above age 68 who are Mexicans by birth or naturalization, actually living in Mexican territory. The monthly amount paid to each beneficiary is MXN 1 350 for year 2021, indexed to annual inflation, and it is paid every two months. The age is reduced to 65 years for the people afro-mexican and indigenous people who actually live in the municipalities classified by Instituto Nacional de los Pueblos Indígenas (INPI), as mentioned in the Official Journal of the Federation<sup>2</sup>.

In March, 2021, the Presidency announced that the old-age pension program was going to be generalized to all Mexican people aged 65 or older, and the monthly amount payable every two months was going to be increased to MXN 1 550 since July 1, 2021. Also, the amount will be raised 15% plus inflation for the next three years each January until year 2024.

## 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 750 weekly contributions, increasing 25 weeks per year, after year 2021 until the requirement reaches 1 000 paid weeks.

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.

### *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*

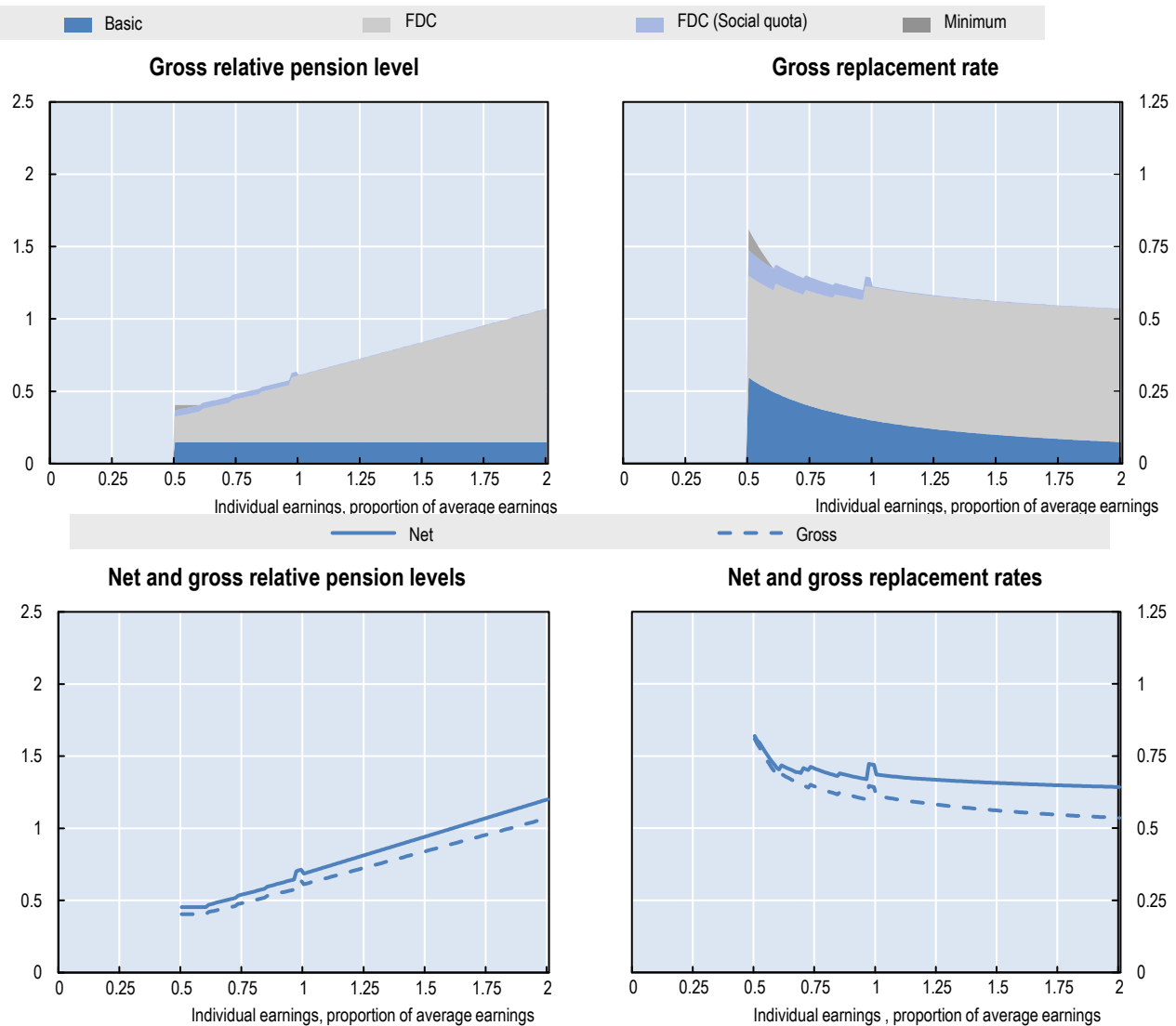
For pension payments there is an exemption of up to 15 times the daily UMA *i.e.* no tax is paid below this level of daily pension.

For lump sum withdrawals, the exemption is set at 90 daily UMA for each year of contributions.

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

<sup>2</sup> [http://www.dof.gob.mx/nota\\_detalle.php?codigo=5608440&fecha=22/12/2020](http://www.dof.gob.mx/nota_detalle.php?codigo=5608440&fecha=22/12/2020)

## Pension modelling results: Mexico in 2063 retirement at age 65 (men)



Men	Individual earnings, multiple of average					
<i>Women (where different)</i>	0.5	0.75	1	1.5	2	3
Gross relative pension level (% average gross earnings)	40.5	48.3	61.2	84.2	107.1	153.1
Net relative pension level (% net average earnings)	45.4	54.1	68.6	94.3	120.1	171.6
Gross replacement rate (% individual gross earnings)	80.9	64.4	61.2	56.1	53.6	51.0
Net replacement rate (% individual net earnings)	82.0	70.6	68.6	65.7	64.3	63.2
Gross pension wealth (multiple of individual gross earnings)	13.5	10.7	10.2	9.3	8.9	8.5
Net pension wealth (multiple of individual net earnings)	13.6	11.8	11.4	10.9	10.7	10.5

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 2020. Tax system latest available: 2020.