

Pensions at a Glance 2023



Mexico

Mexico: Pension system in 2022

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	140 125	830 474
	USD	6 962	41 261
Public pension spending	% of GDP	3.1	7.7
Life expectancy	at birth	74.9	80.7
	at age 65	82.4	84.6
Population over age 65	% of working-age population	14.2	31.3

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. For 2022, the mandatory contribution period is 775 weeks (around 14.8 years).

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 2022, starting 2023 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) ¹.

¹The 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 2022, the daily UMA was MXN 96.22, the monthly UMA is MXN 2 925.09 (calculated by multiplying its daily value by 30.4), and its annual value is MXN 35 101.08, calculated by multiplying the monthly value by 12.

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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
1.0 SM*	3.150%	3.150%	3.150%	3.150%	3.150%	3.150%	3.150%	3.150%
1.01 to 1.5 UMA**	3.281%	3.413%	3.544%	3.676%	3.807%	3.939%	4.070%	4.202%
1.51 to 2 UMA	3.575%	4.000%	4.426%	4.851%	5.276%	5.701%	6.126%	6.552%
2.01 to 2.5 UMA	3.751%	4.353%	4.954%	5.556%	6.157%	6.759%	7.360%	7.962%
2.51 to 3 UMA	3.869%	4.588%	5.307%	6.026%	6.745%	7.464%	8.183%	8.902%
3.01 to 3.5 UMA	3.953%	4.756%	5.559%	6.361%	7.164%	7.967%	8.770%	9.573%
3.51 to 4 UMA	4.016%	4.882%	5.747%	6.613%	7.479%	8.345%	9.211%	10.077%
4.01 to 25 UMA	4.241%	5.331%	6.422%	7.513%	8.603%	9.694%	10.784%	11.875%

* Minimum wage, MXN 207.44 (daily as of January 2023). ** Unit of Measurement and Upgrade (MXN 96.22 daily until Feb 2023).

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 2022 the social fees were as follows: for workers who earn one minimum wage, the social fee is MXN 6.95839; for those who earn between 1.01 times the minimum wage and four times the daily value of UMA, MXN 6.66846; for those in the bracket from 4.01 to seven times the daily value of UMA, MXN 6.37853; for those in the 7.01 to 10 times the daily value of UMA bracket, MXN 6.08859 and finally, for those who earn between 10.01 and 15 times the daily value of UMA, MXN 5.79866. For higher levels of wage there is no social fee contribution. The social fee is indexed to quarterly inflation.

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

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

* Minimum wage, MXN 207.44 (daily as of January 2023). ** Unit of Measurement and Upgrade (MXN 96.22 daily until Feb 2023).

As an exception for year 2023, there will be a special social fee for salaries between 4.01 and 7.09 UMA, as follows:

Salary base for Contributions	“Social fee”
4.01 a 5 UMA	MXN 2.45
5.01 a 6 UMA	MXN 1.80
6.01 a 7.09 UMA	MXN 1.00

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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.

Following the reform in 2020, the guaranteed monthly pension is determined by: the number of weeks of contributions, the age of retirement, and the average salary's career as input in the following table and are indexed to annual inflation in February of each year. The values for year 2022 are as follows:

Salary of contributions	Age	Weeks of contribution										
		775	800	825	850	875	900	925	950	975	1000	1025+
1 SM* to 1.99 UMA**	60	2904	3008	3111	3215	3319	3422	3526	3630	3733	3837	3941
	61	2946	3049	3153	3257	3360	3464	3567	3671	3775	3878	3982
	62	2987	3091	3194	3298	3402	3505	3609	3713	3816	3920	4024
	63	3028	3132	3236	3339	3443	3547	3650	3754	3858	3961	4065
	64	3070	3174	3277	3381	3485	3588	3692	3795	3899	4003	4106
	65+	3111	3215	3319	3422	3526	3630	3733	3837	3941	4044	4148
2.0 to 2.99 UMA	60	3775	3909	4044	4179	4315	4449	4584	4719	4854	4988	5123
	61	3828	3963	4099	4234	4368	4503	4638	4773	4907	5042	5177
	62	3883	4018	4153	4287	4422	4557	4692	4826	4961	5096	5231
	63	3937	4072	4206	4341	4476	4611	4745	4880	5015	5151	5285
	64	3991	4125	4260	4395	4530	4664	4800	4935	5069	5204	5339
	65+	4044	4179	4315	4449	4584	4719	4854	4988	5123	5258	5393
3.0 to 3.99 UMA	60	4646	4812	4978	5144	5310	5476	5641	5807	5973	6140	6306
	61	4712	4878	5044	5210	5377	5543	5708	5874	6040	6206	6372
	62	4779	4945	5111	5277	5443	5608	5774	5940	6106	6272	6439
	63	4845	5011	5177	5343	5509	5674	5841	6007	6173	6339	6505
	64	4911	5078	5244	5410	5575	5741	5907	6073	6239	6405	6570
	65+	4978	5144	5310	5476	5641	5807	5973	6140	6306	6472	6637
4.0 to 4.99 UMA	60	5517	5714	5911	6109	6306	6503	6700	6897	7093	7290	7487
	61	5596	5793	5990	6187	6384	6581	6779	6976	7173	7370	7566
	62	5674	5872	6069	6266	6463	6660	6857	7054	7251	7449	7646
	63	5754	5950	6147	6344	6542	6739	6936	7133	7330	7527	7724
	64	5833	6030	6227	6424	6620	6817	7014	7212	7409	7606	7803

Salary of contributions	Age	Weeks of contribution										
		775	800	825	850	875	900	925	950	975	1000	1025+
5.0 + UMA	65+	5911	6109	6306	6503	6700	6897	7093	7290	7487	7684	7882
	60	6389	6617	6845	7073	7301	7529	7757	7986	8214	8442	8670
	61	6480	6708	6936	7164	7392	7620	7848	8076	8305	8533	8761
	62	6570	6800	7028	7256	7484	7712	7940	8168	8396	8625	8853
	63	6662	6890	7118	7347	7575	7803	8031	8259	8487	8715	8944
	64	6753	6981	7209	7437	7666	7894	8122	8350	8578	8807	9035
	65+	6845	7073	7301	7529	7757	7986	8214	8442	8670	8898	9126

Negative statement – *Negativa de pensión*

If the individual has contributed for less than 750 weeks, increasing 25 weeks per year after year 2021 until 1 000 weeks (775 weeks in year 2022), and has reached retirement age, they are not entitled to a pension and therefore get a negative statement “*negativa de pensión*” 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, living in Mexican territory. The monthly amount paid to each beneficiary is MXN 1 350 in 2021, 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 ².

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. For 2022, the monthly amount to be paid is MXN 1 925.

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. (For year 2022, the minimum required is 775 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.

² http://www.dof.gob.mx/nota_detalle.php?codigo=5608440&fecha=22/12/2020

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

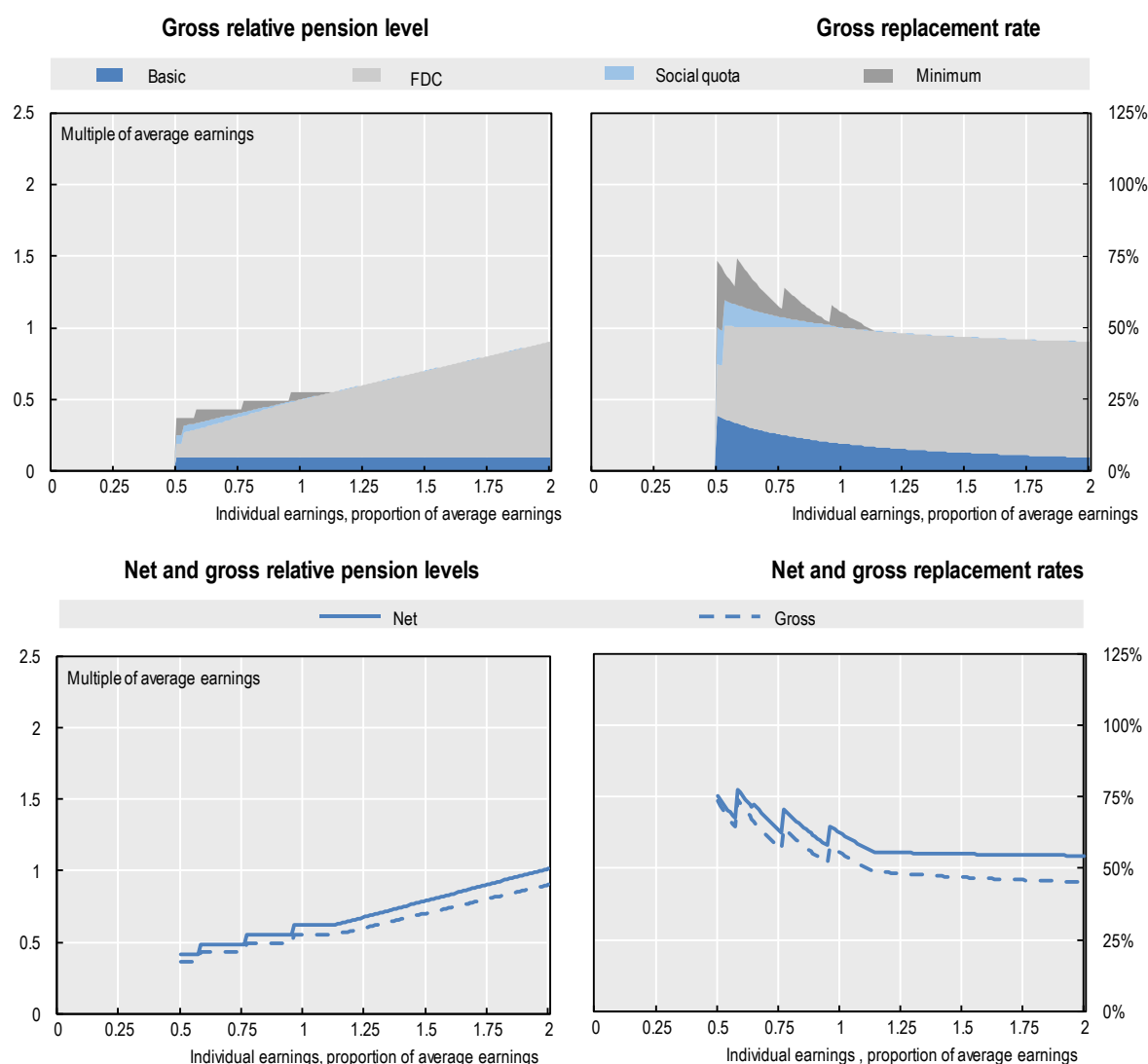
Taxation of pension income

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.

Pension modelling results: Mexico in 2065 retirement at age 65 (men)



Men Women (where different)	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Gross relative pension level	36.7	43.0	55.5	70.2	90.4	130.6
(% average gross earnings)				64.7	82.9	119.5
Net relative pension level	41.3	48.3	62.4	79.0	101.6	146.9
(% net average earnings)				72.7	93.3	134.4
Gross replacement rate	73.5	57.3	55.5	46.8	45.2	43.5
(% individual gross earnings)				43.1	41.5	39.8
Net replacement rate	75.4	63.2	62.4	55.0	54.4	54.2
(% individual net earnings)				50.6	49.9	49.5
Gross pension wealth	13.0	10.1	9.8	8.3	8.0	7.7
(multiple of individual gross earnings)	14.3	11.1	10.8	8.4	8.1	7.7
Net pension wealth	13.3	11.2	11.0	9.7	9.6	9.6
(multiple of individual net earnings)	14.7	12.3	12.1	9.8	9.7	9.6

Assumptions: Real rate of return 2.5%, real earnings growth 1.25%, inflation 2%, and real discount rate 1.5%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equals 90%. Labour market entry occurs at age 22 in 2022. Tax system latest available: 2022.