

Preventing Ageing Unequally

How does MEXICO compare?



How will future retirees fare? The OECD report *Preventing Ageing Unequally* examines how the two global mega-trends of population ageing and rising inequalities have been developing and interacting, both within and across generations. Taking a life-course perspective the report shows how inequalities in education, health, employment and income interact, resulting in large lifetime differences across different groups. Drawing on good practices in OECD countries, it suggests a policy agenda to **prevent** inequality before it cumulates; **mitigate** entrenched inequalities; and **cope** with inequality at older ages. The report points to strong policy complementarities and synergies and thus a whole-of-government approach is likely to be much more effective than a series of separate inequality reducing policies. In particular, to ensure a better retirement for all, policies have to be coordinated across family, education, employment, social ministries and agencies.

Overview – Rapid ageing ahead will make it difficult to cope with high old-age inequality

Today's population in Mexico is younger than that of many other OECD countries. Life expectancy increased by less than two years between 2000 and 2015, compared to more than six years in Estonia and Korea, reflecting a greater prevalence of risk factors, such as overweight and obesity, deaths from cerebrovascular diseases and heart disease and persistent barriers of access to high-quality care in Mexico. Hence, the number of older Mexicans relative to those of working age has increased only slightly over the past decades. However, the pace of population ageing will become faster than in most OECD countries, due in part to the sharp fall in fertility rates. The number of older people relative to those of working age is expected to almost triple, reaching 33 people older than 65 years for 100 people aged 20-64 in 2050, still much below the OECD average of 53. Moreover, while economic growth has been strong in Mexico, it has not been inclusive enough, failing to achieve better living conditions for many Mexican families and with significant regional divides. Income inequality remains high and people in

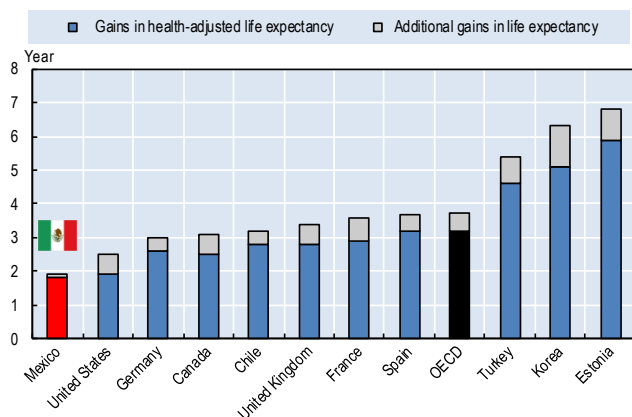
southern states, women, children and indigenous groups are leading notably disadvantaged lives.

Mexico has the highest level of old-age income inequality in the OECD, which build up over the life-course. Low social spending, insufficient pension coverage and the deeply entrenched fragmentation of the Mexican pension system are important factors. Some states, local authorities and public universities, other public entities and various professions run their own independent pension systems. Harmonising the rules for all pension plans would thus make it possible to establish a truly national pension system equal for all Mexicans.

It is more efficient to tackle education inequalities earlier and addressed them at young ages, rather than trying to remedy their consequences in old age. But the low quality of the educational system in Mexico hampers children's opportunities and fosters inequality among regions, especially between northern and southern states. Across OECD countries, pupils in Mexico rank the lowest in terms of their academic ability, girls and boys alike (in all PISA categories, reading, mathematics and science).

Life expectancy gains have been weak in Mexico

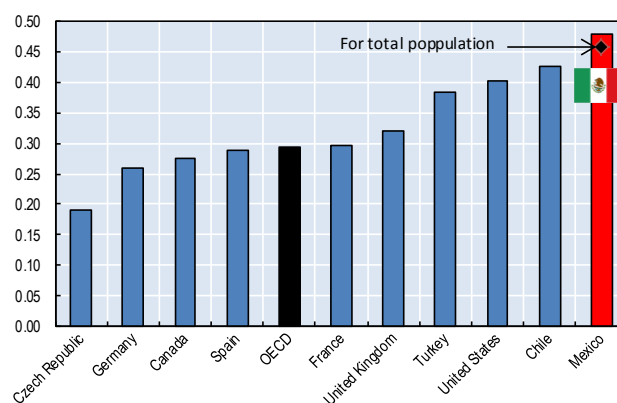
Total gains in life expectancy at birth, OECD countries, 2000-15



Source: See [\[Figure 2.6\]](#).

Income inequality among those older than 65 years is highest in Mexico

Gini coefficient for over 65 years old, 2014 or latest year



Source: OECD Income Distribution database. See [\[Figure 1.18\]](#).

There are large differences across states within Mexico, and states with higher levels of inequality have lower PISA scores. Students who come from indigenous families are at a higher risk of leaving school without a diploma. Low levels of education are associated with lower incomes, harder working and living conditions, a greater prevalence of behavioural risk, and less access to appropriate health care. A comprehensive policy approach to avoid inequalities adding up in Mexico should thus start by providing affordable and good quality childcare and improving the education chances of children.

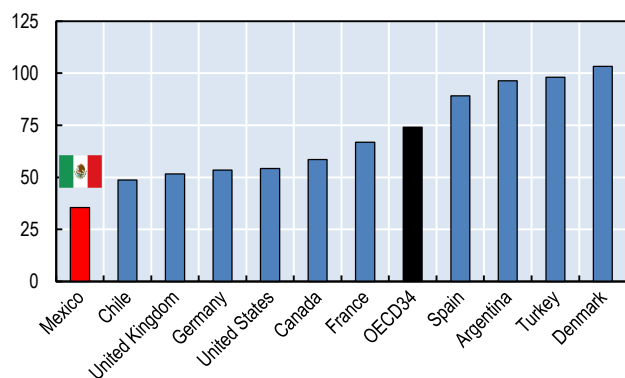
Mitigating entrenched inequalities requires enhancing labour force participation, which is record low in Mexico. More needs to be done, especially for women, who suffer from many types of discrimination and face serious barriers to formal labour market participation (2017 OECD Building an Inclusive Mexico). Insufficient provision of affordable and quality childcare and unfavourable business practices are in the way of equal opportunities for women. In addition, Mexico is the only OECD country without a national system of unemployment insurance, which increases the poverty risks already at working age. The size of the informal sector is exceptionally large compared to other OECD countries and remains a critical concern since it also limits the expansion of social security coverage and income support at older ages.

Future pension levels in Mexico are expected to be low. The main Mexican pension schemes were transformed from defined benefit to defined contribution, aiming at mitigating the growing financial liabilities of the defined benefit system. A sharp drop in pension benefits is to be expected after the transition period, which is a concern given that old-age poverty rates in Mexico are already among the highest in the OECD. High pension promises to transitional workers as well as low coverage rates and contribution periods may compound this problem. Mexico is among OECD countries offering the lowest old-age safety nets for individuals not covered by the contributory pension system. Hence, increasing both pension contribution rates and safety-net levels is crucial.

Health inequalities are another major concern. In Mexico, the health system is split into multiple sub-systems with limited integration between them (2016 OECD Reviews of Health Systems: Mexico). Each sub-system is offering different levels of care, to different groups, at different prices, with different outcomes. Affiliation to a sub-system is not determined by need, but by a person's job. Health care spending is relatively low and the levels of resources differ substantially between sub-systems, fuelling unequal access; deprived socioeconomic groups in deprived states are likely to have access to much more limited services.

Net future pension replacement rates from mandatory schemes for low earners

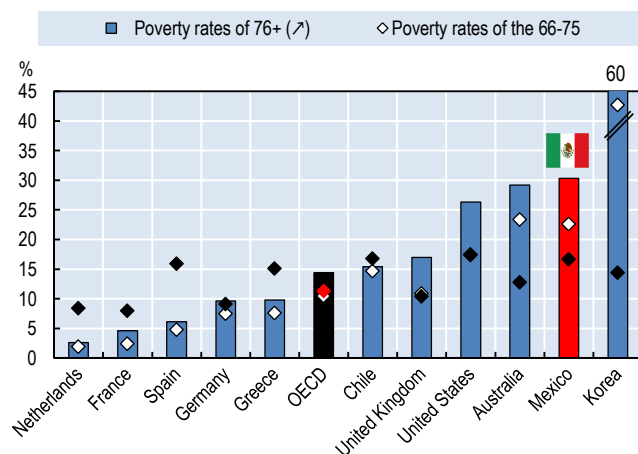
Full career from age 20 at half the average wage



Source: OECD Pension models. See [Figure 5.19].

Poverty risks are higher among people aged 76 and over

Change in the Gini index of pensions for a 1 percentage point increase in the Gini index of wages



Note: The poverty rate is defined as the share of people with income below 50% of the median household income of the total population.

Source: OECD Income Distribution database. See [Figure 6.15].

A comprehensive policy approach is needed to tackle these issues. It should start early in life and aim at breaking the links between socio-economic disadvantages and health, education and employment outcomes. It must ensure that most people from all socio-economic backgrounds are in sufficiently good health to extend their working lives and possess the skills to do so. In addition, retirement incomes should be raised, also among vulnerable groups, through a combination of old-age safety nets and mandatory pensions.