



PENSION SYSTEM REFORM

July 22, 2020	The Government of Mexico announced an initiative that would reform the Social Security Law.
September 25, 2020	The Federal Executive submitted it to the Chamber of Deputies.
December 9, 2020	Approved by the Chamber of Deputies and Senate.

❖ Expected to be approved by the Federal Executive in the next few days.

✓ Result of a **close collaboration** between the private sector, government and labor unions.

Purpose

Improve the quality of life of workers subject to the pension regime of the Social Security Law, by:



Increasing their pensions.



Increasing the percentage of workers receiving a guaranteed pension.



A more efficient and competitive environment in the administration of workers' retirement savings.

Increase in the amount of retirement savings under management from 18% to 40% of GDP in 2029 which will promote investment in infrastructure projects.

Current pension system and Reform

CURRENT PENSION SYSTEM

PENSION REFORM

Mandatory saving rate

1.125% from workers  
+ 5.150% from employers  
+ 0.225% from Federal government  
= **6.5 % mandatory saving rate**

1.125% from workers  
+ 13.875% from employers  
+ The composition of the State's contribution is modified to benefit only lower-income workers (up to 4 UMA <sup>1</sup>)  
= **15% mandatory saving rate**

Numbers of weeks to be eligible for pension

Guaranteed pension obtained with **1,250 weeks** of contributions (25 years).

Reduction on minimum numbers of weeks to be eligible for pension to **750**. It increases 50 weeks per year until it reaches 1,000.

Commissions charged by AFORE

It is **0.92%**, higher than in other countries (Colombia: 0.62%; Chile: 0.54%; United States: 0.45%).

**Maximum commission: 0.54%** which results of the average of the commissions charged in Colombia, Chile and United States.

Withdrawals options

Lifetime income insurance **or** scheduled withdrawals.

Option for workers to choose **one or both**: lifetime income insurance and/or scheduled withdrawals.

1. Update Metric Unit: which serves as the basis to calculate the payments, obligations or penalties that are owed to the government. 2,642.15 pesos monthly.



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## Benefits



- Increase in the percentage of workers who have access to pension from 56% to 97%.
- 20 million workers benefited.
- Increase in the coverage of the guaranteed pension from 34% to 83% of workers.



- Increase in the average replacement rate from 30 to 40%, benefitting low-income workers.
- 103% for workers with an income of 1 UMA.
  - 54% for workers with an income of 5 UMA.



Increase in the average value of the pension:

From 3,289 pesos (80% of a minimum wage) → To an average of 4,345 pesos (Up to 220% of a minimum wage).

AforeMovil, mobile application that offers:



- Check balance of the retirement saving account.
- Voluntary contributions.
- Opening accounts for children.

## Impacts



### Enterprises



- The increase in contributions will not affect micro and small enterprises.
- Most of the government contribution support will focus on workers earning 4 or less UMAs.



- The increase in employers' contributions will be gradual for 8 years, with a two-year grace period.
- In 2023, the raise will be of only 1%.



### Federal Government

- ❖ Estimated impact on the Budget:
  - Short term: 70 billion pesos (total impact in the first 3 years).
  - Medium term: 149 billion pesos (total impact in the first 10 years).

- ❖ **Porcentaje de GDP:**
    - The cost is estimated in 4% of GDP.
    - The implicit savings are of 7.6% of GDP which are absorbed by employers.
- Net savings are of 3.6% of GDP.