

Mexico

Mexico: Pension system in 2010

Private sector workers that entered after 1 April 2007 or opted for it are covered under a mandatory defined-contribution scheme, privately managed and funded. Contributions are made by workers, employers and government. A minimum pension for private sector workers. Transitional rules apply and for some generations.

Key indicators

		Mexico	LAC26
Average earnings	MXN	84 100	86 100
	USD	6 800	7 000
Public pension spending	% of GDP	1.4	3.1
Life expectancy	At birth	77.3	73.6
	At age 65	18.7	17.4
Population over age 65	% of working-age population	11.4	12.3

Qualifying conditions

Normal retirement age for private sector workers is 65 for men and women, subject to 1 250 weeks (around 24 years) of contribution.

Benefit calculation

Funded scheme

Private sector workers: Workers and employers contribute a total of 6.275% of earnings to an individual account, to which is added a government contribution equivalent to 0.225% of earnings. An additional 5% contribution is made to an individual housing account (a scheme known as Infonavit) which reverts to the retirement account when it is not used. Finally, the government contributes a fixed amount indexed quarterly to inflation into individual retirement accounts per day of contribution called *cuota social* or social fee. As of May 2009, the Social Security Law was amended in order to establish a progressive social fee, seeking to benefit workers who earn the lowest salaries. The social fees as of December 2010 are as follows: for workers who earn up to one minimum wage, the social fee is MXN 4.10647; for those who earn between 1.01 and four times the minimum wage, MXN 3.93537; for those in the 4.01 to seven times the minimum wage bracket, MXN 3.76427; for those in the 7.01 to ten times the minimum wage bracket, MXN 3.59316 and finally, for those who earn between 10.01 and 15 times the minimum wage, MXN 3.42206. For higher wage earners there is no social fee contribution. The social fee is indexed to inflation every three months.

There is a ceiling on contributions which is 25 times the minimum wage. The calculations of pension payments are realised by converting the accumulated account balance (discounting a survival insurance that must be bought to cover the survivors' benefits) into a price-indexed annuity at normal pension age. Annuity rates are sex-specific.

Minimum pension

Private sector workers: The minimum pension is equivalent to a 1997 minimum wage value indexed to inflation (MXN 24 092.91 in 2010). The minimum pension is effectively price indexed.

Variant careers

Early retirement

Early retirement is possible from age 60 for men and women. Conditions are that the worker is not employed and that at least 1 250 weekly contributions have been made. Members may retire at any age if the accumulated capital in their account allows them to buy an annuity that is at least 30% higher than the minimum guaranteed pension. In this case, the worker still has to complete the 1 250 weeks of contributions.

Late retirement

It is not mandatory to retire at 65. It is possible to defer the pension after age 65 for both private sector workers.

Personal income tax and social security contributions

Taxation of workers

No withholding will be made on the monthly earnings for people who perceive only the equivalent to the minimum wage in the corresponding geographic area.

Geographic area	Daily salary	Minimum wage per year	Five minimum wages per year
	MXN	MXN	MXN
"A"	57.46	20 972.90	104 864.50
"B"	55.84	20 381.60	101 908.00
"C"	54.47	19 881.55	99 407.75

For 2010, the annual earnings above the annual minimum wage are taxable according to the following:

Lower limit	Upper limit	Fixed lump sum	Percentage to be applied on the excess of the lower limit
MXN	MXN	MXN	%
0.01	5 952.84	0	1.92
5 952.85	50 524.92	1 14.24	6.4
50 524.93	88 793.04	2 966.76	10.88
88 793.05	103 218.00	7 130.88	16
103 218.01	123 580.20	9 438.6	17.92
123 580.21	249 243.48	13 087.44	21.36
249 243.49	392 841.96	39 929.04	23.52
392 841.97	Or more	73 703.40	30

Taxation of pensioners

The allowance for pensioners is set at 15 times the minimum wage.

Taxation of pension income

There is no special relief for pension income above the higher allowances.

Social security contributions paid by pensioners

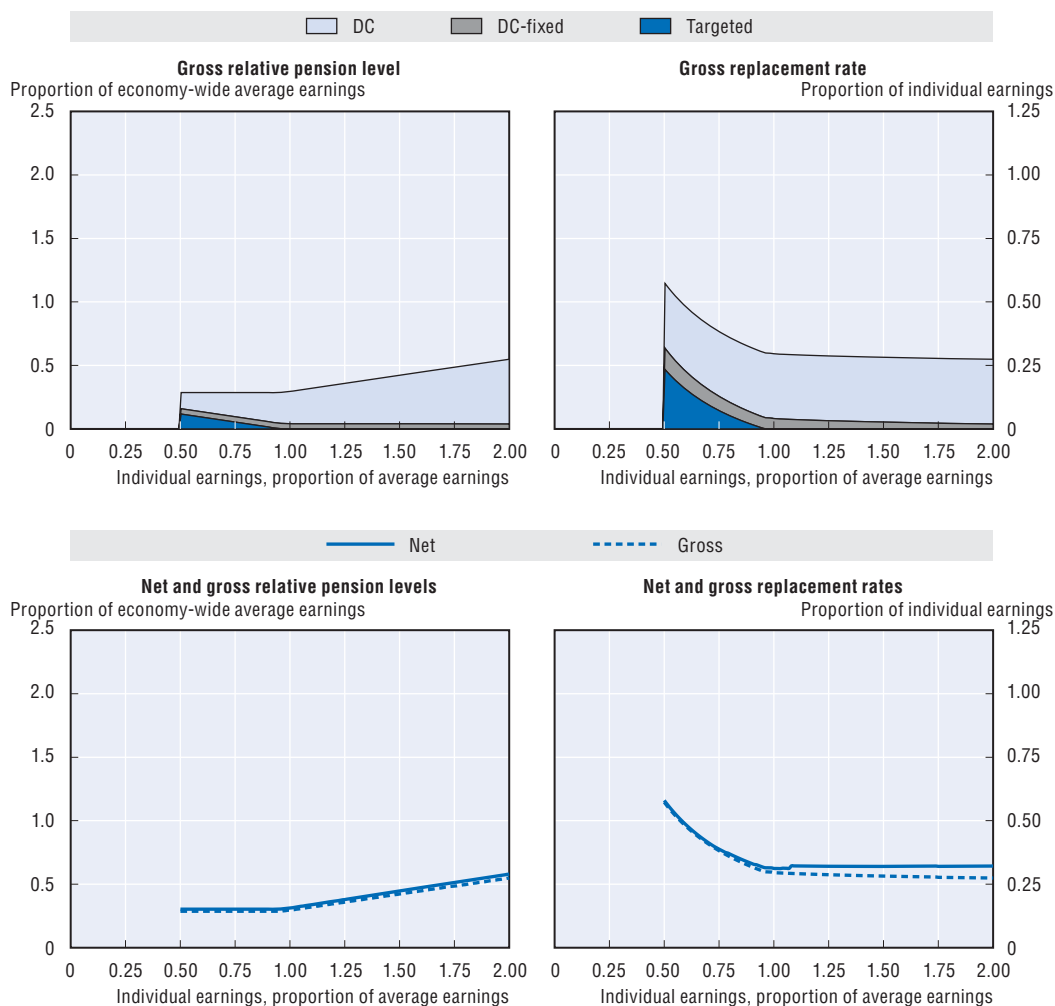
Pensioners do not pay social security contributions.

Non-Contributory Pensions


The *pension alimentaria* for adults 68 and older, residing in the Federal District (DF) are eligible for this benefit which is equal to at least 50% of the minimum wage for the DF (in 2010, the monthly “pension alimentaria” was MXN 897.30 per month).

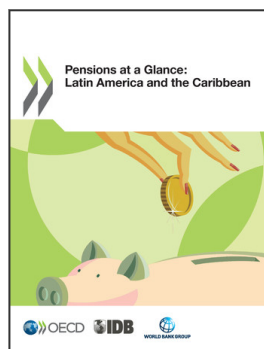
Pension “70 y mas”, MXN 500 per month, for the population aged 70 or older, living in a town with 30 000 or less inhabitants. Beneficiaries must not be recipient of any other government benefit.

Pension modelling results: Mexico



Men	Median earner	Individual earnings, multiple of average				
		0.5	0.75	1.0	1.5	2.0
Women (where different)						
Gross relative pension level	28.6	28.6	28.6	29.5	42.3	54.9
(% average gross earnings)				28.6	38.4	49.8
Net relative pension level	30.3	30.3	30.3	31.2	44.7	58.0
(% net average earnings)				30.3	40.6	52.7
Gross replacement rate	46.2	57.3	38.2	29.5	28.2	27.4
(% individual gross earnings)				28.6	25.6	24.9
Net replacement rate	46.8	58.0	38.8	31.2	32.0	32.1
(% individual net earnings)				30.3	29.1	29.2
Gross pension wealth	7.6	9.4	6.3	4.8	4.6	4.5
(multiple of individual gross earnings)	8.3	10.3	6.9	5.2	4.6	4.5
Net pension wealth	7.6	9.4	6.3	4.8	4.6	4.5
(multiple of individual gross earnings)	8.3	10.3	6.9	5.2	4.6	4.5

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