



Mexican retirement system

Proposal to reform

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Current Social Security system

- Defined Contribution Scheme
- Requirements for retirement: Have at least 60 years of age and have contributed a minimum of 1,250 weeks to Social Security (approximately 24 years).
- Mandatory contributions: 6.5% of social security salary.*
- The contributions are managed by asset managers called AFORES.

**The social security salary is capped for salaries above of MXP 66,000 – USD 3,000 monthly*



Challenges in the current social security

- Increase of work informality.
- Labor mobility between the formal, informal and independent sectors.
- Low level of contribution, one of the lowest ranking in the world.

Less than 30% reach the retirement requirements.

Replacement ratio:

- **20% - 30%** for low salaries.
- **<15%** for high salaries.

What are the changes?



What are the changes?



Reduction of the
required weeks for
retirement.

From 1,250 to 750 weeks (~ 24 to ~ 14 years).

- Effective as of January 1st 2021.
- A gradual increase from 750 weeks to 1,000 (~ 19 years) weeks which will be the new eligibility in 2031.

What are the changes?



Increase the
Minimum
Guaranteed
Pension.

From USD\$2,000 to a range between US\$1,500 and US\$4,800 annually.

- The Minimum Guaranteed Pension will be determined based on the salary, age and weeks in the system.



With these changes, 80% of active employees can meet this requirements and they will be able to access a higher pension.

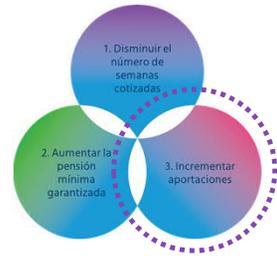
What are the changes?



Branch: Retirement, Early Retirement and Old Age	Current contribution	Proposed contribution in the reform	Impact
Worker	1.125%	1.125%	No change
Government	0.225% + Social premium	Social premium	Redistribution for lower salaries (<\$5,800 annual)
Employer	5.15%	between 5.150% and 13.875%	Increase

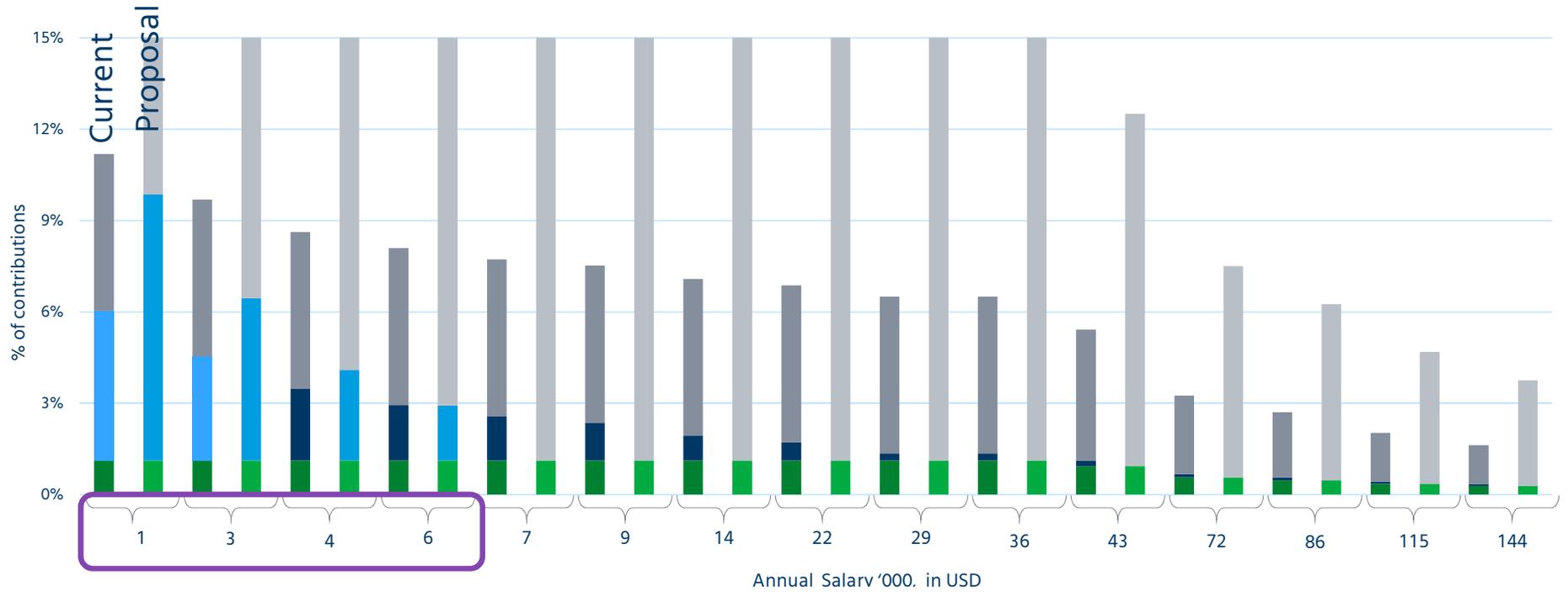
SBC	Transition year - Employer Premium							
	2023	2024	2025	2026	2027	2028	2029	2030+
1 MW	5.150%	5.150%	5.150%	5.150%	5.150%	5.150%	5.150%	5.150%
1.01 MW - 1.5 UMA	5.281%	5.413%	5.544%	5.676%	5.807%	5.939%	6.070%	6.202%
1.51 UMA - 2 UMA	5.575%	6.000%	6.426%	6.851%	7.276%	7.701%	8.126%	8.552%
2.01 UMA - 2.5 UMA	5.751%	6.353%	6.954%	7.556%	8.157%	8.759%	9.360%	9.962%
2.51 UMA - 3 UMA	5.869%	6.588%	7.307%	8.026%	8.745%	9.464%	10.183%	10.902%
3.01 UMA - 3.5 UMA	5.953%	6.756%	7.559%	8.361%	9.164%	9.967%	10.770%	11.573%
3.51 UMA - 4 UMA	6.016%	6.882%	7.747%	8.613%	9.479%	10.345%	11.211%	12.077%
4.01 UMA - 4.5 UMA	6.241%	7.331%	8.422%	9.513%	10.603%	11.694%	12.784%	13.875%

What are the changes?



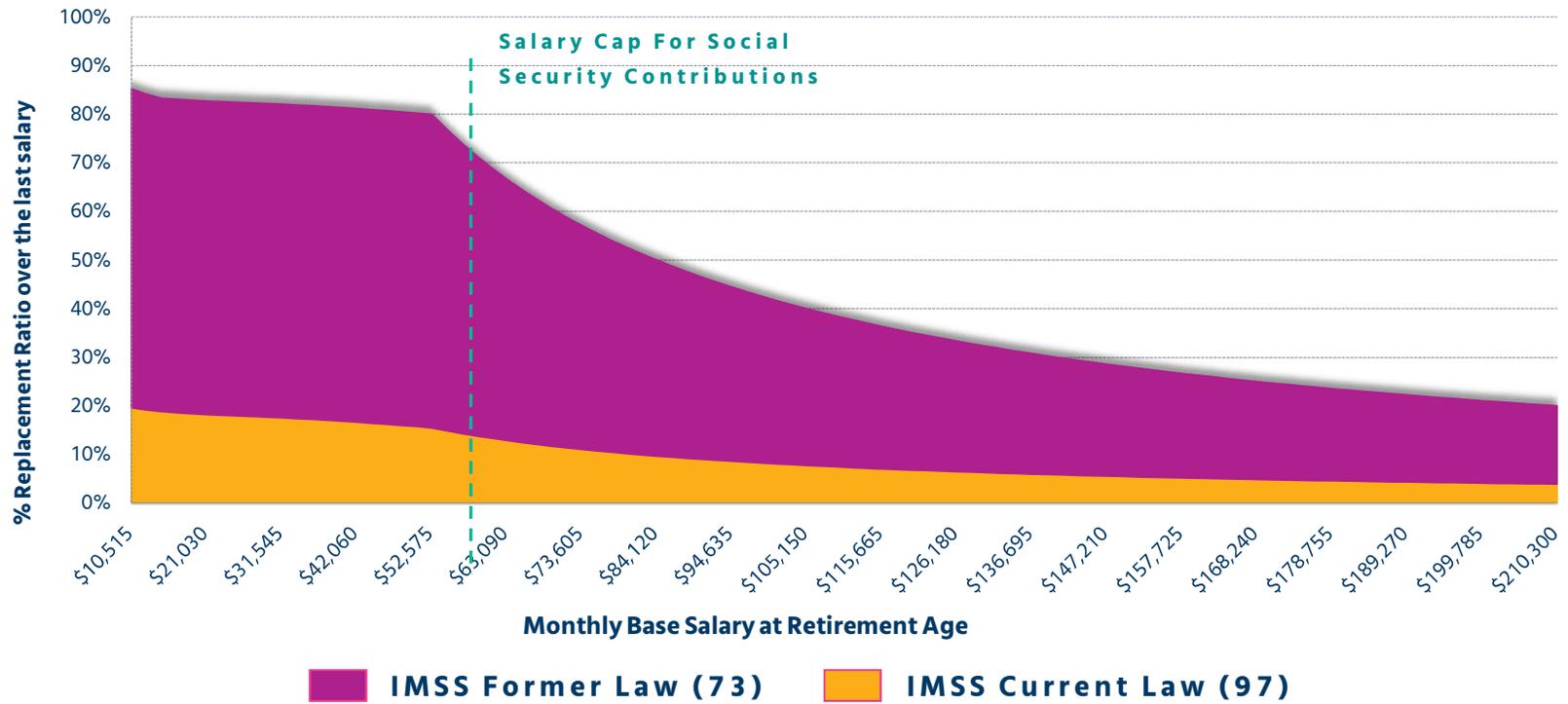
Example in change of contributions:

Worker Government Employer



Social security (IMSS) Pension Replacement Ratio

Replacement ratio difference between IMSS Laws (73 – 97)



Recommendations for your company

- Estimation of the increase in the cost for Social Security purposes.
- Establishment of a plan to mitigate the increase contributions.
 - Review the compensation package to check for efficiencies and maintain competitiveness
- Maintain or analyze increase the saving schemes in order to complement the retirement benefit, especially for higher salaries.



2022 financial hot topics - Mexico

1. Flexible work.... and flexible retirement

COVID 19 brings about new ways of work, to address this new reality, redesigning traditional approaches to work and retirement planning is crucial to ensure people can transition flexibly and thrive in later life. No two people are alike — you need solutions that recognize people's financial status, health and future career aspirations. Now, more than ever, it's vital to support flexibility to build resilience so your people can live healthier lives, be financially strong and stay active in the workforce longer.

In this sense, **phased retirement** (the option for employees nearing retirement to work with a reduced workload/schedule while drawing retirement benefits, eventually transitioning to full retirement) are starting to be explored.

3. Financial well-being benefits

The pandemic had sad effect in the number of premature deaths but also in to show us how vulnerable we are in the financial aspects. Companies are taking strategies focus on the wellbeing and the financial wellness is part of these initiatives,

In our surveys Gen Y employees say the most valuable financial well-being benefit are long-term financial planning and flexible options for saving and investments. Therefore, the **creation of platforms of savings** (pension plan, credit union, saving funds, stock programs, financial education program are more prevalent in the market).

2. Pension Reform

Pension reform approved at the end of 2020 represented good news for employees. For 2023, it will start the cost impact for the companies (in 2030, the cost could be up to almost 3X).

The recommendations is to know the **estimation of the increase in the cost for Social Security** as well as to establish a plan to mitigate the increase contributions.(including review the compensation package to check for efficiencies and maintain competitiveness).

In case of the implementation/redesign of pension plan, it is important to take in consideration the impact for the employees and to design accordingly (private pension plans has as a main objective to complement the retirement benefit, and with the reform higher salaries has still important gaps in their replacement ratios).

4. Labor Post reform

Fine tuning to the outsourcing/insourcing law compliance. Impacts in the organizational structure and profit sharing/variable compensation.

Compensation evolution understanding the appreciation of the employees as well as the cost of the programs looking for efficiencies and the best return of investments in terms of current compensation package.

2022 financial hot topics - Mexico

5. Impact of COVID-19 on assets – Time to Diversify

The COVID-19 pandemic has taken a significant impact in the economy and financial markets. We will find that the outlook for capital market returns is materially lower than in years past.

It's relevant to review the **investment strategy and diversify the portfolios** for the companies' financial benefits in order to **mitigate the risk, reduce cost and maximize return** in the medium and long term. This could be a tool to control the impact of the inflation increases and associated costs to the regulation changes.

Being conservative means having a portfolio with the appropriate distribution of assets that allow reach the objective of each benefit.

6. ESG and Sustainable Objectives

Half (52%) of senior executives say it's **important to align their workplace pension scheme investment strategy** with their **corporate sustainability goals** but only 1 in 5 (22%) has done so.

Half of businesses with DC schemes (47%) and 1 in 3 (33%) with DB schemes view disclosures as a useful way to engage employees on future savings.

Corporate sustainability policies help **improve engagement; attract talent;** and lead to a more loyal and productive workforce. Incorporating ESG more substantially into pension scheme management is high priority, but the pace of change is slow.

We think relevant to evaluate the company's programs in order to incorporate an ESG profile.



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