

## Mexico

New labour-force entrants are obliged to join the new funded and privately managed, defined-contribution scheme. The government contributes 5.5% of the 1997 real minimum wage to the individual account. There is also a minimum pension.

### Qualifying conditions

Normal retirement age is 65 for men and 60 for women subject to 1 250 weeks (around 25 years) of contribution.

### Benefit formula

#### **Funded scheme**

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 5.5% of the 1997 real minimum wage into all individual retirement accounts.

The calculations assume that the individual converts the accumulated account balance into a price-indexed annuity at normal pension age. Annuity rates are sex-specific.

#### **Minimum pension**

The minimum pension is equivalent to the same 1997 real minimum wage value and was estimated to be approximately 23% of the average covered wage in 2002. The link to the real minimum wage means that the minimum pension is effectively price-indexed.

### Personal income tax and social security contributions

#### **Taxation of pensioners**

The allowance for pensioners is set at 9 times the minimum wage in place of the workers formula based on bonuses and holiday entitlements, *i.e.*, no tax is paid on pensions up to this level.

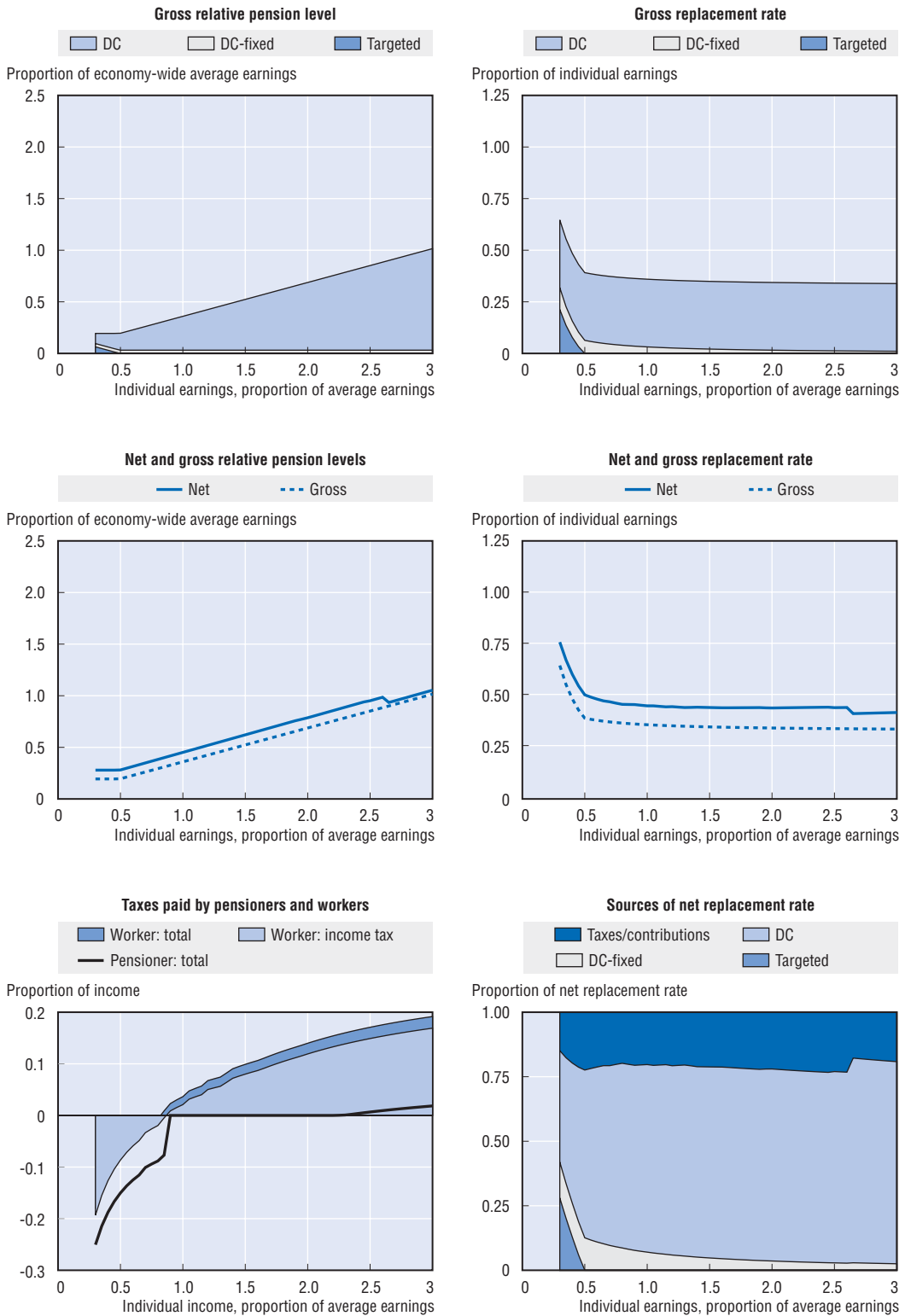
#### **Taxation of pension income**

There are no reliefs for pension income over and above the higher allowance.

#### **Social security contributions paid by pensioners**

Pensioners do not pay social security contributions.

### Pension modelling results: Mexico



Source: OECD, based on information provided by the countries.

### Pension modelling results: Mexico

Men	Individual earnings, multiple of average					
Women (where different)	0.5	0.75	1	1.5	2	2.5
Gross pension level	19.6	27.8	36.0	52.4	68.7	85.1
<i>(% of average earnings)</i>	19.4	19.4	21.7	31.6	41.5	51.3
Net pension level	28.1	36.6	45.1	62.1	78.7	95.1
<i>(% of average net earnings)</i>	27.9	27.9	30.4	40.6	50.8	61.1
Gross replacement rate	39.1	37.0	36.0	34.9	34.4	34.1
<i>(% of individual earnings)</i>	38.8	25.9	21.7	21.1	20.7	20.5
Net replacement rate	50.4	46.4	45.1	44.3	44.1	44.2
<i>(% of individual net earnings)</i>	50.1	35.4	30.4	28.9	28.5	28.4
Gross pension wealth	2.6	3.7	4.8	7.0	9.1	11.3
<i>(multiple of average earnings)</i>	3.6	3.6	4.1	5.9	7.8	9.6
Net pension wealth	3.7	4.9	6.0	8.3	10.5	12.6
<i>(multiple of average net earnings)</i>	5.2	5.2	5.7	7.6	9.5	11.5

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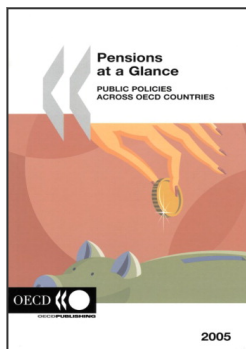
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