

### COVID-19 has impacted Mexico more than most countries

Excess mortality due to COVID-19 is higher in Mexico than in any other OECD country, with 55% more deaths recorded between January 2020 and August 2021 than expected, almost five times the average across the OECD.

Current pensioners have been relatively unaffected during COVID-19, as their benefits are guaranteed either through their annuity, the old DB scheme or safety-nets. Future pension incomes though will be impacted through the repercussions from the large labour market shock.

### Old-age poverty rates and poverty depth are high

Before the pandemic, retirees had an average income at 92% of that of the total population, compared with 88% on average in the OECD. However, income inequality is one of the highest among all OECD countries, for the population as a whole, and especially for the over 65s with a Gini coefficient of 0.473 compared to 0.309 on average in the OECD, with only Costa Rica having higher old-age income inequality.

The relative income poverty rate among older people is very high in Mexico: 31% of those aged 75 and over have incomes below half of median income, the large majority of them being women; this compares to 11% in the OECD. In Mexico, the average income of those aged 66+ who are relatively poor is very low, about 40% below the relative poverty line. This is the highest poverty depth among OECD countries.

While population is ageing in Mexico, the extent of demographic shifts is delayed by about three decades relative to the OECD average. With pensions being funded defined contribution benefit, levels automatically adjust to life expectancy when annuitised, but longevity risks are transferred to individuals for the non-annuitised part. Only those that do not fulfil the required weeks of service to get a granted pension can take their assets as lump sums in Mexico.

### Major recent pension reforms, boosting pension benefits

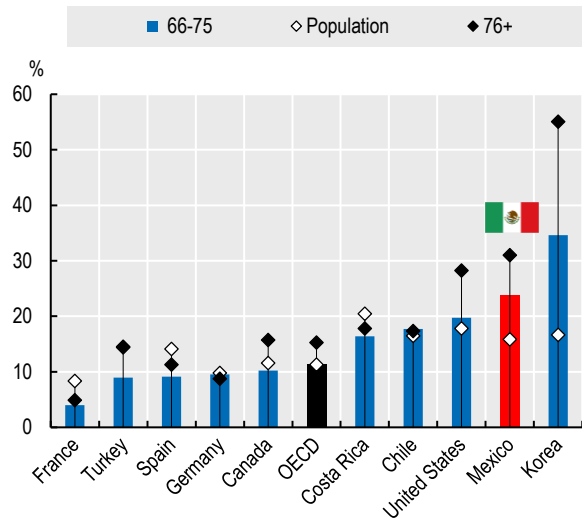
Mexico implemented the most comprehensive reform among OECD countries, raising earnings-related contributions, as well as current and future first-tier benefits and increasing the guaranteed pension (minimum pension). The increases in first-tier benefits, and making it universal from age 65, will boost income for all retirees and increase pension spending from a currently very low level compared to other OECD countries – 2.7% of GDP in Mexico, though increasing in recent years, compared to 7.7% for the OECD average. The non-contributory residency-based basic pension, is paid to all eligible citizens from age 65 since July 2021, against 68 years before. The amount of this benefit will increase gradually by 75% in real terms by 2024, amounting to around 25% of average earnings after the reform. Significantly raising old-age safety nets was among the main recommendations in the 2016 OECD Pension Review of Mexico.

In December 2020, the government increased substantially the amount of the guaranteed pension and changed it from a flat-rate benefit to a benefit which increases with career length up to 24 years, with the

individuals' average wage and with the effective retirement age. With a penalty of only 1.3% for each year of early withdrawal of the minimum pension, exiting the labour-market early may become more common.

### Poverty rates are high in Mexico, especially after age 75

Relative poverty rates by age group, latest available

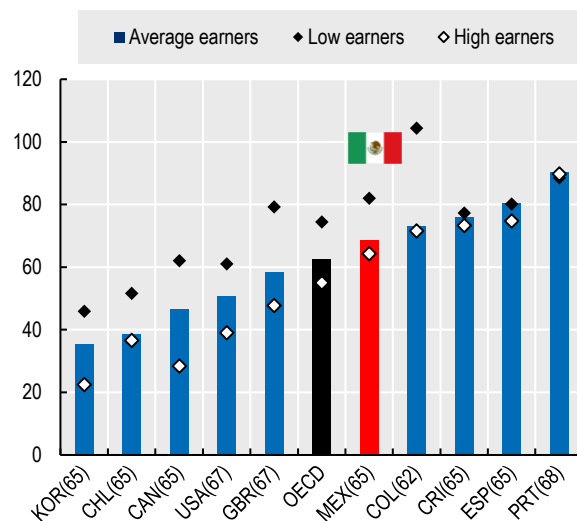


Source: [Table 7.2](#)

The full level of the guaranteed pension will be paid after 1 250 weeks of contribution, which combined with the basic pension, will significantly weaken the relation between benefits and contributions for low earners. With an already high level of informality, there is thus less incentive to contribute in later life given that a relatively short career grants full entitlement. The value of the guaranteed pension has been increased to around 60% of past earnings with 24 years of contribution, compared to 30% of average earnings previously. However, it is projected to fall back relative to wages due to price indexation. Such a high level of the guaranteed pension implies that the guaranteed pension is likely to play a much larger role and that for many pensioners the pension level will no longer depend on accumulated assets financed by past contributions.

### Pensioners will have much higher pensions after the reforms

Future net pension replacement rates, full career, %

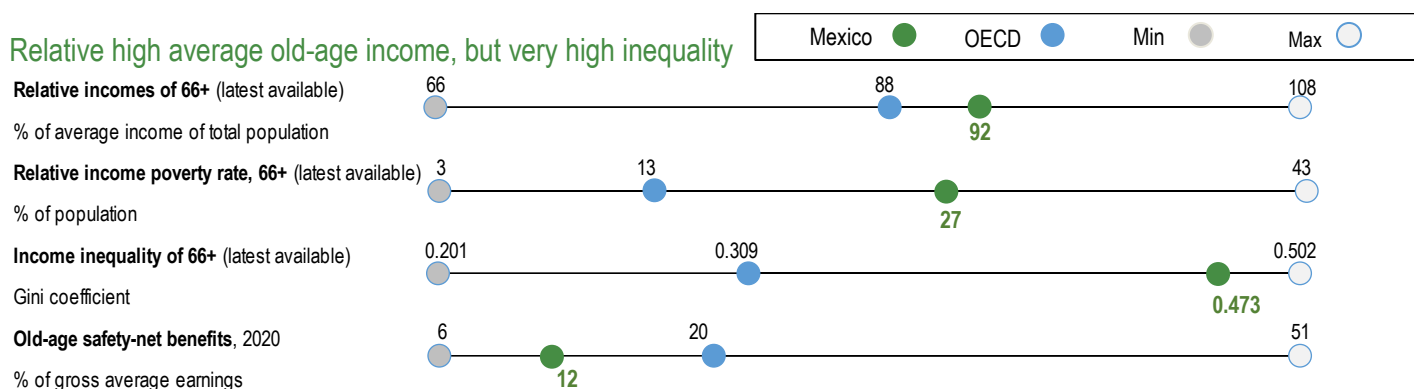


Source: [Table 4.4](#)

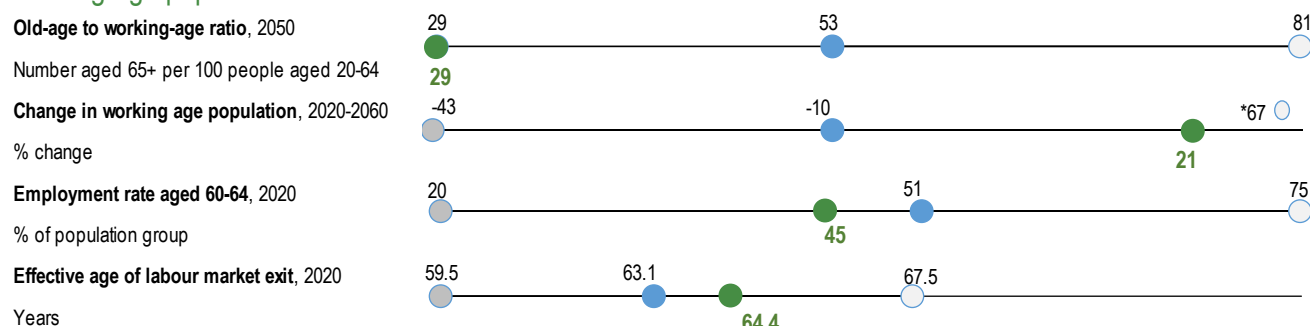
Currently, workers at average earnings only pay 1.1% in pension contributions, with employers paying 5.2%. The total contribution of 6.5%, including a government contribution is the lowest among OECD countries except for New Zealand, and compares with 18.2% on average. This contribution rate is increased when accounting for the social quota contribution that varies with earnings, but is around 3 p.p. for low earners. As a result of the 2020 pension reform, the total contribution rate will increase to 15% across earnings levels, by 2030. This increase is very welcome. In addition, the minimum contribution period required to qualify for an old-age pension was reduced from 1 250 weeks (~24 years) to 750 weeks, but is set to reverse course and

increase by 25 weeks per year to reach 1 000 weeks in 2031. Average-wage workers with a full career from age 22 in 2000 can expect a future pension equivalent to 69% of their previous net pay, larger than the OECD average of 62%. The replacement rate is higher for low earners at 82%, with both values more than double the pre-reform levels. However, as self-employed workers are not mandatorily covered by FDC pensions, they will only be mandatorily covered by the basic residence-based pension. Therefore, their pension entitlements will only be about one-third of that of a private-sector employees, the second lowest OECD value.

### Relative high average old-age income, but very high inequality



### Working-age population will increase more than in most OECD countries



### Contribution rates are low but will increase substantially after recent reform



### Unemployment breaks greatly reduce pension entitlements

