Pension watch

Briefings on social protection in older age

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Briefing no. 13

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Towards universal pension coverage in Mexico

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Introduction

Until recently, there was no social pension provision in Mexico; all pensions were earnings-related, financed with government subsidies and payroll taxes. Mexico introduced social pensions long after other Latin American countries, [1] and for that reason had pension coverage of only 22 per cent as late as 2000. Just 13 years later, 88 per cent of older people had pensions. Nearly all of this remarkable increase in coverage was due to social pensions: non-contributory benefits, unrelated to employment records (see figures 1 and 2).

This briefing chronicles the rise of social pensions in Mexico. First, it summarises the pension system prior to the introduction of social pensions. Then, it describes how Mexico City, 17 of Mexico's 31 states and the federal government initiated social pensions: a policy eventually supported by all three major political parties. It concludes with suggestions for improvements.

Before social pensions

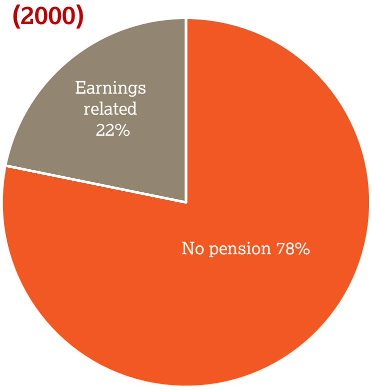
Prior to the introduction of social pensions, the vast majority of Mexicans had no access to old age pensions. This does not mean that everyone without a pension was poor. Pensions contribute to income security, but their absence is not synonymous with poverty; older men and women without pensions can still escape poverty through earning a wage income, using personal savings, or receiving family support. Nor is the presence of pensions synonymous with affluence, especially when the pension is small. Even pensioners who have sufficient income to satisfy their own basic needs might live in poverty if they have to support others.

Expressing pension coverage in terms of individuals rather than households is useful. It is difficult to ascertain the distribution of resources and income within a household, so it is assumed that the person receiving the pension is the one who benefits from it. Anyone aged 65 or over who has no pension income is classified as "without pension", regardless of any pension a spouse might receive. This holds even when the pensioner receives a "dependent spouse" supplement, because the dependent spouse does not receive it themselves. When an older

1. Flores-Castillo A, *Transferencias No Contributivas a Personas Mayores*, Mexico, United Nations, 2012, pp.23-24

HelpAge International age helps

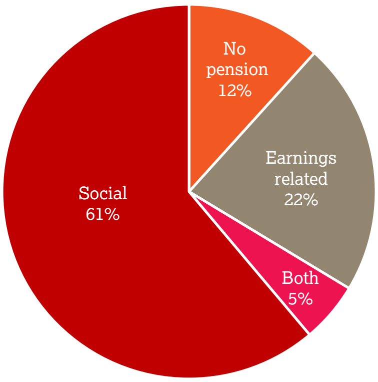
Figure 1: Older people aged 65 and over with and without pensions (2000)



Source: Author's calculations, based on CONAPO, Diagnóstico socio-demográfico del envejecimiento en México, 2011, tables 1.2 and 3.9.

Note: 4.6 million residents of Mexico were aged 65 and over in 2000

Figure 2: Older people aged 65 and over with and without pensions (2013)



Source: Author's calculations based on SEDESOL, Cuarto Informe Trimestral 2011; Comunicado de Prensa 50/031113, 2013 and SEDESOL, Diagnóstico del programa Pensión para Adultos Mayores, 2013, p.69.

Note: 7.7 million residents of Mexico were aged 65 and over in 2013

person with an earnings-related pension dies, any survivor's benefit is also classified as "earnings related" because it depends on the deceased pensioner's record of earnings.

Earnings-related pensions for workers in the private sector were (and still are) financed in part from mandated "contributions" (6.5 per cent of wages), managed until 1997 on a pay-as-you-go basis by the Mexican Social Security Institute (IMSS). General government revenue covers the deficits. The old social security rules require recipients to retire from work and to have a record of at least 500 weeks (9.6 years) of contributions. Although this may not seem like a long period of time, the vast majority of workers spend their lives in informal employment and are therefore unable to make the necessary contributions to social security. Others move in and out of work in the formal and informal sector, so fail to qualify for an earnings-related pension. Many receive nothing, not even a lump sum, as compensation for their contributions.

Private sector workers who qualify are able to retire at age 65 with a pension equal to at least one minimum wage, which stood at MX$1,137 (US$120) a month in 2000 (see Box 1). In addition, pensioners with a dependent spouse receive a 15 per cent bonus. All pensioners receive a 13th month end-of-year benefit. Survivors receive 90 per cent of the spouse's base pension. Government employees receive guaranteed pensions of at least two "minimum wages". Minimum pensions for retirees of the military and Pemex (the government-owned petroleum monopoly) are even more generous.

However, not every pensioner retires at age 65. Workers who are involuntarily unemployed, and have the required record of contributions, can retire as early as 60 with a reduced pension. Since workers who qualify receive pensions at age 65 only if they retire, some older people continue working without a pension beyond the age of 65. It is impossible for the government to track employment in the informal sector, so pensioners of all ages work clandestinely, often for less than the minimum wage and always without benefits.

Box 1: What is a "minimum wage" pension?

Mexico's social security system for workers in the private sector promises a guaranteed minimum pension equal to "one minimum wage" for those who have contributed long enough to qualify. Minimum wages in Mexico are expressed per day, whereas pensions are expressed per month. The minimum wage pension is equal to 30 minimum daily wages a month. The minimum daily wage in 2013 was MX$64.76 (about US$5), so a minimum wage pension was MX$1,942.80 (about US$150) a month. The minimum wage level is adjusted in January of each year in an *ad hoc* fashion. In recent years, the minimum wage has not kept pace with price inflation. During retirement, earnings-related pensions are adjusted in February of each year according to changes in the consumer price index.

In 2013 a minimum wage pension was less than Mexico's official urban poverty line (línea de bienestar), which was MX$2,317.98 (US$176) in July 2013. The poverty line is adjusted monthly and is an estimate of the cost of a basket of food and non-food items needed to keep an individual person out of poverty. There is also an extreme poverty line (línea de bienestar mínimo) that measures the cost of the food portion of the poverty line basket, which is the minimum income needed to purchase enough food for a single person to remain healthy. In July 2013, the extreme poverty line was MX$1,120.13 (US$85), roughly half the poverty line, so more than half a minimum wage.

Source: www.conasami.gob.mx/pdf/salario_minimo/sal_min_gral_area_geo.pdf (30 January 2014); www.coneval.gob.mx/Medicion/Paginas/Lineas-de-bienestar-y-canasta-basica.aspx (30 January 2014).

Mexico reformed its social security system in 1997, creating individual, privately managed, retirement savings accounts.[2] Contributions (6.5 per cent of wages) are now credited to individual accounts. Generous government subsidies continue, though in a different form. The government adds a "social quota" to each worker's mandated contribution. At first, this was a flat payment (5.5 per cent of the minimum wage) for everyone, but in May 2009 this was increased to 7 per cent of salary for those earning the minimum wage, declining in steps to 5.8 per cent of the minimum wage for those on salaries between 10 and 15 times the minimum wage, but reduced to zero for those earning more than 15 times the minimum wage.

The guaranteed minimum pension of one minimum wage continues, with free top-ups from government for those whose savings accounts are too small to finance a minimum annuity (private pension), but the qualifying period has increased to 1,250 weeks (24 years). In compensation, those with fewer contributions can withdraw their accumulated savings at age 65. Workers with 500 or more weeks of contributions who began contributing prior to 1997 can opt to retire under the rules of the old system.

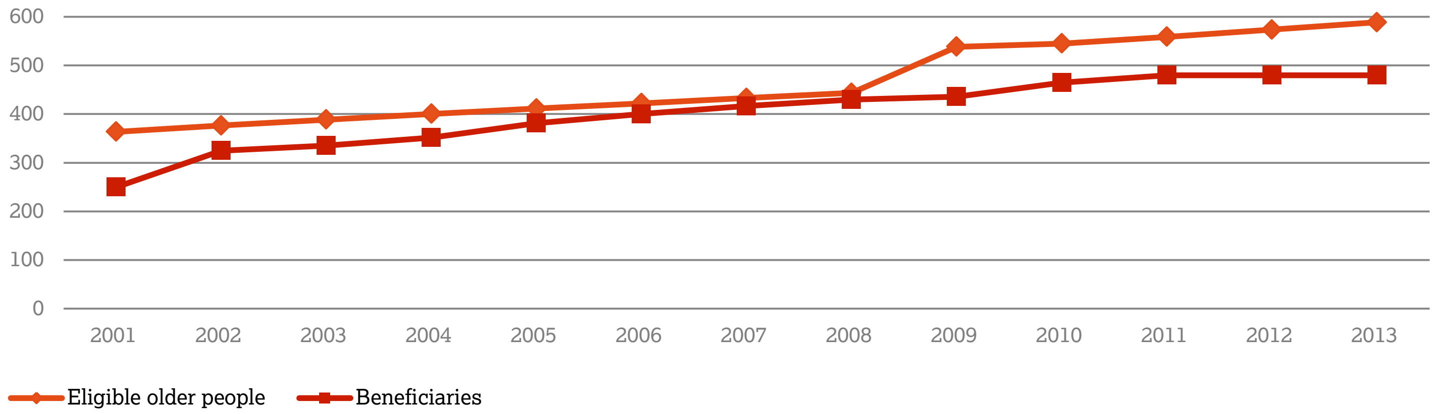
2. Marco A, Espinosa-Vega M, and Sinha T, 'A primer and assessment of social Security Reform in Mexico', *Economic Review 1*, 2000, p.1-23; Hoyo C, and Tuesta D, *Financiando la jubilación con activos inmobiliarios: un análisis de caso para México*, Mexico, BBVA Research México, Mexico City, 2013

Mexico City (Federal District) initiates universal pensions, 2001-2013

The governor of the Federal District, Andrés Manuel López Obrador (known as AMLO), introduced Mexico's first social pension in 2001. By all accounts, it was a top-down affair rather than a response to demands from voters or non-governmental organisations (NGOs).[3] From the start, Mexico City's pension was universal in principle. Applicants only had to submit proof of age (at least 70 years) and residence in the Federal District (at least three continuous years immediately prior to application). In 2009, the government lowered the age requirement to 68 years, but left the residency requirement unchanged. Residence has been the primary reason for rejection of applications; 12 million residents of Greater Mexico City live outside the Federal District and therefore had no access to social pensions until recently (see Box 2).

Each pensioner receives a debit card, which also functions as an identity card. A cash benefit equal to half the minimum wage (MX$600/US$64 in 2001) is credited to the card each month. Pensioners are also entitled to free healthcare and public transport. The total cost of the universal pension is less than 4 per cent of the Federal District's budget and less than 0.25 per cent of its gross domestic product (GDP).[4] Administrative expenses are limited by law to a maximum of 12 per cent of disbursed cash benefits, but have been consistently lower (6.8 per cent, for example, in 2011).[5] Moreover, there has never been a hint of corruption in relation to administration of the pension. Mexico City's experience suggests that clear rules and simple tests make it difficult for bureaucrats to demand payment to 'expedite' applications.

Figure 3: Expansion of Mexico City's Universal Pension Scheme (2001-2013, end-year, thousands of seniors)



Source: estimates for 2001-09 from CONAPO, 2010 from the census; author's estimates for 2011-2013; number of beneficiaries from DF government reports.

Initial take-up of universal pensions was very good. Within a year, two-thirds of eligible older people were receiving pensions. Take-up reached 86 per cent in 2002, then slowly increased, reaching a high of 97 per cent in 2008. However, as Figure 3 shows, the number of older people and the number of pension beneficiaries diverged in 2009, when the age of eligibility was reduced to 68 years. The number of people receiving a pension has remained static since 2011, at 480,000, even though the number of eligible older people has increased each year, reaching 589,000 in 2013. The fiscal cost of social pensions, as a percentage of the Federal District budget, actually fell from 4 per cent in 2011 to 3.8 per cent in 2013.[6] Contrary to the principle of universal pensions as a right, by arbitrarily restricting the number of pensions, authorities force applicants to wait for older pensioners to emigrate or die. While older women and men are allowed to apply for a social pension at age 68, they might have to wait until age 69 or 70 to receive one. It is not known what method is used to allocate the restricted supply of pensions to those on the waiting list. If government officials are allowed to select those they judge more deserving, irrespective of their place in the queue, this generates opportunities for favouritism and corruption Although the government of the Federal District strayed from the principle of universality by restricting the supply of pensions, it increased the size of the pension each year, keeping it equal to half a minimum wage. The pension thus rose from MX$600 in 2001 to MX$971 in 2013. But the amount remains small; in 2013, it was the equivalent of 8.1 per cent of Mexico's per capita income – and less than 4 per cent of Mexico City's higher per capita income. Moreover, there is no end-of-year bonus or allowance for dependents.

3. "Previous to the establishment of the pension ... [no] organized interest groups, apart from party politicians, were involved in a discussion about establishing a non-contributory pension." In: Lajous-Loaeza A, *Universal pensions in Mexico City: changing dynamics of citizenship and state formation in a global city*, Massachusetts Institute of Technology, 2009, p.97

4. Willmore L, 'Universal pensions for developing countries', *World Development*, 2007, pp.33-34

5. Flores-Castillo A, 2012, p.59.

6. Willmore L, 'Take-up of universal pensions in Mexico City', Thought du Jour, http://larrywillmore.net/blog/2013/07/19/take-up-of-universal-pensions-in-mexico-city/ (1 January 2014). As the number of social pensions was capped at 480,000, the budget for social pensions relative to the total budget was reduced in the period 2011-2013.

Box 2: Mexico's capital city

Mexico City is synonymous with the Federal District, which has a population of 8.8 million. Greater Mexico City is an urban agglomeration of more than 21 million inhabitants, most of whom live in the surrounding state of Mexico. The Federal District, from its creation, was ruled by the federal government through an appointed governor often referred to outside of Mexico as the "Mayor" of Mexico City. In 1997, the Federal District gained a level of autonomy similar to that of a state. Residents now elect, by popular vote, the governor and representatives to a Legislative Assembly. The local government administers its own budget, subject to limits on internal and external public debt. The left-leaning PRD (Partido de la Revolución Democrática) dominates local politics.

Source: Mexico City, http://en.wikipedia.org/wiki/Mexico_City, (4 December 2013)

Why is Mexico City's social pension so modest? Dr Asa Cristina Laurell, AMLO's Secretary of Health and co-architect of the universal pension, explained back in November 2003 that budget constraints ruled out their preferred option: a flat pension equal to the minimum wage, with eligibility no higher than 65 years.[7] At the national level, according to Dr Laurell, the preferred option could easily be financed by eliminating government subsidy of earnings-related pensions. However, as Mexico City does not control federal subsidies, it opted for a less generous pension, financed by reducing salaries and perks of government officials.

Governments often turn to means-testing to escape the confines of a fixed budget. However, Dr Laurell rejected means-testing, citing the large administrative costs, possible stigmatisation of recipients, and the inevitable errors that result from attempts to target the poorest. Her criticism is valid for tests of income and assets, but not for tests limited to earnings-related pensions. Errors and administrative costs are low for pension-tests (whereby people only receive the social pension if they are not in receipt of any other pension), and there is no reason for an applicant to suffer stigma if the test is applied to individuals rather than households. After all, a woman with no employment record can claim such a pension, regardless of her husband's pension. A pension-tested scheme (*guarantee pension*) replaced Sweden's universal pension (*folkpension*) in reforms introduced in 1998.[8] Dr Laurell, a native of Sweden, commented that "only" 40 per cent of Mexico City's older people receive earnings-related pensions, yet decided not to exclude them from social pensions.[9] The introduction of a pension test in Mexico City in 2001 would have created the fiscal space to lower the age of eligibility from 70 to 65 or double the size of the pension.

Nonetheless, excluding Mexicans who qualify for a social pension on residence and age criteria but have a contributory pension – though fiscally wise – might be politically foolish. Mexico has a very different political context to Sweden. In Sweden, nearly all workers pay social security contributions, directly or through their employer. In Mexico, most employment is in the informal sector, beyond the reach of the social security system. Therefore, if workers in Mexico's formal sector are denied their non-contributory pension, they will probably want government to keep social pensions as low as possible. They might resent 'large' social pensions (pensions large enough to actually live on) being granted only to those who do not participate in contributory schemes. When social pensions are generous and income- or pension-tested, even subsidised contributions to pension schemes will correctly be perceived as taxes rather than savings, possibly driving more workers into informal sector jobs. The experience of Mexico City shows that universal pensions are important, regardless of why they are introduced.

From universal rural pensions to pension-tested national schemes, 2007-2013

López Obrador (AMLO) resigned as governor of the Federal District in 2005 to campaign for the presidency of Mexico, as candidate of the left-leaning PRD. He left office with an approval rating of more than 80 per cent, due in no small part to the popularity of the universal pension. He promised, if elected, to extend Mexico City's universal pension to older people across Mexico. He asserted that cutting government waste (including the generous pensions of former presidents) would create the fiscal space needed to fund universal pension provision across the country. Surprisingly, AMLO never mentioned the possibility of reducing subsidies for social security pensions; perhaps this was included under the rubric of "government waste". AMLO narrowly lost the 2006 election to Felipe Calderón of the conservative Partido Acción Nacional (PAN). Calderón and other PAN politicians opposed AMLO's universal pension scheme. The centrist Partido Revolucionario Institucional (PRI) did not participate in the debate.

In 2007, PRD parliamentarians, with support from others in the Chamber of Deputies, [11] were able to circumvent presidential opposition and introduce a modest universal pension scheme for rural residents. The Secretaría de Desarrollo Social (Secretariat of Social Development/ SEDESOL) launched the *70 y más* (70 plus) scheme for those aged 70 and over living in areas with a population of 2,500 or less. Around 24 per cent of Mexico's population live in these areas,

7. Díaz R, 'La Pensión Universal Ciudadana: Entrevista a Dra. Asa Cristina Laurell,' *Entrelazándonos*, 2003, p.15-19. See also Laurell A, 'What does Latin American social medicine do when it governs? The case of the Mexico City government', *American Journal of Public Health 93(12)*, 2003, p.2028-2031.

8. Kruse A, 'A stable pension system: the eighth wonder', in Bengtsson T, *Population ageing: a threat to the welfare state?* Springer-Verlag, Lund, 2010, p. 47-64.

9. Dr Laurell's 40% estimate refers to 2003 or earlier. The estimate for 2013 is 43.1% (see Table 1).

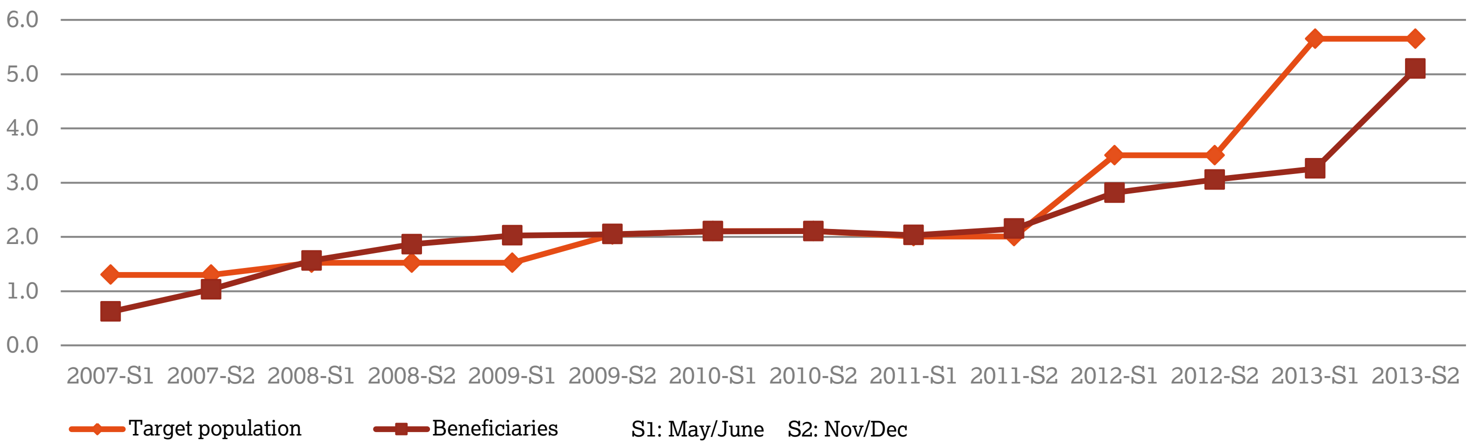
10. Levy S, *Good intentions, bad outcomes: social policy, informality, and economic growth in Mexico*, Washington, Brookings Institution Press, 2008

11. The PRD controlled only 160 of 500 seats in the Chamber of Deputies, and 36 of 128 seats in the Senate, so needed support from members of other parties.

which are disproportionately home to older people.[12] The monthly pension was MX$500 (US$45), paid bimonthly, with a death benefit of MX$1,000 (US$90). As rural communities are not served by banks or supermarkets, SEDESOL had to deliver all benefits in cash. Nonetheless, by the end of 2007, it was providing universal pension payments to more than 1 million older people – 80 per cent of the target population (see Figure 4). Registration was initially slow, but all benefits were backdated to January 2007. Administration costs are less than 4 per cent of pension benefits. As in Mexico City, there have been no reports of corruption.

In 2008, Congress extended *70 y más* to localities with up to 20,000 inhabitants. By the end of the year, the number of recipients exceeded the target population because SEDESOL was accepting applications in communities as large as 30,000 inhabitants. In 2009, Congress officially increased the allowable population size to 30,000. The number of beneficiaries increased to 2 million, roughly equal to the target population, and remained at that level through 2011 (see Figure 4). By 2011, the fixed MX$500 pension was equal to about US$40; 28 per cent of the minimum wage and far below the extreme poverty line. The same year, AMLO again ran for president, and again promised to implement a national universal pension scheme.

Figure 4: Expansion of the Federal 70+/65+ Pension Scheme (2007-2013, millions of beneficiaries)



Source: SEDESOL reports, 2007-2013.

In January 2012, the unthinkable happened. President Felipe Calderón – who in 2006 had campaigned against AMLO and against universal pensions – announced the immediate extension of the *70 y más* scheme to urban Mexico. Geographic targeting ended. In its place, President Calderón added a pension test to existing tests of residence and age: henceforth only those without contributory pensions would qualify for a *70 y más* pension. Importantly, the tests apply to individuals, not households, so pensions received by a spouse are disregarded. With one stroke, the target population increased by 75 per cent, to 3.5 million. The President hoped to reach this target quickly, but SEDESOL was only able to register 3.1 million older people by November 2012, the last month of his term of office. At this time, *70 y más* was no longer universal, was very small, and was not indexed to prices or the minimum wage. Nonetheless, its extension to urban areas reduced the attraction of AMLO's call for a universal pension of half a minimum wage (MX$935 in 2012) from age 68.[13]

The 2012 presidential contest was very different from 2006, when only AMLO expressed support for social pensions. In 2012, the candidates from all three major parties supported them. AMLO continued to promote Mexico City's universal pension as a model for the federal government. The PAN candidate, Josefina Vázquez Mota, promised to complete the work of President Calderón (who, as incumbent President, could not serve a second term). Enrique Peña Nieto, the PRI candidate,[14] promised to provide a pension to every Mexican from age 65.[15]

Peña Nieto won the election, with more than 38 per cent of the vote. AMLO came second, with 31.6 per cent, and Vázquez Mota lagged behind in third place. On assuming office, Peña Nieto reduced the age of eligibility by five years, changing *70 y más* to *65 y más*. However, it quickly became clear that despite promising a "universal pension", Peña Nieto was not going achieve this in practice. The social pension retained its pension test, and apart from a slight increase in the amount (to MX$525 per month), there were no other changes. The reduction in the age of eligibility increased the targeted population from 3.5 million to 5.65 million,[16] yet by mid-2013 only 3.3 million older people were enrolled. SEDESOL provided only limited statistics following the change of government, but reported in November 2013[17] that 5.1 million older people were enrolled in *65 y más* and would receive a pension in November/December.

Mexico's pension coverage increased rapidly (see Figures 1, 2 and 4). At the end of 2013, more than two-thirds of older people were receiving a social pension, and more than a quarter were

12. OECD, Rural Policy Reviews: Mexico 2007, figure 0.1, p.15.

13. Late in the campaign, AMLO reduced the promised age of eligibility from 68 years to 65. Garduño R, 'Propone AMLO pensión universal a mayores de 65', *La Jornada (Mexico City)*, 2012

14. The PRI ruled Mexico continuously for 71 years before losing the presidency to the PAN in 2000.

15. Roberto Garduño, 'Firma Peña Nieto compromiso de dar pensión universal a mayores de 65 años', *La Jornada (Mexico City)*, 2012, p.14

16. The 5.65 million target population ignores approximately 400,000 rural residents transitionally receiving two pensions (see Box 3).

17. SEDESOL, *Comunicado de Prensa 50/031113*, 2013 receiving an earnings-related pension. Of these, 400,000 rural residents aged 72 and older received a social pension and an earnings-related pension from the federal government (Box 3).

On 8 September 2013, President Peña Nieto presented draft legislation to Congress that transforms the *65 y más* scheme into a permanent scheme with the name "Universal Pension", even though it is not universal.[18] Initial reaction was negative, especially from the PRD and the government of Mexico City. Asa Cristina Laurell complained that the proposed legislation was "confusing and unclear".[19] However, parts of the draft law were actually quite clear. The size of the social pension, for example, will increase to the level of the national extreme poverty line,[20] MX$1,092 pesos a month (US$2.85 a day) as of July 2013, by the end of a transition period defined as "no greater than 15 years". The target pension will increase each July to reflect increases in the cost of a basic food basket, defined as the extreme poverty line. For the near future, however, increases in the pension are subject to the availability of funds, as illustrated by its modest increase in 2014 to MX$580 (US$44). The age of eligibility – initially 65 – is to increase every five years by 87 per cent of any increase in life expectancy at birth.

The unclear and controversial parts of the draft legislation were the addition of an income test, and tightening of the pension test to exclude older people currently receiving social pensions provided by Mexico City and state governments. However, in response to PRD complaints, the government swiftly removed both measures from the draft bill. The feared targeting of the poor, and exclusion of those receiving other social pensions, will not happen. On 28 October 2013, the lower House passed the revised legislation by a large majority. The Bill then went to the Senate, where final approval is expected later in 2014.

Box 3: Avoiding double counting of pension recipients

Some residents in rural areas received a social pension and an earnings-related pension in 2013. To avoid double-counting, it is necessary to estimate their numbers. The pension test introduced in 2012 exempts older people who were on the 2011 universal rural pension list. The number who qualified for an earnings-related pension is not a matter of record, but can be estimated. We know that approximately 22 per cent of the population aged 65 and above, living in previously targeted rural areas, received an earnings-related pension in 2013 (see table below). Assuming that 22 per cent of *70 y más* pensioners received an earnings-related pension in 2011 then, (adjusted for expected deaths over two years), about 400,000 rural residents aged 72 and above would have received two pensions in 2013. (Figure 2 excludes social pensions provided in 2013 by Mexico City and 11 state governments.)

Percentage of people aged 65+ with and without earnings-related pensions, rural and urban Mexico, 2013

Communities	Without	With
Rural (<=30,000)	78%	22%
Urban (> 30,000)	69%	31%

Source: SEDESOL, Diagnóstico del programa pensión para Adultos Mayores, 2013, p. 69.

By the end of 2014, every resident citizen of Mexico aged 65 and above is expected to receive either a contributory or a non-contributory pension from the federal government.[21] However, there is still a large gap between the contributory pensions of formal sector workers and the tiny social pensions that most older people receive. The federal *65 y más* social pension as of 2014 is a flat monthly amount of (MX$580 (about US$44) whereas an earnings-related pension is equal to one monthly minimum wage (MX$2,048.70 or about US$152) or more, as well as giving 13th-month and dependent-spouse bonuses. Another important difference is that while earnings-related pensions increase with increases in the minimum wage and prices, social pensions for the moment increase at the discretion of the government. On the other hand, recipients of social pensions do not have to retire from work, whereas recipients of earnings-related pensions have to abstain (or pretend to abstain) from paid employment.

A medley of state schemes, 2001-2013

In 2007, when *70 y más* was launched, 12 of Mexico's 32 federal entities (31 states plus the Federal District) were operating social pension schemes. The number of such schemes peaked at 17 in 2011 (see Figure 5), but fell back to 14 in 2012, when the federal government expanded *70 y más* to urban areas. In 2013, when *70 y más* was extended to become *65 y más*, the number of federal entities with social pensions fell again, back to 12. The expectation is that all these schemes, with the exception of Mexico City's universal pension, will end when the federal government achieves universal pension coverage with *65 y más*.

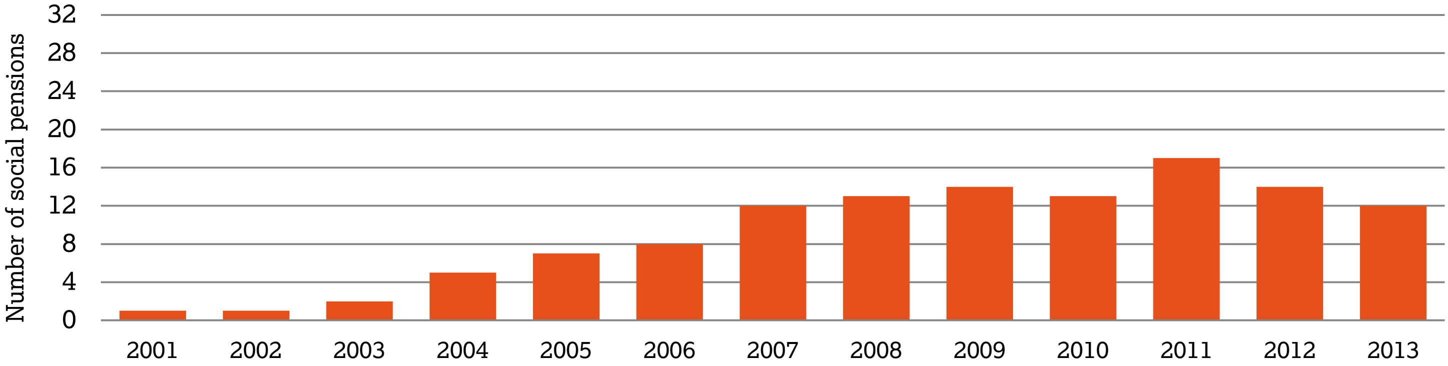
18. Enrique Peña Nieto al Presidente de la Mesa Directiva de la Cámara de Diputados del Congreso de la Unión, www.diputados.gob.mx/PEF2014/ingresos/09_lpu_lsd.pdf, (5 January 2014).

19. ¿Seguridad social universal? Una iniciativa opaca y ambigua, www.jornada.unam.mx/2013/10/09/ciencias/a03a1cie, (5 January 2014).

20. More precisely, the target pension is an average, weighted by population shares, of rural and urban lines of extreme poverty.

21. Non-citizens with at least 25 years' residence also have the right to an old age pension.

Figure 5: Social Pensions of Federal Entities (2001-2013)



Note: 31 states plus the Federal District. Source: various state government reports and press releases.

Table 1 below presents basic information on social pension schemes run by 18 federal entities between 2001 and 2014. The data was gathered from government sources and news reports; so may be incomplete. The most surprising absence is Mexico, the largest state in the Mexican union, with a population of 15.7 million. This state surrounds Mexico City, and three-quarters of its population reside in Greater Mexico City. Nonetheless, its government showed no interest in social pensions – not even between 2006 and 2012, when the current President, Peña Nieto, was governor.

The 18 entities that were operating social pensions have little in common in terms of health, education, income or prevalence of contributory pensions. They range from the most developed (Federal District) to the least (Chiapas). Remarkably, the two polar opposites are the ones that experimented with universal pensions.[22]

22. UNDP, Índice de Desarrollo Humano en México: cambios metodológicos e información para las entidades federativas, Mexico, UNDP, 2012

Table 1: Local provision of social pensions in Mexico's federal entities, 2001- 2014

Entity	Year	Party	Age of eligibility	Monthly benefit in 2013 (MX$)	Population 65+ in 2013	Pension coverage 65+ in 2013 (%)	
						Social	Contributory
Federal District	2001-	PRD	68	971	762,338	63.0	43.1
Guerrero	2003-14	PRI	65	400	246,751	21.1	12.8
Chihuahua	2004-	PRI	65	934	226,120	2.6	33.7
Nuevo Leon	2004-	PRI	70	700	316,012	18.0	46.3
Sonora	2004-	PRI	65	83	179,169	28.2	47.0
Colima	2005-	PRI	65	920	45,130	7.7	33.8
Veracruz	2005-	PRI	70	850	612,913	6.4	22.0
Quintana Roo	2006-12	PRI	70	850	49,435	0	24.5
Chiapas *	2007-	PRD	64	550	262,408	91.5	7.7
Tlaxcala	2007-	PAN	65	500	74,822	12.0	16.3
Tabasco	2007-09	PRI	65	500	127,958	0	13.2
Jalisco	2007-11	PAN	70	500	513,077	0	29.5
Baja California	2008-12	PAN	60	250	167,233	0	39.6
Durango	2009-11	PRI	70	500	116,613	0	30.7
Puebla	2011-11	PAN	70	500	394,221	0	16.6
Sinaloa	2011-	PAN	70	500	203,762	6.4	35.5
Zacatecas	2011-	PRI	70	400	117,169	1.7	15.2
Oaxaca	2011-13	PAN/ PRD	70	500	310,707	1.9	8.6
Total (18 entities)					4,725,838	20.3	27.8
Mexico (32 entities)					7,737,600	11.7	27.0

Source: Information gleaned from countless newspaper articles, government reports and press releases of all 32 federal entities; SEDESOL, Diagnóstico del programa Pensión para Adultos Mayores, Mexico, SEDESOL, 2013, p.69.

*NB: *Social pensions of Chiapas end-2012. The number of beneficiaries declined rapidly in 2013.*

NB: "Party" is the party of the elected governor in office when a social pension was first introduced. "Age of eligibility" is in 2013 or the last year a social pension scheme was operating. "Monthly benefit" is the cash payment per month in 2013 or the last year of a scheme.

The tasks that remain

Mexico has moved quickly from limited to near universal pension coverage, but further progress is urgently needed in three areas. First, nearly one million older people who currently receive no pension should be registered in the *65 y más* scheme as soon as possible. Second, the *65 y más* flat rate amount of MX$580 (US$44) a month should be doubled immediately to reach the extreme poverty line. However, even this amount is not sufficient to enable older people to meet their basic needs. The extreme poverty line is based on nutritional needs alone – the minimum income needed to purchase enough food to prevent malnutrition of a single person. There is no allowance for shoes, clothing, shelter, medicines, transport or anything other than the least expensive food.[23] The current pension – equal to half the amount needed for a subsistence diet – cannot possibly keep anyone healthy. Finally, the pension test should be removed, transforming *65 y más* into a truly universal pension. Without universality, it will be difficult, perhaps impossible, to increase the size of Mexico's social pension even to the level of the extreme poverty line. This is because those who work in the formal sector, with payroll taxes and benefits, typically oppose providing 'free' non-contributory benefits to those who work for low pay in the informal sector and to unpaid workers, the majority of whom are women who work at home or on family farms.

What stands in the way of Mexico making these improvements to its pension system? Many would say the "high fiscal costs" involved. But is this true? If all 5.65 million older people over the age of 65 who had no contributory pension in 2013 had been given a monthly MX$525 social pension, the funding required would have been 35,000 million pesos (about 0.2 per cent of national GDP). Universality (removing the pension test) would have increased beneficiary numbers to 7.7 million and raised the cost to 0.3 per cent of GDP. Applying universality and increasing the pension up to the extreme poverty line (MX$1,092) would have raised costs further, to 0.6 per cent of GDP. A universal pension set at the national poverty line (MX$2,208) would have required funding equal to approximately 1.2 per cent of GDP.

These are not large numbers, and they are gross costs. *Net costs* are much lower than *gross costs* of flat, universal pensions, because universal pensions can replace government subsidies currently used to enhance earnings-related pensions. Basic universal pensions could replace at least some matching contributions (social quotas), a subsidy that absorbed 28,334 million pesos (0.17 per cent of GDP) of the 2013 federal budget.[24] Additional savings would come from reducing minimum pension guarantees by the amount of the universal pension.

23. A more reasonable poverty line (linea de bienestar) allows for food and non-food expenditure, and is nearly twice the size of the extreme poverty line (linea de bienestar mínimo). See Box 1 above and Medición de la pobreza: Líneas de bienestar y canasta alimentaria, www.coneval.gob.mx/Medicion/Paginas/Lineas-de-bienestar-y-canasta-basica.aspx, (30 January 2014)

24. El Presupuesto Público Federal para la Función Protección Social, 2012-2013, www.diputados.gob.mx/cedia/sia/se/SAE-ISS-12-13.pdf, (30 January 2014), p.34.

Find out more:

www.pension-watch.net

HelpAge International helps older people claim their rights, challenge discrimination and overcome poverty, so that they can lead dignified, secure, active and healthy lives.

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