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October 2020

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INITIATIVE TO REFORM **MEXICO'S PENSION PLAN**

Many of you may have heard that a decree to reform, add to and repeal various provisions of Social Security Law, Social Services and Security Institute Law for State Employees, Savings Retirement System Law and Income Tax Law regarding pensions is currently being reviewed for approval by the senate.

Andres Manuel Lopez Obrador announced the news on September 29, and we feel it is important to provide a brief explanation of the proposal, its aim and some examples of how it will affect the bottom line of businesses operating in Mexico.

The goal of this reform is to improve the quality of life for all Mexican workers registered with the IMSS by improving the pension system, increasing pension amounts for workers, and almost doubling the percentage of workers that will collect a guaranteed pension, as well as limit commissions charged by retirement fund administration companies.





REFORM HIGHLIGHTS

- ***Reduction in the number of weeks workers are required to contribute.***

The minimum number of weeks of contributions to receive a guaranteed pension will be reduced from 1,250 weeks to 750 for the first group of retirees. This means that a worker can start collecting a pension after 15 years of contributions instead of the 25 years currently required.

The number of weeks will be increased to 1,000 over 10 years.

- ***Increase in employer contributions.***

Contributions will increase from 6.5% to 15%, with the employer absorbing the increase, which will be from 5.151% to 13.875% depending on the worker's salary. Employees' contributions will remain at 1.125% of their base salary contribution and the government's portion will be converted into a social contribution aimed at supporting workers with the lowest income. It is important to note that the increase will apply only to retirement, old-age and old-age unemployment insurances, and establishes a table with the applicable percentages depending on the worker's base salary contribution.

The increase will be gradual and take effect starting January 1, 2023 in order to give companies a chance to recover after the contingency, and will be implemented gradually until 2030.

- *The number of workers with guaranteed pension will increase.*

Guaranteed pension coverage will increase from 34% to 82% of workers, meaning that the reform will nearly double the number of workers who have access to this benefit.

- *Increase in pension amounts for employees.*

The reform reinforces the guaranteed pension by increasing amounts from a current average of \$3,389 pesos to \$4,345 pesos, amounts that are calculated based on age, weeks paid in, and base salary contribution.

- *Employees will receive a better pension.*

Average workers will be able to collect up to 40% more of their pension upon retirement, as it increases the replacement rate with respect to the last average salary received by 103% for workers earning minimum wage and 54% for workers with 5 minimum wages.

- *Age of employees to collect pension.*

The minimum age for applying for pension benefits will continue to be 60 years, which is compensated for with fewer weeks of contribution. This means that when an individual turns 60, they can retire by having paid into the system for 15 years rather than the 25 outlined in current law. It is important to mention that the reform stipulates that the number of weeks be gradually increased to 1,000 weeks over the next ten years.

However, pension amounts workers collect will be calculated based on the balance accumulated in their individual Afore account.

- *Tangible benefit for workers.*

Raising pension amounts has already been proposed by regulators, businesspeople, international entities and even politicians. Employees will receive tangible benefits from employers' increased contributions.

- *Reduction in commissions.*

The initiative also states that commissions for Afore accounts be adjusted to international averages, around 0.7%.

If approved, the reform would enter into effect starting on January 1, 2021, with a grace period of two years, meaning that the increase in employer contributions would start in 2023.



COMPARATIVE ILLUSTRATION BETWEEN THE CURRENT SITUATION AND THE REFORM INITIATIVE IN THE FIRST YEAR.

Current Situation (2020)			
Ex. monthly wage (MXP)	3.697	7.819	65.160
Employer contributions			
Health and maternity insurance	629	669	2.303
Work risk insurance	28	39	326
Disability and life insurance	97	137	1.140
Nursery	56	78	652
Total IMSS	810	923	4.421
Retirement (2%)	111	156	1.303
% Contribution Ret. & Old Age Ins.	3.15%	3.15%	3.15%
Retirement and Old Age Insurance	116	246	2.053
Monthly Total	227	402	3.356
Worker's contribution			
Health insurance	35	49	637
Disability and life insurance	35	49	407
Total IMSS	70	98	1.044
Retirement and old age insurance	63	88	733
Total employer	1.037	1.325	7.777
Total employee	133	186	1.777

Reform Initiative (economic impact 1st year)

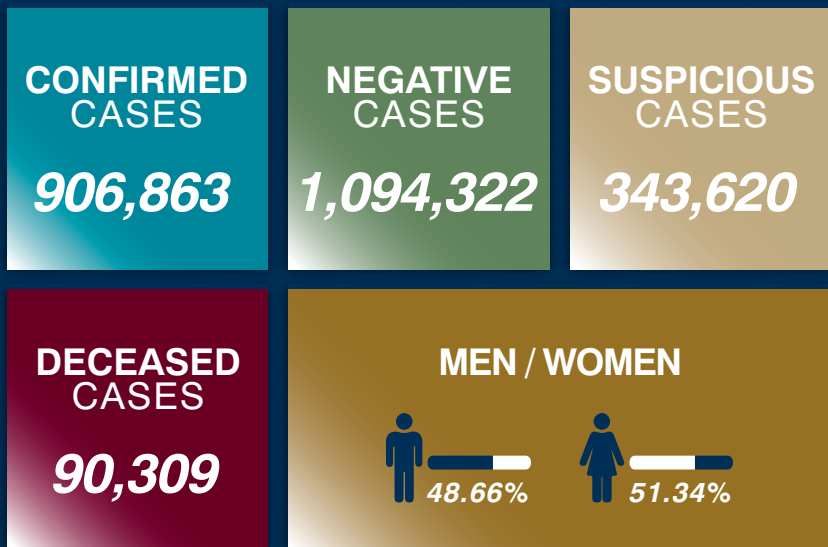
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Total IMSS	810	923	4.421
Retirement (2%)	111	156	1.303
% Contribution Ret. & Old Age Ins.	3.15%	3.87%	4.24%
Retirement and Old Age Insurance	116	303	2.763
Monthly Total	227	459	4.066
Worker's contribution			
Health insurance	35	49	637
Disability and life insurance	35	49	407
Total IMSS	70	98	1.044
Retirement and old age insurance	63	88	733
Total employer	1.037	1.382	8.487
Total employee	133	186	1.777

**Gradual increase over two years to the maximum of 13.875% including 2% retirement*

We will be updating you with more information as soon as the reform is approved and published in the Official Gazette.



Mexico COVID-19 STATS





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