Characteristics of the Mexican pension system

Ramón Cancio Ballvé
AFORE TEPEYAC

«There has been an alternative to the public pension system: the personal capitalisation system. The basis of this new system is as follows: the contributions of each worker are channelled to an individual account where they are kept and will grow due to the effects of the accumulated interest throughout the workers working life.»

The public pension systems constitute one of the great advances in modern industrial society, given that they have allowed workers to retire, after reaching a certain age, thus contributing to the greater well-being of the population as a whole. This type of system was first established in Germany by Chancellor Bismarck more than a century ago, and the classical or distributive public pension system reached Mexico in 1941 with the enactment of the Social Security Act. The basis of the system was simple: with their contributions present-day workers pay for the retirement of present-day pensioners, and in turn future workers will pay for the retirement of present-day workers when these reach retirement age. The state placed itself as an intermediary between generations, receiving the contributions and paying the pensions, in order to guarantee the correct functioning of the system.

The problem is that this distribution system carries with it the seed of its own destruction, given that the greater the well-being of a society the longer its life expectancy, and therefore the greater the number of pensioners with respect to the number of workers. The only solution to this problem is therefore to impose a greater tax burden or to reduce the spending power of pensions, thus giving rise to an intergenerational conflict. And this presupposes public efficiency in the management of resources — something which is not the case in many countries — thereby aggravating the problem.

Since 1981, when it was set up in Chile, there has been an alternative to the public pension system: the personal capitalisation system, which was instituted in Mexico in 1997. The basis of this new system is as follows: the contributions of each worker are channelled to an individual account where they are kept and will grow due to the effects of the accumulated interest throughout the workers working life. The accumulated sum at the time of retirement is used to buy a life annuity which will support to the individual for the rest of his/her days. In order to carry out this scheme the state receives the help of two types of specialised private agents: pension fund administrators, who keep and manage each worker's savings, and the pension companies which receive the accumulated funds as payment in order to guarantee a life annuity. It should be added that this last step is not compulsory, and that the pensioner is free to withdraw his/her funds and use them as desired.

The main characteristics of the system are therefore as follows:

1. The contribution continues to be compulsory, but it does not pass into the hands of the government, but rather remains the property of each contributor.

2. Each worker has the right to choose the pension fund administrator who will manage his/her individual account and also provide some services: information on the worker's rights with respect to the pension system and the provision of information with respect to account balances, amongst others.

3. The system provides incentives for work and professional dedication: those contributing more also receive more at the end of their working lives.

4. The system encourages welfare saving and allows — an important innovation — voluntary contributions to the individual account. These contributions are in addition to the compulsory ones and are liquid, being available after six months, although their best use might be as a means to increase the future pension.

5. The government receives the help of the pension fund administrators, but does not wash its hands of the pensions since:

a) It strictly monitors the performance of the pension fund administrators — which are strictly regulated and supervised financial institutions.

b) It takes receipt of the contributions and passes them on to the pension fund administrators, thus avoiding payment default on the part of workers or employers.

c) It guarantees adequate pensions to those workers who are not able to achieve them through the new system.

6. The Mexican system isolates the administrator from the resources which are being administered: the contributions are credited on the same day that they are received by the pension fund administrators, in investment companies specialised in retirement funds. Each pension fund administrator manages one pension fund company (perhaps more in the future) which has independent legal status. This has at least two advantages:

a) In the case of bankruptcy, receivership or any other circumstance affecting a pension fund management company, the system allows for the alternative management of the corresponding pension fund, where the workers' money will remain safe from any of these eventualities.

b) The pension fund is a collective investment tool, where many small investors unite to form one large investor. When united in the pension funds, all workers who are affiliated to the social security system — no matter how small their salary — become large investors, in the sense that they may have access to the rates of return which are reserved for these.

7. The personal capitalisation system is still not universal: it only encompasses those who are affiliated to the Instituto Mexicano de Seguridad Social (IMSS), but not the rest of Mexican workers (and especially, due to their large number, government workers). In addition to this, the system only manages retirement and unemployment resources, and not the housing resources of those who are affiliated to the IMSS, which continue to be managed by the government.

8. The Mexican system is a copy of the Chilean one, but it has been so much improved that it is serving as an example for other countries as far away as Poland. Even in Chile they are looking at some aspects of the Mexican system which are an improvement on their system.

I believe that, two years after setting up the system it may be said that Mexico now has one of the best pension systems in the world. Its consolidation will provide the country with a level of domestic saving which is able to substantially limit is its dependency on foreign capital, and will give each of its contributors the satisfaction of personal savings which form the basis for a pension and which are based on an individual's efforts — and not those of others. ■

European storms in december 1999

Mayte Piserra
MAPFRE RE Spain

«Political pressure on the insurance sector forced it to make the claims handling process more flexible, to limit policy deductibles and to speed up the payment of claims.»

Europe suffered the effects of 3 extra-tropical cyclones during the month of December in 1999: **Anatol, Lothar** and **Martin;** these developed from centres of low pressure in the Atlantic and experienced rapid development and intensification. The economic and insurance impact — the final figure still to be determined — has been so great that these three storms are already considered to be on a par with those which occurred at the beginning of 1990.

Anatol, during the days 3,4 and 5 of December, followed a track which took it from Ireland to the United Kingdom, North Germany, Poland, Denmark and Sweden before finishing in the Baltic republics and Russia. It caused the death of at least 20 people. The country which was most affected was Denmark, where preliminary estimates insured damage issued by the Central Danish Insurance Office for were placed at DKK 1 billion (€ 133.8 million), it is possible that this may increase by a factor of 10, whereby the total economic damage would practically coincide with the insured loss. The West coast of Denmark was flooded by the sea as a consequence of the storm surge. The damage caused by this hazard is subject to cover within a state system through the payment of an additional DKK 10 (€ 1.3) to the fire insurance.

Lothar entered France by the coast of Brittany at around seven in the morning on Dec 26, with winds of 160 km/h and gusts exceeding 180-200 km/h. Despite the fact that the French meteorological service *Météo France* predicted the arrival of the disturbance, it underestimated the speed of the winds which were later recorded. The most affected countries were the northern half of France, Switzerland, Luxembourg, Austria and southern Germany. Contrary to what usually happens, the storm did not lose strength as it progressed towards the East with at a displacement velocity of 100 km/h, because it entered into resonance with a whirlwind located at a height of some 10,000 m, causing the area of low pressure to become even deeper. The storm thus affected Switzerland with the same intensity as it had affected Brittany, hundreds of kilometres back and almost nine hours before.

Martin developed from another Atlantic centre of low pressure and again entered the East coast of France towards the final hours of December 27. This time it entered at a more southerly latitude, affecting the southern half of the country, the North of Spain, Italy and again Switzerland. The winds associated with the extra-tropical cyclone **Martin** was somewhat lower than those of **Lothar,** showing wind speeds of more than 140 km/h with gusts of 160-180 km/h. Despite this, the sys-