Economic Sustainability of Retirement Pensions in Mexico: Is There a Link with the Mexican-Origin Population in the United States?

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Abstract

There are strong interactions between the population of Mexico and the Mexican-origin population in the United States (MOP). The main purpose of this paper is the identification of relationships from the demographic and social security perspectives. The dynamics of lower mortality and decreasing fertility is leading Mexico to a rapid and unavoidable population aging. But the third demographic component is also playing a remarkable part since a substantial portion of migration to the United States involves young persons in their productive and reproductive ages. The relevance of the aging process in socioeconomic opportunities and challenges is outlined by its expected impacts, since it will affect occupation, employment and income; change patterns of consumption, productivity and saving capacity; exercise a big pressure on social security and health systems; modify social structures and family strategies. Because of lower birthrates, demographic dependency ratio is declining following the scheme known as "demographic window." The linked concepts of "*demographic dividends*" provide channels to seek targets and policy making. The "*first dividend*" is to make use of the favorably low dependency ratio, while it lasts, to save and invest resources to build social and economic infrastructure. If this allows a long-term sustainable economic and social security system, the "*second dividend*" is achieved. Demographic and actuarial projections expect serious problems in retirement pensions and medical care for the elderly. But current concerns and discussions are almost restricted to actuarial balance and financial stability. The high cost of pensions rises in a social security system where pensioners/contributors ratios are increasing rapidly. This is an obstacle for the construction of the first dividend, due to increases in the ratio benefits/contributions. As part of further analysis of prospective social security and demographic dividends in Mexico it is proposed to evaluate the interaction with the MOP. The mostly young and adult men that migrate to the United States are significantly altering demographic structures and economic opportunities in Mexico. It means a smaller and shorter demographic window, although they are reducing unemployment rates in Mexico and sending home substantial remittances. A significant fact is that one-third of the migrant workforce in the United States was born in Mexico. Questions are: Does migration mean a demographic decrease to build the first dividend in Mexico? Is it an input for the demographic window and the first dividend of the MOP? To what extent is it contributing to the first dividend in Mexico through remittances? What are the impacts for social security in Mexico?

1. Introduction

There are strong interactions between the population of Mexico and the Mexican-origin population in the United States (MOP). Social, economic and demographic links are so intense that they are essential to the history and the future of both nations. In fact, relationships are of such relevance that they impact public opinion and create political concerns. Thus they have resulted in profuse studies, scientific publications and mass media dissemination. The specific aim of this paper is to discuss the potentials of another element of interaction, specifically in the area of aging, longevity and retirement pensions. The main goals are to identify and discuss interactions from the perspectives of demography and social security.

2. Aging and Longevity in Mexico

During the 20th century, Mexico experienced substantial and rapid changes in its population dynamics, modifying not just demographic structures but also social organization and economic policies, including social security, that have established significant trends to be continued in the 21st century. In 1930, the population was 16.9 million; that increased to 99.8 million in 2000. Intermediate hypotheses projections estimate 132.8 million by 2040 and a slight decline afterwards. Population totals and structures by age and sex are products of birthrates, mortality levels and migration flows. In 1930, life expectancies at birth were 35.5 for men and 37.0 for women. Due to rapid changes, numbers went up to 73.1 and 77.6 in 2000 and are projected to be 82.1 and 85.6 by 2040. From 1930 until 1970, birthrates remained high, with total fertility rates around 6.0, which reached a historical maximum of 6.6 in 1968. Then, in a drastic decrease, total fertility rate to dropped to 2.4 in 2000 in a trend pointing to less than 2.0 after 2030 (CONAPO, 2001). The other main demographic component is the conspicuous migration flow towards the United States that is emphasized in this paper. Migration to Mexico is small with minor demographic effects.

A dynamics of lower mortality and decreasing fertility is leading Mexico to a situation of rapid and unavoidable population aging and longevity. But the third demographic component is also playing an important part since the largest part of migration to the United States involves young persons in their productive and reproductive ages. In 1930, the index of aging (how many

persons 65 and over for every 100 younger than 15) was 6.3; it rose to 14.5 in 2000; and it is expected to be as high as 116 by 2040 and 167 by 2050. This aging process has two characteristics that must be remarked. One is how fast it is occurring. Whereas in developed countries it took more than two centuries to attain the indices of aging they have now, Mexico will reach similar numbers in fewer than 40 years. The second characteristic is that developed countries had the opportunity and aptitude to achieve suitable levels and forms of economic and social development before becoming demographically old, or at least while they were aging. Now Mexico is quickly aging while still keeping unsolved basic needs related to incomplete development like education, employment, housing, health and social security.

The increasing numbers and higher percentage of participation of population in older ages are not a simple occurrence. They are taking place in correlation with other changing social and economic characteristics which require understanding in order to be adequately dealt with in regards to key issues of retirement and health care. A demographic peculiarity is that within the elderly age bracket, for instance 65 and over, rates of growth are higher for the oldest-old. It is a trend resulting from increasing survival and longevity. People 90 and over are already common, and centenarians are starting to play a part. Thus the oldest-old will become a significant part in the coming decades. This means that socio-economic risks and health vulnerability are also gaining momentum.

The aging process in Mexico and the increasing presence of the oldest-old induce some relevant research questions:

- Is aging becoming an obstacle to achieving the development sought?
- How does aging affect economic functioning, influence social well-being and shape family environment?

The relevance of the aging process in socioeconomic opportunities and challenges is outlined by its expected impacts, since it will:

- Affect occupation, employment and income.
- Change patterns of consumption, productivity and saving capacity.
- Exercise a big pressure on social security and health systems.

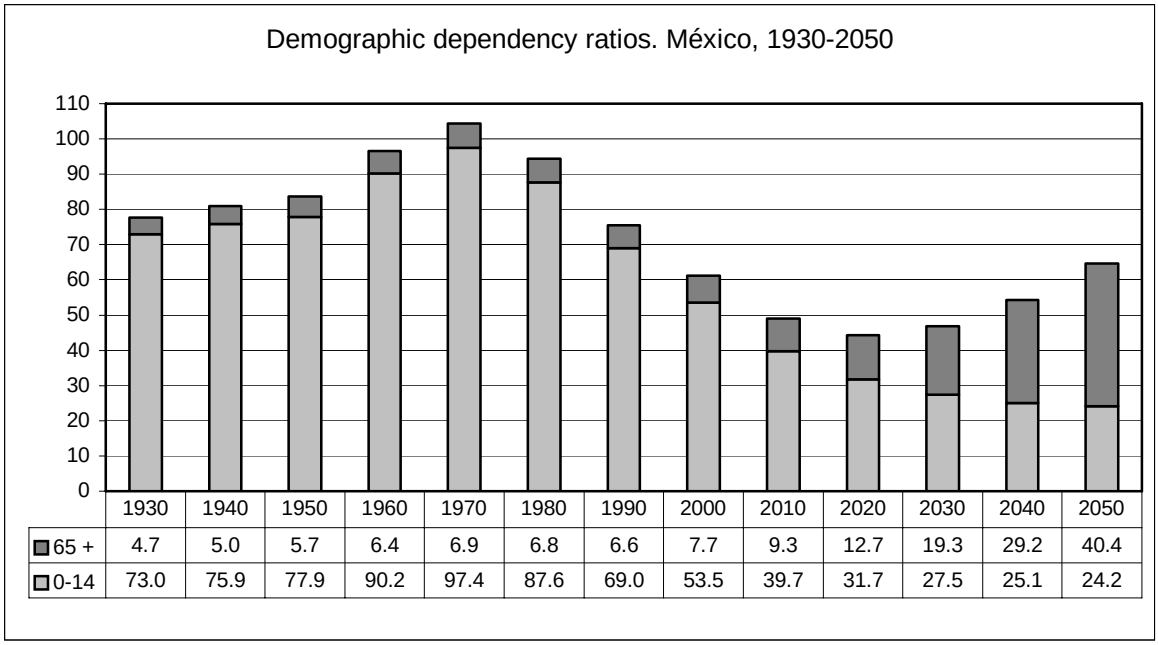
- Modify social structures and family strategies.

In every case of individual aging and senility, the circumstances, the risks and the outcomes are different within a large range of diversity and uncertainty. However, for the whole society, vulnerability because of aging and its consequences is identifiable and can be statistically measured. There are now surveys and data bases allowing estimates, modeling and projections within reasonable degrees of confidence. Finally, it is not just a question of expecting disastrous scenarios to become a reality, but rather to seek better futures through health programs, economic planning and social security soundness.

3. Demographic Dividends and Social Security

There are several references about changes in age structures in Mexico indicating that the process has already resulted in an accumulation of young and adult population, whose ages are considered to have the potential to surpass in activity and productivity at present and during the next few decades. Because of lower birthrates, the demographic dependency ratio is declining following the scheme known as “demographic window.” According to projections this window will be open at its widest just for a while in a not so distant future, probably before 2040. As depicted in Figure 1, demographic dependency ratios will then increase, this time due to population aging.

FIGURE 1



	1930	1940	1950	1960	1970	1980	1990	2000	2010	2020	2030	2040	2050
65 +	4.7	5.0	5.7	6.4	6.9	6.8	6.6	7.7	9.3	12.7	19.3	29.2	40.4
0-14	73.0	75.9	77.9	90.2	97.4	87.6	69.0	53.5	39.7	31.7	27.5	25.1	24.2

The pure statistical description of such a demographic window has little significance. The notion of "*demographic dividends*" might provide channels to acquire meanings and seek targets. The concept of the "*first dividend*" is to make use of the favorably low dependency ratio, while it lasts, to save and invest resources to construct lasting social and economic infrastructure. The target is to build up socioeconomic conditions as foundations capable of supporting the well-being of the whole population, including the increasingly elderly sector, for the long term and once the demographic window has shut. If this is accomplished, then the theory says that the "*second dividend*" is achieved (Lee, Mason and Miller, 2001). A crucial part under this scheme will be the affordability of retirement pensions in the long run (Turra and Queiroz, 2005). This broader concept of demographic dividends involves the ideas of the *economics of pensions* (Barr, 2000) and the *pre-funding social security fallacies* (Brown, 2000), which are quite pertinent in the case of social security in Mexico.

4. Social Security in Crisis

The population of Mexico and the MOP are both in an aging process. In the case of Mexico, there are demographic depicting and evaluation of trends with enough data and technical background soundness to allow projections adequate enough to construct scenarios foreseeing

aging and its impacts on social and economic planning, including social security and retirement pensions. It is a concern to realize that in any reasonable demographic and actuarial projection, there are always expected serious problems in the affordability of retirement pensions and medical care for the elderly.

It is an international standard and a socioeconomic goal that a pension and health care system must:

- Provide protection for the whole population.
- Grant uniform and equitable benefits.
- Offer suitable and sufficient benefits.
- Redistribute wealth in a solidarity scheme.
- Be financially, economically and socially sustainable.

Unfortunately, none of the above conditions has ever been met. *But current concerns and discussions are almost restricted to financial stability,* and this is a consequence of a very practical nature. After decades of neglecting actuarial evaluations, budget warnings and commonsense perceptions, at present there are no financial resources, nor economic capacity, to meet vested retirement benefits. But diagnosis and potential solutions require further considerations about economic conditions and social circumstances that have given way to a faulty retirement pension system and health institutions now in serious financial trouble. A less known but pertinent issue is that the first dividend is not under construction, thus jeopardizing the potentials for the second dividend; that is to say, the long term economic and social sustainability of social security is endangered.

One question is whether migration to the United States is diminishing the demographic window. If so, migration flows are eroding both demographic dividends. In any case, the possibilities of sustaining retirement pensions and general well-being for the elderly in the near and distant futures require a wider vision, including the causes and consequences of migration.

Less than 40 percent of the economically active population (EAP) is entitled to social security. The population that is entitled to social security is mostly the urban salaried labor force working for well organized employers, either private companies or public institutions having

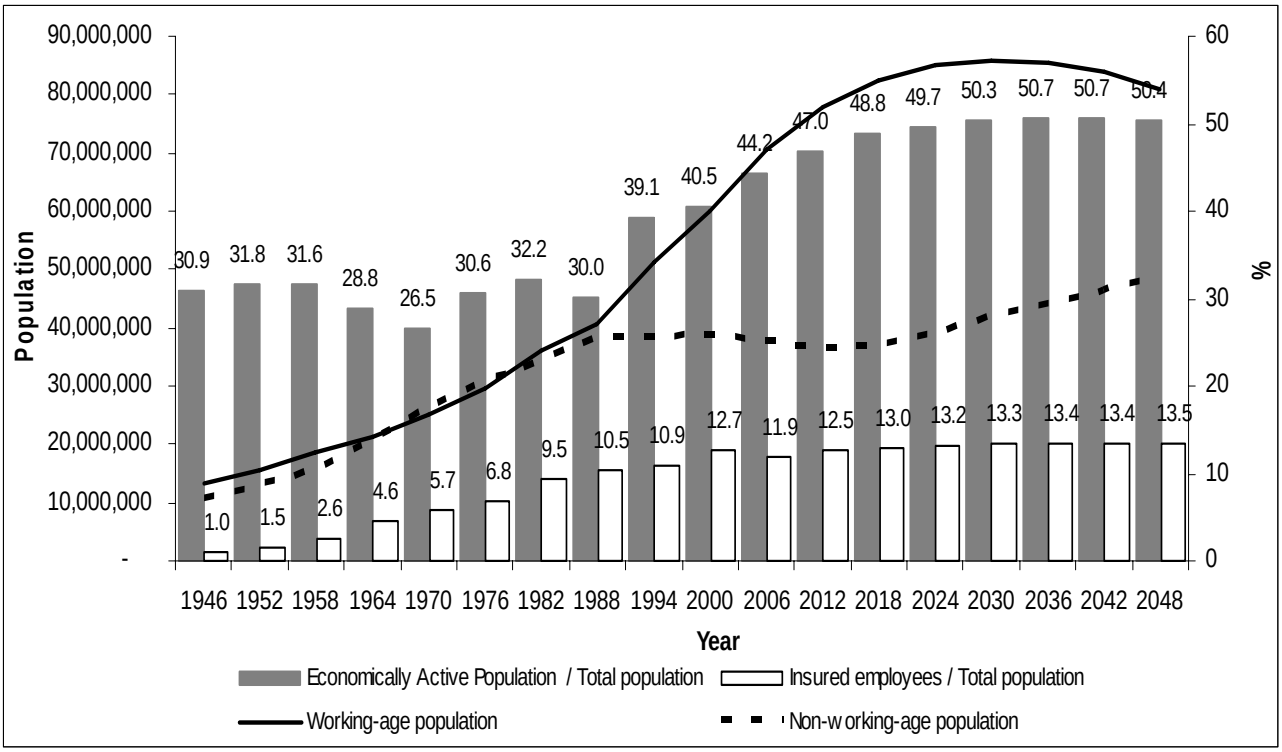
economic capacity and management structure to keep the compulsory requirement of social security affiliation. White and blue collar workers in private companies make up approximately 80 percent of those covered by social security, mainly through the Mexican Institute for Social Security (IMSS by its acronym in Spanish). The rest are public servants covered by federal, state and other government institutions (Valencia, 2005). From its creation in 1943, IMSS has been the largest social security agency in Mexico. A key element is that in 1997 IMSS carried out a reform shifting its defined benefits, close to a pay-as-you-go financial system, to defined contributions in privately managed individual accounts. The assumptions were that defined contributions will eliminate actuarial imbalance, stop the increase of public debt because of pensions and create domestic savings to boost economic performance and employment that will enhance social security coverage.

In terms of population dynamics, during the first decades of IMSS, demographic dependency ratios were high and increasing since fertility was delivering dependency ratios as high as 104 by 1970. On the other hand, increases in the elderly population were minimal. At that time neither the concepts nor the expectations of a coming demographic window and its prospects as demographic dividends were in mind. Population policies focused on reducing fertility and lowering the rates of demographic growth. A second area requiring attention was the increasing migration flow to the United States and its economic, social and political impacts. But demographics of social security institutions have different dynamics, timing and parameters. At the creation of IMSS and its retirement pensions under a definite benefits scheme, the reasonable strategy would have been the economic consolidation drawn on the initial favorable situation of an increasing number of workers and scarce pensions. In 1950 the first five pensions were granted out of a 373,644 working population with a negligible cost in regard to total contributions. In 1958, the cost went up to 5.0 percent; it reached 9.7 percent in 1970; and 16.3 percent by 1976, when pensioners were 25 for every 1000 workers (Nava-Bolaños and Ham-Chande, 2006).

Demographic changes in the 1980s could have offered the demographic dividends possibilities, due to increasing participation of population in working ages. However, in 1982, of the total population, 51.4 percent were in the 15-64 age bracket, but EAP was 32.2 percent and

only 29.4 percent of EAP were social security affiliates. That is to say that barely 9.5 percent of the total population was covered by IMSS. From the beginning of a potential first demographic dividend, there was a disconnection with social security due to the gap between EAP and social security, as seen in Figure 2.

FIGURE 2

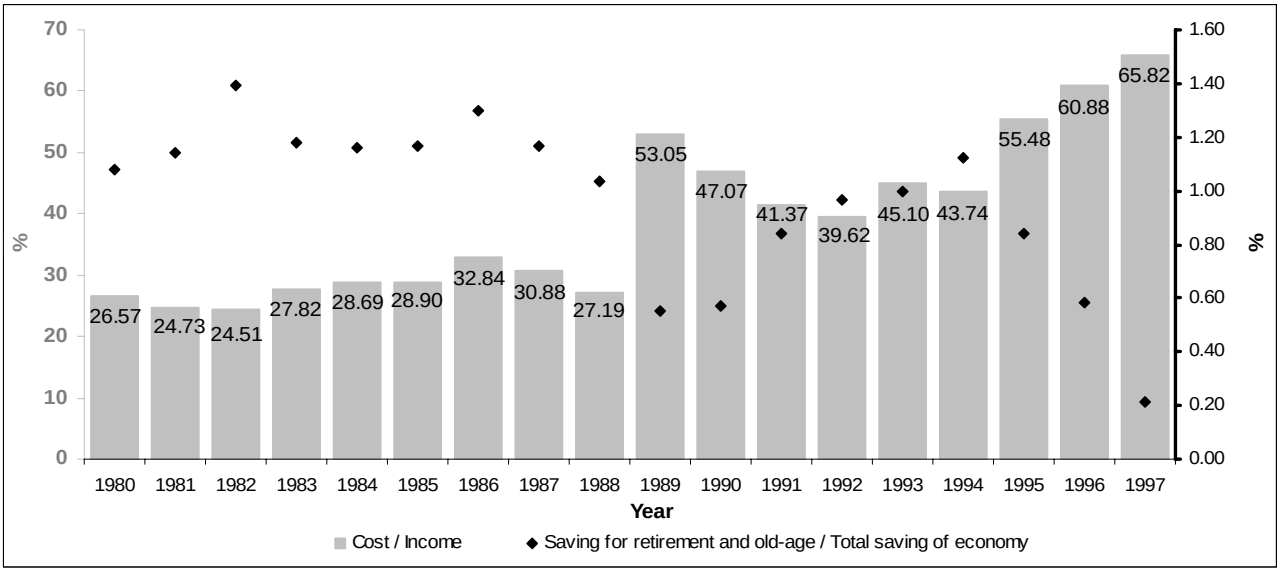


From 1988 to 2000, the population between 15 and 64 years old registered marked increases when the younger than 15 were slowing down their rate of increase and the 65 and over were still increasing at very low rates. The demographic window was thus wide opening. In such a demographic context, the participation of the EAP descended in 1988; meanwhile contributors increased in 5.5 percent with regard to 1982. Although in the following years the participation of EAP rose and was 39.1 percent in 1996, it did not show a similar increase in social security contributors. Rather there was an increase in informal employment that has been described as a precarious labor market (García, 1996). Even more, at the beginning of the 1990s and for the first time there was a decrease in the number of contributors. They went from 10.1 million in 1991 to 9.8 million in 1994. That is to say that in the years in which a low ratio of dependency prevailed,

labor markets did not yield enough formal employment positions, even when the population demanding jobs was increasing. Under such circumstances social security lost capacity as a component in the construction of demographic dividends. The opportunity for savings and economic investments derived from the biggest presence of the population in working ages is being wasted, but the demographic window will remain open for another three decades. Thus a question emerges: How much of the first demographic dividend can be rescued?

Figure 3 contrasts contributions and pensions and shows that between 1982 and 1988 pension payments changed from 25 percent to 33 percent of contributions. In 1988 this ratio was actually lowered to 27.2 percent immediately after an economic crisis that forced budget cuts. The difference between income and expenses was equivalent to 1.0 percent of entire domestic savings. However, in the following year (1989), there was a strong increase in expenditures, as high as 53.1 percent of total income due to benefits upgrades. The minimum pension was 70 percent of the minimum wage, which was increased to 100 percent. But contributions remained 6 percent of salaries with a meager 2.6 percent for retirement. Such conditions led to a balance equivalent to 0.6 percent of domestic savings. During the following years, with the exception of 1993, reductions in the costs of pensions in relation to contributions took place even when during the first half of the 1990s the number of contributors decreased. The reduction was due to the increase in contributions, which between 1991 and 1997 increased from 7.0 percent to 8.1 percent of which 3.3 percent and 3.8 percent went to retirement pensions respectively. Thus funding rose to 1.1 percent of domestic savings. In 1996, contributions increased to 8.5 percent, 4.0 percent for pensions funding, but the cost of pensions kept increasing. They went from 43.7 percent to 60.9 percent of total income between 1994 and 1996. Consequently savings decreased by a half. In 1996 that amounted to barely 0.6 percent of domestic savings.

FIGURE 3



Two issues must be stressed. The first issue is the high cost of pensions in a social security context where pensioners/contributors ratios are increasing rapidly. This is an obstacle for the construction of the first dividend, due to the historical increase of the ratio benefits/contributions. Secondly, a diverting of resources away from social security financing is impeding the building of demographic dividends.

If the first dividend cannot be built up, then the second dividend is canceled. The moment will come when workers who joined IMSS under the new system of defined contributions in individual accounts start to retire. Government bonds, which would have been the main savings instrument, will have to be converted into cash. Most of the retirees will have accumulated insufficient resources in their individual accounts. Contributions are low, returns will be non-existent, and funds are subject to inflation and devaluation risks. Those that will be entitled to a minimum pension because they have contributed at least 24 years but their fund is insufficient to buy an adequate annuity, receive the complement for a minimum pension from public resources. This implies that pensions keep pay-as-you-go characteristics, but in a more expensive system. Since most of the costs are assigned to public budgets, resources are being diverted from other

social and economic priorities, which in turn have an impact on the second dividend. Notably, investments in education and health do not receive enough consideration.

5. Mexico's Population: A Demography Beyond its Northern Border

There have always been crucial economic, social and political relations between the United States and Mexico. The causes and consequences, as well as the forms and intensities of interactions, are determined mainly by geographical adjacency and the history of two economic and social systems with big differences in scope and development levels. One of the most relevant interactions is demographic. A most conspicuous expression of shared demography is that practically the totality of the population born in Mexico living abroad is in the United States. The size and dynamics of the MOP are very significant for both countries. In 1930, the U.S. census registered a MOP of 600,000, equivalent to 0.5 percent of the entire U.S. population and to 3.5 percent of the population in Mexico. In 2006, the MOP was estimated at 28.3 million by the Current Population Survey (CPS, 2006), comprising 9.6 percent of the U.S. population and comparable to 26.7 percent of the population in Mexico—17.2 million were born in the United States and 11.1 million have migrated from Mexico. Such a population is comparable in size to that of the combined three largest metropolitan areas of Mexico City, Guadalajara and Monterrey.

The MOP is already a substantial part of U.S. society, not only in the traditional and historical southwest bordering Mexico but now also for the whole country. It has a decisive influence in the economic, social and cultural life of California and Texas and is now acquiring decisive political influence. It is very noticeable in the cities of Los Angeles, Dallas, Houston, Phoenix and also Chicago. The most numerous foreigners in the United States are those who were born in Mexico (Rumbaut, 2006). The determinants of the MOP growth have been the migration from Mexico and a higher fertility rate compared to other ethnic groups in the United States and also with Mexico.

Linked to high demographic growth, the characteristics of the MOP are young age structures, lower schooling, extended use of the Spanish language, holding jobs requiring lesser qualification and lack of retirement plans and other fringe benefits. At the same time, migrants keep strong links with Mexico through family networks. Economic support flows across the

border, thus promoting further migration. More than one-half of the inhabitants in Mexico are related by kinship with someone in the United States and more than one-third have been in the United States either living or just visiting. Remittances to relatives in Mexico are a main source of foreign currency.

As part of further analysis of prospective social security and demographic dividends in Mexico, it is proposed to evaluate the interaction with the MOP. The mostly young and adult men who migrate from Mexico to the United States are significantly altering demographic structures and economic opportunities. For Mexico, it means a smaller and shorter demographic window, aggravated by the lost of the most daring and capable population. A significant fact is that the third part of the migrant workforce in the United States was born in Mexico. In these topics some questions arise:

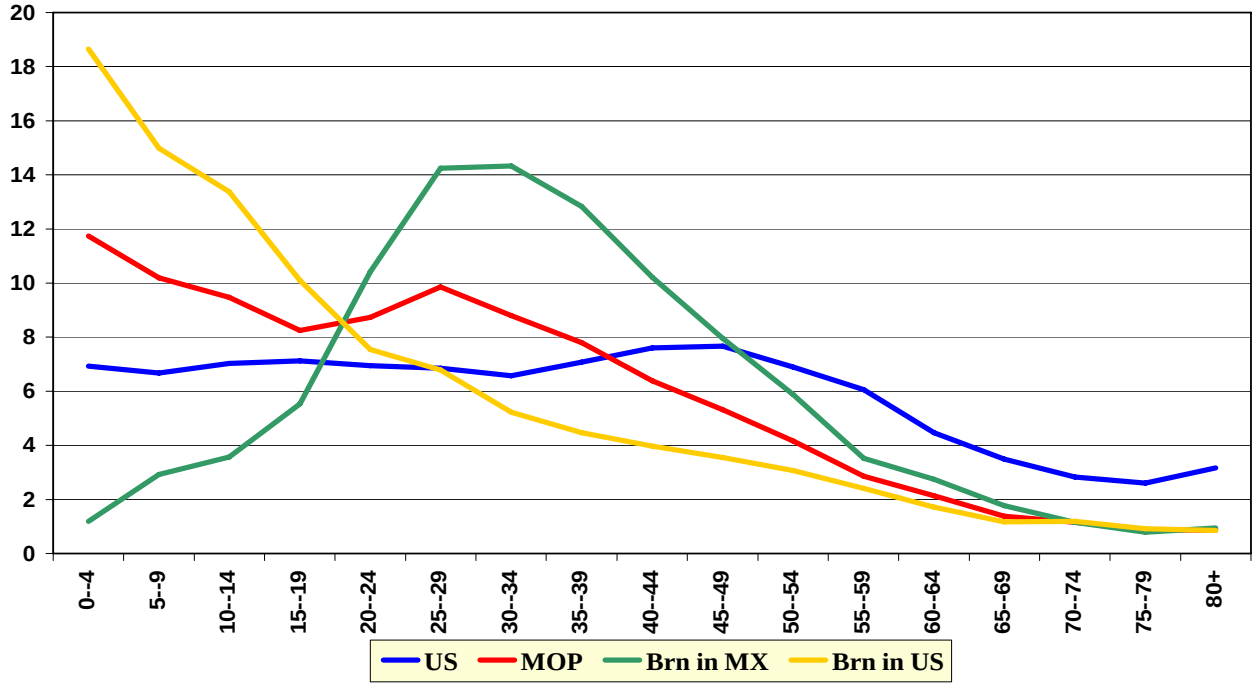
- To what extent does migration reduce the demographic window?
- Does migration mean a decrease of resources to build the first dividend in Mexico?
- Could it be that remittances are actually a substantial part of the first dividend?
- What is the impact of migration for social security in Mexico?
- Is migration an input for the demographic window and the first dividend of the Mexican-origin population in the United States?

6. Demographic and Economic Characteristics of the MOP

Figure 4 shows the age structures of the population of both sexes in the United States (blue line), the MOP (red line), the MOP born in Mexico (green line) and the MOP born in the United States (gold line). Data for Figures 4 to 10 comes from the 2006 Current Population Survey of the U.S. Bureau of the Census (CPS, 2006). A first comparison is between the structures of the general population in the United States and the MOP. The obvious differences are the younger structure of the MOP, with higher proportions of population younger than 40, and then a crossover showing higher percentage of people over 40 in the United States.

FIGURE 4

Age structures of US Pop, MOP, MOP born in MX, MOP born in the US.
Both sexes 2006



Age structures of the labor force are shown in Figure 5 for males and Figure 6 for females. The main feature is that the working MOP is much younger than the working sector of the general population of the United States. This is mainly a reflection of the differences in age structures.

FIGURE 5

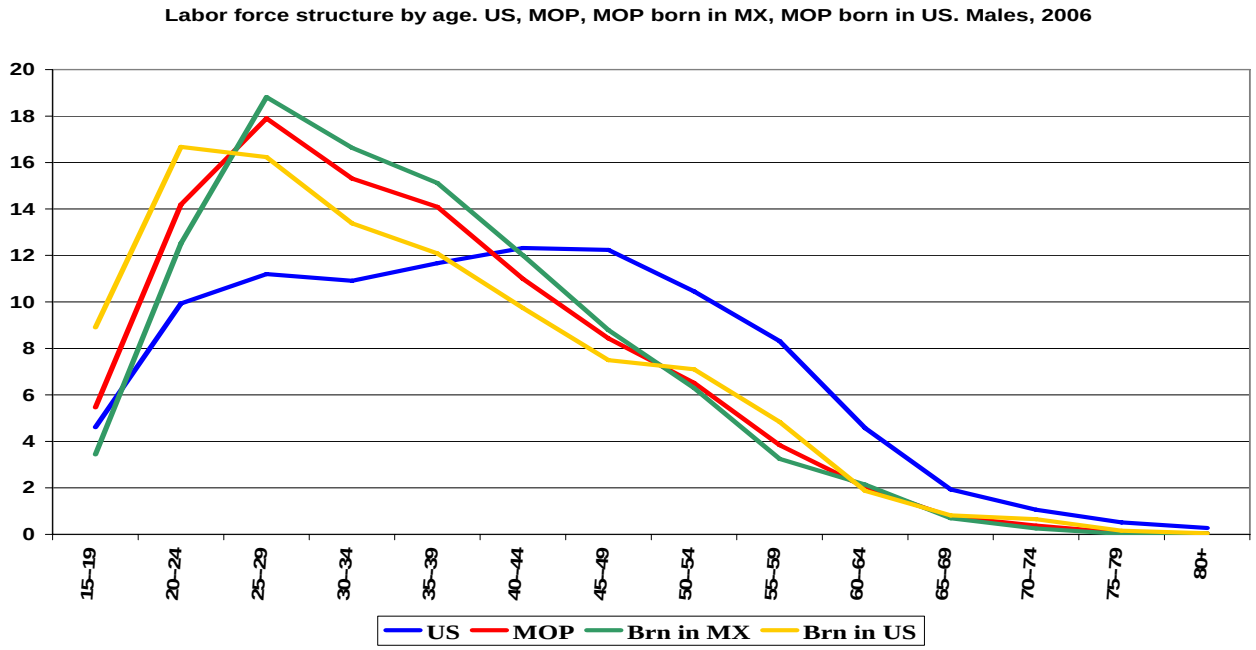
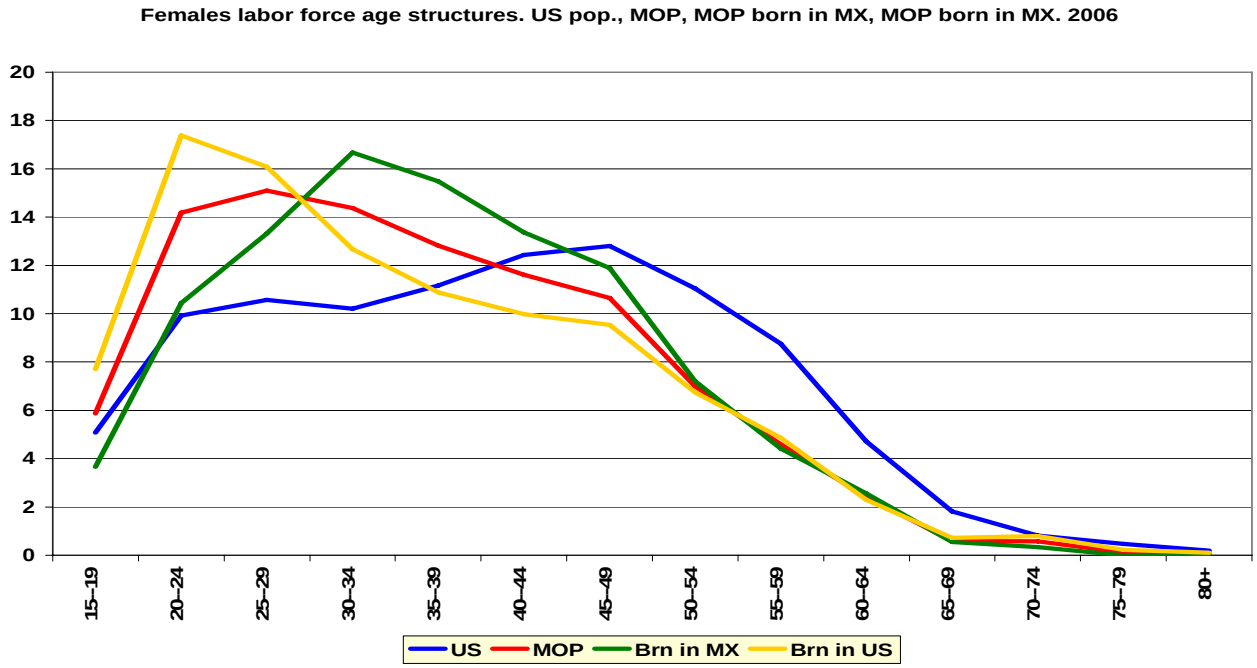


FIGURE 6



Figures 7 and 8 let us see the rates of participation in the EAP. For men, participation rates are quite similar, but with a certain particularity in regard to the MOP born in Mexico. It shows the highest participation rates in all ages with the exception of the oldest-old (a further

analysis should include variance and confidence intervals). In the case of women, participation rates for the U.S. general population and the MOP born in the United States are close. The largest difference comes with the MOP born in Mexico, which shows the lowest rates of all. Women born in Mexico might be less prepared for work in the United States, and a big proportion are migrants because of marriage or family reunification.

FIGURE 7

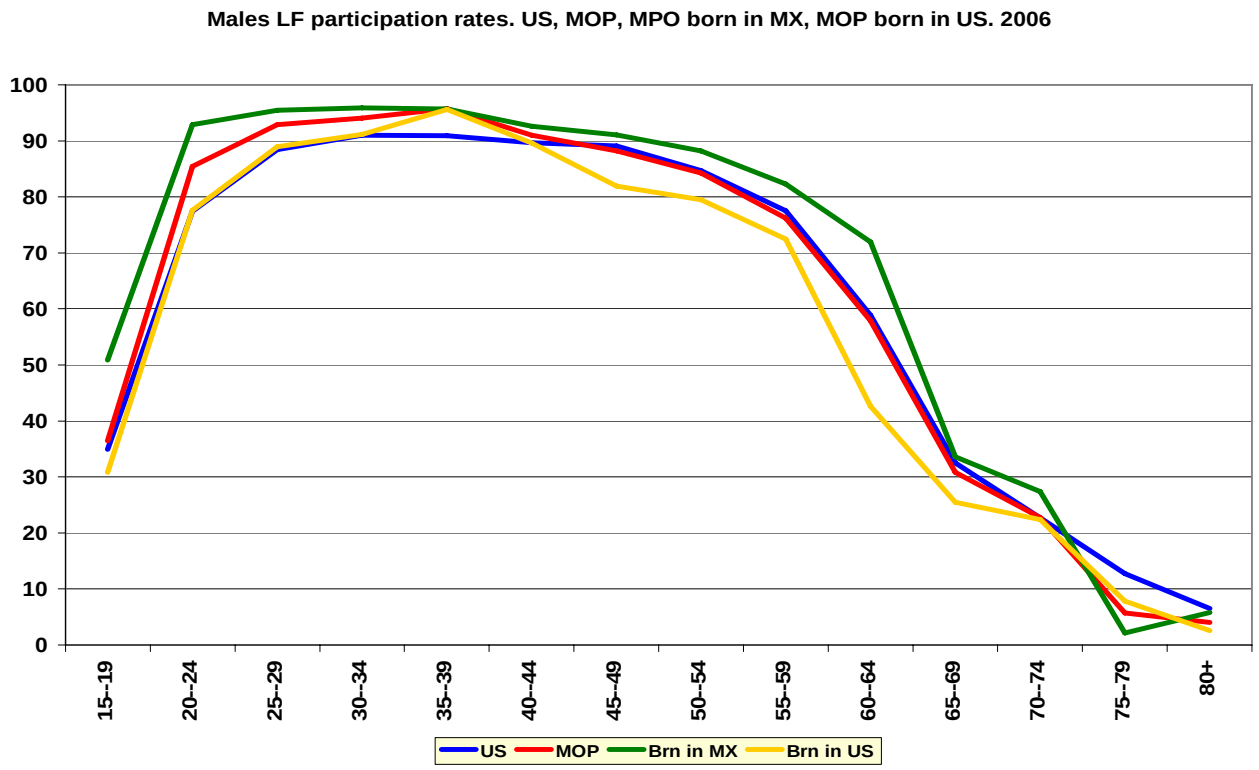
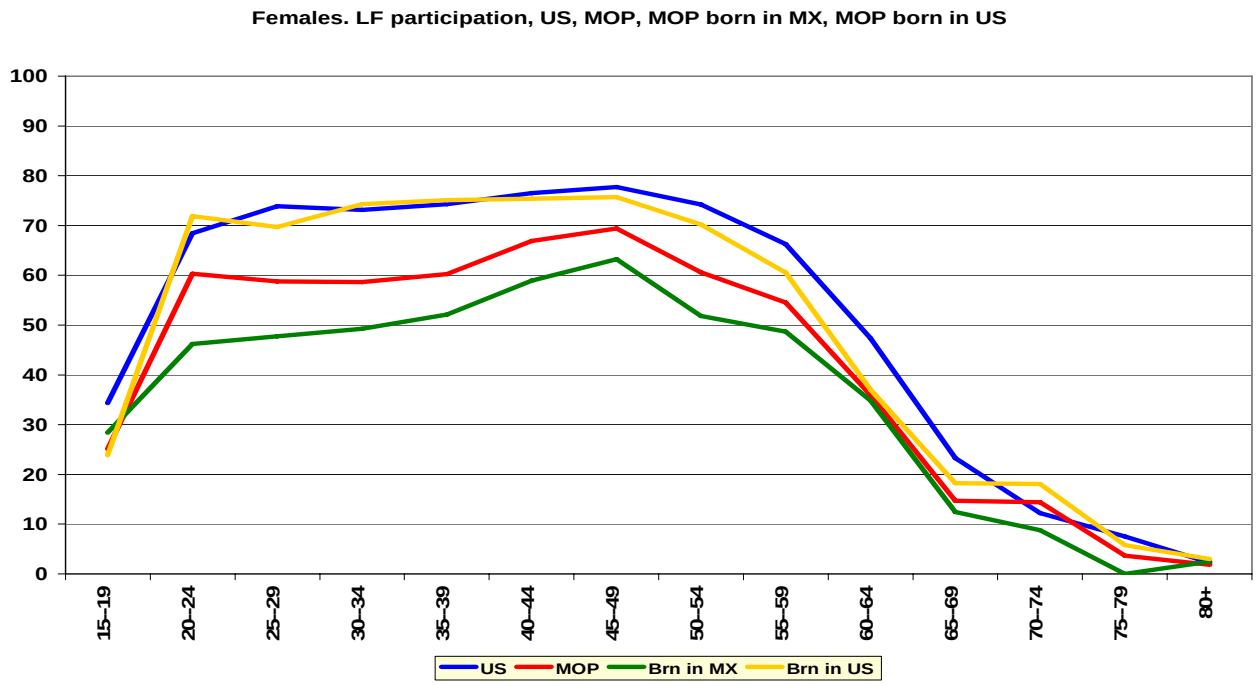


FIGURE 8



7. Jobs in the United States and Remittances to Mexico

There are two main forces whose combined effects are driving Mexicans to cross the border, either legally or undocumented. One is the push factor generated by the loss of vitality in the Mexican economy that has been reflected largely in recurrent economic and even political crises that have taken place during the last decades. Such weakening has prevented the employment of a fast increasing work force concentrated in labor ages, typical of the demographic window (Partida, 2006). The other is the pull element created by the eagerness of the American economy for low paid undocumented labor in agriculture, manufacturing and services.

From the viewpoint of a simple demographic description, this movement of the labor force from Mexico to the United States appears like a loss for the demographic window. It is further considered that in Mexico such a sector would not have had an opportunity of employment and that in addition they are sending a great amount of resources through remittances. If not conclude, we might at least ask if migration is having a positive effect in the construction of the first demographic dividend.

Remittances from the MOP towards Mexico have always occurred. But in recent years there have been remarkable increases. In 1990 it was estimated that Mexico received 2.5 billion dollars; it was 6.7 billion in 2000; then went up to 16.6 billion in 2004 and was as high as 23.0 billion in 2006 (Arroyo and Corvera, 2006). This last figure is equivalent to 2.6 percent of Mexico's GDP of that year. In comparison to other sources of foreign currency remittances, in 2003 remittances were equivalent to 124 percent of the direct foreign investment, 284 percent of agribusiness exports, 71 percent of oil export and 140 percent of the income from foreign tourism (Canales and Montiel, 2004). By 2006 they were the second most important source of foreign currency surpassed only by the oil industry. Eight percent of remittances are destined to home consumption, 16 percent are applied to housing improvement and construction, 3.5 percent are saved and invested and 0.5 percent have other purposes. A pending task is to discover what part of home expenditures is replacing the lack of social security, how much is used in health care and to what extent it is allowing children to attend school. These last two components, health and education, are main inputs for the construction of the first demographic dividend.

8. Prospectives of the MOP

Sound demographic projections of the MOP do not exist. They require the prior solving of many methodological issues. One of the most significant is about the concept of "Mexican-origin population." It is very clear when somebody born in Mexico moves to the United States or when both parents were born in Mexico, but it imposes big problems of classification dealing with self-labeling, generation order in the United States and also the blending of races and ethnicities through family formation. Such complexity causes numerous variations and ambiguities. Thus, hypotheses and projection variables have complex concepts and parameters. This is the main reason given by demographers to explain why there are not projections of the MOP. In any case, there are projections for the Hispanic population from which estimates for the MOP can be made by simple proportions. In any case, MOP projections must be undertaken including demographic, social, economic and geographic characteristics.

Conceptually, there is a sharp distinction between foreign-born and native-born people of Mexican background. Migrants are the first-generation MOP. They speak Spanish at home and usually are not fluent in English. They keep strong links with relatives and friends in Mexico, are

prone to help them through remittances, try to visit Mexico and a big proportion do consider moving back to Mexico. Offspring of migrants born in the United States are second-generation MOP. They keep speaking Spanish if both parents speak Spanish but in any case they acquire full command of English and prefer it in talking with their siblings, friends and away from home. Their attachments with Mexico are weaker, and they do not have in mind leaving the United States. The third generation and over speak English at home, they are fully integrated into the culture and social environment of the United States and their relation to relatives in Mexico is feeble or nil. Demographic projections should include divisions by first, second and third and over generations.

All demographic assumptions about the future of the MOP point to increases in both absolute and percentage figures. During the past and even in the present the leading growth factor is migration from Mexico. Thus hypotheses about migration are of the utmost relevance for projections. Assumptions go from considering an entire cessation of migration, to lower levels from what it is now, to keeping its current intensity (Partida, 2006). When the latter option is considered, the resultant scenario is in Table 1 that estimates 37.8 millions in 2020. That would be 11.3 percent of the population in the United States and equivalent to as much as 30.9 percent of the population of Mexico. The percentage of population of 65 and over would be 6.3 percent, lower than the 8.8 percent expected for Mexico. The numbers for 2040 are 55.4 million, 14.1 percent of the population in the United States and equal to 41.7 percent of Mexico's. The percentage of those 65 and over would be 13.1 percent compared to 18.9 percent in Mexico.

TABLE 1

	US	Hispanics	MOP	%Hisp/US	%MOP/US	%MOP/MX	MX
2000	282,125	35,622	22,549	12.63	7.99	22.6	99,818
2010	308,936	47,756	30,230	15.46	9.79	26.9	112,510
2020	335,805	59,756	37,826	17.79	11.26	30.9	122,475
2030	363,584	73,055	46,244	20.09	12.72	35.7	129,412
2040	391,946	87,585	55,441	22.35	14.15	41.7	132,837
2050	419,854	102,560	64,920	24.43	15.46	49.0	132,444

Table 2

MOP Age structure					
	2000	2010	2020	2030	2040
<18	35.79	31.80	29.20	26.66	32.34
18-24	13.20	12.28	10.82	10.64	13.41
25-44	31.77	33.81	34.53	32.86	42.26
45-64	14.05	16.92	19.12	21.76	31.21
65+	5.20	5.19	6.33	8.08	13.12
65+ in MX	4.78	6.22	8.78	13.16	18.94

There are two features worth noticing about MOP birthrates because they seem paradoxical. One is the fact that despite better economic conditions and a more favorable social environment in the United States that is usually correlated to lower fertility, the MOP birthrate is higher than in Mexico. An explanation is the desire of migrants to have children that will be citizens by birth (Frank and Heuveline, 2005). The second peculiarity is that in the near future MOP increases will be higher from births in the United States than from migration.

Health and mortality reveal another paradox. Migrants from Mexico seem to be healthier than the resident population. An explanation is suggested by the selectivity of migration. Another important aspect is that mortality rates for Mexican migrants are also lower than in the case of general population. Besides migration selectivity, it has also been suggested that ill migrants prefer to seek medical attention in Mexico and eventually die in Mexico. Ending life in their native country is a clear preference of elderly migrants from Latin America (Palloni and Arias, 2004).

9. Conclusions

In the 21st century, the population dynamics of Mexico will reveal two main features. One will be the rapid demographic aging. The other will be the great migration towards the United States.

Population aging is occurring within a context of incomplete development. Among other social end economic lags, social security is insufficient in coverage and quality of benefits. Retirement pensions mimic the existing highly unfair income distribution, since the richer collect higher retirement benefits while most pensioners are of poorest backgrounds and get very modest pensions. What is worst, the vast majority of the elderly are alienated from social security.

Part of the privileges of those enjoying social security, even those with meager pensions, have been the differences between benefits granted and low levels of contributions. Actuarial imbalance has been endemic from the very beginning of social security, worsening over time and at present is in a financial crisis that was foreseen decades ago.

Pensions have been reformed from defined benefits, close to a pay-as-you-go system, to defined contributions in privatized individual accounts. Promises to promote the approval for the reform were to seek actuarial balance, universal coverage, better pensions, investments creating jobs and income. That is to say, they were promising to be a significant part of the first dividend.

But after exactly 10 years of social security changes in Mexico, it is evident that: coverage is diminishing; pensions under the new scheme will be lower; there is a heavy load placed on public finances through transition costs and paying differences for minimum pensions; actual investments as employment engines are very low; and most of the funds are in government bonds to meet current public expenses. From a macroeconomic perspective, resources are being diverted from basic needs such as education and health care. It is clear that the new system is eroding the first dividend.

Migration between Mexico and the United States displays the largest flows, back and forth, between any pair of countries in the world. Migration has been the largest input in the creation of the MOP. When MOP is analyzed from the *demographic window* perspective, the

question asked is if Mexico is losing this demographic opportunity in favor of the United States. On the other hand, other questions arise when the lack of jobs and lower salaries in Mexico are contrasted with remittances. To what extent is there a support from the MOP for the first dividend in Mexico?

One recommendation is to review existing studies on demographic, social and economic characteristics of the MOP. This can form the basis for projections of the MOP along all those variables and differentiating from the Hispanic population. It is foreseen that MOP aging will be slower than the population of Mexico. Another target will be the identification of interactions between these two populations in regard to aging and support. The approach will include demographic dividends, family relationships, transfers and economic security for the elderly.

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