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

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Presented at the Living to 100 and Beyond Symposium

Orlando, Fla.

January 7-9, 2008

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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?