III

Details of the Old and the New Plans

The new privatized plan came into effect on July 1, 1997. New workers in the labor market on or after that date had to accept the new plan. About a million workers enter the labor force in Mexico every year. On the other hand, workers who are already in the labor market will have an ''either/or'' option (explained below). Therefore, workers with benefits defined under the old scheme will be in the labor market for several more decades.

3.1 Options for Workers Already in the Labor Force

If a worker has been in the labor force and a member of the IMSS, he or she will have a choice at retirement; the benefit can either be chosen according to the old defined benefit plan or under the new plan. Clearly, if the worker finds it beneficial to choose according to the old plan, he or she will do so. If a worker has already put in 20 years under the old scheme, he or she is unlikely to have more than 20 years under the new scheme. In that case, the benefit under the new system is unlikely to exceed the benefit calculated under the old scheme. For workers with fewer than 10 years under the old scheme, it will be unlikely that old scheme would be more profitable. Only in extreme cases of low lifetime income would the old scheme be more beneficial.

3.2 Details of the Old Plan

The largest program for social security in Mexico is run by the IMSS. The program is known as Seguro de Invalidez, Vejez, Cesancía en Edad Avanzada y Muerte (IVCM, disability, old age, and death security). This program has protected workers in the *formal* sector since 1943. However, even in 1999, less than 30% of workers in the labor force are covered under this program. The new law of social security repealed this process; new workers can no longer join the old program.

3.2.1 How Did the (Old) Program Work?

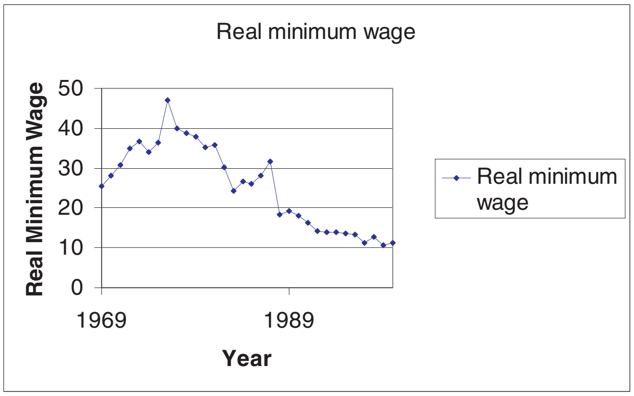
Contributions: The total contribution was 8.5% of the base salary in 1996. There is a *notional* tripartite split between the employers, employees and the government. Employers paid 5.95%, employees paid 2.125% and the government paid 0.425% of the base salary. In addition, there was an additional payment of 2% of the base salary in the SAR (Sistema para el retiro, the ''retirement account'').

This concept is notional for two reasons. (1) Ultimately what matters to a worker is what he or she takes home. (2) The government contribution has no real aggregate value (but it does have redistributive value). At the end of the day, the only way a government can pay any benefit is through direct or indirect (such as inflation with progressive taxes) taxes.

The payment applies to the base salary (called salario base de cálculo or SBC). Some types of benefits (such as bonuses) are excluded from the base salary. There is a cap on how much can be included in the base salary. The maximum can be equal to ten times the minimum wage.

The minimum wage is an important concept in Mexico for wage setting. The government from time to time resets the minimum wage. Many types of wage negotiations are based on the value of the minimum wage. Minimum wage is not fixed in real terms. It is fixed in nominal pesos. It is adjusted by legislation from time to time. Therefore, it might be fixed in the short run but not necessarily in the long run. Over the long run, the minimum wage has risen by less than the rate of inflation (see figure 3.1).

FIGURE 3.1
EVOLUTION OF REAL MINIMUM WAGE IN MEXICO
1969–2000



Minimum wage is set differently in different parts of the country. It is lower in rural areas. However, when people talk about minimum wage, they are usually talking about minimum wage *in Mexico City.* In 1997, the minimum wage in Mexico City (lower in rural areas) was about US$3.20 per day.

The total contribution in 1996 was 8.5% of the base wage. It was distributed as follows: 3% was contributed towards old age security, 3% for life and disability insurance. An additional 1.5% was dedicated to medical services for the retired and 0.4% for social assistance. The cost of administration was set at 0.6% (this is an underestimate of the real cost, see figure 7.2). Thus, the cost of running the system was supposed to be around 7% of total contribution (this is calculated by 0.6%/8.5% in percentage).

Eligibility: To qualify for the old age pension, a person has to have had a minimum contribution of 500 weeks and be aged 65 years (60 years for people classified as "too old to work"). For people to be eligible to collect disability pension, at least 150 weeks of contribution is required. In addition, it requires a certification from IMSS about the disability.

Benefits: Benefits are calculated on the basis of the salary of the person for the last five years of work. This amount is first expressed as a multiple of minimum salary. Then, based on the number of years of service, benefits are calculated. There is a floor of one minimum salary. Nobody gets a pension below the minimum salary under current law. Some of the benefits accrued under the regime are set out in the table below.

Consider the "average worker." The average worker gets a salary of 2.8 times the minimum wage (in 1996). If she contributes for 20 years, she gets 50% of her salary replaced in retirement. If she contributes for 45 years, the replacement rises to 100%. In 1996, 89% of all retired people under IMSS were drawing the minimum salary or less. Therefore, for the vast majority of the retired, the retirement benefit amounted to approximately US$3 per day.

The average pensioner under IMSS was drawing 0.86 of a minimum wage in 1993. By 1999, the amount had gone up to just over 1.01 of a minimum wage. However, these numbers are extremely deceptive. Minimum wage is a moving target. It gets adjusted every year but does not necessarily get adjusted according to the consumer price index. Thus, if we compute the real pension (adjusting for inflation) of the average retiree, it has fallen in 1999 below the level of 1993. Falling minimum wage has been a twenty-year phenomenon in Mexico (as well as in many other Latin American countries). If we take 1990 as the base year (set minimum wage equal to 100 in 1990), the value of the minimum wage in 1995 would be 76.9. On the other hand, the value of the minimum wage in 1980 would be 252.9. Thus, between 1980 and 1995, the minimum wage has fallen by 70%. The average wage in the manufacturing sector has done somewhat better (but not much). Once again, if we peg the 1990 average wage to 100, the 1980 average wage would be 128.3, and, in 1995, the average wage would be 98.8. There has been a 30% drop in real wage over a 15-year period in the manufacturing sector.

3.3 Some Serious Problems

Some serious problems have plagued the system almost since its inception. Two major problems are the following: (1) strict definition of eligibility, and (2) under-reported income.

TABLE 3.1
AVERAGE REAL PENSION UNDER IMSS

Year	IMSS Real Pension
1993	4139.81
1994	4705.01
1995	5473.55
1996	4546.47
1997	4369.18
1998	4433.88
1999	4127.40

Source: Nominal amount reported in the Presidential Report, 1999. The figures are converted into "real" by deflating them using the consumer price index. The year 1993 is taken as the base year.

TABLE 3.2
Replacement Rate of the Old System

Wage	10 yr	25 yr	35 yr
1	100	100	100
2	50	75	92
3	31	57	74
4	22	49	65
5	17	44	60
6	14	40	57

Wages expressed in multiples of minimum wage (for workers who have joined the labor force before July 1, 1997)
Source: IMSS, Ley de Seguro Social, 1992

3.3.1 Eligibility

There are many "fuzzy areas" of eligibility. For example, one option is eligibility to IMSS pension due to disability. Over the years, the proportion of workers opting for retirement under disability has increased. On the other hand, the health status of the population is getting better (certainly not getting worse). The only way we can explain this increase is if workers are retiring under disability when the requirements for qualifying for disability pension are being relaxed. Anecdotal evidence seems to point to this as well. However, this is not the only explanation of the rising incidence of disability pension. Rising *awareness* of rights to benefits could be another explanation. This phenomenon of rising disability pension is not necessarily an outcome of petty corruption (although there are many stories about IMSS doctors giving out certificates of disability for an appropriate "fee"). In Switzerland, for example, a similar phenomenon has been observed (Queisser and Vittas, 2000).

3.3.2 Under-Reported Income

A common practice among employers (even in the formal corporate sector) is to under-report wages paid. Thus, a worker who is actually getting paid two times the minimum wage might get the employer to report only a minimum wage for the worker. The process reduces the tax burden on the employer. It may increase pay for the employee (also from tax evasion). Given that the old system was pay-as-you-go and redistributive, it increased the burden for the IMSS.

TABLE 3.3
Rising Incidence of Disability Pension

Year	Old Age (%)	Disability (%)
1981	64.95	35.05
1985	58.86	41.14
1990	56.47	43.53
1994	57.01	42.99

Source: IMSS (1997)

3.4 Other Programs: ISSSTE

Along with IMSS, there are a number of smaller programs. The largest among the rest is ISSSTE (Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado). This program offers social security for public servants. By 1990, ISSSTE covered about 6% of the economically active population. It includes workers in the Federal Government and many institutions of public education (including public universities).

Contributions: Each worker pays 8% of the basic salary with a cap of 10 minimum salary, out of which, 2.75% is set aside for medical services, another 3.5% for retirement benefits and the rest for "other purposes."

Benefits: With 30 years of continuous service, a worker acquires the right to a pension. The pension is equivalent to 100% of the base salary immediately prior to retirement. This pension does not depend on age. For example, if a worker starts with a government job at the age of 20, he becomes eligible for retirement with 100% base salary at the age of 50. In addition, there is a minimum attachment point. A worker who has worked for 15 years with the government becomes eligible for 50% base salary pension provided he is 55 years old. The benefits then go up (almost linearly) for additional years of service until they reach 100% with 30 years of service. Disability (physical or mental) benefits are calculated in a similar manner if the worker has worked for more than 15 years. Survivor benefits are also available for the spouse, concubine, children and parents. In many other countries, parents and concubines do not qualify for such benefits.

3.5 Other Programs: ISSFAM

The Instituto de Seguridad Social para las Fuerzas Armadas Mexicanas (ISSFAM) is the second social security program run directly by the government. This program for the armed forces came into effect in 1961. For the military, there were many different programs in different areas. ISSFAM consolidated all of them under a single umbrella. The benefits are 100% of the last year's salary after 20 years of service.

In addition, there are quasi-government programs run by the Petroleros Mexicanos (PEMEX, the petroleum monopoly) and the Electricity Department (Luz y Fuerza), among others. Their contributions are typically lower than IMSS but the benefits are higher (or they have a lower waiting time for qualifying). Benefits for the government employees are typically much higher than those of the workers who get their benefits under the IMSS. From table 3.4, we see that the average benefit for retirees in IMSS is just over one minimum salary in 1997. For retirees under ISSSTE, the average benefit is 2.8 times the minimum wage. For the 1,700 retirees of Bancomext, the amount is 16.9 times the minimum salary. This phenomenon is not new. Mesa-Lago (1978, p. 250) reported this kind of difference in benefits for the year 1969.

3.6 Assessing the Old System

Some researchers do not like privatization in any shape or form. For example, Laurell (1997) argues, ‘‘Until the 1990s, the rights to social security movement in Mexico was very successful. It grew rapidly.’’ (p. 25, translation ours). This is far from the truth. As we have seen, after 43 years, the IMSS had failed to cover even half of the people. Another manifestation can be seen in the participation rate of elderly men (and some women) in table 3.5. Even among 75- to 79-year-old men, about half are still participating in the labor force. Destitution among the elderly is high. This phenomenon could be seen 100 years ago in the United States.

Table 3.6 drives home the point that most of these elderly men and women are working a significant amount of time. More than 70% are working for 40 hours a week or more. It seems unlikely that men and women over 60 are working more than 40 hours a week for fun.

What kind of work do these people do? Table 3.7 gives us some idea. For all male workers, salaried workers account for 49%. Self-employed males account for 27%. However, when we consider men over 60, the proportion sharply reverses. The reason is simple: it is extremely difficult for men over 60 to find a paying job, working for somebody else. The only way

TABLE 3.4
SIZE OF VARIOUS PENSION PROGRAMS OF THE GOVERNMENT

Program	Workers (In Thousands)	Average Pension
ISSSTE	1,913	2.8
RJP IMSS	340	3.9
PEMEX	103	7.1
CFE	54	6.6
LFC	35.5	13
Ferronales	30.5	2.7
Banorbras	1.9	10
Banrural	7.8	3.6
Nafin	2.5	9.7
Bancomext	1.7	16.9
IMSS	10,444	1.01

Sources: Annual Report of various government agencies (all figures for 1997).
Note: Average pension is expressed in multiples of minimum salary. RJP IMSS refers to the administrative workers of the organization of IMSS. Therefore, it does *not* represent the benefits of workers who are simply formal sector workers.
Footnote: In this table, we consider the following programs. Régime de Jubilaciones y Pensiones del Peronal del IMSS (RJP IMSS), Petróleros Mexicanos (PEMEX), Comisión Federal de Electricidad (CFE), Luz y Fuerza del Centro (LFC), Ferrocarriles Nacionales de México (Ferronales), Banco Nacional de Obras y Servicios Públicos (Banobras), Banco Nacional de Crédito Rural (Banrural), Nacional Financiera (Nafin) and Banco Nacional de Comercio Exterior (Bancomext).

TABLE 3.5
LABOR FORCE PARTICIPATION RATE (IN PERCENT)

Age	Men	Women
60–64	74	25
65–69	64	22
70–74	58	15
75–79	49	10
80+	26	5
Total	59	18

Source: INEGI, Encuesta Nacional de Empleo, 1995

TABLE 3.6
DISTRIBUTION OF HOURS OF WORK FOR PEOPLE 60 AND OVER (%)

Working	Men	Women
Less than 15 hours	5	14
Between 15 and 24	8	14
Between 25 and 34	8	13
Between 35 and 39	7	8
Between 40 and 48	39	31
Between 49 and 56	14	8
More than 56 hours	17	9
Not known	2	3

Note: Percentages are calculated only for people who work
Source: INEGI, Encuesta Nacional de Empleo, 1995

TABLE 3.7
TYPES OF WORK ALL WORKERS AND PEOPLE OVER 60

Type	All Men	Men 60+	All Women	Women 60+
Employer	6	11	1	6
Self Employed	27	59	22	57
Salaried	49	25	54	13
Piece Work	8	3	4	2
No Pay	11	2	18	22

Source: INEGI, Encuesta Nacional de Empleo, 1995

many of them find employment is being self-employed. The story is even starker for women.

3.7 Objectives of a Social Security System

How well did the old system perform? To measure the performance, we need to use some criteria. Thus, we can reformulate the question as follows: Given some criteria, how did the old system do? We spell out some fundamental criteria and discuss how well the old social security system did in Mexico.

There are three fundamental goals of any social security system. (1) It is a mandatory savings program. It forces people to reallocate resources from working life to retired life. If people are fully rational, and are capable of making a lifetime allocation of resources, this function will be totally unnecessary. The usual justification for this function therefore requires the assumption that people cannot properly allocate resources over a lifetime. This may arise from: (a) myopia among people, or (b) lack of information about what the future holds. (2) It is also an insurance policy against death and disability. This function of social security ensures that in bad states of the world, when a worker dies (or if he or she becomes disabled), the family does not suffer a catastrophic fall in income. Therefore, this function is just like any other insurance policy, such as home or auto. (3) The third goal is to redistribute income. Redistribution takes place at two levels: (a) relatively poor retirees get a transfer of income from relatively rich workers; and (b) relatively rich workers contribute for relatively poor retirees. The first is a within- generation transfer of resources. The second is a transfer between generations.

This does not mean that social security cannot have any other objective. One often-quoted reason is the interaction of social security and economic growth. It is often claimed that a pay-as-you-go system hinders economic growth whereas a fully funded system enhances it (Quinn, 1997).

3.7.1 Mandatory Saving Program

The old social security system in Mexico *was* a mandatory saving program. Unfortunately, that does not mean much! It was a mandatory program for workers *in the formal sector*. In chapter 2, we noted that the formal sector in Mexico accounts for less than 40% of the labor force. Thus, the program was really restricted to a minority of workers in the labor force. Therefore, if we believe that people can move in and out of the formal sector, it was not mandatory. It is possible, and there is some evidence, that workers moved into the formal sector and became eligible for social security pension, and then moved out to the informal sector. For workers who worked all their lives in the formal sector, it was compulsory.

In addition, the program always specified benefits in terms of minimum wage. Minimum wage was not indexed to inflation. It was simply adjusted occasionally by decree. Thus, even if it was a mandatory saving plan, it was the worst kind. Saving in the social security system did not keep up with inflation. As a result, even in 1995, nine out of ten retirees under the IMSS were drawing no more than one minimum salary. Therefore, retirees with no resource other than their pensions were living on less than US$3 a day. For retirees with pre-retirement income of one minimum salary, this was replacing 100% of their income. For them, it was not a bad deal (relatively speaking). As the replacement rate did not advance much with higher income, one minimum salary would be a substantial reduction in the level of income (for people with higher income). For them, it might have been better to make their own retirement plan with the money that they were contributing to the IMSS.

3.7.2 Insurance Function

There were two problems with the insurance function of the old social security system. Benefits were too low and costs were too high. Benefits were too low for the same reason above: benefits were tied to minimum wage. Since the purchasing power of the minimum wage eroded over time, so did the insurance benefits. There was a “premium” of 3% of wage paid out for insurance benefits. It is difficult to identify the amount as the premium because it was not assigned in an actuarial fashion.

First, the premium amount depended on wage as a percentage. Therefore, higher income individuals subsidized lower income individuals if all workers of the same age had the same survival probability. In fact, we know that higher income workers have a lower probability of dying at any given age. Therefore, the subsidy was even higher.

Second, as we have seen in the last chapter, the life expectancy (and survival probabilities) has increased quite substantially in Mexico in the last half of the twentieth century. Therefore, we should have seen a reduction in the premium over time (unless benefits were raised, and it was above illustrated that benefits in fact did not rise). That has not happened. Therefore, we can conclude, on an actuarial basis, that the insurance function was inefficient. In addition, some of the money from the insurance account was being diverted to other accounts. Worse still, some of the money actually disappeared due to theft and fraud.

3.7.3 Income Redistribution

Presumably redistribution of income is directed from rich retirees to poor retirees and from rich workers to poor workers. On the face of it, the Mexican system does have those characteristics. After all, low-income workers get a larger replacement rate than high-income workers. Unfortunately, the additional wrinkles in the system meant such redistribution did not necessarily take place. One of the regulations required a minimum contribution period of ten years. Workers who contributed to the system for nine years and eleven months did not get any benefit. Their contribution was effectively paid out to others in the system. Who are the workers who contributed to less than ten years at a stretch? They are precisely the people who did not have well defined permanent jobs. They are also the workers with low income. Therefore, with vesting starting only after ten years, these low-income workers were paying for other high-income workers. This is precisely the opposite of the desired redistribution. In addition, the usual kind of perverse redistribution took place, as low-income workers tended to live a shorter time period after retirement (Rofman, 1993).

3.7.4 National Saving

Many in the government felt that the (old) Mexican social security system was an obstacle to economic growth as it drained resources away from higher saving. The Bank of Mexico (1997) categorically stated, "The proper functioning of the new pension system will improve the Mexican society's capacity to increase its domestic savings. The reform to the pension system will entail economic and social benefits for Mexico in the coming decades." (See chapter 7.)

This presumption is false. Whether a reformed social security system can deliver a higher rate of saving is debatable (see chapter 7). Evidence from other countries points to the fact that privatization of social security did not increase national domestic saving (Holzmann, 1996). Moreover, whether higher saving leads to higher economic growth is also questionable. For example, Sinha and Sinha (1998) show that for Mexico, the causality between saving and growth go in one single direction: higher growth leads to higher saving and never the other way around.

3.8 Privatized Pension System

On July 1, 1997, a new *publicly administered* but *government-mandated* system of retirement programs came into existence in Mexico. This system has private companies operating pension funds. Each company operating a pension fund is called an Administradora de Fondos de Retiro or an AFORE. The investment fund, run by the company, is independent of the parent company; it is called a SIEFORE (Sociedad de Inversion en Fondos de Retiro).

Each worker has an account with an AFORE. Funds are generated by accumulation of contributions by the individual and by the yield generated by investment by the AFORE. Thus, the contribution and the performance of the fund will solely determine each person's pension benefit (however, there is a minimum pension guarantee).

3.9 Ownership Structure of AFOREs

AFOREs have diverse ownership structures (see appendix B). Some are 100% foreign-owned. Probably the simplest structure is that of Principal. Principal International (an Iowa-based international corporation) owns 100% of AFORE Principal. The main business of Principal is pension. They own pension funds in Australia, Chile, China, and Mexico, among other places. Banamex, the second largest bank in Mexico, owns the majority of shares in one of the largest pension funds, Banamex-Aegon. The other partner of

Banamex is one of the largest insurance companies in the world, Aegon. Bancomer, the largest Mexican bank (which has been the recent subject of takeover by BBV in July 2000) owns the majority share in the Bancomer AFORE. Another part (33%) of the Bancomer AFORE is owned by Aetna, the large American insurance company. The rest of Bancomer is owned by one of the largest pension groups in Chile, Santamaría International. Bancrecer has a Mexican majority shareholding. The rest is German but only through its subsidiary in the United States. Sólida-Banorte-Generali also has a minority foreign stakeholder—Assicurzioni Generali S.p.A from Italy. Bital has 100% Mexican ownership, one of the two AFOREs to be owned 100% by Mexicans. The other AFORE to have 100% Mexican ownership is XXI (Siglo Veintiuno, Century Twenty-one Fund). The XXI has a curious mix of ownership: it is half owned by IMSS, the government agency in charge of pension before the privatization; the other half is owned by a small Mexican banking group called IXE.

3.10 Amount of Contribution for Retirement

Under the new system, Seguro de Invalidez, Vejez, Cesancía en Edad Avanzada y Muerte (IVCM, disability, old age, and death security) has been disbanded. In its place, Seguro de Retiro, Cesantía en Edad Avanzada y Vejez (RCV or retirement and old age insurance) has been introduced. In addition, there is a death and disability insurance. The death and disability insurance has a premium of 2.5% of wage. There is a three-way split: the employer pays 1.75%; the worker pays 0.625%; and the rest is paid by the government. This is called Seguros de Invalidez y Vida (IV). This IV component is different from RCV under the new system. Under RCV, there is also a three-way split on contribution. The contribution of the employer is 5.15% of wages. The employee contributes 1.125%. Thus, the total contribution of the employer and employee is 6.275%. An additional 0.225% will be made by the government.

In addition, the government also will contribute an additional amount independent of the wage of the person. This additional contribution is called the Social Contribution (cuota social). This additional amount is 5.5% of the minimum in the Federal District of Mexico (Mexico D.F., the municipality of Mexico City, excluding surrounding areas) as of July 1, 1997. Therefore, this amount is variable. For a person earning an equivalent of a minimum salary, this amounts to 5.5% of his or her salary along with the other contribution of 6.5%. Hence, the total contribution amounts to 12% of the salary. On the other hand, for a person earning 10 times the minimum salary, the social contribution is only 0.55% of wages. Thus, his or her total contribution will amount to 7.05% of wages, a much smaller *proportion.* Of course in *absolute* amount this will be a much larger number.

The important point here is that the government contribution is set in real terms. In other words, inflation will not whittle away this (social) contribution. The contribution will be adjusted according to the consumer price index. This was the first time that adjustment of pension has been institutionalized. In the past, the setting of minimum wage had been a piecemeal affair. It did not keep up with inflation (see figure 3.1).

3.11 Management Fees

CONSAR has allowed the fund management companies to charge fees in any shape or form they see fit. As a result, there are a bewildering variety of charges by different funds. Generally, the charges take three forms.

TABLE 3.8
CONTRIBUTION TO PENSIONS IN MEXICO BEFORE AND AFTER REFORM

	Before Reform	After Reform	
Contributions	DOSL	RDO	LDA
IMSS contribution	8.5%	4.5%	4.0%
SAR sub-account	2.0%	2.0%	
INFONAVIT	5.0%	5.0%	
Cuota Social	—	2.0%	
Total		13.5%	4.0%
Contributors	**15.50%**	**17.50%**	
Employer	12.95%	12.95%	
Employee	2.125%	2.125%	
Government	0.425%	2.425%	

Notes: Cuota social is government contribution under the new regime. It is not exactly 2.0%; it is set at 5.5% of minimum wage. Hence it varies with the wage rate. In 1997, the contributed amount was 2.0% for average worker. DOSL = Disability, Old age, Severance at Old age, and Life insurance. It was also called IVCM. RDO = Retirement, severance at Old age, and Old age. LDA = Life and disability assurance.

(1) Charges on flow. This means whenever money is deposited in the account, the fund charges something. For example, Bancomer has a charge of 1.70%. These numbers are represented as a percentage of wages. Thus, for example, if a person has an income of 100 pesos per month, the deposit will amount to 6.50 pesos (plus the social contribution), and the charges will be 1.70 pesos. If we ignore government contribution, 1.70% of wages really amount to 1.70/6.50 = 26.15% of contribution. To put it differently, suppose a person could have put the money in a fund without charges. Suppose the accumulated fund in this fictitious fund would have been 100 pesos. The money accumulated under Bancomer would be 100 − 26.15 = 73.85 pesos.

Many of the commission charges apply to *the flow* of contributions alone (that is, a yearly $100.00 contribution is assessed a pre-specified commission charge and nothing else). However, some companies charge *to flows* as well as *balance* in the fund. One company (Inbursa) charges commissions exclusively on the *real rate of return* of the fund. In addition, the way charges are expressed is somewhat misleading because they are expressed as a percentage of wages and not as a percentage of contribution every year.

3.12 Conclusions

The social security legislation of 1995 brings new entrants under the defined contribution plan. The old (defined benefit, pay-as-you-go) still applies to the workers already in the labor force. Eligibility under the old regime was easier. It was even easier to qualify under the category of disability pension. But, for many decades, the real value of the average pension has fallen sharply due to inflation. The pension is not indexed, except with a floor of one minimum wage. Minimum wage itself has fallen sharply over the last quarter of a century. The presence of a huge informal sector made under-reporting of income commonplace.

TABLE 3.9
MANAGEMENT FEES CHARGED BY DIFFERENT FUNDS

Fund	Charge on Flow	Charge on Balance	Charge on Interest
Atlantico Promex[1]	1.40%		20.00%
Banamex	0.002 in 1997 0.85% in January 1998 1.70% afterwards		
Bancomer	1.70%		
Bancrecer Dresdner	1.60%		
Banorte[2]	1.00%	1.50%	
Bital	1.68%		
Capitaliza[3]	1.60%		
Confia Principal[4]	0.90%	1.00%	
Garante	1.68%		
Genesis[5]	1.65%		
Inbursa			33.00%
Previnter[6]	1.55%		
Profuturo GNP	1.70%	0.50%	
Santander Mexicano	1.70%	1.00%	
XXI	1.50%	0.20%	
Tepeyac	1.17%	1.00%	
Zurich	0.95%	variable	

Footnotes:
Note 1. It does not have independent existence any more.
Note 2. It is now known as Sólida Banorte Generali.
Note 3. It does not have independent existence anymore.
Note 4. It is now known as Principal.
Note 5. It does not have independent existence anymore.
Note 6. It does not have independent existence anymore. In addition, some funds give discounts for staying with the fund. This is shown in the appendix 3.2.

This has further reduced the tax base of the old system of pension. As a result, poverty among the elderly has been widespread, as is the proportion of elderly working for a living. Pension programs for government employees have been more generous.

The new system of a mandatory defined contribution plan started with a big fanfare. Unlike the old system, it is privately run by 13 funds. Most of the funds have either majority or minority foreign ownership. Despite NAFTA (which is supposed to give an edge to NAFTA members for ownership), many funds have non-NAFTA foreign ownership. The old IMSS has tried to recast itself among the new funds.

The new system has been in existence for over three years. How is it doing? That is the subject of discussion in the next chapter.