

## The Pension System Crisis

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The situation the Mexican pension system is in is highly worrying because it is facing a real crisis as a result of the changes and reforms made over at least the last 20 years to the Social Security Law. In particular, in 1994 the 'Defined Benefit' procedure was changed to one of 'Defined Contribution', names which have been used to define both phases, because the collapse in public finances in Carlos Salinas de Gortari's (1988-1994) last year in power and subsequent devaluations led to his administration, in its final throes, cruelly using workers' pension pots to pay off loans that the US government had previously made to Mexico.

The IMSS (Mexican Institute of Social Security) Law of 1973 saw retired workers receiving with the average of their salary over their final five years of work, while current Retirement Funds Administrators (*Afores* in Spanish) grant them what they have accumulated in their pension pot. This is a very significant difference, because people subject to the previous legislation are set to receive 95% of their pension, while those under the new law will only receive 25%, in accordance with the Organisation for Economic Co-operation and Development (OCDE by its initials in Spanish).

Today, there are some serious issues and injustices being committed against labour rights and the dignity of the working class. Firstly, current contributions to Social Security retirement benefit are 6.275% of the worker's salary, which are insufficient and lead to the new law's replacement rate of just 25%. When one adds to this the fact that the *Afores* are making losses or value depreciations at times, and that any return is absorbed by the commission they charge for account management, then the picture becomes very bleak indeed.

Secondly, loans made to retired people are made using employees' own resources, and it is never clear where the *Afores* reflect this within the return. It seems as though this lack of transparency is designed to hide the fact that the revenue earned under this system is used to fund a large part of the federal government's expenditure, i.e. government inefficiency and corruption and the senseless and abusive growth of bureaucracy. In many cases pensioners receive loans up to the equivalent value of seven months of their actual pension, to be paid back within five years, with rates so high that they practically end up paying off double the original credit.



Thirdly, if we look at the yield from the Treasury Certificates (*Cetes* in Spanish), which is at almost 7% (6.92%), it is clearly higher than the rate generated by some of the Specialised Retirement Fund Investment Companies (*Siefores* in Spanish), which demonstrates the inefficient management of employees' investments by the *Afores*.

Despite all of the above, pensions spending is an inalienable right, and the state has an obligation to manage it correctly and transparently, because if they fail to do so they would be undermining the rights of millions of Mexicans. It is therefore the government's absolute responsibility to maintain pensions spending effectively and honestly, rather than as a mere concession or a voluntary act of generosity on its part.

How can the Mexican government explain the fact that there are countries in the global arena which have created the largest pension funds on the planet, and are administering them effectively and honestly, in comparison with ours? Take, for example, the case of Norway, which has a population of little more than 5 million inhabitants and yet boasts the largest fund in the world, at 850 billion Euros. Naturally, Norway has a genuinely progressive and advanced social democracy, which has made good use of the resources created by its oil exports and other industries to ensure its people can retire with real dignity. Productive efficiency, honesty, strategic planning and respect for the mechanisms of trade union organisation have underpinned this extraordinary case, which serves as an example for many world economies.

Respect for the dignity of workers and citizens, alongside recognition for the commitment and contribution to economic activity that they make in a large country like Norway must be the goal and a permanent and realistic target for every government. This can only be achieved when there is the political will to serve and recognise the efforts of the many who dedicate their lives to building up our nation.

This is why it is of pressing importance that Mexico's future administrations alter the pension plan, such that when workers reach retirement age, disability and death, they can do so peacefully, secure in the knowledge that they have protected themselves and their loved ones with the honour that all human beings deserve.