



MEXICO'S PENSION FUND SYSTEM

United States-Mexico Chamber of Commerce
Cámara de Comercio México-Estados Unidos



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I. Introduction

II. Investment Overview of Mexico's Pension Funds

III. Mexico's Social Security Reform

IV. Challenges and the road ahead

Life expectancy 

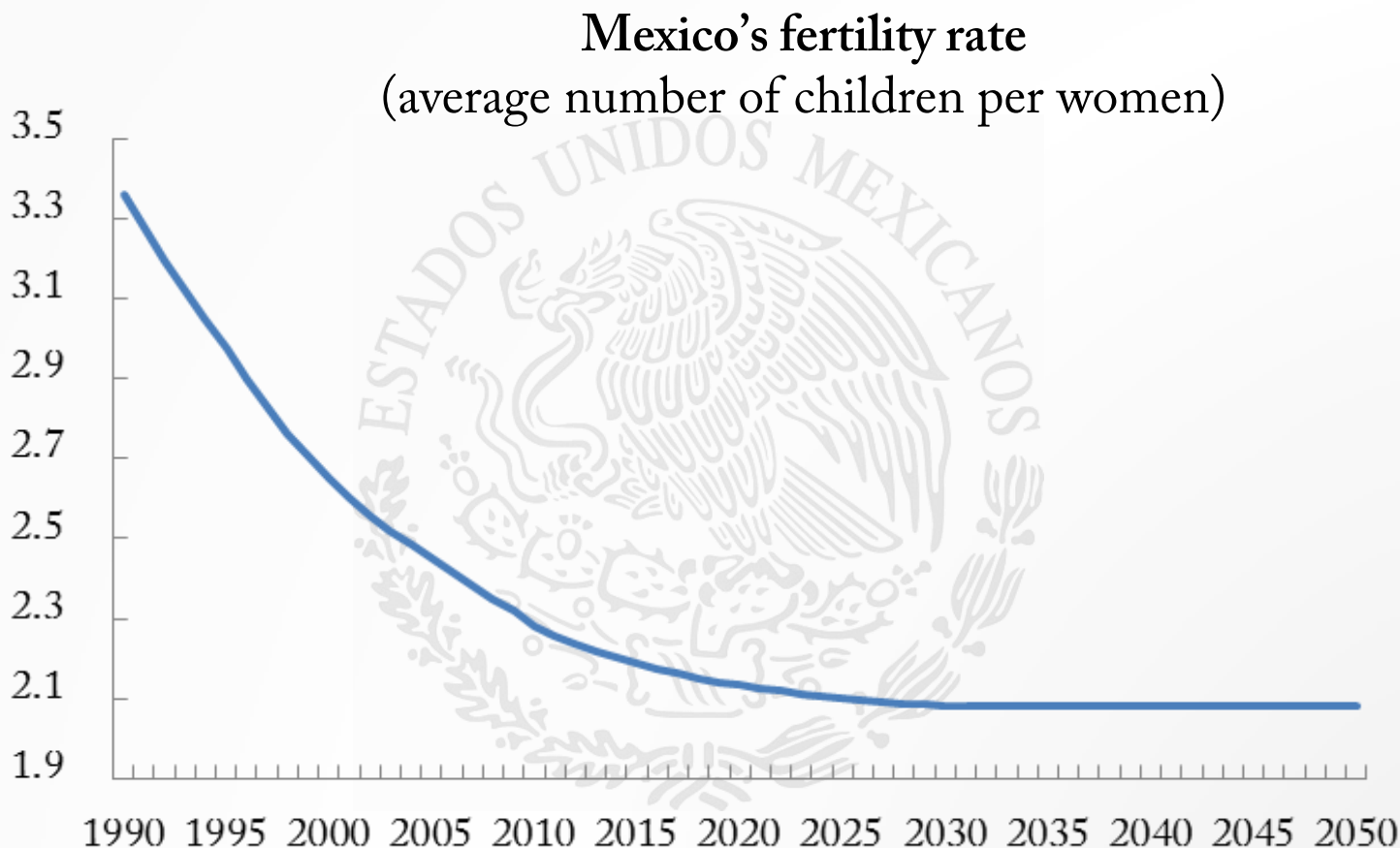


Fertility rate 



Ageing population

MEXICO'S FERTILITY RATE IS FALLING QUICKLY



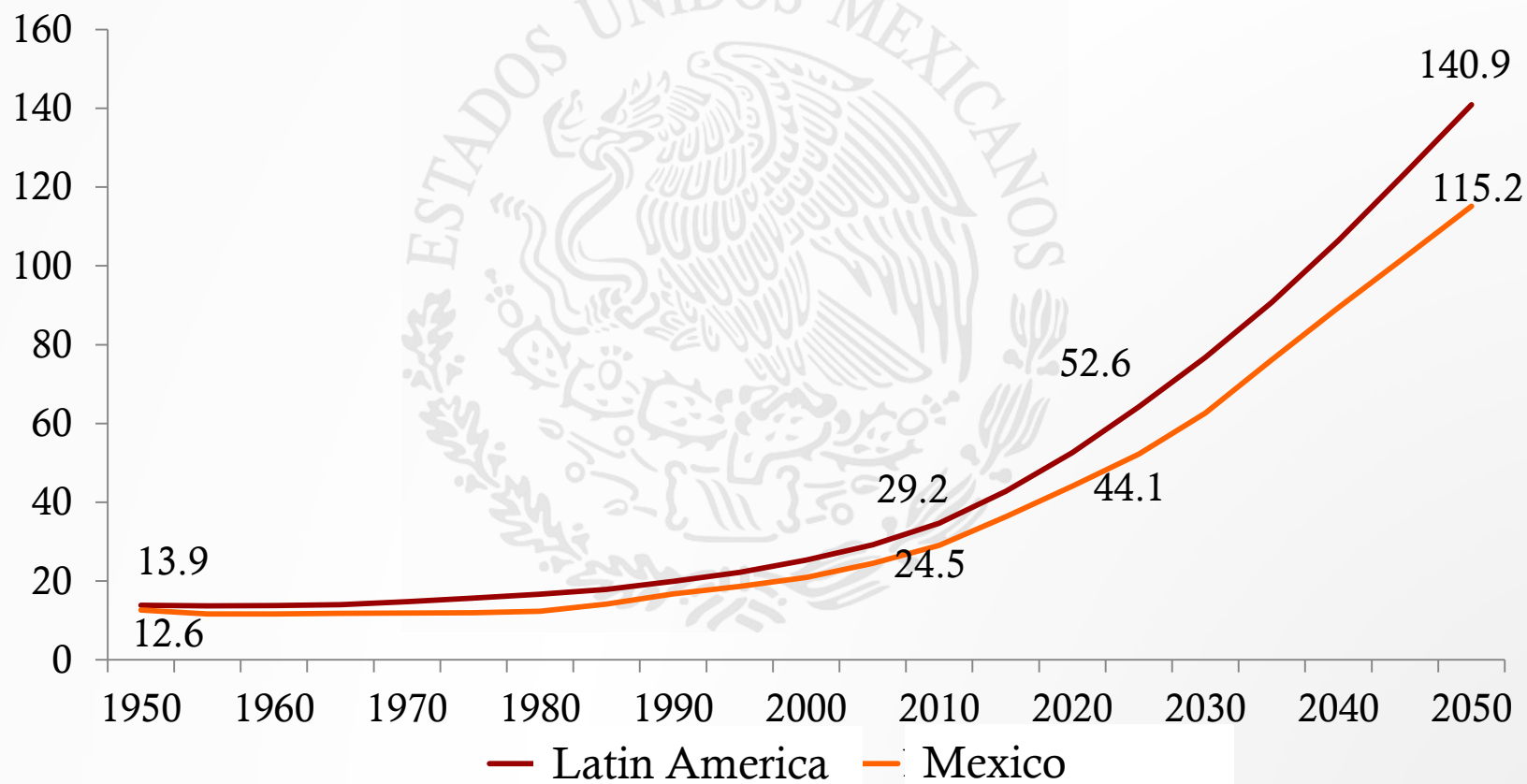
Source: CONAPO.

Basic Demographic Indicators 1990-2010 and Mexican Population Projections from 2010 to 2050.

MEXICO WILL AGE RAPIDLY

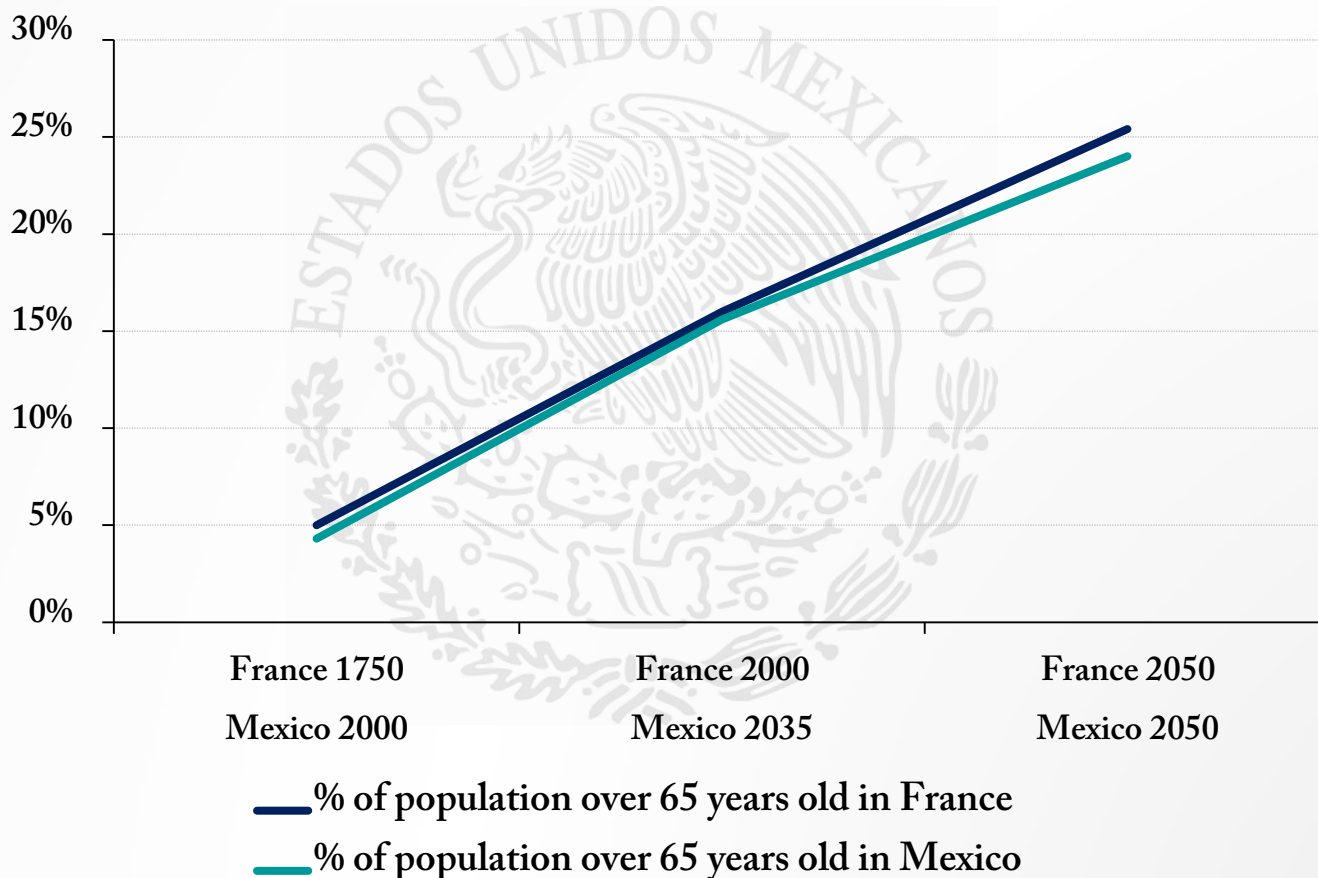
Demographic ageing index

(Population over 60 years-old / population under 15 years-old)



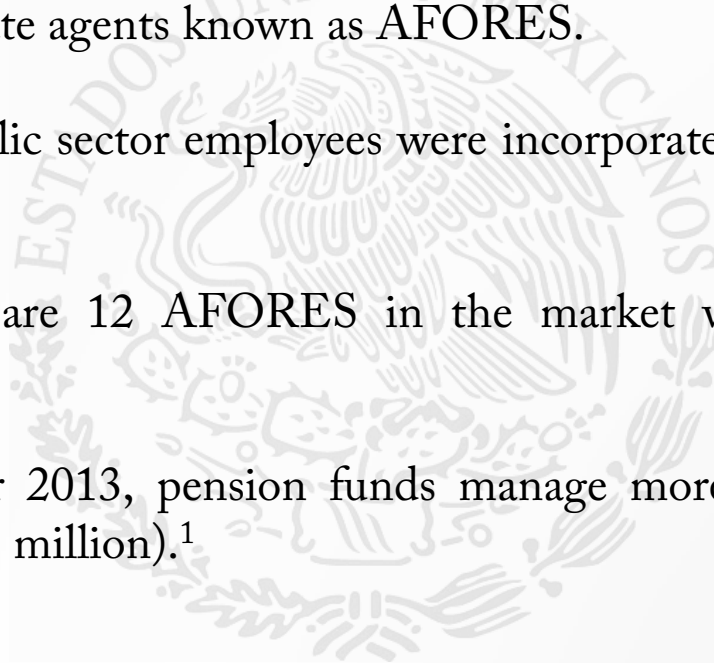
MEXICO'S POPULATION WILL AGE IN 50 YEARS WHAT FRANCE AGED IN 300 YEARS

Ageing patterns in France and Mexico



MEXICO'S PENSION SYSTEM (SAR)

- In 1997, the pension system for private sector employees was amended from a pay-as-you-go scheme to a defined contribution structure based on individual accounts managed by private agents known as AFORES.
- In 2007 new public sector employees were incorporated to the individual accounts pension system.
- Currently there are 12 AFORES in the market who manage 49.86 million accounts.
- As of September 2013, pension funds manage more than USD 152.24 billion (MXN 2,005,765 million).¹



BENEFITS OF THE PENSION SYSTEM REFORM

Financially viable



Sustainability of the new system does not depend on the population dynamics.

Property rights



Savers always receive their money.

Mobility



An employee can work in different sectors without losing his contributions and benefits.

Solidarity



Guaranteed minimum pension and the Social Quota are financed with general taxes. These contributions benefit mainly low income workers.

Democratization of the financial system



Introduces low income workers to the financial system and offers competitive returns.

Channel resources to productive projects



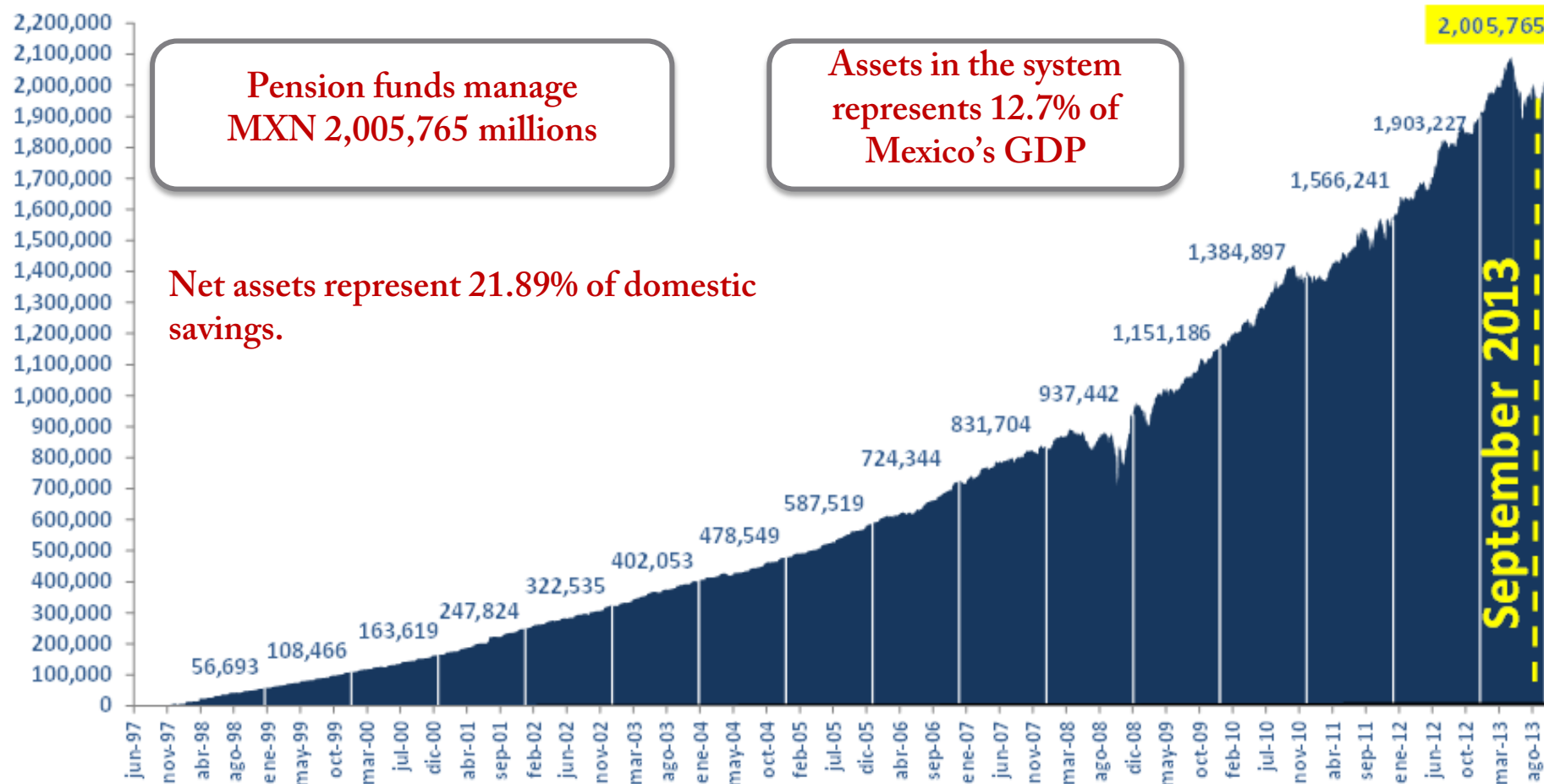
SAR finances companies and productive projects that, in turn, create more jobs in the country.

Freedom of choice



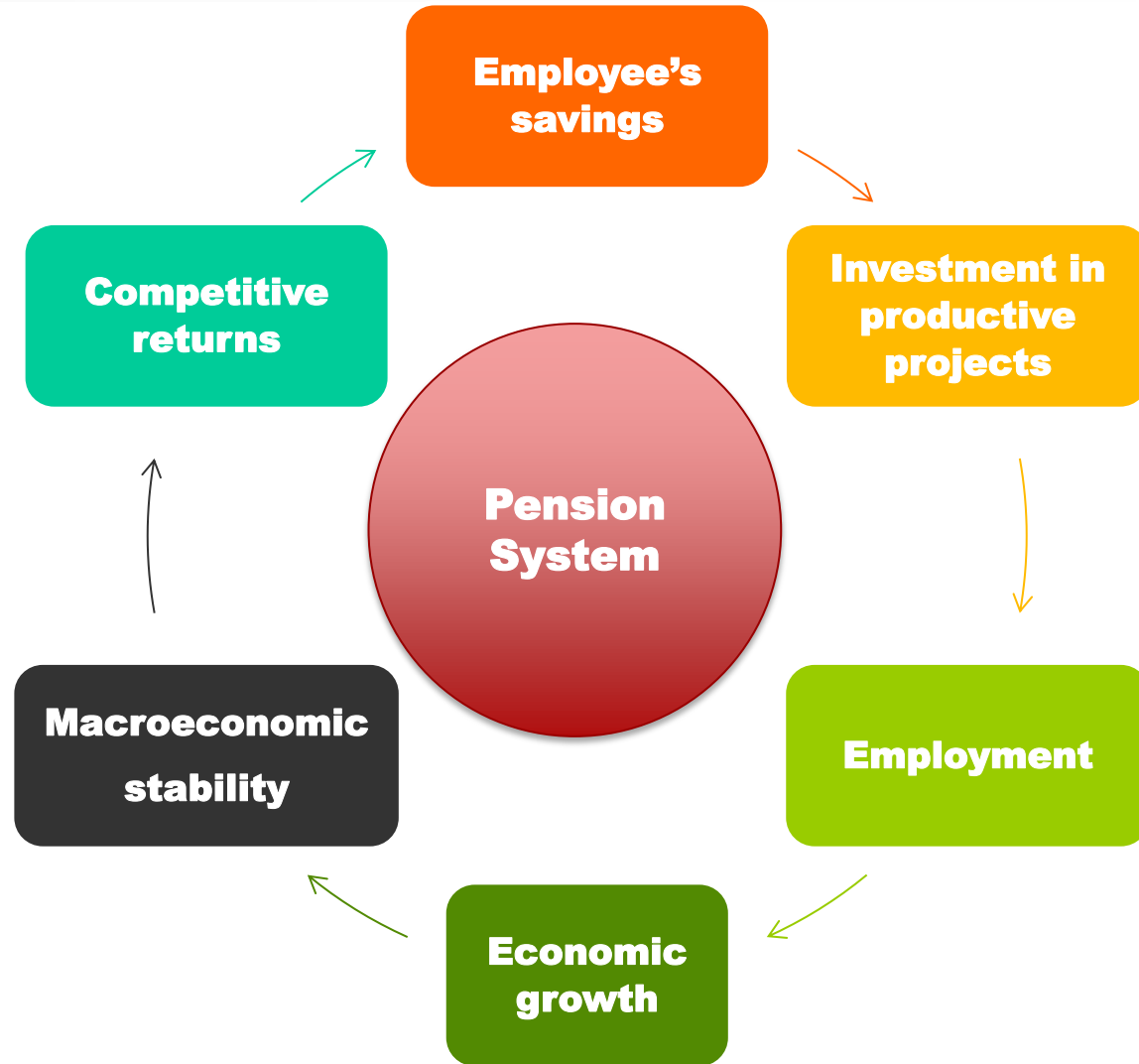
Workers can choose between 12 AFORES and have the right to switch freely, at least, once a year.

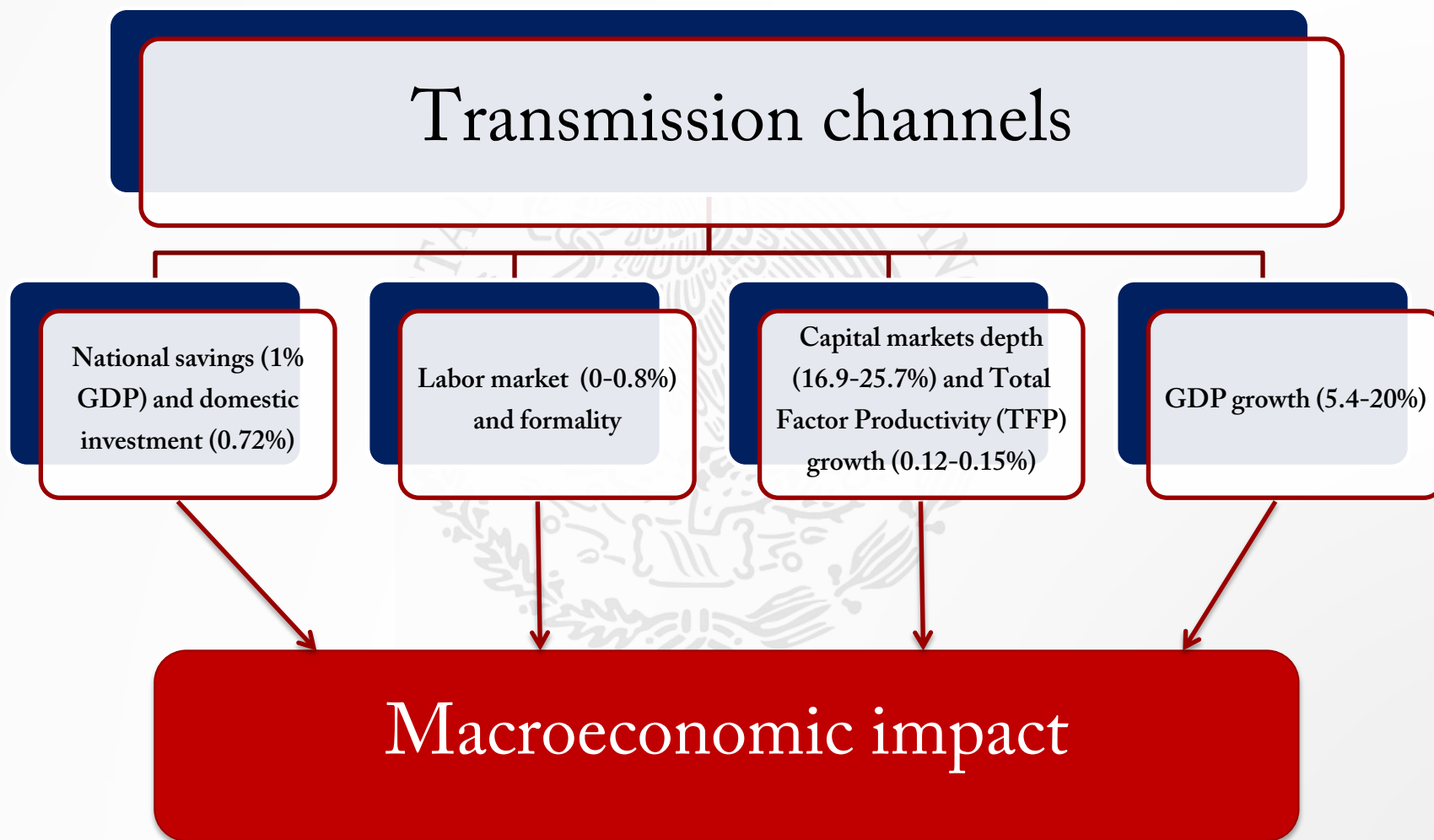
RAPID GROWTH OF ASSETS UNDER MANAGEMENT CREATES OPPORTUNITIES, BUT ALSO SIGNIFICANT CHALLENGES



In the last 10 years, the Assets Under Management (AUM) have increased, on average, 17.86% annually.

AN INCREASING AMOUNT OF PENSION SAVINGS IS BEING INVESTED IN PRODUCTIVE PROJECTS, GENERATING A VIRTUOUS CYCLE





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SINCE THE CREATION OF THE PENSION SYSTEM, CONSAR HAS SET FOUR BASIC INVESTMENT GOALS

Goals

Mechanisms

1

Security of resources

- Diversification

2

Better pensions

- Liberalization of investment regime

3

Financial market depth

- Financial innovation

4

Economic growth

- Finance projects

CONSAR HAS MADE GRADUAL BUT SIGNIFICANT ADJUSTMENTS TO THE INVESTMENT REGIME

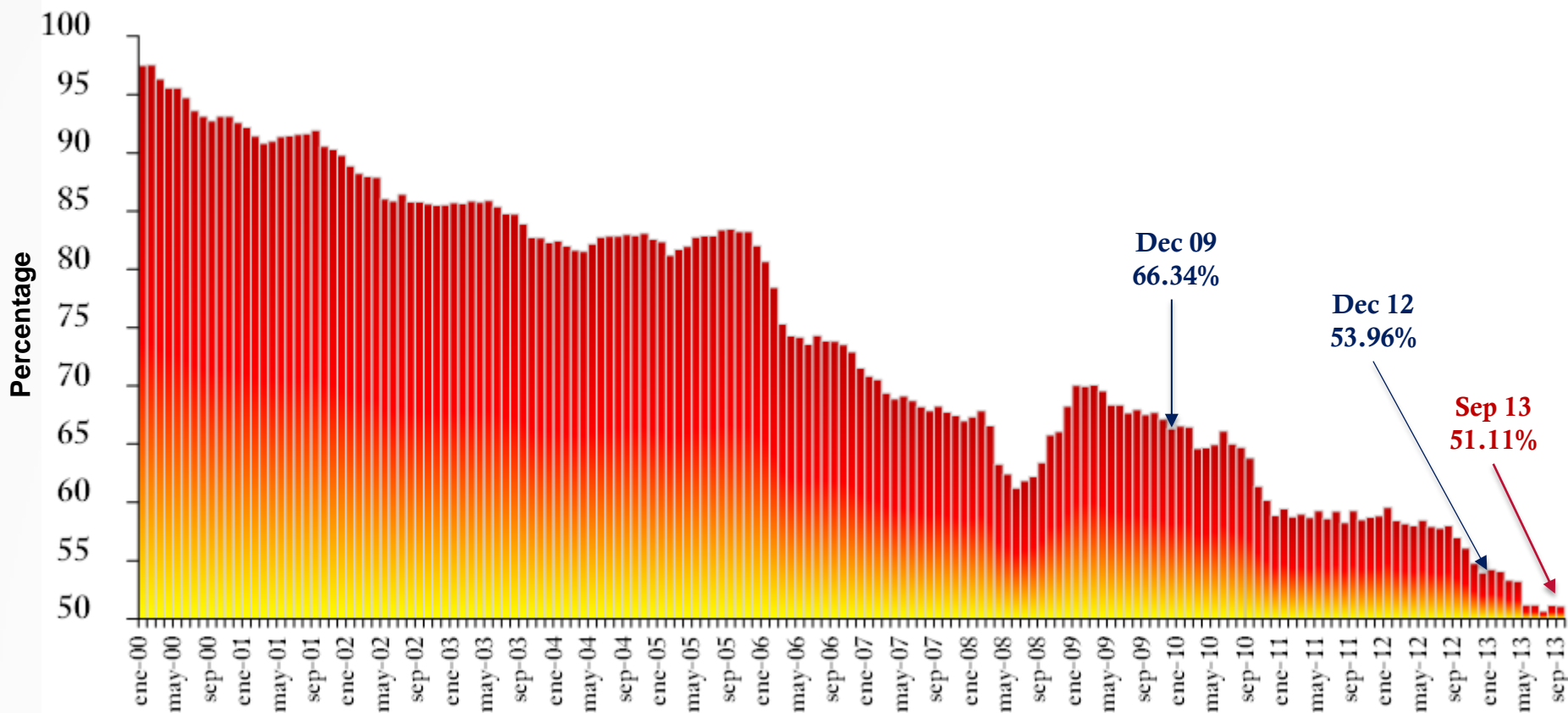
SIEFORE'S Investment Regime																	
Debt	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Currencies	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Equity	x	x	x	x	x	x	x	x	✓	✓	✓	✓	✓	✓	✓	✓	✓
CKDs & FIBRAS (Mexican Private Equity Funds and Real Estate Trusts)	x	x	x	x	x	x	x	x	x	x	✓	✓	✓	✓	✓	✓	✓
Structured Assets	x	x	x	x	x	x	x	x	x	x	✓	✓	✓	✓	✓	✓	✓
Commodities	x	x	x	x	x	x	x	x	x	x	x	x	x	x	✓	✓	✓
Swaptions	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	✓
REITs	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	✓
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013

Within each asset class, restrictions have been relaxed:

- International stock picking (through mandates) and international debt with investment grade.
- Issuer limits for debt have been eased.

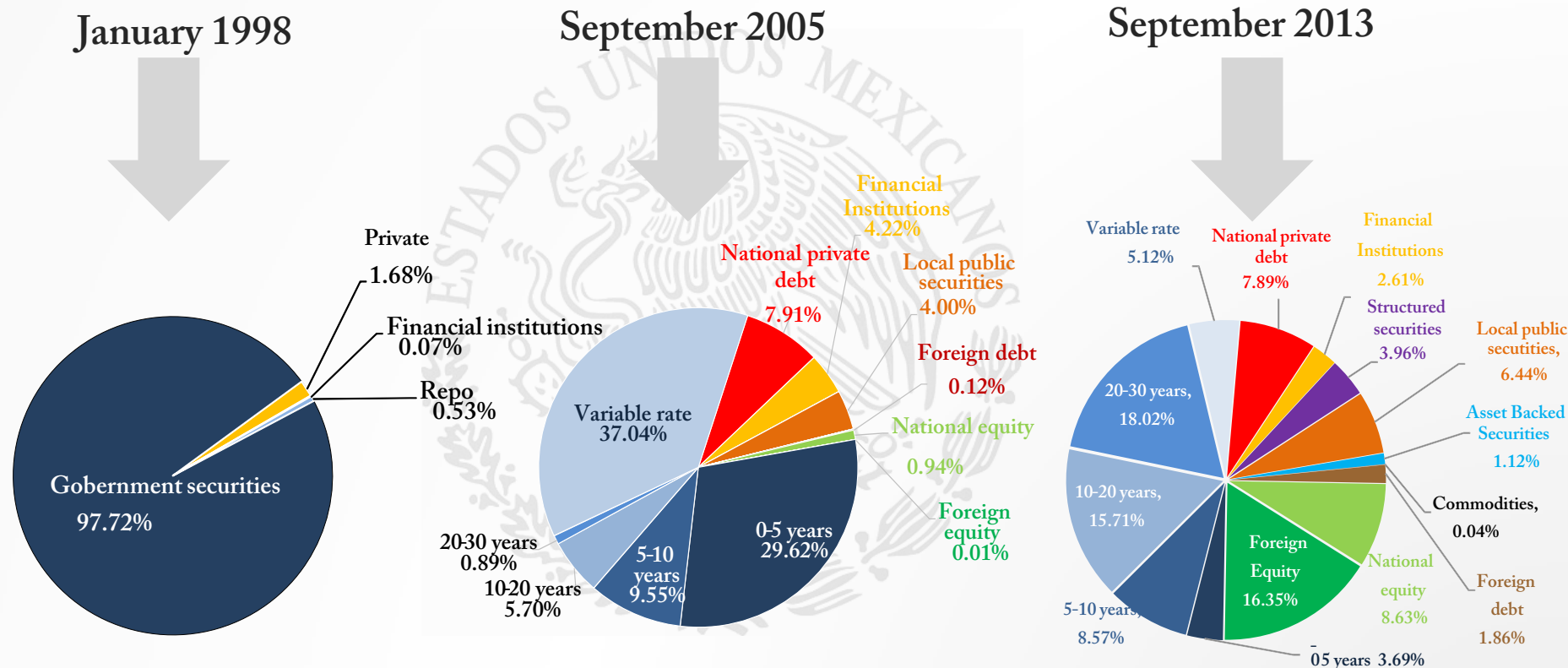
THIS BROADER SET OF INVESTMENT OPPORTUNITIES HAVE TRANSLATED INTO A LOWER CONCENTRATION IN SECURITIES ISSUED BY MEXICO'S FEDERAL GOVERNMENT

Government securities' participation in pension funds portfolios



...AND ENCOURAGED A HIGHER DIVERSIFICATION OF PORTFOLIOS

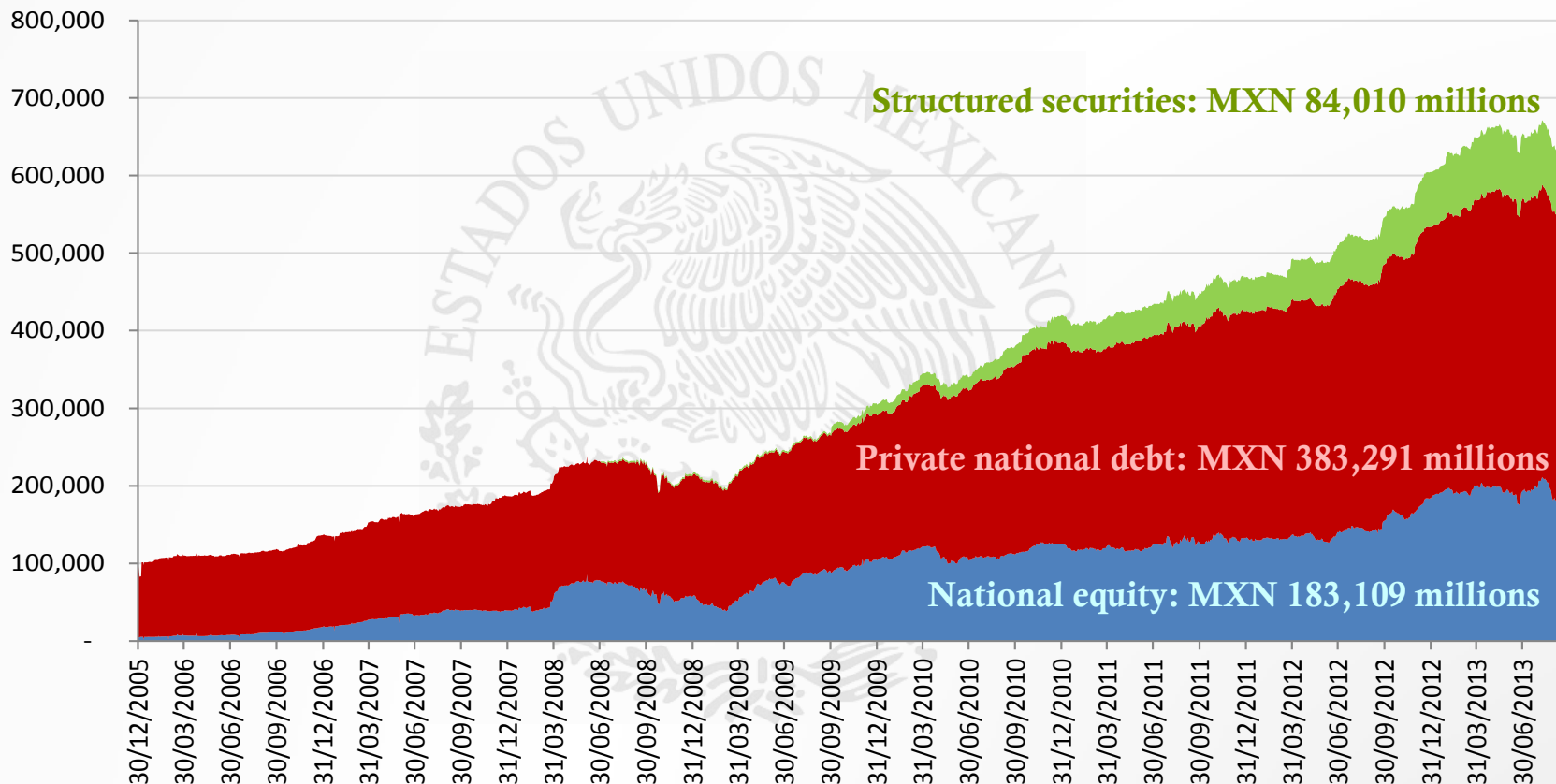
Asset class participation in pension funds portfolios



Figures in millions of pesos at the end of September 2013

Source: CONSAR Financial Vice-presidency

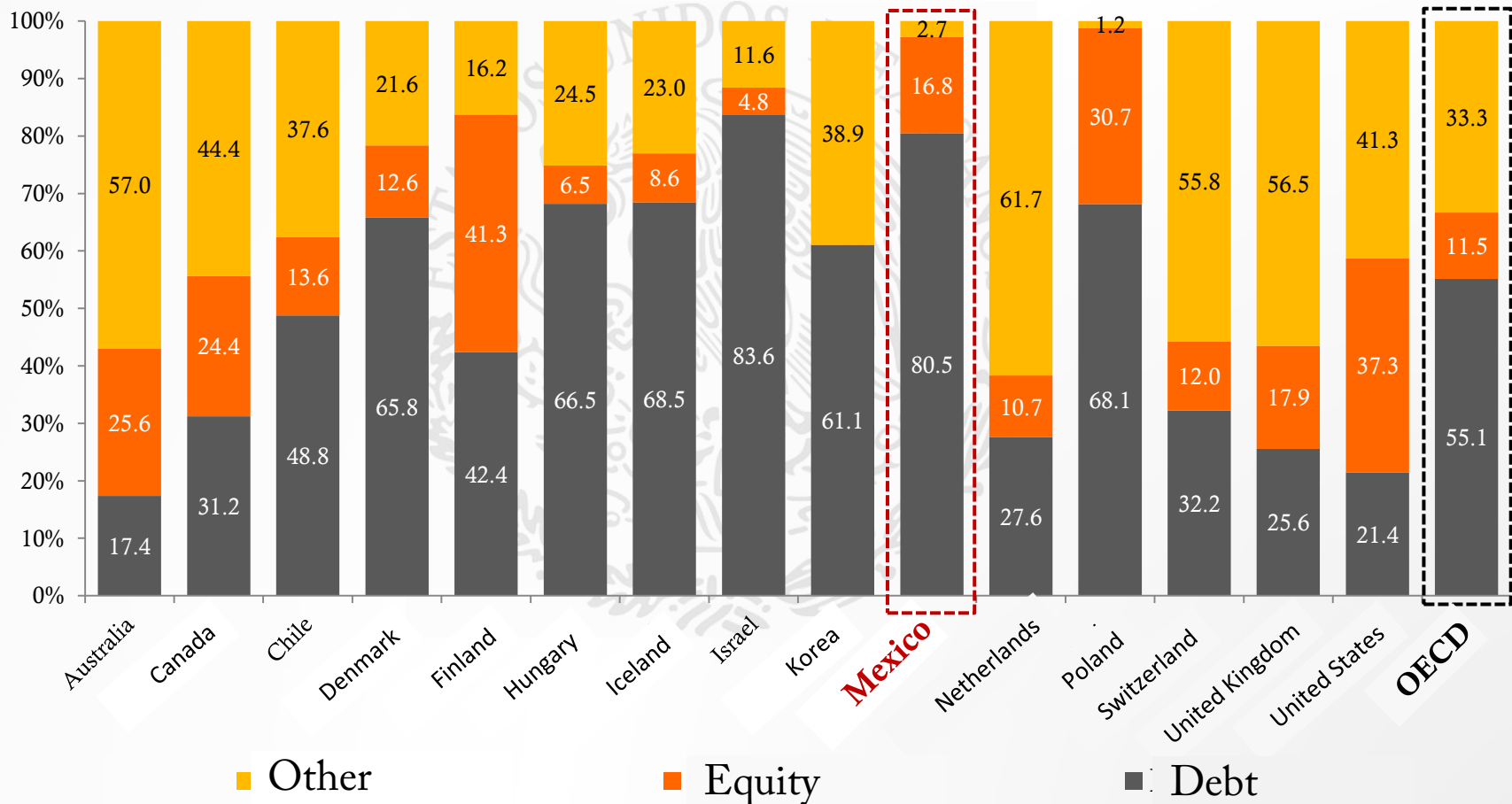
SIEFORES ARE INCREASINGLY FINANCING THE PRIVATE SECTOR



TOTAL = MXN 650,410 millions

HOWEVER...RELATIVELY TO OECD COUNTRIES MEXICO'S PENSION FUNDS ARE STILL SIGNIFICANTLY CONCENTRATED IN DEBT

Asset class participation in OECD countries pension funds
(%, 2011)



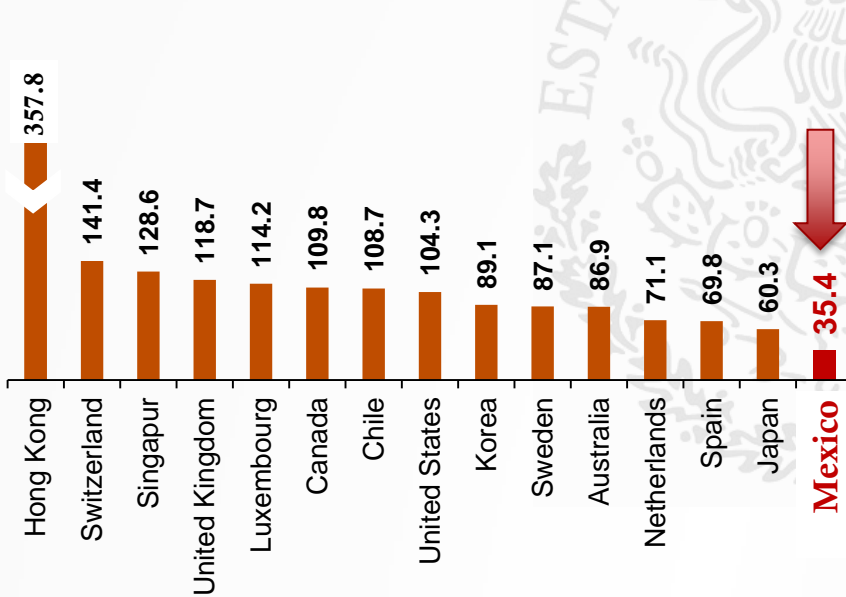
Other includes: structured assets, mutual funds, insurance, hedge funds, trade credits and real estate assets.

Source <http://www.oecd.org/statistics/>

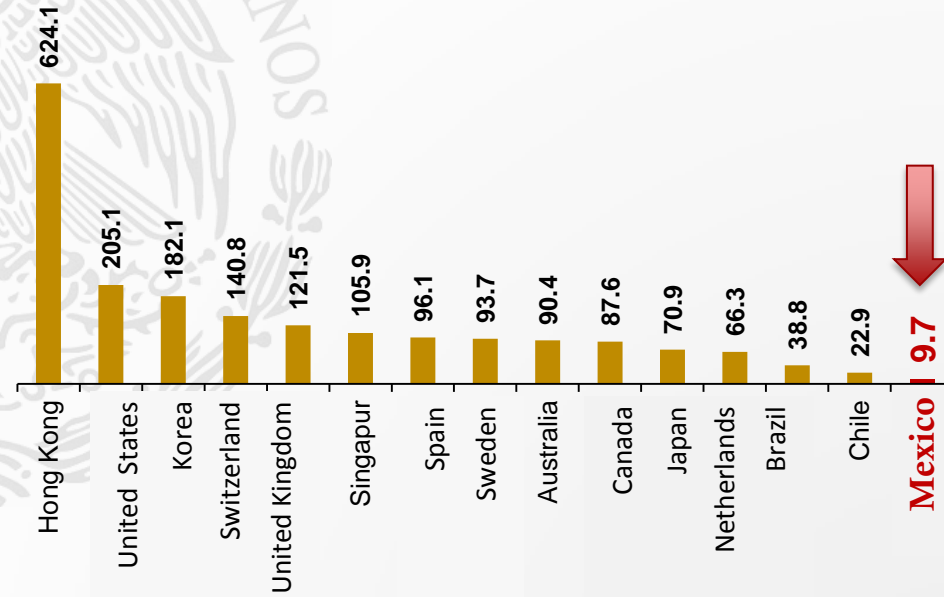
...IN PART BECAUSE MEXICO'S STOCK MARKET IS SMALL

Stock exchange indexes
(% of GDP, 2011)

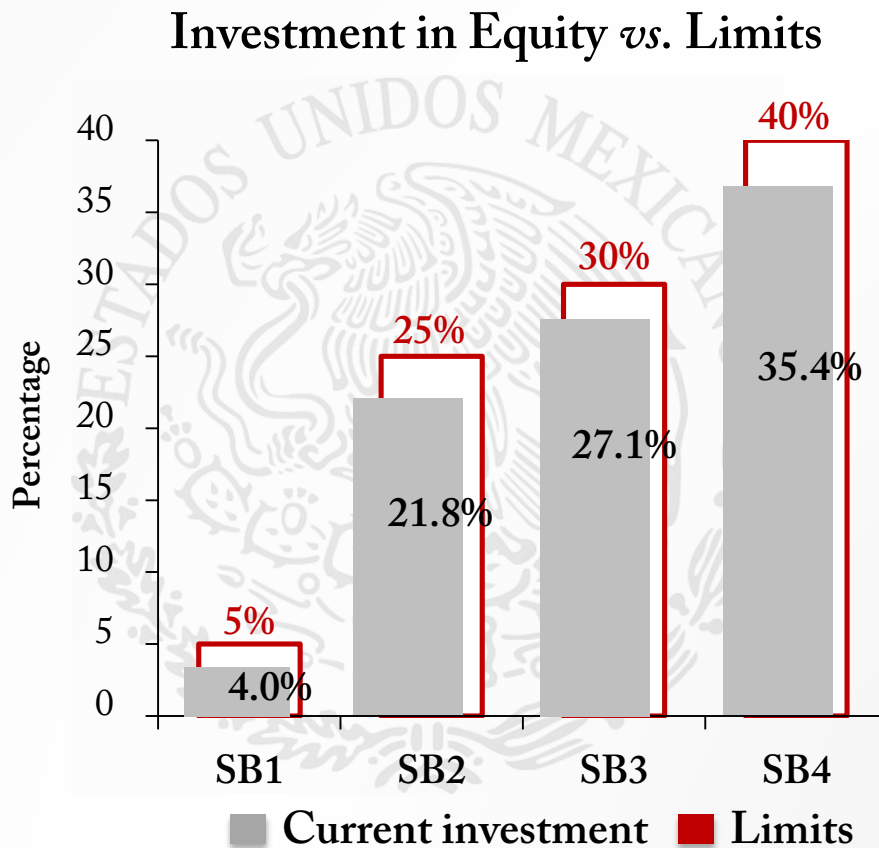
Market capitalization



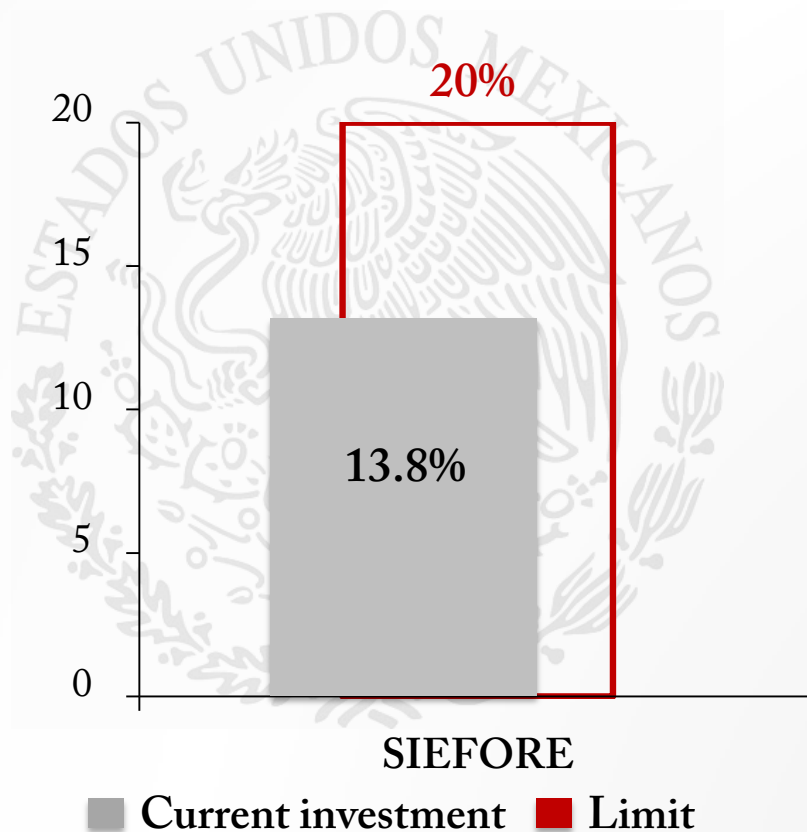
Stocks trading volume



...INVESTMENT IN EQUITY IS NEAR ITS REGULATORY LIMITS

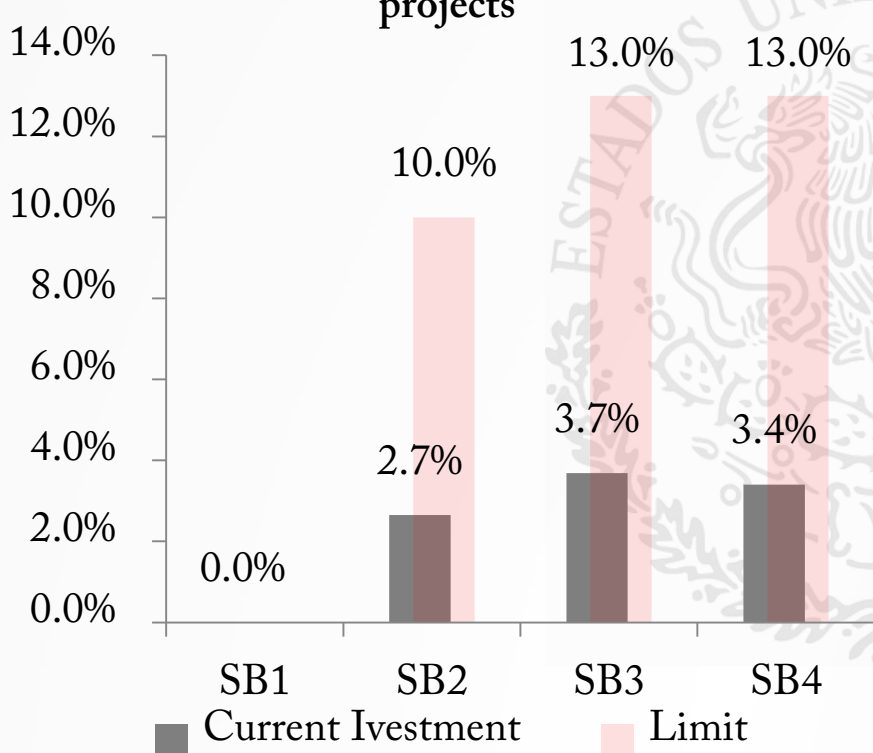


Investment in Foreign Securities vs. Limits

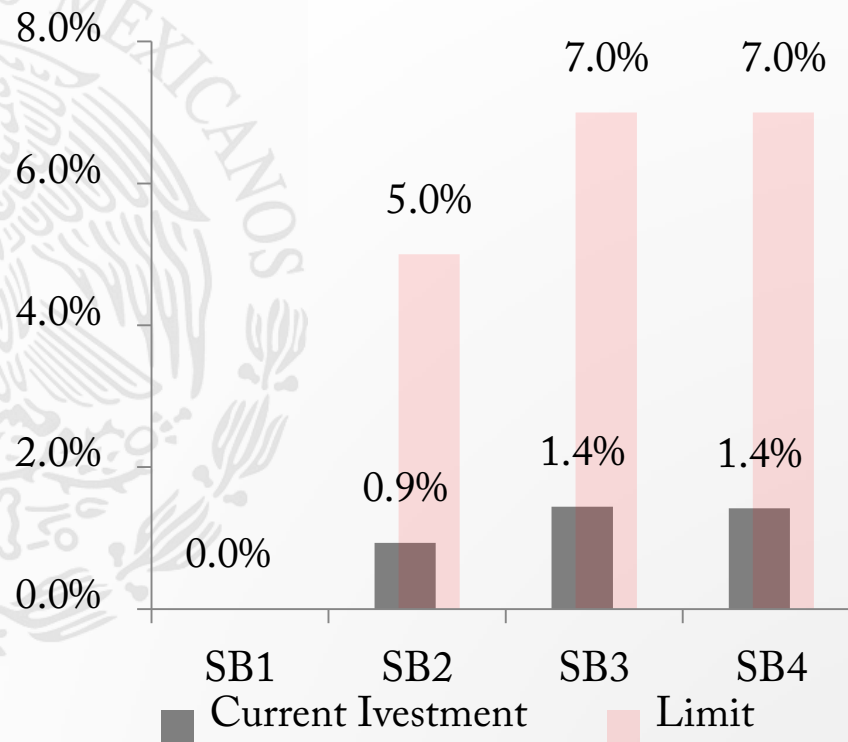


...AND ALTERNATIVES ARE GROWING SLOWLY

CKDs and FIBRAS that finance infrastructure, housing, and real estate projects



CKDs that finance private equity and others projects



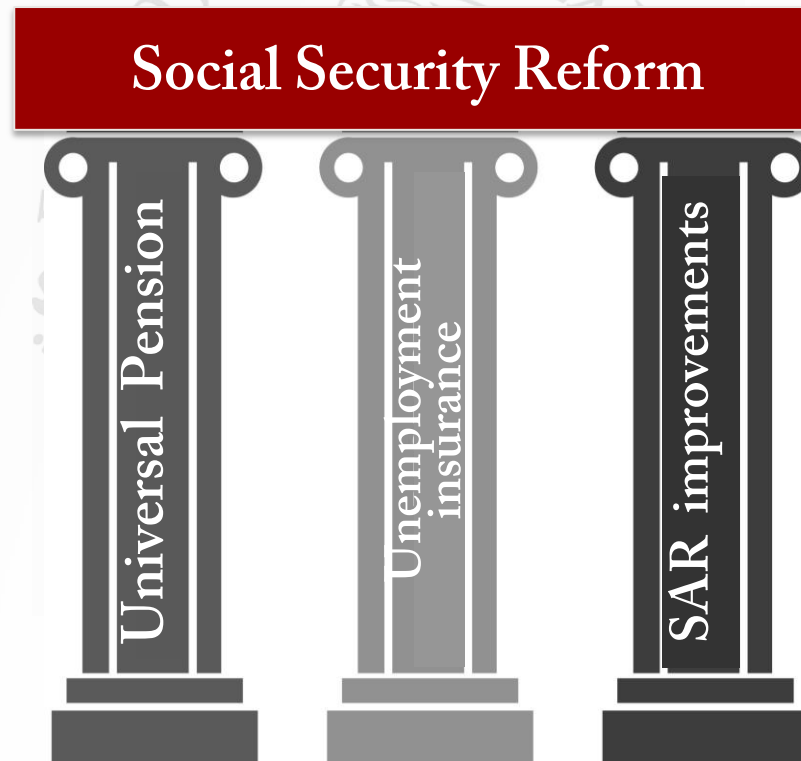
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- President Peña Nieto recently introduced to Congress an important Social Security Reform.
- The reform is based on three pillars:



The reform includes changes to 33 articles of the Pension Law.

Main Topics:

- 1 AFOREs' fee structure
- 2 AFORE switching model
- 3 More competition: new and non-continuous savers
- 4 Incentives for voluntary pension savings
- 5 AFORE's corporate governance
- 6 Investment Regime
- 7 Financial and pension literacy

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1. Contributions to the system are too low
2. System coverage is limited
3. Challenging investment environment
4. Management fees are still high
5. Complementary savings are not enough
6. Labor density of workers is insufficient
7. Old pension systems are still in operation and their liabilities are growing
8. Financial literacy is deficient

1. Increase mandatory contributions
2. Increase the 20% foreign securities cap
3. Reduction of fees through regulatory instruments
4. Include independent workers in the system
5. More flexibility to the investment regime (foreign stock picking, equity limits, private equity)
6. Rise voluntary savings through matching contributions
7. Reform old pension systems
8. Better performance of the Mexican economy



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