



From the Pay-as-you-go System to the Contributory Pension System and IMSS Bienestar in Mexico: A Long Journey, a Dubious Long-term Solution

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INTRODUCTION

As time goes on and the population pyramid in developing countries flips, the discussion around funding pension systems becomes more urgent, as if the original planners had not foreseen these challenges. Initially, there was a natural progression towards higher life expectancy at birth. Moreover, the inadequate levels of workers' contributions, often due to their low incomes, were unsustainable in the long term. Governments would eventually need to address financial gaps to cover pension costs not covered by the public social security institutions they had established. The quality of healthcare services would deteriorate as the number of beneficiaries, including retirees and pensioners, increased. Poor financial choices would result in low net returns on pension funds managed by states or specialized financial institutions. Lastly, there was a risk of permanently undermining the universal principle of "equal pay for equal work" in the pension context.

Despite Mexico's efforts to improve its pension system through reforms, it is clear that the solutions have not been long-lasting. This has resulted in the need for additional legal and administrative adjustments, at times even reversing progress for certain groups of retirees. The process has been arduous, requiring debates and the enactment of constitutional reforms, secondary legislation, and regulations. As labor decisions in Mexico involve workers, employers, and the government in a tripartite system, both the successes and shortcomings are shared responsibilities.

Based on the above, this paper aims to provide a brief overview of Mexico's pension system, both contributory and non-contributory, from its inception to the present day. The reforms implemented up to 2024 have established the non-contributory pension system constitutionally, alongside government contributions in less affluent areas managed by Retirement Fund Administrators (AFORE). This has led to an increasing use of fiscal resources. The hypothesis is that the current reforms are not definitive, and further progress is needed to ensure adequate pension levels provided by AFOREs. It is crucial to balance pension provision with investments in education, training, unemployment insurance and a robust public health system to support human capital formation and promote overall development.

BACKGROUND

Social security, and the concept of a welfare state that accompanies it, is the result of legal and administrative changes that led to the establishment of public institutions in developed

countries with the goal of enhancing the well-being of workers and, by extension, the general population. These changes were designed to address the social disparities caused by the inherent inequality of the market and to respond to the needs of certain economic activities that required increased protection. The initiative originated in Germany in the late 19th century and was further developed in other European countries and the United States during the first half of the 20th century. In Germany, Otto Von Bismark introduced a social security system in 1883 that included mandatory insurance for work-related illnesses and accidents for wage earners, later expanding to include Old Age and Disability insurance, as well as benefits for Maternity and Death (Blackburn, 2010).

The Social Security Plan, also known as the Beveridge Plan, was redesigned in Great Britain during the middle of the Second World War with the original goal of providing support to soldiers returning from the war. This initiative was based on a study by the social economist and British parliamentarian William Beveridge (1942). He proposed expanding the scheme to cover all salaried workers, and later including the unemployed, minors, and housewives, eventually extending to those in the population who were not covered by any existing assistance programs. The plan is funded through contributions from labor market participants as well as taxes paid by the general population. In contrast, the Bismarck scheme relies on contributions from employers and workers and has a narrower focus on specific contingencies such as health and old-age insurance for salaried workers.

In Mexico, social security was established through Article 123 of the Political Constitution of the Mexican United States of 1917, along with education and housing, forming the initial triad of Mexican social security. Over time, this was expanded to include pension schemes, popular housing construction and financing, and poverty alleviation programs.

In 1925, the Law of Civil and Retirement Pensions (DOF, 1925) was enacted to protect non-military public service employees, including those in teaching roles, whose positions and salaries were specified in the relevant service laws or the Expenditure Budget. The pension scheme, funded by contributions from workers and the State, allowed for retirement due to Advanced Age Unemployment, Survival, or Disability, with the minimum age set at 60 years and the pension amount calculated as a percentage of the average salary earned in the last five years of service (IIJ-UNAM, 2010).

In 1929, the Social Security Law was enacted through a reform of article 123, emphasizing the importance of reducing the health gap and recognizing it as a human right. The law highlighted the role of medical care, social services, and means of subsistence in promoting individual and collective well-being. Paragraph XXIX of the law included Disability, Life, Involuntary Cessation of Work, Sickness, and Accident insurance, among others, for similar purposes. Additionally, paragraph XXX considered cooperative societies for constructing affordable and hygienic houses for workers as socially beneficial (PJF, 2017).

In 1943, the Mexican Institute of Social Security (IMSS) was established, funded by contributions from workers, employers, and the State. Initially, it provided health and social security benefits to employees of various sectors, including parastatal, private, and social administration companies. In 1955, coverage was extended to include employees of credit institutions and other state-owned insurance and finance organizations. The IMSS covered

contingencies such as Work Accidents, Occupational Diseases, Non-Occupational Diseases, Maternity, Involuntary Unemployment in Advanced Age, And Disability, Old Age and Death.

The Pensions Law of 1925, along with the subsequent reforms in 1946 and 1947, led to the establishment of the Institute of Social Security and Services of State Workers (ISSSTE) in 1959. This institution, a decentralized public entity with its own staff and resources, was tasked with managing the insurance, benefits, and services for government employees.

Therefore, the responsibility for providing social security to workers in private companies and institutions, including the establishment of their pension systems, was assigned to the IMSS, while the ISSSTE would be responsible for public sector workers. Article 123 of the Political Constitution delineated the obligations and rights of each group in Sections A (private) and B (public). This led to the management and provision of different benefits for public sector workers compared to those in the private sector. This disparity arose because the State, as an employer, was not required to negotiate working conditions in a rather collaborative manner and could not guarantee the same level of respect for workers' rights to join democratic unions and receive equal benefits and pensions as the private sector.

Furthermore, the Social Security Institute for the Mexican Armed Forces (ISSFAM) was established in 1976 to provide services to military personnel, following the guidelines of the 1929 Law on Retirements and Pensions of the National Army and Navy. Similarly, social security systems were implemented for three entities within the federal public administration: Petróleos Mexicanos (PEMEX) based on a collective bargaining agreement reached in 1942 between the entity and its workers, as well as the Central Light and Power Company (CLFC) and the Federal Electricity Commission (CFE). Some state universities also established their own social security systems, while state and municipal governments either created their own social security institutes or entered into agreements with ISSSTE for the management of pensions and retirements.

THE PENSION REFORMS OF 1995-1997 AND 2007

The New Social Security Law, introduced in 1973, was designed to enhance the coverage and benefits for individuals insured by the IMSS. It included provisions for Voluntary Incorporation into the Compulsory Regime, with a focus on family industries and independent domestic workers. The law also established Nursery Insurance and increased pensions for Widowhood and Permanent Disability. Furthermore, it maintained the principle of redistribution, enabling greater benefits for insured individuals with lower incomes (Moreno Padilla, 1978).

Due to the inflexibility of the collective capitalization financing system, which did not ensure the sustainability of the model and was severely underfunded primarily due to the significant resources allocated to Sickness and Maternity insurance, as well as its reliance on federal investments for hospital infrastructure and equipment, a shift was made to a pure distribution system. This system operates without reserves, as it relies on the premise that the contributions of current workers are sufficient to directly support retirees. This approach is based on intergenerational solidarity, where the working generation funds the pensions of the retired generation, and so forth. Contributions are not accumulated in a fund but are used to meet the immediate needs of pensioners.

The model no longer functions properly due to demographic factors, life expectancy, and a long-term economic slowdown, resulting in a lower growth rate of contributors compared to retirees. It was revealed that the Disability, Old Age, Unemployment in Advanced Age and Death (IVCM) insurance, operational for five decades, lacked reserves as resources lent to the Sickness and Maternity insurance were not returned to ensure the system's functionality. In response to these issues, exacerbated by the economic crisis in the 1980s, the government initiated the privatization of workers' savings in 1992 through reforms to IMSS, ISR, and Institute of the National Housing Fund for Workers (INFONAVIT) laws. The Retirement Saving System (SAR) was established, with 2% of workers' contribution salary directed to individual accounts managed by privatized banks. Simultaneously, 5% of the salary continued to be allocated to the housing fund managed by INFONAVIT. The following year, the ISSSTE Law was amended to adopt the SAR scheme, with the Housing Fund of the Institute of Security and Social Services for State Workers (FOVISSSTE).

In 1995, amendments were made to the IMSS and SAR laws, which took effect on 1 July 1997. These changes established that new workers would be entitled to a pension through an individualized capitalization scheme based on their savings. The State relinquished its role as the administrator of workers' resources to AFOREs, private financial institutions modeled after the Chilean experience with Pension Fund Administrators (AFPs) established in 1981. A similar approach was taken 10 years later with the modification of the ISSSTE law for workers in the service of the State. In this case, the State retained its pension administrator, PENSIONISSSTE, a decentralized public body of ISSSTE responsible for managing and investing workers' contributions in personal sub-accounts. PENSIONISSSTE oversees a significant portion of the total resources for this group of workers.

By reaching agreements with their unions, organizations like CFE and PEMEX were integrated into the AFORE system in 2008 and 2015, respectively. However, their unions later pushed for changes that granted special benefits to their retirees, similar to those enjoyed by IMSS employees. On the other hand, state and local governments, as well as public universities, opted to continue with the defined benefit plan, even introducing flexible pension options, known as Dynamic and implying sustainability of last year of active work incomes.

The AFORE system brought about significant changes that impacted the medical services available to future IMSS retirees. Individuals are now responsible for saving enough to acquire their pension and must contribute at least 750 weeks, or 15 years, to maintain Health Insurance coverage. Despite contributing to these institutes, some individuals may not qualify for a pension or medical services upon leaving the formal sector of the economy due to lack of job opportunities or advanced age.

Legal changes in 1997 and 2007 separated formal salaried workers into two categories: those who had the option to choose their retirement law at the end of their working life and the AFORE IMSS and AFORE ISSSTE generations. These generations are required to be affiliated with a specialized financial institution upon entering the labor market to manage their retirement savings fund, transitioning from a defined benefit system to an indefinite benefit system.

NON-CONTRIBUTORY HEALTH INSTITUTIONS

The scheme outlined above does not include individuals who have not participated in a formal social security system, such as those in the informal economy, non-working family members, returning migrants to Mexico, or those who have not met the minimum contribution requirements for IMSS or ISSSTE*. This group, comprising over half of the population, does not have access to medical services or a pension plan.

The Seguro Popular

This system was established as part of the National Health Programme 2001-2006 to provide health insurance to low-income individuals without access to public or private health coverage. The program aimed to prevent individuals from falling into poverty due to illness and provided coverage for basic health services, emergency care, outpatient medicine, pregnancy, childbirth, rehabilitation, emergencies, dentistry, hospitalization, surgical services, laboratory analysis, and medications. Funding for the program came from fiscal resources allocated in the Federal Expenditure Budget (PEF) and contributions from the insured. The Seguro Popular also covered high-cost treatments for conditions such as leukemia in children, cervical cancer, HIV-AIDS, neonatal intensive care, and cataracts in older adults. Additionally, it offered 266 types of medical care for various conditions, including HIV-AIDS, cancer, anemia, rubella, measles, hepatitis A, asthma, hiatal hernia, hypertension, and more, with 307 associated medications.

The INSABI

Although Seguro Popular had started from a correct diagnosis and for 18 years delivered convincing results, in 2019 it was announced that it would be replaced by the Institute of Health for Welfare (INSABI), a decentralized body with its own assets and legal personality, which began operating in 2020. Its task was to guarantee the universality of health through the provision of free services to the population that lacked social security; that is, anyone without insurance would have the possibility of accessing medicines, clinical analyses, studies, diagnoses, surgical interventions and hospitalization in Health Centers, Health Centers with Expanded Services (CESSA), IMSS-Bienestar Medical Units, Medical Specialty Units (UNEMES) and Rural Hospitals, Community and General Centers. This did not require affiliation, but simply the presentation of an official identification.

The above provisions were complemented by an amendment to Article 4 of the Political Constitution on human rights, which was carried out on May 8, 2020, whose paragraph corresponding to health establishes the following:

"Everyone has the right to health protection. The law shall define the bases and modalities for access to health services and shall establish the concurrence of the Federation and the states in matters of general health, in accordance with the provisions of section XVI of article 73 of this

* Heads of household and workers involved in family industries who work as professionals or small independent merchants, as well as other salaried workers, can join the IMSS through the voluntary regime through a policy, paying an annual fee whose amount is established according to their age. This is the Family Health Insurance (SSFAM), which covers illness and maternity.

Constitution. The Law will define a health system for well-being, in order to guarantee the progressive, quantitative and qualitative extension of health services for the comprehensive and free care of people who do not have social security" (Chamber of Deputies, 2022).

The IMSS-Bienestar

The creation of INSABI on the eve of the emergence of the COVID-19 pandemic, whose strongest impact was recorded in 2020-2021 and placed Mexico as the fifth most affected country in the world (Gutiérrez-Rodríguez, 2026) influenced the system to fail to consolidate, since a considerable part of the resources allocated to the health sector, the budgetary, financial, administrative, human and infrastructural had to be used for the application of vaccines against the SARS-CoV-2 virus and to care for infected people. Even so, the portion of the population without any access to health managed to be reduced in 2020 to 27%, as shown in Figure 1, the portion of the population with not right to a pension was close to 60%.

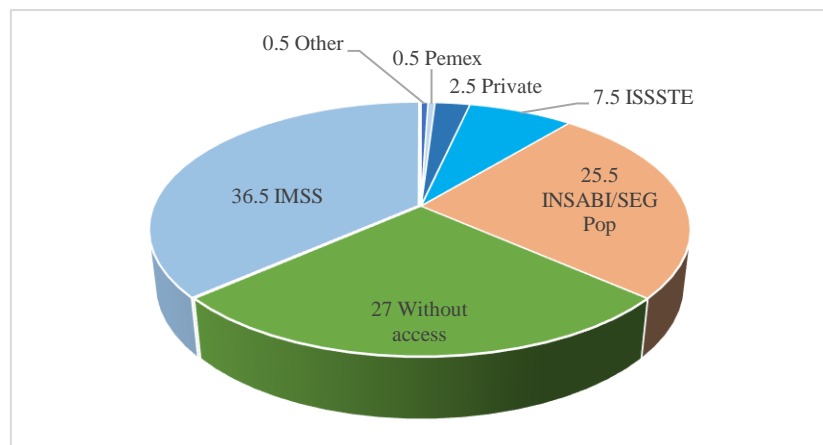


Figure 1: Structure of the population considering its affiliation to social security % in 2020

Source: with figures from the Presidency of the Republic

Under these circumstances, in August 2022 the decree creating the Decentralized Public Agency IMSS-Bienestar was issued, with the purpose of achieving the goal of all people without social security having access to health services in three years, given that with INSABI such coverage had been reduced, and that the system had faced a serious problem of medicine shortages due to the experiment of centralization of its acquisition through the Office of the Chief of Staff of the Ministry of Finance and Public Credit (SHCP).

According to the decree, the IMSS-Bienestar would no longer be within the structure of the IMSS, but would function in parallel to it, with its own conformation, patrimony, leadership and governing board. The latter would be chaired by the head of the IMSS, with the heads of the Ministry of Health (SSA), the SHCP, the Ministry of Labor and Social Welfare (STPS), and the Ministry of Welfare (SB) appearing immediately. Likewise, a representative

of the majority union to which the workers were affiliated and four regulatory bodies of the IMSS, appointed by the head of the IMSS, were included (DOF, 2022).

The intention to federalize health services and for a single institution to be responsible for the necessary infrastructure, personnel and training in order to integrate the new health centers was clear. Textually, the objective of the body was defined as follows:

"To provide people who are not affiliated with social security institutions with free comprehensive medical and hospital care with medicines and other associated supplies, under criteria of universality and equality, under conditions that allow them progressive, effective, timely, quality access and without any discrimination, either through the Comprehensive Health Care Model, of the Mexican Social Security Institute or, where appropriate, the Health Care Model for Well-being, which must consider comprehensive care that links health services and community action, as determined by its Governing Board" (DOF, 2022).

The decree also establishes that the resources allocated annually through the PEF to the IMSS-Bienestar may not be lower than those corresponding to the immediately preceding fiscal year; that is, the budget must maintain a positive growth rate. With regard to catastrophic expenditures, attention to the infrastructure needs of the most marginalized states and the complement of resources necessary for the supply and distribution of supplies and clinical examinations, the creation of the Health Fund for Welfare is proposed, a trust without an organic structure intended to administer the resources of INSABI (in this regard this body remains in force).

Despite the above purposes, the population without any access to health did not manage to reduce from the 27% recorded in 2020 (the revised figure rose to 28.2%), but went to 39.1% in 2020 and 34.2% in 2024 (INEGI, 2025).

The Pension for the Welfare of the Elderly (PBPAM)

With regard to persons who reach the minimum age required for their retirement, in accordance with the provisions of the IMSS and ISSSTE laws, but cannot be beneficiaries of these institutions, either because they did not contribute to them, did so for periods less than the minimums established in their legislation and/or carried out their economic activities in informal conditions, the amendment to Article 4 of the Constitution of May 8, 2020, previously enunciated, includes the following paragraph:

"Persons over sixty-eight years of age have the right to receive a non-contributory pension from the State under the terms established by law. In the case of indigenous people and Afro-Americans, this benefit will be granted from the age of sixty-five" (Chamber of Deputies, 2022).

Subsequently, the Agreement issuing the Operating Rules of the PBPAM for fiscal year 2021 was modified, so that, as of that year, said stipend would be effective from the age of 65.[†] Likewise, in 2025 it was determined that women between 60 and 64 years of age would

[†] In addition to guaranteeing free health care to low-income people and offering a pension to those who reach and exceed 65 years of age, Article 4 of the Constitution incorporates two new paragraphs

also be granted the benefit. With this, it was said, the pension would cover 13.5 million people who, if they were 65 years of age and older, would receive 6,200 pesos bimonthly in the year noted; and, if they were between 60 and 64 years old, they would be entitled to 3,000 pesos bimonthly.

THE 2020 PRIVATE SECTOR PENSION REFORM

Two years before the private sector workers began to retire from the AFORE IMSS system, whose emoluments were obviously going to be very low, such a system was reformed under the following premises and search for results:

Gradual increase in contributions to workers' retirement accounts, from 6.5% of their Contribution Base Salary (SBC) to the IMSS in 2022 –with 2023 as a transition year– to 15% in 2030, as shown in graph 2 (continuous high line). The composition of the contributions is different between workers who receive from a General Minimum Wage (SMG) to 4.0 Units of Measurement and Update (UMA), and those who receive from 4.01 to 25 UMA (level established as a ceiling).

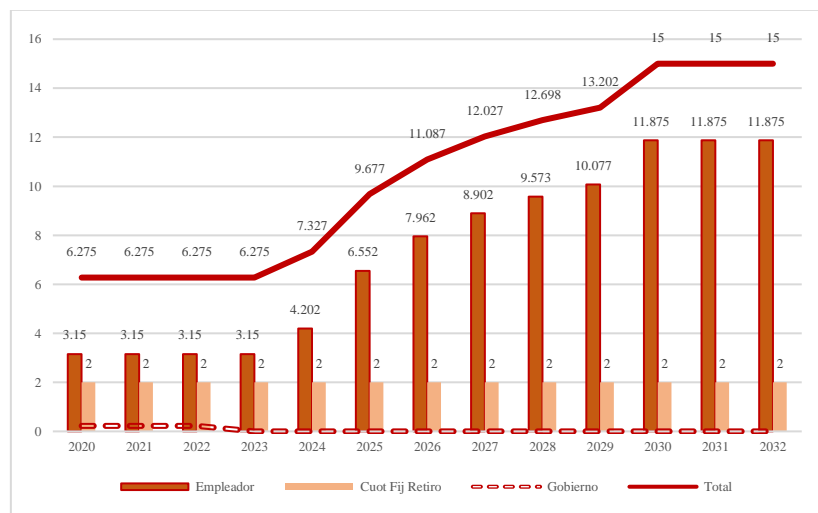


Figure 2: Composition of contributions as a % of the contribution base salary (SBC) as of the 2020 pension reform Salaries of 4 UMA and plus

Source: based on BANXICO (2021)

that seek to guarantee economic support to those who are in vulnerable conditions. The first refers to "people who have permanent disabilities in the terms established by law," giving priority to "those under eighteen years of age, indigenous people, and African Americans up to the age of 64, and people who are in conditions of poverty." The second refers to the granting of "a scholarship system for students at all school levels of the public education system, with priority given to those belonging to families who are in conditions of poverty, to guarantee the right to education with equity" (Chamber of Deputies, 2022). Of course, this does not reflect the true panorama of social policy, which in the case of the neediest population groups focused, during the governments of 1992 to 2018, on the program to combat poverty, which began as Solidarity and gradually changed to Progres, Oportunidades and Prospera (Gutiérrez-Rodríguez, 2016). As of 2019, the approach adds to the vulnerable groups already described the programs Sembrando Vida, Jóvenes Construyendo el Futuro, Jóvenes Escribiendo el Futuro, Becas Bienestar and Apoyo para Hijos de Madres Obreras.

This second case, which has been handled as the most important, is the one presented in the graph. As can be seen, the employer contribution goes from 3.15% in 2023, to 11.875% of the SBC in 2030 (higher bar), levels to which must be added the employer contribution of 2%, fixed throughout the period, corresponding to the Retirement branch (lower bar, constant). With this, the graduation rises from 5.15% at the beginning of the period, to 13.875% at the end of it[‡]. The worker's contribution remains unchanged at 1.125% of the SBC (vertical dashed line).

The participation of each of the agents involved before the reform (until December 31, 2020) and after the process was concluded and the recomposition of the contributions was observed (December 31, 2030) is presented in Figure 3. The first bar refers to the situation prevailing until 2020, in which there is evidence of an overall contribution of 6.5% with respect to the SBC: 5.15% by the employers, 0.225% by the government, plus social quota, and 1.125% by the workers. The second bar corresponds to the cumulative effect until the end of the period for those who receive from one SMG to 4.0 UMA, with a total level of savings that rises to 15% of their SBC, of which 12.077% is borne by employers, and 8.724% refers to the social quota disbursed by the government, obtained by workers who are located in the lowest salary level of that bracket. falling to 1.798% for the maximum salary level of up to 4.0 UMA. The third bar corresponds to the effect, also accumulated until the end of the period, for those who receive more than 4.0 UMA. Of course, their total level of savings also corresponds to 15% of their SBC, but it is only covered by employers (13.875%) and workers (1.125%); for reasons of income, the social quota no longer applies here (BANXICO, 2021).

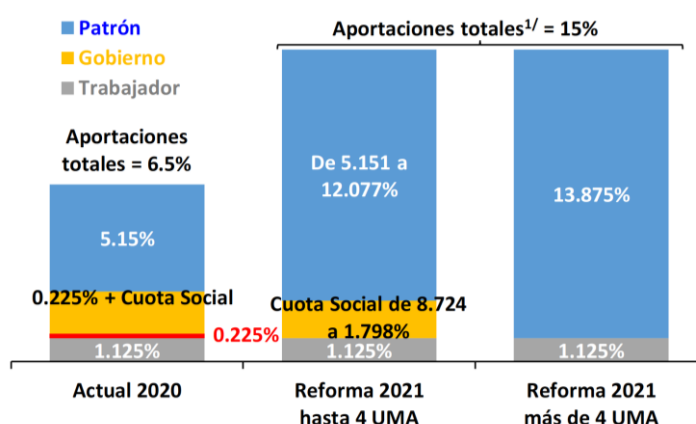


Figure 3: Participation in the formation of pension savings before (2020) and after (2030) the completion of the reform (%) 1/ From the consolidation of the transition period

Source: BANXICO (2021)

[‡] For SBC levels from an SMG to 4.0 UMA, the increase in the employer's contribution goes from 5.15% for the first level (it already includes the employer's contribution for the Retirement branch of 2%), to 12.077% at the end of the period, in the case of remunerated with up to 4.0 UMA. In addition, the government's contribution is concentrated in its entirety in this range of salaried employees and must be such that, when added to the employer's contribution, it totals 13.875% of the SBC. Based on its redistributive income proposal, this contribution decreases from 8.724% for a SMG, to 1.798% for 4.0 UMA.

The Law establishes the above in slightly different terms: the federal government will contribute monthly, for each day of salary contributed, a social contribution for workers who have an income of up to 4.00 UMA, which will be 10.75 pesos for those who receive a SMG and will progressively decrease to 6.25 pesos for those who have an income between 3.51 and 4.00 UMA. In income from an SMG to 2, 3 and 4 UMA, the process of complementary disbursements to those already made by the employer and the worker until 2022 is carried out by the federal government, considering that employers will cover in 2023 from 3.150 for one SMG to 4.241 percentage points for 4.00 UMA, and will reach 11.875 in 2030 for 4.01 UMA onwards. In all UMA brackets, of course, the contributions of entrepreneurs are increasing. Those corresponding to the branches of Unemployment in Advanced Age and Old Age that exceed the 4 UMA to be disbursed from January to December 2023, are made by the federal government through a social quota that starts at 2.45 pesos for each day of salary contributed and drops to 1.00 for the level of 6.01 to 7.09 UMA (DOF, 2020).

The 15% savings on the SBC by 2030 implies 2.3 times the level that was had until 2020; even so, it will continue to be lower than the average of OECD countries, which, as shown in Figure 4, was 18.2% in that year. However, if there are no other changes in the OECD, it will surpass Lithuania (8.7%), Australia (9.5%), the Republic of Korea (9.0%), Canada (10.5%), Turkey (10.6%), the USA (10.6%), Denmark (12.8%), Costa Rica (13.5%) and Colombia (14.1%). Likewise, several countries will be at a level around double that of Mexico, particularly Italy (33%), the Czech Republic (28%) and France (27.8%).

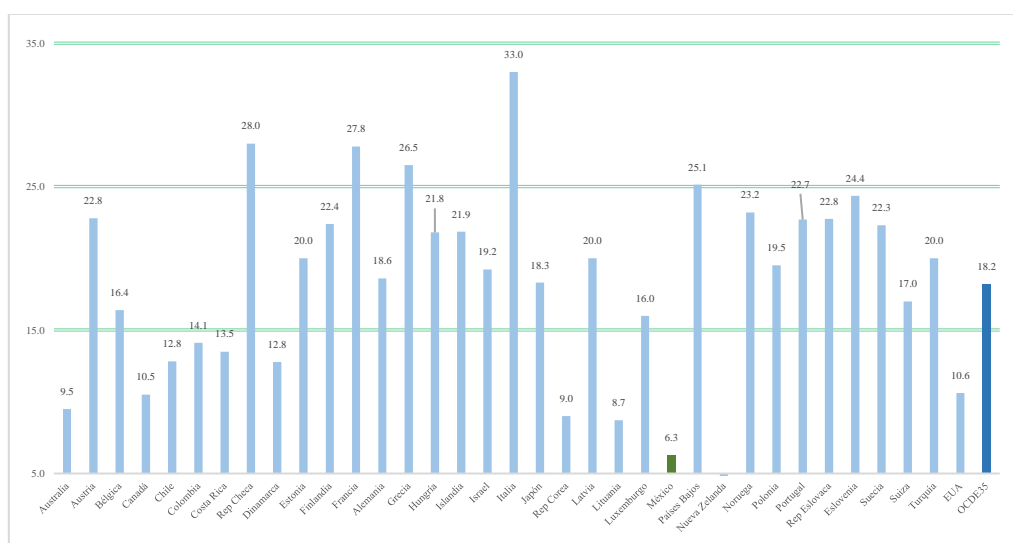


Figure 4: Compulsory pension contribution, OECD countries. % of gross receipts 2018

Source: OECD (2019a)

The focus on the gross replacement rate was on the lowest-income workers, who would be subject to the complementary support implied by the PBPAM. In the case of those who received up to 1 SMG of income, which implied a replacement rate of 69% and complied with 1,250 weeks of contributions, the complementary 31% to raise the rate to 103% would be received through the PUPAM. For the following levels, the measurement is made in UMA: those who have income at the time of their retirement of up to 2 UMA, receive a support of

24%; for those with 3 UMAs, the support is 16%; for those with 4 UMA, 12%, and for those with 5 UMA, 10%, as shown in Table 1. With this, the replacement rate drops from 103% in the first case to 54% in the fifth, and a weighted average of 46% is obtained (this is essential to carry out a new reform four years later).

Table 1: Replacement rates by income level in the reform of the IMSS Law of 2020, considering 1,250 weeks of contributions and 65 years of age (%)

Laws	1SMG	2 UMA	3 UMA	4 UMA	5 UMA
1997	102	64	46	35	31
2020	103	102	76	58	54
Of those that PUPAM	34	24	16	12	10

Source: based on SHCP, 2020 Pension Reform Project

Another significant adjustment was the decrease from 1,250 weeks of contributions (25 years) to 750 weeks (15 years) as the minimum requirement for a worker to receive a guaranteed pension. After the initial decline, which operates from 2021, the number increases by 25 weeks each year until it reaches 1,000 weeks (20 years) in 2031, which is still lower than the 1,250 that were had until 2020, as shown in Figure 5. According to calculations by the National Commission of the Retirement Savings System (CONSAR), this will allow the number of workers who manage to retire to more than double, taking into account that the minimum age to do so remains at 60 years, although the maximum benefit in terms of resources obtained (monthly payments) is achieved from the age of 65 (DOF, 2020) and the formality-informality alternation that characterizes the Mexican labor market must be considered. This implies a redesign of the safety net for workers with the lowest contribution density.

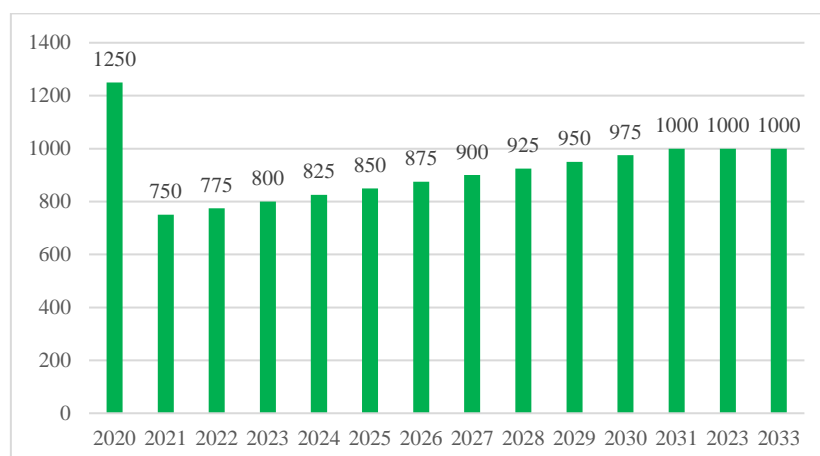


Figure 8: Minimum number of weeks of IMSS contributions to be entitled to the pension

Source: based on DOF (2020)

The reform promised that the collection of commissions made by AFOREs would be urgently reduced, so that it is compatible with international standards. Until 2020 it was about 1%, while the international average stood at 0.7%. In Chile it fell by the end of 2021 to 0.58%. Table 2 shows a considerable reduction, which brings them into line with those of that country.

Table 4: AFORES commissions in 2022 and 2023; Rates as a percentage of the Average Contribution Salary

SIEFORE ADICIONAL	COMISIÓN 2022	COMISIÓN 2023
Citibanamex (SIAV2)	0.57	0.57
Profuturo (SIAV)	1.25	0.57
Profuturo (SAC)	1.25	0.57
SURA AV1	1.40	0.57
SURA AV2	1.30	0.57
SURA AV3	1.25	0.57
XXI Banorte Ahorro Individual (SIAV)	0.57	0.57
XXI Banorte Previsión 1 (SPS1)	0.57	0.57
XXI Banorte Previsión 2 (SPS2)	0.57	0.57
Promedio Siefores Adicionales	0.97	0.57

Source: CONSAR (2022)

Once again, as was the case with the 1997 IMSS law and with the subsequent adjustments to the composition of the ages of savers and portfolios, during the negotiation of the 2020 reform, the financial authorities and the heads of the AFOREs expressed their conviction that the returns offered by the Specialized Investment Companies of Retirement Funds (SIEFORE) should increase. To this end, it was agreed to impress upon the companies that cater to savers from a very young age to middle age, the importance of greater portfolio diversification, which implies higher risks and financing for infrastructure projects. This decision was made despite the experience of losses during the financial crisis of 2009. Another regulation of the reform was that holders can make withdrawals from their voluntary savings accounts without requiring predefined periods, in contrast to the previous situation where withdrawals could only be made after six months had passed.

It is also established that "the right of the worker or pensioner and, where appropriate, of his beneficiaries, to receive the resources of the Subaccount of Retirement, Unemployment in Advanced Age and Old Age" is imprescriptible and that, without prejudice to this, "the Institute may dispose of such resources ten years after they are due without the need for a judicial resolution, provided that it constitutes a sufficient reserve to meet the refund requests of workers, pensioners or beneficiaries" (IMSS, 2020, Art. 302).⁵ Finally, it is possible to combine life annuity schemes with scheduled withdrawals.

⁵ This provision will have to be taken to extreme levels in the 2024 reform, as will be seen in the last chapter.

THE 2024 PENSION REFORM

Less than four years after the 2020 pension reform was put in place, the Executive announced that he was sending Congress a package of 18 constitutional reforms and two secondary laws that covered political, electoral, social and economic aspects. These included his intention to create a seed fund of 64,619 million pesos to support IMSS AFORE and ISSSTE AFORE contributors aged 65 and over who, having complied with the minimum number of weeks of contributions established by public social security institutions, did not have sufficient savings to receive a pension equivalent to their last salary received (they did not achieve a replacement rate of 100%), as long as said salary level did not exceed the average of the SBC to the IMSS. This would be established for 2024 at 16,777.78 pesos per month, equivalent to 2.2 SMG, an amount that would be updated each year with inflation.

Due to the lack of precision with which this proposal would be implemented, on April 4 the Chamber of Deputies received a draft initiative with the title: "Decree by which various provisions of the Social Security Law are reformed, added and repealed, of the Law of the Institute of the National Housing Fund for Workers (INFONAVIT), the Law of the Institute of Security and Social Services of State Workers (ISSSTE), the Law of Retirement Savings Systems (SAR), the Federal Law of Budget and Fiscal Responsibility (LFPRH), the Federal Law for the Administration and Disposal of Public Sector Assets [from which the Institute to Return the Stolen to the People (INDEP) arises], and the Decree by which the decentralized public body called the National Financial Agency for Agricultural, Rural, Forestry and Fisheries Development (FND) is extinguished, and its Organic Law is repealed. The corresponding law was published in the *Official Gazette of the Federation* on May 29, 2023, for the creation of the Pension Fund for Welfare."

The initiative gave rise to two decrees that were published in the *Official Gazette of the Federation* on April 30 and May 1, 2024. The first adopted the title that appears in the aforementioned paragraph (DOF, 2024a), and the second was called the Welfare Pension Fund (DOF, 2024b). Although the essential objective of both is the creation and financing of the Pension Fund for Welfare, the nodal point is the reallocation of resources from the AFOREs, since they were seen as the most affordable source. By virtue of this, what was sought to be modified was Article 302 of the IMSS Law, in force since December 2020, which establishes the following:

"The right of the worker or pensioner and, where appropriate, of his or her beneficiaries to receive the resources of the Retirement, Unemployment in Advanced Age and Old Age Subaccount is imprescriptible.

"Without prejudice to the foregoing, the Institute may dispose of such resources ten years after they are due without the need for a court decision, provided that it constitutes a sufficient reserve to meet the requests for reimbursement of workers, pensioners or beneficiaries. Any monthly payment of a pension, family allowance or assistance aid will receive the same treatment, in the calendar year in which it is due.

"The Ministry of Finance and Public Credit shall approve the methodology for determining the amount of the reserve that the Institute will constitute to meet the requests for refunds indicated in the preceding paragraph and the procedure to be followed for this purpose." (DOF, 2020).

The idea of not waiting 10 years, but of putting this provision into operation immediately, since the need for resources was enormous, led the political operators of the majority bloc in the Chamber of Deputies to make the mistake of considering that 37 billion pesos corresponding to accounts without movement for several years and linked to 18.4 million people, could be made legally affordable. Moreover, this figure was rounded to 41 billion pesos, but in reality it involved savers in the AFORE system who were 70 years of age and older, without considering whether they were active or not, that is, if their accounts had periodic movements.

In relation to the title of the first decree, what it suggests is that the origin of the financing of the Pension Fund for Welfare would be limited in principle to six sources, a number far removed from the range that was originally announced. These are: the IMSS and INFONAVIT funds deposited since July 1997 in the AFOREs that correspond to inactive workers of the private initiative who have reached 70 years of age; of the ISSSTE and FOVISSSTE deposited as of April 2007 in the AFORE by inactive workers aged 75 and over; of the INDEP and the FND. To these, according to the text of the document, a seventh partial source is added, the profits of parastatal entities sectorized in the Secretariats of National Defense and the Navy (DOF, 2024a).

With regard to the use of resources, the second transitory article of the same decree establishes that:

"The Welfare Pension Fund will provide social security institutes with the necessary resources to ensure that workers who reach sixty-five years of age and whose pension is equal to or less than sixteen thousand seven hundred and seventy-seven pesos and sixty-eight cents, which is equivalent to the average monthly salary registered in 2023 in the Mexican Social Security Institute updated by the estimated inflation for the year 2024, receive a supplement to the obligations of the Federal Government in relation to the pension obtained in accordance with the applicable provisions so that it is equal to their last salary up to the amount described in this paragraph. This amount must be updated on January 1 of each year in accordance with the estimated inflation for the corresponding year. The foregoing provided that they have started the contribution under the terms of the Social Security Law as of July 1, 1997, as well as for those workers who are under the regime of individual accounts that contribute to the Institute of Security and Social Services of State Workers. The supplement referred to in this subsection is non-transferable and will be payable by workers who obtain their opinion or pension grant, as appropriate, 60 days after the constitution of the Welfare Pension Fund. Such supplement shall be subject to the sufficiency of the Fund, as well as to the rules determined by the Decree of Finance and Public Credit." (DOF, 2024a).

In addition, the decree of May 1, 2024 establishes in its article 2 that:

"The Fund's main purpose is to receive, administer, invest and deliver the resources that are contributed to it, to the Mexican Social Security Institute and the Institute of Security and Social Services of State Workers, in terms of the applicable legal provisions, to ensure that workers who

reach 65 years of age and whose pension is equal to or less than \$16,777.68 (sixteen thousand seven hundred and seventy-seven pesos 68/100 M.N.), which is equivalent to the average monthly salary registered in the year 2023 in the Mexican Social Security Institute updated by the estimated inflation for the year 2024, receive through said federal institutes a supplement to the obligations of the Federal Government in relation to the pension obtained in accordance with the applicable provisions, so that it is equal to their last salary up to the amount described in this paragraph; said amount must be updated on January 1 of each year, in accordance with the estimated inflation for the corresponding year." (DOF, 2024b).

In 2024, the decrees of April 30 and May 1 were published, through which the Pension Fund for Welfare was created and the minimum pension level to which IMSS AFORE and ISSSTE AFORE contributors who have met the minimum retirement requirements can aspire in terms of age and number of weeks of contributions. This minimum level would be the equivalent of their last salary received (100% replacement rate), as long as it did not exceed the average of the SBC, established in April 2024 at 16,777.78 pesos per month, equivalent to 2.2 General Minimum Wages (SMG), an amount that would be updated each year with inflation. For the payment of this (in reality the difference between the pension level to which workers are entitled based on their contributions and the salary they received at the time of their retirement) the Pension Fund for Welfare would be used, whose main source of financing would be the unclaimed resources of the AFOREs and the housing funds of inactive workers who had reached 70 years of age if they contribute to the IMSS, and 75, if they contribute to the ISSSTE. The decrees do not establish commitments on the amounts of support for each retiree, since these are subject to the "availability of resources" and other details that would be specified in the operating rules, which would be published after the country's general elections, to be held on June 2, 2024.

DISCUSSION AND CONCLUSIONS

Throughout the history of social security in Mexico, including the pension system, there have been efforts to adapt to a changing reality. The creation of the IMSS in the 1940s marked the beginning of these transformations. At that time, high rates of population growth and the Economic Active Population (EAP) were observed, with no need to provide pensions for advanced age or elderly individuals. From the 1940s to 2024, there was a significant increase in the population aged 65 and over, surpassing the growth rates of the general population and the rate of new workers entering the social security system. This occurred alongside low labor force participation rates, particularly for women, which were among the lowest in the OECD countries (OECD, 2019a). The pay-as-you-go system established in the IMSS law of 1973 became outdated and unsustainable under these circumstances. Even if the requirements for micro, small, and medium-sized enterprises (MIPYMES) to join the formal system were minimized, as advocated by De Soto (1987) and accepted by economic policymakers in Latin America and beyond, additional efforts were needed to address the challenges.

The transition to a system of individualized capitalization of workers' savings therefore seemed inevitable, but it had to be ensured that it was based on appropriate parameters and that their trajectories were visualized with realistic actuarial runs. This

implied, on the one hand, making it possible through intelligent investments to rate of return that were high instead of close to or lower than those of the Treasury Certificates (CETES), as has happened, despite the expertise of the financiers at the service of CONSAR. On the other hand, a fair life expectancy should have been considered when calculating the monthly pension, in particular not to unnecessarily enlarge the data if it is clear that, unlike the most developed countries, in which it exceeds 80 years, in Mexico it was 72 in 1995, in 2014 it reached the peak level of 75, and by 2020-2021 it fell to 70 (World Bank, 2024).

According to figures from general censuses and population and housing counts carried out in the twenty-first century, the population aged 65 and over amounted to 5.7 million in 2005 and rose to 10.3 million in 2020; that is, it grew at an average annual rate of 4.0%, with the expectation of doubling its absolute value in 17.5 years (at the end of 2022): 11.4 million people. For its part, the total population reached 103.3 million in 2005, and went to 126 million in 2020, with an average annual growth of 1.3% and an expectation of doubling its absolute value in 54 years, that is, until 2059 (calculations based on INEGI, 2022).^{**} On these bases, by the end of 2022 the total population is projected to reach 129.3 million people, with the population aged 65 and over representing 8.8%. This percentage has increased from 5.5% in 2005, indicating a rapid aging process in the country. It highlights the importance of developing financially sustainable pension strategies that are fair and acknowledge individuals' contributions to society throughout their working lives.

In addition, AFORE commissions similar to those applied by administrators in other countries should have been negotiated and incorporated into the calculations from the beginning. The low average contribution density that prevails in the country should have been taken into consideration, due to the insufficiency of formal jobs, which for the entire EAP is 26%; in the case of the IMSS AFORE generation it is 42.9% (Castañón Ibarra and Ferreira Blando, 2017), but the IMSS (2024) and ISSSTE (2024) make their calculations considering 80% in their simulated data. Greater efforts should have been made to achieve pension contributions from savers, employers and the government above 6.5% of the salary received, especially knowing that in the OECD the average is three times higher, although this would have required greater contributions from the federal government, which in comparative terms then spent less than 4.5% of GDP on pensions against double the OECD average (OECD, 2019a). Likewise, spending on older people traditionally had a share of less than 1% of GDP, while in the OECD it was 6.5% on average (OECD, 2019b). Finally, it should have been known, thanks to actuarial runs and without the need to wait for the first generation of IMSS AFORES to begin to retire, that the replacement rate would be 26%, when in the OECD it is on average 49% (OECD, 2019a). Despite all this, it should also have been recognized that the 6.5% contribution to their AFORES could be added, because it is also savings, the 5% that employers withheld from workers for their housing fund.

In other words, even if we start from the analysis of a State with evident fiscal laziness, whose tax coefficient is only 15%, less than half the average of OECD countries (34%), the public resources allocated to the payment of pensions are proportionally much lower: 3.1% for Mexico against 7.7% average for the OECD (OECD, 2019a). Even if the coverage of the PBPAM, equivalent to Pillar Zero, is considered, its level in 2019 was the

^{**} To calculate the doubling in the number of years, the assumption is that growth rates remain constant and the "70" formula is applied; i.e., Years of doubling = 70/observed growth rate.

lowest of the member countries of the Organization (4.3%), with the exception of the Republic of Korea (3.5%).

Updated until 2024, the aforementioned pension resources socially absorbed one trillion 500 billion pesos, 4.5% of GDP, while PBPAM represented only 40% of an SMG; that is, on its own and according to the multidimensional criteria of the National Council for the Evaluation of Economic and Social Policy (CONEVAL, 2019), it does not allow a person to escape poverty. Likewise, although it is based on the assumption that this stipend is given to each and every one of the people aged 65 and over, which according to the updated 2020 General Population and Housing Census (INEGI, 2022) amounted to 11.7 million in 2024, on the one hand this amount is lower than the 12.5 million that some official sources disseminated since mid-2023 and, on the other hand, it has a high degree of inaccuracy since many older adults do not request it because they keep working, because they are not interested, because they do not need it, because it has not been offered to them (particularly in the most remote and/or dangerous regions), and because they consider that the resources should be used in another way.

It is possible to affirm that, since its appearance, most of the 1.5% of GDP corresponding to pillar Zero, whose amount has grown in the last five years at an average rate more than 40% higher than that of the IMSS, and in 2025 rose to 2.0%, has been financed with savings from other parts of the comprehensive pension system progressively reformed over the last 15 years. This was achieved through gradual modifications to the Income Tax (ISR), the Retirement Savings System (SAR), and the ISSSTE laws, as well as the reforms to the private system of 2020 (Article 123 of the Constitution), following suit the private (laws of IMSS, INFONAVIT, and others) and public (laws of ISSSTE, PENSIONISSSTE, and others) systems of 2024. Most of these adjustments were made regardless of which political party held the executive branch, generally because they had a simple majority in Congress, which is required to amend secondary legislation. This allowed for the following changes, all of paramount importance to pensions:

- That the SAT tax pensions above 10 SMG, despite the fact that they had already been taxed before in the form of salary (income tax);
- That this reference factor be replaced, for pension purposes, by the UMA, whose value in 2024 was only 44% of a SMG (3,439.46 pesos per month);
- That the social quota (contribution of the State to the pension savings of workers), will no longer be granted to everyone, but only to those who receive between one SMG and 4.0 UMA, and
- That the federal government could dispose of the savings of workers from the age of 70 (IMSS AFORE) and 75 years of age (ISSSTE AFORE).

In the same way, far from fulfilling the promise that with each reform the real returns of the AFOREs would increase, in practice these have been reduced, without at least exceeding the yield of the CETES, despite the expertise of the holders of the SIEFOREs. Likewise, the commissions have absorbed, in the period of operation of the AFOREs, 25% of these returns; modifications have been made to various laws so that the federal government can finance its expenditure with a part of the resources of the AFOREs, especially when the RFSP reach high levels and, based on measures over which it always has control, it has arrogated to itself the right to dispose of the savings not claimed by the holders of the

AFOREs, although this under normal conditions can be considered confiscatory, it violates the principle of non-retroactivity of laws and, ultimately, if the owner does not claim the resources, they should be transferred to his or her immediate family members.

The aforementioned adjustments have various implications in terms of Mexican legislation and the mood of trading partners that invest in Mexico. In a very evident way, they generate legal uncertainty for workers and pensioners, whose present and future emoluments are affected through adjustments promoted by the Executive Branch, endorsed by the Legislative and, where appropriate, ratified by the Judiciary. Secondly, they do not comply with the rule that "equal work, equal pay", which should reach pensioners by natural extension; however, there is a clear difference, established even in Article 123 of the Constitution, between active workers and pensioners in the private sector and in the public sector (not to mention those of PEMEX, CFE, the upper echelons of the IMSS itself, the ISSFAM, the states and municipalities and the public universities of the provinces). In this way, the worker is left unprotected against the AFORE when negotiating his pension, which he may even lose.

The amendment to Article 4 of the Constitution assumes that PBPAM is used as the complement to a scheme equivalent to universal social security, which is clearly a fallacy, both because of the real coverage of health services (in 2022, 50 million people, that is, 39.1% of the population, declared to INEGI that they did not have health protection) and the level of pensions (barely 40% of the value of a SMG in 2024).

This delays the implementation of unemployment insurance at the federal level and explains why, despite having the Youth Building the Future program, administered by the STPS, the official and private contribution to Mexico's labor markets is counted by the OECD as 0%, while in the rest of the countries it ranges from 0.7% in Lithuania to 4.8% in Canada, despite the fact that Mexico celebrated, in 2024, 30 years of belonging to the Organization (OECD, 2019a).

In terms of inequality, both in the 2020 and 2024 reforms, workers in the service of the State are left in a disadvantageous position since, despite the fact that it is clarified that the SMC will be taken as a floor to the IMSS to determine the retirement of all workers, the formers will have to increase their personal contribution to their pensions fund from 2% to 4% of their salary. Meanwhile, the State's contribution, which is very low, will remain the same (2025 adjustments to the ISSSTE Law and other regulations). This makes clear, once again, the importance of continuing with the efforts to create a National Social Security System.

In this sense, the total pension expenditures as a percentage of the GDP of 6.5%, of which in theory 3.5% should be financed with contributions of workers and other people to IMSS and ISSSTE (Gutiérrez-Rodríguez, 2014), faces in practice the problem that more than two-thirds of such expenditures come from public resources. Despite this, the amounts disbursed could reach just over 10% in the early 2030s, if the current rate is maintained, a level similar to the average currently recorded by OECD countries (OECD, 2019a). Moreover, taking into account population growth rates, together with the recomposition of the population pyramid, the age group of 65 years and older, which in 2024 amounted to 11.7 million (8.8% of the total population), would increase to 24.9 million in 2050 (16.5% of the total population). Therefore, the 2024 reform, along with some other legislative

arrangements, could be paving the way for the gradual reallocation of AFORE resources in favor of non-contributory pensions, which pay off greatly in political terms.

By virtue of the above, the reforms agreed so far can in no way be considered definitive and there is still a long way to go to achieve the levels of pensions that on the one hand the workers with immunity deserve and those that would be desirable for those who will not be able to reach them. This is because the 2% of GDP that the latter absorb today considerably undermines the capacity of the state to invest in productive activities and infrastructure necessary to promote growth and development, especially in the spheres of education, health, and active labor policies, including training, job placement agencies and employment insurance, the pillars of human capital formation.

The government, as the main actor in the scheme, must propose legislation that compacts the benefits of the entities that manage the retirement funds as much as possible; improve the service and dissemination of information; maximize portfolio returns without incurring unnecessary risks (investments) or financing unviable public activities; does not promote changes to the laws in order to tax the maximum amount of pensions from a certain limit, because they were already taxed in the form of workers' income, nor does it seek to replace the minimum wage with the UMA in order to impose a pension maximum limit, and respects the scheduling of the savings accumulated by workers in a period compatible with their real life expectancy, non-fictitious, that is, with the average released by institutions specialized in demography.

In the same way, the authority must refrain from threatening to resort to the pension fund that workers have integrated over so many years, regardless of the circumstances of the public finances or those of the saver, in particular their advanced age and their eventual death, but rather ensure that the fund is returned to those who legitimately own it, direct family members. It must also promote the unification of the two major social security systems, especially for the purposes of providing health services and equivalence of the benefits offered by their pension funds, based on similar parameters. It has to avoid the temptation to finance pillar Zero (Universal Program for the Elderly) with pillar Two (savings deposited by social security institutions in the Retirement Fund Administrators). It must stop evading the establishment of unemployment insurance, an absence that has led it to justify that the needs of the unemployed are alleviated, without being perfect substitutes, with social programs aimed at young people who do not study or work, the elderly, single mothers, people with disabilities, farm workers, etc. It must also carry out actions that really promote the reduction of informality, the main cause of low levels of productivity and limited coefficients in terms of contribution density and replacement rate. In other words, much of the welfare policy could perfectly be replaced with policies directed by the labor sector, which would rescue its tripartite character and return to its beneficiaries the position of active agents that is inherent to them.

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