

11-13-1996

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Recommended Citation

LADB Staff. "Senate Approves Delay in Privatization of Pension Fund." (1996). <https://digitalrepository.unm.edu/sourcemex/3658>

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Senate Approves Delay in Privatization of Pension Fund

by LADB Staff

Category/Department: Mexico

Published: 1996-11-13

In early November, the Senate approved a request by President Ernesto Zedillo's administration to postpone by about six months the date for privatization of Mexico's pension program. The new pension-privatization plan, approved by the Mexican Congress in mid-April, transfers management of retirement funds from the social security institute (Instituto Mexicano del Seguro Social, IMSS) to private companies. These private firms will be known as Administradoras de Fondos de Retiros (AFOREs). Workers will be given the choice of placing their funds in one of the privately managed plans. Under the original timetable, the AFORE program was scheduled to become effective on March 1, 1997. Because of the changes, the effective date has been pushed back to Sept. 1, 1997. This means that the enrollment period for the AFORE program, which was scheduled to begin on Jan. 1, 1997, has been delayed until July 1 of that year.

Finance Secretariat (SHCP) spokespersons said the effective date was delayed primarily to give the government time to implement its new identification program (Clave Unica del Registro de la Poblacion, CURP). The CURP which will create a new identification code for every Mexican will be used to register for participation in social security, labor programs, and AFOREs. The delay also postpones the start-up of the revised social security law (Ley del Instituto Mexicano del Seguro Social, IMSS). This legislation, in effect, relieves the IMSS from responsibility for management of worker pension funds and allows the institute to become one of the participants in the AFORE program.

According to Carlos Abascal Carranza, president of the employers confederation (Confederacion Patronal de la Republica Mexicana, COPARMEX), the postponement of the effective date for the new IMSS law means the institute will have to continue to maintain the country's pension system for the first half of 1997. The administration's decision to delay the AFORE program was partly in response to requests from business and labor leaders. In fact, COPARMEX's Abascal said the matter was discussed at length during the negotiations on the economic- growth and anti-inflation package for 1997 (Alianza para el Crecimiento Economico, ACE).

Some legislators in the Chamber of Deputies who represent the labor sector said they also sought the delay to give the administration time to respond to several unanswered questions, such as how the funds in workers' existing IMSS accounts would be transferred to AFOREs. On the other hand, the Zedillo administration's request for postponement was opposed heavily by the delegations of the opposition Democratic Revolution Party (PRD) and the National Action Party (PAN). Sen. Lydia Sansores San Roman, a member of Zedillo's governing Institutional Revolutionary Party (PRI), also joined the PAN and the PRD in opposing the delay. In voicing their opposition, PRD and PAN senators, along with Sen. Sansores, suggested the Zedillo administration was using the implementation of the new CURP identification system as an excuse to hide its "financial incompetence."

PRD senators pointed out that the Zedillo administration's move was contradictory to statements the government had made less than 11 months ago. "Just a year ago the administration was urging us to approve the new social security law because a collapse of the IMSS would be irreversible," said PRD Sen. Felix Salgado Macedonio. "We want to know the real reason for the delay." For its part, the PAN delegation in the Senate accused the administration and members of the PRI of seeking the delay to devise plans to gain access to the retirement funds for use in the congressional elections in July 1997.

In a report published in early November, the financial analysis group Banamex-Accival estimated that the six-month delay in the AFORE program could result in direct and indirect savings totaling US\$20 billion for the federal government in 1997. According to Banamex-Accival, this move could bring mixed reactions in the financial markets. On one hand, the delay allows the Zedillo administration to reduce pressure on the federal budget, which the administration has estimated at US\$725.8 billion for 1997. On the other hand, Banamex-Accival said, the government is postponing a much-needed structural reform to the pension system, which the financial markets could interpret as negative. The announcement of the delay has apparently not discouraged potential participants. In an interview with the daily newspaper *El Universal*, SHCP sources said the national commission for retirement savings (Comision Nacional del Sistema de Ahorro para el Retiro, CONSAR) received 25 bids from private companies seeking to participate in the program. The program was first opened to bids from private investors in early October (see *SourceMex*, 10/16/96).

Bidders were originally required to submit applications by Oct. 18, but this deadline was later extended to Nov. 2. "The companies that have submitted bids do not appear to be discouraged by the delay," SHCP officials said. According to CONSAR officials, the AFORE program will not be viable unless at least six concessions are approved. "To preserve a spirit of competition, no administrator will be allowed to gain more than 17% of the total pension market," said a CONSAR spokesperson. "For this reason, we must award at least six permits." To start an AFORE, companies will be required a minimum of 48 million pesos (US\$6.07 million) in start-up capital.

Firms without sufficient funds for an AFORE can choose instead to launch a specialized retirement program (Sociedades de Inversion Especializada, SIEFORES), which requires only 4 million pesos (US\$506,000) in start-up funds. [Note: Peso- dollar conversions in this article are based on the Interbank rate in effect on Nov. 13, reported at 7.90 pesos per US\$1.00.] (Sources: *El Financiero*, 10/29/96, 10/30/96; *Novedades*, 11/08/96; *El Economista*, 10/31/96; 11/08/96, 11/11/96; *El Universal*, 10/31/96, 11/04/96, 11/05/96, 11/11/96, 11/12/96)

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