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Enrollment Slow in Mexico's Privatized Pension Program

by LADB Staff

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According to the retirement savings commission (Comision Nacional del Sistema de Ahorro para el Retiro, CONSAR), worker enrollment in the newly privatized pension system has been extremely slow since concessions were first announced at the beginning of this year. The program was originally scheduled to take effect on Jan. 1, 1997, but the start-up date was delayed by six months to give the government time to set up a more extensive data base (see SourceMex, 11/13/96 and 12/11/96). Consequently, as of July 1, 1997, retirement funds will no longer be managed exclusively by the social security institute (Instituto Mexicano del Seguro Social, IMSS), but instead will be turned over to private companies that will be known as Administradoras de Fondos de Retiros (AFOREs).

Since late January, the government has awarded concessions to 17 private Mexican-foreign partnerships to manage AFOREs. Each of those partnerships was allowed to immediately recruit potential clients. However, according to CONSAR statistics, only 1.2 million workers or slightly more than 10% of the country's 10 million eligible participants have actually chosen an AFORE since late January. According to government statistics, four AFOREs had attracted 80% of the business through the end of March: Banamex, Bancomer, Profuturo, and Santander. AFORE Bancomer a partnership between Grupo Bancomer and the US insurance company Aetna had captured 29% of the market.

Workers still confused about changes

Some financial-market analysts attribute the slow participation primarily on the inability of the government to clearly explain the changes in the pension system. In turn, President Ernesto Zedillo's administration has blamed the slow enrollment on "misleading" advertisements by many of the new AFOREs, which have fostered worker mistrust in the new system. Additionally, some of the managers of the new AFOREs have accused the leadership of the Confederacion de Trabajadores de Mexico (CTM) of relaying confusing information to its members, which in turn has tended to delay enrollment.

Alejandro Acevedo, director of AFORE Bancomer, went as far as to accuse some union leaders of encouraging workers to stay out of the AFORE system altogether. Still, Acevedo predicted many workers would begin enrolling in the program once information regarding the benefits of the program becomes more widely disseminated. For their part, union officials, led by CTM leader Fidel Velazquez, have pledged that the vast majority of workers affiliated with CTM member unions would enroll in an AFORE created by the IMSS. The IMSS AFORE, known as AFORE XXI, was officially launched in April in partnership with the private financial institution Banco IXE.

The AFORE XXI, which started operations with 175 million pesos (US\$22.2 million) in capital, will charge commission rates of 1.65%, which is slightly lower than the 1.70% rate charged by the Banamex, Bancomer, Profuturo, and Santander AFOREs. Other smaller AFOREs are charging

commission rates ranging from 0.95% to 1.65%. Meanwhile, the CTM and the Labor Congress (CT) have called on the federal consumer protection office (Procuraduria Federal de Proteccion al Consumidor, PROFECO) to force companies managing an AFORE to publish more information on commission charges and details on where funds will be invested. IMSS plan attracts very little initial interest Still, despite the strong endorsement by the CTM, workers did not rush to embrace the AFORE XXI. According to CONSAR, only 33 workers enrolled in the IMSS-affiliated AFORE in its first two days of existence.

Managers of rival AFORES contend the participation of the IMSS could provide the AFORE XXI with an unfair advantage. Among other things, say critics, the AFORE XXI will illegally obtain privileged information about registered workers, use government-subsidized office space, and cross-finance its pension operations with other IMSS resources. Meanwhile, key committees in the Chamber of Deputies have introduced legislation that would eliminate the value-added tax (IVA) on AFORE commissions.

According to CTM officer Abelardo Carrillo Zavala, the legislation could be approved by the full Chamber of Deputies before the end of April. According to government statistics, the elimination of the 15% IVA on AFORE commissions would result in the loss of a potential 2 billion pesos (US\$253 million) in tax revenues for the government in the first full year of the program. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on April 16, reported at 7.88 pesos per US\$1.00] (Sources: Miami Herald, 03/10/97; Reuter, 03/18/97; El Financiero International, 03/31/97; Excelsior, 04/08/97; The News, 04/10/97; La Jornada, Novedades, 04/10/97, 04/15/97; El Universal, 04/11/97, 04/15/97; El Economista, 04/15/97)

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