

7-9-1997

Privatized Pension Plan Could Face Scrutiny in New Opposition-Led Congress

LADB Staff

Follow this and additional works at: <https://digitalrepository.unm.edu/sourcemex>

Recommended Citation

LADB Staff. "Privatized Pension Plan Could Face Scrutiny in New Opposition-Led Congress." (1997).
<https://digitalrepository.unm.edu/sourcemex/3761>

This Article is brought to you for free and open access by the Latin America Digital Beat (LADB) at UNM Digital Repository. It has been accepted for inclusion in SourceMex by an authorized administrator of UNM Digital Repository. For more information, please contact amywinter@unm.edu.

Privatized Pension Plan Could Face Scrutiny in New Opposition-Led Congress

by LADB Staff

Category/Department: Mexico

Published: 1997-07-09

The newly privatized pension-fund program (Administradoras de Fondos del Retiro, AFORE), which went into effect on July 1, could face increased scrutiny under the newly elected Congress, which is no longer controlled by the governing Partido Revolucionario Institucional (PRI). The initiative to privatize the country's pension program was approved as part of the reforms to the social security institute (Instituto Mexicano del Seguro Social IMSS) in 1995. At that time, the PRI held an overwhelming majority in the Congress. However, the PRI won only 38.8% of the 500 seats in the Chamber of Deputies in the July 6 election (see SourceMex, July 9, 1997), giving a greater voice to the opposition Partido Accion Nacional (PAN) and the Partido de la Revolucion Democratica (PRD).

The increased influence of the legislative opposition could mean a review of the law that created the AFORE program. Some PRD legislators began calling for changes to the law even before the elections, when the PRI still held a majority in the Chamber of Deputies. The PRD questions whether the government will truly achieve its goal of increasing domestic savings through the AFORE program.

PAN, PRD legislators have previously opposed AFORES

According to Pedro Etienne Llano, the outgoing leader of the PRD delegation in the Chamber of Deputies, the AFORE program will end up costing the Mexican economy about 82.6% of GDP over a 50-year period. He said contributors will be forced to cover this cost. Similarly, during the electoral campaign, PRD congressional candidate Ricardo Garcia Sainz suggested the privatized pension program will contribute to "a dismantling the country's social safety net." Garcia Sainz, a former director of the IMSS, said President Ernesto Zedillo's administration pushed for the creation of the AFORE program to appease the World Bank and the International Monetary Fund (IMF), which demanded that Mexico take steps to increase the domestic savings rate.

The PRD could find some support from the PAN in seeking changes to the law. According to the daily newspaper Diario de Monterrey, the PAN led by Sen. Jose Angel Conchello has expressed strong reservations about the privatized pension plan since its inception. "The PAN has argued that the privatization of the social security system offers no benefit to the workers and has merely served as an instrument to prevent the bankruptcy of the country's financial system," read an editorial in the Diario de Monterrey.

On the other hand, concern over changes to the law is not widespread among the new pension-fund administrators. According to Ralf Peters, president of the Asociacion Mexicana de Afores (AMAFORES), the AFORE program is unlikely to be changed drastically in the new Congress because the privatized pension program is so far proving to be a viable investment alternative for

workers. "AFORE directors are not worried about the result of the past elections," said Peters. "On the contrary, we are pleased that the process was transparent and clean."

Peters said he expected the new Congress to allow the AFORE program to operate for at least one year before even considering any modifications. Government pleased with initial worker enrollment Government and private analysts had anticipated slow enrollment in the AFORE program because of mistrust and confusion surrounding the new system. However, roughly 4.7 million workers or almost one-half of the 10 million workers currently on the IMSS rolls had opened an account with one of the 17 companies providing AFOREs as of the program's official starting date on July 1.

The AFORE 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). According to the Comision Nacional del Sistema del Ahorro (CONSAR), a large percentage of the total number of workers who had enrolled in the program decided to place their money in the program created by Banamex. Among the other 16 AFOREs, the plans offered by Bancomer, Santander, Profuturo GNP, and Bitel also attracted strong participation.

Ironically, the government-run Afore XXI is far behind most other private AFOREs in attracting new clients. The AFORE XXI is a joint venture between the IMSS and the private financial institution Banco IXE. According to deputy finance secretary Martin Werner, the Secretaria de Hacienda y Credito Publico SHCP) may allow workers to deduct contributions to an AFORE from their income taxes. Furthermore, the SHCP is considering other investment options, such as infrastructure projects and domestic equities, where AFOREs could invest worker retirement funds. (Sources: The News, El Financiero International, 06/30/97; La Jornada, 07/01/97, 07/02/97; Excelsior, El Nacional, El Diario de Monterrey, 07/03/97; El Economista, 07/01/97, 07/03/97, 07/04/97; El Universal, 06/30/97, 07/04/97, 07/08/97; Novedades, 07/08/97)

-- End --