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Privatized Pension Program Receives Mixed Reviews

by LADB Staff

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In early February, the privatized pension program (Administradoras de Fondos para el Retiro, AFORE) celebrated six months of existence amid mixed reviews. The Comision Nacional del Ahorro para El Retiro (CONSAR) and the Asociacion Mexicana de Afores (AMAFORES) declared the AFORE program a major success.

But opposition parties said it provides greater benefits to banks and insurance companies that manage the pensions than to workers. Although the program officially took effect in July 1997, 17 AFORES were allowed to begin enrollment in February of that year. Workers were initially slow to sign up for the program, but participation has been increasing gradually.

As of early February, 11.7 million workers, or 97% of eligible participants, had enrolled in one of the 17 AFORES. Statistics from CONSAR show that five AFORES dominate the market: Bancomer, Santander Mexicano, Profuturo GNP, Banamex, and Bitai. Each AFORE is restricted to 17% of the total market, or roughly 1.99 million workers.

In early February, AMAFORES president Ralf Peters Castilla said the program is a success because enrollment has been higher than expected and because of 7% investment returns in real terms during July-December 1997. Peters, who also heads AFORE Bancomer, said private pension administrators have invested about 6.25 billion pesos (US\$729 million) over the past six months.

Opposition senator criticizes flaws in program

But the opposition Partido Accion Nacional (PAN) and the Partido de la Revolucion Democratica (PRD) strongly criticized the AFORE program. Influential PAN Sen. Jose Angel Conchello cites numerous irregularities in the system and describes program as the "fraud of the century."

Speaking to the joint legislative commission (Comision Permanente), Conchello said pension-fund administrators charge commissions to about 3 million workers who are unemployed. Approximately one-fourth of the funds transferred from the old retirement-savings system (Sistema de Ahorro para El Retiro, SAR) belong to unemployed workers, said Conchello. "The new system is creating more poverty among workers while allowing bankers and other retirement-fund managers to become wealthier," said the PAN senator.

At the urging of the Comision Permanente, the social security and finance commissions in the Chamber of Deputies passed a resolution asking the federal government to suspend the transfer of SAR funds to the AFORES. PRD Deputy Gonzalo Rojas Arreola, chairs of the Comision de Seguro Social, said CONSAR president Fernando Solis Soberon has been asked to testify on the discrepancies. In an interview with *El Economista*, Solis acknowledged that some complaints may be justified, but their magnitude has been exaggerated. "It is proper to differ with a decision that has

been taken and to propose a solution," said Solis. "But incorrect and inadequate statements, based on technical details, will only confuse the worker."

Furthermore, Solis said, workers have much more information about the privatized pension program than they did about the government-managed pension system. "Under the previous scheme, the worker had almost no knowledge of how a pension was managed," said Solis. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Feb 25, reported at 8.57 pesos per US\$1.00] (Sources: The News, 02/04/98; La Jornada, 02/16/98; El Economista, 02/16/98, 02/17/98; El Universal, 02/03/98, 02/06/98, 02/11/98, 02/18/98; Notimex, 02/19/98; El Nacional, 01/30/98, 02/04/98, 02/20/98; El Diario de Yucatan, 02/12/98, 02/20/98; Novedades, 02/04/98, 02/12/98, 02/20/98, 02/24/98)

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