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Government Proposes Greater Investment Flexibility for Pension Fund Managers

by LADB Staff
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The federal government is considering a proposal to allow the administrators of Mexico's private pension fund program (Administradoras del Fondo para el Retiro, AFORE) greater flexibility on how retirement savings are invested. The Comision Nacional del Sistema de Ahorro para el Retiro (CONSAR), the agency that regulates Mexico's AFORE programs, has proposed to increase investment options for the 14 fund administrators, including the right to buy debt sold by Mexican corporations in overseas markets. Under current law, AFORE managers can only buy long-term, peso-denominated government debt or investment-grade corporate debt sold in Mexican financial markets.

The changes proposed by CONSAR would allow pension-fund managers to acquire debt issued by Mexican corporations in foreign markets and denominated in US dollars. The change would have to be approved by the Secretaria de Hacienda y Credito Publico (SHCP) and the Banco de Mexico (central bank). CONSAR president Fernando Solis said longer-range plans would allow AFORE managers to invest pension funds in equity markets and American Depository Receipts (ADRs) to obtain higher yields. "I am confident that perhaps by the end of this year we will finish all the discussions and perhaps we'll be able to issue new investment guidelines and the possibilities of opening new pension funds," Solis said in an interview with Bloomberg news service.

The AFORE program went into effect July 1, 1997, although enrollment in the program was started at the beginning of that year (see SourceMex, 1997-02-05). The higher-yielding investments are intended as an incentive to entice workers to save more than the required minimum because the retirement accounts are earning rates of return higher than inflation. The average inflation-adjusted return on pension accounts was 8% in 1998, with that return averaging 11% in the first half of this year. "The greatest challenge for the pension-fund managers is informing the public, especially when AFOREs will move toward riskier investment portfolios," said Romeo Gutierrez de la Garza, president of the AFORE trade association (Asociacion Mexicana de Administradoras de Fondos para el Retiro, AMAFORES).

Association says privatized pension program a success

Gutierrez said the privatized pension program has been a great success since its inception in February 1997, with more than 14.6 million workers enrolled in the program. Administrators are projecting enrollment to increase to 20 million workers by year-end 1999. Gutierrez said workers have invested 80 billion pesos (US$8.5 billion) in the AFORE programs, or roughly 6% of Mexico's total GDP. About 26 billion pesos (US$2.75 billion) of the total represents funds transferred from the government-managed pension fund (Sistema de Ahorro para el Retiro, SAR) and the additional 54 billion pesos (US$5.7 billion) were contributed by Mexican workers over a two-year period.
Gutierrez said contributions have increased significantly since the beginning of the year, when the SHCP eliminated taxes on AFORE yields. He also credited the success of the AFORE program to relatively low operations costs, which have reduced commission fees to an average of 1.5%, compared with 2.3% to 2.6% in Chile, Argentina, and other South American countries. "Commissions in Mexico are the cheapest, around 40% lower than in South America," said Gutierrez. But the success of the program is marred by an inequitable distribution of the accounts. Seven of the 14 pension-fund managers have cornered about 85% of the market.

Many of the dominant AFOREs are affiliated with major banks like Bancomer, Banorte, Banamex, Santander, and Bital. Bancomer and Banamex have attracted more than 30 billion pesos (US$3.2 billion), or about 40% of the pension funds. Analysts said the seven smaller AFOREs will struggle to survive and could find themselves the subject of takeovers or mergers. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Aug. 4, reported at 9.43 pesos per US$1.00] (Sources: Novedades, 07/19/99; Bloomberg news service, 07/22/99; El Universal, 07/30/99; Notimex, 07/29/99; The News, 07/23/99, 08/02/99)

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