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The government's plan to allow a portion of worker retirement funds to be invested in Mexican and global stock markets took effect with little fanfare in mid-January. Under the plan, private retirement-fund administrators (Administradora de Fondos del Retiro, AFOREs) will be allowed to invest as much as 15% of their portfolios in domestic and international stocks. At current portfolio levels, this would be about 65 billion pesos (US$5.7 billion). The new plan applies to 15 AFOREs, which currently manage about 33 million accounts.

The number of fund administrators has dwindled from the original 18 that were awarded permits when the program was first created in 1997 (see SourceMex, 1997-02-05 and 1997-09-24). The majority of these pension-fund managers are affiliated with banks or investment firms. Under new rules enacted by the retirement-savings regulator (Comision Nacional del Sistema de Ahorro para el Retiro, CONSAR) this year, each administrator will now be allowed to operate two separate funds (sociedad de inversion especializada de fondos para el retiro, SIEFOREs), as opposed to a single fund allowed previously.

The program creates SIEFORE 2, through which administrators can invest as much as 15% of worker funds in the Bolsa Mexicana de Valores (BMV) and in international stock markets. The rest of the investments allowed will be similar to those in SIEFORE 1, which directs funds to basic instruments such as municipal and state bonds and as much as 20% in principal-protected international securities.

AFOREs have invested 80 billion pesos (US$7.1 billion) of retirement funds in government projects such as a new terminal for the Mexico City international airport and a highway from Mexico City to Toluca in Mexico state, said CONSAR. CONSAR president Mario Gabriel Budebo said the workers who opt to invest in SIEFORE 2 can increase their retirement earnings by as much as one percentage point per year. He noted that the stock-market investments offer other benefits to Mexican workers, such as a share in profitable companies.

"This means that workers now have the possibility of becoming owners, even in a small way, of the largest, most solid enterprises in our country and in developed nations and to enjoy the accompanying profits and dividends," said Budebo.

New plan said to give workers more options

Financial experts generally approved the changes because of the benefits they will provide to workers. "We must remember that workers initially could invest only in funds comprising domestic financial instruments such as debt and government bonds," said Alejandro Villagomez, a financial columnist for the Mexico City daily newspaper El Universal. "With the approval of new investment vehicles, we have taken another step toward diversification."

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Syndicated columnist Sergio Sarmiento said the Mexican economy would benefit from the expansion of the program. "There will be a greater availability of resources for investment," said Sarmiento. "One of our country's most serious problems has been the absence of a stock market that is solid and ample," Sarmiento added. "This has limited financing options for the private sector."

Critics have raised concerns that investing retirement funds in the stock market could be risky for workers, especially in the event of an economic crisis similar to the one that followed the 1994 peso devaluation. BMV president Guillermo Prieto Trevino tried to allay these fears, however, noting that the new program was established with safeguards that protect worker funds. "The investments will be made on indexes, which allows greater diversification," said Prieto. He also noted that investments are only allowed on equity linked with guaranteed principal. "In the case of a decline in the stock market, these investments will not be seriously affected."

Initial projections by CONSAR and private analysts suggest that 20 billion (US$1.7 billion) to 25 billion pesos (US$2.2 billion) in retirement funds could be invested in the BMV this year. The entry into the Mexican stock market is expected to be gradual. "It's likely that they won't reach their limit [of 65 billion pesos] by the end of this year," Budebo said.

Changes help large firms listed in Mexican stock market

Some analysts said the retirement funds would primarily benefit a handful of large corporations such as wireless company America Movil and its parent company TELMEX, WALMEX (a subsidiary of US-based Wal-Mart), and giant cement manufacturer CEMEX. This is because the new rules allow retirement funds to be invested only in the BMV's main index, the Indice de Precios y Cotizaciones (IPC). The four companies account for 48% of the IPC, said US-based brokerage company Merrill Lynch.

Fund managers will also have the option of investing in prominent stock indexes in developed markets, including the Dow Jones Industrial Average and the NASDAQ in the US; the DAX and the HDAX in Germany; the Nikkei in Japan; and the CAC 40 in France. Stock indexes in Canada, Hong Kong, Portugal, Switzerland, Spain, the Netherlands, Belgium, Britain, and several other countries are also eligible. The investment in overseas stock markets was made possible by legislation approved in both Chambers of Congress in 2002 (see SourceMex, 2002-05-01 and 2002-10-26).

Pension-fund managers were pleased with the changes, which they said created more flexibility not only for the account holders but also for the AFOREs. "We are in favor of competition, and we now have a free market," said Alvaro Madero Rivero, president of the Asociacion Mexicana de Administradoras de Fondos para el Retiro (AMAFORE). Madero said a major benefit for workers was that they would be able to switch from one company to another without having to wait a full year. "It is our responsibility to give them all the information so they can make the decisions that best suit them."

The expansion of the retirement-fund program comes at time when the industry is experiencing a minor downturn. In 2004, the fund managers reported a decline in profits of about 11% from 2003. This was the first decline reported since the AFOREs went into effect in 1997. [Note: Peso-dollar

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conversions in this article are based on the Interbank rate in effect on Jan. 26, reported at 11.25 pesos per US$1.00] (Sources: Spanish news service EFE, 01/17/05; Notimex, 01/12/05, 01/17/05, 01/18/05; La Jornada, 01/16/05, 01/18/05; Dow Jones news service, Business News Americas, El Siglo de Durango, Associated Press, El Sol de Mexico, Imagen Informativa, 01/18/05; La Cronica de Hoy, 01/17/05, 01/19/05; El Financiero, 01/17-19/05, 01/24/05; El Universal, 01/17/05, 01/18/05, 01/25/05)

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