Non-contributory pensions in Mexico

Larry Willmore, 7 July 2010

Surprisingly little is known about Mexico's experience with non-contributory (tax-financed) pensions for elderly persons 70 years of age and older. It was thus with great interest that I came across a report commissioned by the UN Economic Commission for Latin America and the Caribbean (ECLAC) from Mexican social scientists Gloria Rubio and Francisco Garfias. Their report is available only in Spanish, at least for the moment.

The report begins by explaining that the traditional social security system provides pensions for only a minority of the elderly in Mexico:

> *Only about 25% of seniors currently receive a pension or retirement income from the social security system. In the richest quintile of the population, coverage is 50 percent, while in the poorest quintile coverage does not reach even 3 percent.*
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> *Solamente alrededor de una cuarta parte de los adultos mayores recibe actualmente los beneficios del sistema de seguridad social a través de una pensión o jubilación. En el quintil poblacional (20 por ciento) más rico la cobertura es del 50 por ciento, mientras que en el más pobre ni siquiera alcanza el 3 por ciento.*
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> Gloria M. Rubio and Francisco Garfias, "Análisis comparativo sobre los programas para adultos mayores en México", Serie Políticas Sociales 161 (United Nations ECLAC, Santiago, Chile, May 2010), p. 5 (my translation into English).

My initial, positive reaction turned to dismay when I reached chapter 1 "Selectivity and Universality". 'Selectivity' is code for targeting. It is clear that the authors favour targeting, to the point of making the absurd (to me) claim that selectivity is compatible with universality:

> *Universality is not incompatible with the possibility of determining criteria of selection in order to give the most vulnerable priority in accessing the public resources needed to provide social services or guarantees. [....] Selectivity is a way to make a program more efficient by increasing benefits available for the poor, given a limited budget.*
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> *[L]a universalidad no es incompatible con la posibilidad de establecer criterios de selectividad que establezcan la prioridad de la población más vulnerable para acceder a los recursos públicos requeridos para disponer de servicios o garantías sociales. [....] La selectividad es un medio para incrementar la eficiencia de un programa a través de aumentar los beneficios que puede recibir la población pobre dado un presupuesto limitado.*
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> Rubio and Garfias, p. 8.

Readers of Thought du Jour are no doubt aware of my preference for universal benefits over targeting. Targeting is supposed to help the poor, but in practice only universal benefits are able to reach all the poor. Universality has other advantages as well, including lower administration costs, reduced opportunities for corruption, and better incentives for work and saving.

Rubio and Garfias examine three non-contributory pension systems that are currently in place in Mexico. The beneficiaries of each are the elderly aged 70 years or more, but that is the only thing they have in common. The first non-contributory pension was established in 2001, not by the federal government, but rather by a local government, that of the Distrito Federal (DF), which includes Mexico City. The formal name of the scheme is Pensión Alimentaria Ciudadana para Adultos Mayores, or PACAM. The second scheme is an old-age supplement provided since 2006 to households participating in Oportunidades (formerly Progresa), a programme initiated in 1998 for poor rural families with school-age children. The most recent non-contributory pension is known as "70 y más", which I have translated as "70+" (this works in nearly all languages!).

The table below provides basic information for the three schemes. In 2009 approximately 4 million persons (3.7% of the total population of Mexico) were aged 70 or more years, so the three schemes together provide cash benefits to more than 60% of the 70+ age group.

	PACAM	**Oportunidades**	**70+ Scheme**
Start date	2001	2006	2007
Beneficiaries (2009)	443,500	81,417	2,025,551
Monthly pension (2009)	\$822 (US\$63)	\$295 (US\$23)	\$500 (US\$38)

PACAM began in February of 2001 as a universal scheme for everyone aged 70 years or older with at least three years residence in the Federal District (DF). In addition to a cash pension – added each month to a plastic debit card, and indexed to the minimum wage – PACAM also provides free medical care and free prescription drugs. According to the government of the DF, the scheme in 2009 reached 443,500 beneficiaries, equivalent to 96.7% of the relevant age group. Rubio and Garfias report 470,000 beneficiaries, but inexplicably claim that this amounts to only 79% of the relevant age group.

PACAM was (and is) enormously popular, and would have been implemented throughout the country had Andrés Manuel López Obrador (1952-), governor of the DF from December 2000 through July 2005, succeeded in his attempt to win the 2006 presidential election. (He lost narrowly to Felipe Calderón, the current president of Mexico.)

No-one in Mexico, with the exception of Mr López Obrador, took up the banner of universal age pensions – not even at the state level. But the federal government in 2006 added a small cash supplement for each elderly person, aged 70 years or more, residing in a household eligible for support from Oportunidades. These payments were conditional on each elderly person reporting for semi-annual medical checkups. The scheme initially benefitted nearly 800,000 elderly persons, but when the more generous 70+ pensions became available, beneficiaries fell sharply, dropping to around 80,000 by the year 2009.

In 2007, the PRD (the party of López Obrador) in the Chamber of Deputies successfully passed legislation for universal, non-contributory pensions for those 70 years of age or older residing in a rural community with fewer than 2,500 inhabitants. This initially benefitted 1.2 million persons. Congress in 2008 increased the allowable size of the community to 20,000, and the number of beneficiaries increased to 1.86 million. In 2009 Congress again increased the allowable community size (to 30,000) and the number of beneficiaries increased again, to more than 2 million. The monthly benefit is $500 (paid bi-monthly in cash or by direct deposit), in addition to a death benefit of $1,000. All payments are in Mexican currency, and there is no indexing.

A relevant question is, what is the coverage of the supposedly universal 70+ scheme? Rubio and Garfias (tables V.1 and V.2) claim that it is only 59.1%, but this implies that 3.4 million of Mexico's 4 million elderly live in small rural communities, which cannot possibly be correct.

SEDESOL, the agency that administers the 70+ pension scheme, in its latest report (April 2010), estimates the population aged 70+, residing in communities smaller than 30,000, to be 2,190,980. Beneficiaries of the scheme in March/April 2010 numbered 2,114,869, suggesting coverage of 96.5%, similar to that reported by PACAM for the DF.

It is remarkable that Mexico has managed to provide pensions quickly to almost all age-qualified persons living in remote areas of the country. Provision of pensions in urban areas is even easier, as the experience of PACAM in Mexico City illustrates. The evidence is clear. There is no financial, logistic or political reason to deny a basic age pension to any resident Mexican, regardless of where he or she chooses to live.

Tags: ageing, Mexico, targeting

This entry was posted at larrywillmore.net/blog on Wednesday, July 7th, 2010