

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

MEXICO

**PROGRAM TO REDUCE THE ECONOMIC VULNERABILITY OF OLDER ADULTS
IN MEXICO**

(ME-L1332)

LOAN PROPOSAL

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REQUIRED LINKS	
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OPTIONAL LINKS	
1.	Comparative Policy Matrix
2.	Decree amending and expanding Article 4 of the Political Constitution of the United Mexican States
3.	Decree amending, expanding, and repealing various provisions of the Social Security Act and the Retirement Savings Systems Act
4.	Agreement of the Governing Board of the National Retirement Savings System Commission issuing policies and criteria relating to fees
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6.	Gender annex
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ABBREVIATIONS

AFORE	Administradoras de Fondos para el Retiro (Retirement Fund Administrators)
AMAFORE	Asociación Mexicana de Administradoras de Fondos para el Retiro (Mexican Association of Retirement Fund Managers)
BADLs	Basic Activities of Daily Living
CONEVAL	Consejo Nacional de Evaluación de la Política Social (National Council for Social Development Policy Evaluation)
CONSAR	Comisión Nacional del Sistema de Ahorro para el Retiro (National Retirement Savings System Commission)
ECG	Evaluation Cooperation Group
ENIGH	Encuesta Nacional de Ingresos y Gastos de los Hogares (National Survey of Household Earnings and Expenditure)
ESG	Environmental, social, and governance
IADLs	Instrumental Activities of Daily Living
IMF	International Monetary Fund
IMSS	Instituto Mexicano del Seguro Social (Mexican Social Security Institute)
INEGI	National Institute of Statistics and Geography
LSS	Social Security Act
OECD	Organisation for Economic Co-operation and Development
OVE	Office of Evaluation and Oversight
PBL	Policy-based loan
SHCP	Department of Finance
USPSS	Unidad de Seguros, Pensiones y Seguridad Social (Insurance, Pensions, and Social Security Unit)

PROJECT SUMMARY
MEXICO
PROGRAM TO REDUCE THE ECONOMIC VULNERABILITY OF OLDER ADULTS IN MEXICO
(ME-L1332)

Financial Terms and Conditions							
Borrower:			Flexible Financing Facility ^(a)				
The United Mexican States			Amortization period:		20 years		
Executing agency:			Disbursement period:		12 months		
Department of Finance			Grace period:		5.5 years ^(b)		
Source	Amount (US\$)	%	Interest rate:		SOFR-based		
IDB (Ordinary Capital):	600,000,000	100	Credit fee:		(c)		
			Inspection and supervision fee:		(c)		
			Weighted average life:		12.75 years		
Total:	600,000,000	100	Approval currency:		U.S. dollar		
Project at a Glance							
Project objective/description: The program's general objective is to reduce the financial vulnerability of older adults in Mexico. The specific objectives are to: (i) improve the coverage and benefits provided by the noncontributory pension system, and (ii) improve the coverage, adequacy, and equity of benefits provided by the contributory pension systems.							
Special contractual conditions precedent to single loan disbursement: Special contractual conditions precedent to the first and only loan disbursement under the second operation in the series: (i) fulfillment of the policy reform conditions established in the Policy Matrix, and (ii) all other conditions set forth in the loan contract (paragraph 3.2)							
Exceptions to Bank policies: None							
Strategic Alignment							
Objectives: ^(d)	O1 <input checked="" type="checkbox"/>		O2 <input checked="" type="checkbox"/>			O3 <input checked="" type="checkbox"/>	
Operational Focus Areas: ^(e)	OF1 <input type="checkbox"/>	OF2-G <input checked="" type="checkbox"/> OF2-D <input type="checkbox"/>	OF3 <input checked="" type="checkbox"/>	OF4 <input checked="" type="checkbox"/>	OF5 <input checked="" type="checkbox"/>	OF6 <input type="checkbox"/>	OF7 <input type="checkbox"/>

(a) Under the terms of the Flexible Financing Facility (FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, commodity, and catastrophe protection conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

(b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.

(c) The credit fee and the inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with applicable policies.

(d) O1 (Reduce poverty and inequality); O2 (Address climate change); and O3 (Bolster sustainable regional growth).

(e) OF1 (Biodiversity, natural capital, and climate action); OF2-G (Gender equality); OF2-D (Inclusion of diverse population groups); OF3 (Institutional capacity, rule of law, and citizen security); OF4 (Social protection and human capital development); OF5 (Productive development and innovation through the private sector); OF6 (Sustainable, resilient, and inclusive infrastructure); and OF7 (Regional integration).

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem to be addressed, and rationale

- 1.1 **Macroeconomic context.** Gross domestic product (GDP) grew by 3.2% in Mexico in 2023, surpassing projections made at the beginning of the year (the International Monetary Fund (IMF), for example, forecast growth of 1.7%).¹ Although monetary tightening continued, with the benchmark rate at a historic high of 11%, the domestic economy proved resilient and was supported by buoyant external growth. Inflation remains high, at 4.4% in February.² Bank of Mexico cut the rate by 0.25% at the final meeting of the quarter, but mandatory loosening is expected to be gradual rather than sequential, with the rate remaining high for most of the year. On the fiscal front, results have been in line with the authorities' targets, and the debt currently stands at 46.8% of GDP.³ With the next presidential elections due to take place in 2024, the authorities project a fiscal deficit of 5.4% of GDP. This could boost economic activity by raising consumption and investment, yet it could also leave the next administration facing greater pressure on the public finances. Against this backdrop, the IMF projects growth of 2.7% in 2024.
- 1.2 **Background.** One of the greatest challenges for Mexico is the speed at which its population is aging, with the number of older adults set to increase in both absolute and relative terms. The population aged 65 and above is projected to expand from 9.8 million to 20.5 million between 2020 and 2040, from 8% of the total to 14%.⁴ Between 2010 and 2022 alone, the total number of households with at least one member over 65 years of age rose from 20% to 26% (Figure 1), and this proportion will continue to grow. The aging population means that millions of people will experience growing financial dependency, as physical conditions lead them to exit the workforce. The financial mechanisms that ensure a good standard of living for older adults need to be strengthened in light of this increasingly rapid population aging.⁵ In Mexico, the risk of aging can be covered by social security once a minimum age and minimum level of work contributions have been attained. Those with formal sector employment obtain the benefits offered by insurance arrangements included in the Social Security Act, which are provided by the Mexican Social Security Institute (IMSS).⁶ However, most people in the country lack such coverage, as levels of informality are high and a majority make only sporadic contributions to social security.⁷

¹ Growth data are from the IMF's January 2024 [World Economic Outlook](#).

² Bank of Mexico figures.

³ Department of Finance (SHCP) figure.

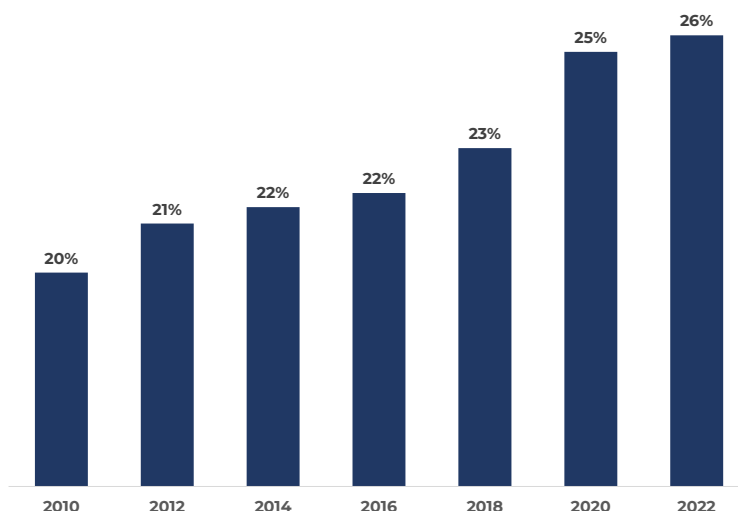
⁴ Population Projections for Mexico and the Federative Entities, 2020-2070. [National Population Council \(CONAPO\)](#).

⁵ [National Council for Social Development Policy Evaluation \(CONEVAL\) \(2018\)](#).

⁶ The country has another system for public sector workers: the Institute of Social Security and Services for Public Employees (ISSSTE), which has a pension mechanism similar to that of the IMSS. In addition, the country is divided into 32 federative entities, whose powers include pension provision. There are also other, independent systems for universities, state-owned productive companies, and deconcentrated bodies. None of these is as significant as the IMSS or provides comparable coverage. Aguirre (2012), Vázquez Colmenares (2017), [Azura et al. \(2019\)](#).

⁷ Azura et al. (2019).

Figure 1. Mexico. Percentage of households with at least one person aged 65 or above



Source: Authors' estimates using data from the National Survey of Household Earnings and Expenditure (ENIGH), 2010-2022.

- 1.3 **Most jobs in Mexico are informal, which represents a barrier to insurance against different risks, including aging.** The most recent data from the [National Occupation and Employment Survey \(ENOE\)](#) (fourth quarter of 2023) estimate Mexico's population at 129.6 million, 61 million of which belong to the economically active population. Within the latter, 59.4 million are employed, yet only 39% (23.3 million) are covered by social security. The rest—36.1 million (61% of the total)—are wage earners, agricultural sector workers, or independent workers, groups that are obliged to directly assume the cost of the risks covered by social security, including pensions.
- 1.4 **As in many countries in the region, high levels of informality have necessitated the creation of noncontributory pension systems.** The physical and cognitive capabilities of most adults deteriorate as they age, and this leads to declining labor market participation, even in the case of informal employment.⁸ This physical deterioration is accompanied by higher spending on health care. In the absence of social security coverage, this must be financed directly from household disposable income.⁹ Women aged 65 or over face a more critical situation, as they

⁸ As individuals age, their degree of functional dependency increases. This includes performing daily activities without the need for assistance. It is measured with regard to two areas of activity: Basic Activities of Daily Living (BADLs), which relate to personal care, and Instrumental Activities of Daily Living (IADLs), which relate to cognitive and motor capabilities and include more complex activities and social interaction. See [López-Ortega, M. and N. Aranco. \(2019\)](#), [González-González, C. A. et al. \(2019\)](#).

⁹ In the case of Mexico, [Salinas Rodríguez et al. \(2020\)](#) found that when compared with nondependent individuals, out-of-pocket expenditure was 107% higher in the presence of BADL dependence, 97% higher for IADL dependence, and 132% for a combination of both dependencies. In monetary terms, this translates into costs of US\$1,570 in the case of BADL dependence, US\$1,325 in the case of IADL, and US\$1,947 in the case of combined dependence.

experience a higher prevalence of physical limitations,¹⁰ limited monetary earnings,¹¹ and higher life expectancy.¹² In fact the composition of this age group is predominantly women (54%), significantly higher than the national percentage, and it is expected to remain like this over the coming decades.¹³ Given this reality, Mexican governments have created a set of social programs in recent decades to support older adults who are not covered by social security. These programs are cash flows based primarily on age criteria, and they seek to protect a basic level of consumption on the part of older adults.¹⁴

- 1.5 **The nature of Mexico's labor market prevents most people from meeting the legal requirements for obtaining a contributory pension upon retirement, thus creating intra- and intergenerational inequities.** Social security contributions cover an insurance package that includes coverage under the contributory pension system.¹⁵ Those workers who made at least one social security contribution prior to June 1997 are entitled to benefits under a defined benefit system, consisting of a pension based on age and salary level, subject to a minimum of 500 weeks of contributions. The financial nonviability of this system forced an amendment to the Social Security Act to create a defined contribution system. This system, which is operated on the basis of individual accounts managed by specialized private companies (Retirement Fund Administrators (AFOREs)), was launched in July 1997. The system of individual accounts included new conditions for obtaining a minimum guaranteed pension,¹⁶ including a requirement for 1,250 weeks of contributions and an increase in the minimum retirement age from 60 to 65. These changes created substantial inter- and intra-generational inequities based on differences in requirements and benefits relative to the previous system, as well as the level of formality and earnings of workers. With respect to the former, most workers (as many as 75%) are unable to meet the requirements.¹⁷ Under the 1997 requirements, most workers only had the option of withdrawing the amounts accumulated in their individual accounts upon retirement. This aggravated inequalities, as differences in wage histories meant that a lower proportion of low-income workers were able to secure a pension compared with those on higher incomes.¹⁸ This situation was particularly critical for

¹⁰ According to data from the 2022 ENIGH, only 26% of women aged over 64 had cash income (versus 42% of men).

¹¹ The most recent data show that in 2021, the proportion of the population aged 53-69 years with one or two physical limitations was 8.5%, while for the population aged 70 and above it was 16.3%, with significant gender differences. The proportion of men with one or two disabilities was 6.7% for those aged 53-69 and 11.5% for those aged 70 and above. Prevalence rates among women, meanwhile, were 10% and 20%, respectively, meaning that women experience more physical problems in old age. [National Survey on Health and Aging in Mexico \(2021\)](#).

¹² [National Survey on Health and Aging in Mexico \(2021\)](#).

¹³ Population Projections for Mexico and the Federal Entities, 2020-2070. National Population Council (CONAPO).

¹⁴ [List of Federal Social Development Programs and Actions](#) published by CONEVAL (2018, 2019, 2020, 2021, 2022, and 2023).

¹⁵ [Levy \(2018\)](#), [Azuara et al. \(2019\)](#).

¹⁶ Equivalent to the 1997 monthly minimum wage.

¹⁷ National Retirement Savings System Commission (CONSAR) (2018). Gender-related differences are also significant, with a rate of only 22% in the case of women (versus 29% for men).

¹⁸ [CONSAR \(2019\)](#).

women, since their lower earnings from work and their low contribution density and longer life expectancy would be reflected in lower pensions.¹⁹ As regards the retirement age, the differences between the pre-1997 system and the system of individual accounts led to significantly lower replacement rates (pension payments as a percentage of final earnings).²⁰ In other words, the segmentation of pensioners by income level under the 1997 legal provisions exceeded the segmentation in the labor market.

- 1.6 **Weaknesses in the design of the system of individual accounts made it impossible to finance adequate pensions and made it difficult to leverage the savings potential created by contributions to the system.** In addition to the problem of low contribution density (caused by informality), the system of individual accounts kept total contributions at the same level as under the previous system (6.5% of assessable wages), thus substantially reducing the expected pension replacement rate.²¹ The mandatory savings accumulated through contributions and the returns achieved by the AFOREs were not compensated by higher levels of voluntary saving in the period following the introduction of the system.²² The average balance was also affected by the general level of fees charged to workers for managing their accounts. The average commission was almost double the average level charged by similar fund administrators internationally.²³ In addition, the benefits obtained in return for these fees focused solely on optimizing internal processes, with little support and advice offered to workers on how to leverage the benefits of their individual pension accounts.²⁴ Lastly, there was a failure to leverage the potential of pension funds to improve the sustainability of the long-term investments that they financed. All of these factors led to a lower accumulation of the individual account balances needed to improve the coverage of risks such as death, longevity, and volatility in interest rates.
- 1.7 **There are other contributory pension systems in Mexico, particularly those provided by subnational governments, which are fragmented and lack institutional interoperability with the individual accounts system.** All of Mexico's federative entities have the power to implement one or more pension systems. Until 2019, no harmonized information was available on workers'

¹⁹ This amount would be up to 42% lower. See [CONSAR \(2022\)](#).

²⁰ An extreme case would be that of two people with similar demographic and work profiles, with one having paid a contribution in June 1997 (the transition generation) and the other one afterwards (the AFORE generation). The average pension obtained by the first individual would be significantly higher than that of the second. See Azuara et al. (2019), Vázquez Colmenares (2017), and Centro de Estudios Espinosa Yglesias (2013).

²¹ This amount included contributions made by workers (1.125%), their employers (5.15%), and the federal government (0.225%), with a ceiling equivalent to 25 minimum wages: far below the average in similar individual account systems in Latin America (9.1%). See [International Federation of Pension Funds Administrators](#).

²² Total voluntary savings have grown in recent years, but were equivalent to 3.3% of total funds under administration at the end of the first half of 2023. See CONSAR, [Retirement Savings System statistical data](#).

²³ [Azuara et al. \(2019\)](#).

²⁴ Prior to the reform approved in 2021, the average commission charged for administering individual accounts was almost double that charged by similar fund administrators internationally. Moreover, the commission did not include personalized support to help members leverage the full benefits of their individual pension accounts. See [Azuara et al. \(2019\)](#).

entitlements or on the number of people receiving pensions. At the aggregate level, most of these systems are known to be pay-as-you-go, defined-benefit systems that are decapitalized as they lack the financial reserves needed to pay the pensions of retiring workers.²⁵ Each federative entity has established its own rules governing the benefits to be awarded and the financing of contributions.²⁶ This situation is reflected in greater friction in the labor market, as individuals lose the benefits accumulated in one system if they decide to switch to another job with different coverage.

- 1.8 **Combined with the lack of interoperability and complementarity with other systems, the low coverage and inadequate benefits provided by both contributory and noncontributory pension systems led to high levels of financial vulnerability among older adults.** There were 10.3 million over-65s in Mexico in 2018, of whom 69% (7.1 million people) lived in conditions of poverty or vulnerability (with incomes below the poverty line). The majority of this population (55%) were women. This situation was the result of the insufficient coverage and benefits provided by the contributory and noncontributory pension systems. With respect to the latter, additional factors contributing to inequities have stemmed from fragmentation, a lack of portability, and a lack of equivalent benefits.²⁷
- 1.9 **The Government of Mexico initiated a set of reforms aimed at improving the contributory and noncontributory pension systems, and the Bank has provided technical support for this process.** Given the prospect of low pensions for the growing adult population, the Government of Mexico implemented different reforms to strengthen the contributory and noncontributory pension systems. In the case of the noncontributory pension, a constitutional reform was introduced to ensure a universal basic income for all over-65s in the country, while for contributory pensions, a set of legal amendments was approved to improve the coverage, adequacy, and equity of benefits provided under the system of individual accounts managed by the AFOREs. These amendments were approved with the support of both the private sector and organizations representing workers. With regard to subnational contributory pension systems, work began to achieve effective interoperability between systems in order to ensure the recognition of employee's work histories and facilitate access to pension benefits upon retirement.
- 1.10 **These reforms were supported by Bank technical assistance and are part of this series of two programmatic policy-based loans.** The Bank approved this programmatic series with the objective of reducing the financial vulnerability of older adults in Mexico through improvements to the following: the coverage and benefits of the noncontributory pension system; the coverage, adequacy, and equity of benefits provided under contributory pension systems; and the design and coordination of subnational systems. The Bank has provided technical support for the policy reforms included in the series, the vertical logic of which is set out in Figure 2. The proposed solutions to the development problems identified in the

²⁵ Aguirre (2012).

²⁶ Azuara et al. (2019), Vázquez Colmenares (2017), and Centro de Estudios Espinosa Yglesias (2013).

²⁷ Almost none of the systems run by the states or independent bodies are complementary to national-level systems. In practice, this means that they become a tax on contributors who decide to take another job (as they lose recognition of their contributions).

series are divided into two parts, the first of which focuses on legal reforms and the second on their implementation, necessary institutional modifications, and evaluation of the tangible effects of the reforms. The first operation, ME-L1315 (5592/OC-ME), encompasses the reforms approved by the Government of Mexico and supported by the Bank. This operation, for a total of US\$700 million, was approved by the Bank’s Board of Executive Directors on 28 September 2022. The contractual conditions precedent to the first and only disbursement were fulfilled on 21 September 2023. This second operation is based on the implementation of the reforms and the evaluation of their effects, a process that has also been supported by the Bank.

Figure 2. Vertical logic of the programmatic series

Problems		High financial vulnerability of older adults against a backdrop of rapid population aging		
		Low coverage and inadequate benefits under the noncontributory pension	Low coverage, sufficiency, and equity of benefits provided by contributory pension systems	Multiplicity of contributory pension systems with no portability of benefits
Causes		Pension systems were designed assuming formal labor relations and payment of contributions		
		<ul style="list-style-type: none"> High informality Incomplete social protection system Declining physical capabilities among older adults, who then exit the labor force. 	<ul style="list-style-type: none"> Informality leads to gaps in contributions. Contributory pension based on individual accounts with requirements that few could meet. Design flaws that inhibited savings Pension funds did not promote sustainable investments. Individual account system provided low replacement rates. 	<ul style="list-style-type: none"> There are other contributory systems (mainly subnational governments) that lack benefit portability.
Solutions	Reforms PBL I	<ul style="list-style-type: none"> Create a universal noncontributory pension system with adequate transfers. 	<ul style="list-style-type: none"> Relax requirements for the contributory pension to reflect market realities (reduce weeks of contributions) Improve individual account system for higher savings Promote the use of environmental, social, and governance (ESG) criteria by pension funds Improve replacement rates financed by individual accounts. 	<ul style="list-style-type: none"> Design mechanisms for interoperability between individual account systems and other contributory pension systems
	Implementation PBL II	<ul style="list-style-type: none"> Assess coverage and benefits using independent data Parametric and/or operational adjustments 	<ul style="list-style-type: none"> Evaluate the effects of the parametric changes to determine their effectiveness Adjust rules where necessary 	<ul style="list-style-type: none"> Implement interoperability mechanisms
Expected outcomes		<ul style="list-style-type: none"> Guarantee a universal basic income in old age. 	<ul style="list-style-type: none"> Improve the coverage, sufficiency, and equity of benefits provided under the individual account system Promote pension system investments with ESG criteria 	<ul style="list-style-type: none"> Improve design of the state pension systems in terms of equity and interoperability

1.11 **Noncontributory pension: reforms, implementation, and evaluation.** The first operation in the series encompassed a set of reforms that included a [constitutional reform](#) establishing a universal right to a noncontributory pension. To this end, article 4 of the Constitution was amended and a section was added establishing that “older adults are entitled to receive a noncontributory pension from the State on the terms set out in the Law.” In addition, the [operating rules](#) for granting this benefit have been published on a regular basis, most recently on 29 December 2023. The requirements are as follows: (i) 65 years of age; (ii) Mexican nationality; and (iii) residence in Mexico. The amount of the pension has increased each year and in 2024 is 2.35 times higher in nominal terms than in 2018. This amount is sufficient to cover the current poverty line in urban areas,²⁸ which benefits women in both absolute and proportional terms. For the second operation, the series stipulated an evaluation of the implementation of this reform, the expansion and adequacy of the pension, and the effectiveness of the pension

²⁸ This amount is Mex\$1,834, according to [the most recent measurement](#) published by CONEVAL.

in reducing poverty levels among older adults. These evaluations include specific recommendations for sustainable improvements to the pension over the next few years, since with population growth, it will be important to maintain an interoperable record with the individual account pension system.

- 1.12 **Contributory pension: approval, implementation, and evaluation of reforms to improve the coverage, adequacy, equity, and operation of the individual accounts system.** As shown in Figure 2, the first operation in the series was designed to encompass legal changes aimed at: (i) securing financing for higher pensions; (ii) easing the requirements for obtaining a pension under the individual account system; and (iii) reducing administration costs and improving sustainability in investments made with funds from the individual accounts. The second operation encompasses the implementation and evaluation of these reforms, for which the Bank has provided technical support. Under (i), securing financing for higher pensions—profound measures were included to improve pensions: (a) an increase in employer contributions to individual accounts, from 6.5% of the assessable wage to 15% (to be implemented gradually through annual increases between 2023 and 2030); and (b) a restructuring of government subsidies to cover only those workers earning 1-4 Measurement and Adjustment Units (UMAs).²⁹ This restructuring involves maintaining the same level of subsidies but targeting them toward low-income workers. The second operation encompasses the implementation of these changes consistent with the calendar of modifications set out in the original reform. With respect to (ii), easing the requirements for obtaining a pension—the first operation included the following changes aimed at improving the likelihood of securing a contributory pension: (a) a flexible arrangement for obtaining a minimum guaranteed pension based on a worker's age, average wage, and total number of weeks of contributions to the system (resulting in a higher average guaranteed minimum pension than originally); and (b) an effective reduction in the number of weeks of contributions required to obtain a pension through the system. A transitional mechanism reduced the number of weeks of contributions from 1,250 to 750 in 2021, providing for annual increases of 25 weeks thereafter until a permanent minimum of 1,000 weeks is reached in 2031. The second operation supports the implementation of these changes, as well as their evaluation to understand their effect on pensions financed through individual accounts. The evaluation documents that the reduction in weeks of contributions required (750 weeks in 2021) benefited 97% of the women who earned a pension in 2021. With the increase in guaranteed pensions, on average they obtained replacement rates of 80%, a figure above that achieved by men (71%). Under (iii), the first operation incorporated different measures to increase the sustainable balance in individual accounts, including: (a) an effective reduction in the fund management fees charged by the AFOREs through the introduction of a cap on charges,³⁰ and (b) in the case of environmental, social, and governance (ESG) criteria, rules were introduced for including these criteria in

²⁹ UMAs are denominated in pesos and are the basis for determining the payment amount of obligations and estimates set forth in federal and state laws and the legal provisions emanating from them. They were adopted in 2017.

³⁰ The cap is determined based on average fees charged for individual retirement account management in Chile, Colombia, and the United States.

the investment strategies followed by the AFOREs.³¹ The second operation supports the effective implementation of these measures, which are being reflected in growing individual account balances. The effective combination of these measures seeks to improve the coverage and adequacy of the system of individual accounts while also reducing inter- and intra-generational inequities. With respect to the former, more people will be entitled to a pension and their incomes in retirement will be improved as a result of reductions in the difference between average pensions under the pre-1997 system and those financed with individual account balances. In terms of the latter, the reforms will reduce the differences between the pensions received by low-income workers and those of high-income ones. In summary, the approval and effective implementation of the reforms will allow more workers to secure a pension and will increase the value of these pensions compared with those originally planned under the individual account system. In addition, the total value of resources administered by the AFOREs is expected to reach 56% of GDP by 2040,³² thus strengthening the financial viability of contributory pensions in Mexico and establishing the pension system as one of the main pillars of domestic savings and macroeconomic stability in the country.

- 1.13 **In the case of subnational pension systems, the first operation provided for the design of a mechanism to improve the governance and interoperability of these systems, while the second operation involves implementation of this mechanism, for which the Bank has provided key support.** In an original analysis financed and co-led by the IDB, the characteristics were identified of the 41 state systems existing in Mexico's 32 federal entities.³³ This work included technical proposals to improve the demographic parameters, financial viability, interoperability, and financing of the systems. The following activities were undertaken to this end: (i) estimates of total pension liabilities in each system and the impact of changes in parameters on these liabilities; (ii) analysis of the legal basis for benefits and contributions under each system; and (iii) design of a model to create interoperability with national systems, together with an analysis of possible long-term financing arrangements. The second operation includes approval of the specific technical proposal that will be used as a basis for improving the demographic parameters, financial viability, interoperability, and financing of these state systems. This proposal will give the finance authorities the tools that they need to provide support on a case-by-case basis to those state systems requesting assistance.³⁴
- 1.14 **Complementarity of the reforms.** The reforms implemented by the Government of Mexico and supported by Bank technical assistance can be seen as providing the foundations for a basic system of social protection for older adults. This second operation takes into account the specific progress that has been made to improve

³¹ This measure is in addition to and more ambitious than the reductions in fees supported in programmatic series 5026/OC-ME.

³² Banxico (2021).

³³ According to the information produced under technical cooperation operation ATN/OC-17777-RG, coverage under the 41 systems was estimated at 1.65 million active workers in 2021, with pensions paid to 450,000. The total deficit was estimated at Mex\$3.7 trillion, equivalent to 18% of GDP.

³⁴ The federal government does not have the power to introduce changes to state pension systems. The interoperability model facilitates support for entities that request assistance to improve these systems.

the contributory and noncontributory pension systems. The reform to create a universal noncontributory pension introduced a noncontributory pillar that guarantees a basic level of subsistence, although this has not yet been integrated with the contributory pillars. In the case of reforms to the system of individual accounts, improvements were made to the mandatory savings pillar linked to the labor market that makes it possible to accumulate resources toward a better pension upon retirement. This pillar is complemented by the voluntary savings pillar, the aim of which is to allow people to accumulate additional resources while serving as a tool for improved financial inclusion. In summary, the reforms help: (i) expand the coverage of the contributory and noncontributory systems; (ii) maintain a balance between contributions and benefits in the contributory systems; (iii) reduce inequities both within the system of individual accounts and the earlier system; (iv) restructure subsidies for contributory pensions to ensure their progressiveness and sustainability; and (v) provide better coverage for various risks, including death (property rights of workers' beneficiaries), longevity (through lifetime pensions for a greater number of people), and interest rate volatility (by encouraging sustainable investments). The proposed reforms include all of these elements and thus represent steps toward a more robust social protection system, as shown by the evaluations prepared for this second operation, with a higher benefit for women, given their employment profile and higher life expectancy.

- 1.15 **Pending challenges.** The performance of the country's pension systems continues to be affected by significant structural challenges, particularly in the labor market. Although the foundations have been laid for significant improvements for the population upon retirement, there is a need for further modifications to enhance the effectiveness and sustainability of Mexico's pension systems. A key factor in all of this will be improvements in the labor market to boost people's employment earnings, thus helping them fund better pensions. In particular, there is a need for a more dynamic labor market that generates more formal employment, as has occurred in Mexico in recent years.³⁵ This growth in employment is expected to continue in light of the measures included in the [labor reform](#),³⁶ which create incentives for improved labor intermediation and better wages. This, in turn, should be reflected in higher pension contributions. Given external and domestic conditions in Mexico—particularly the relocations of companies to the country—the medium- and long-term outlook for employment is positive.³⁷ In terms of the performance of its pension systems, there are several significant challenges to improving coverage, adequacy, and sustainability. In the case of the noncontributory pension, the greatest challenge will be the fiscal effort required to comply with constitutional rights. Total funding for the noncontributory pension in 2024 is equivalent to 1.4% of GDP, and this amount is expected to double in real terms by 2050.³⁸ However, as described in the section on sustainability, the budget process allows the necessary adjustments to be made each year in order to meet this obligation. There are a number of other challenges that would help ease the

³⁵ The total number of formal workers rose by 8% from 2019 to 2023, despite the effects of the pandemic. See <http://datos.imss.gob.mx/dataset/asg2023/resource/asg-2023-06-30>.

³⁶ This reform was supported by the IDB under operation [5026/OC-ME](#).

³⁷ See [Alfaro and Chor \(2023\)](#), [Standard & Poors \(2023\)](#), and [Morgan Stanley \(2023\)](#).

³⁸ See [IMCO \(2024\)](#) and [Centro de Investigación Económica y Presupuestaria \(2024\)](#).

burden of pension costs, including the integration of contributory and noncontributory systems, the full portability of benefits between systems, and improvements in women's retirement prospects.³⁹ Pension integration and portability could provide a foundation for consolidating benefits and revising the legal and financial conditions for obtaining a contributory pension. This would reduce the expected fiscal costs, reinforce the conditions included in the 2020 reform, and avoid any possible strategic behavior by individuals with the aim of securing higher pensions.⁴⁰ As pension contributions are just one component of employer and worker obligations (including health and general taxation), it is essential to analyze their degree of consistency with these other components and potentially restructure them to improve fiscal incidence and reduce disincentives to formal employment.⁴¹ If reforms are designed to successfully reduce the financial vulnerability of older adults, a future challenge will be to offset increased labor costs arising from contributory pensions as part of the overall set of obligations that must be covered by workers and employers. Lastly, in the case of subnational government pension systems, the progress supported by the Bank has been significant, yet it will be critical moving forward to improve the effective performance of most of them, including their interoperability with the AFORE system and their sustainability. The technical proposal supported by the Bank (Component IV) contains the elements needed to achieve these improvements, including benefit portability and complementarity, which in turn will reduce the labor frictions experienced by workers covered by the systems. The Bank maintains a technical dialogue and provides specific support to the Mexican authorities under different technical cooperation agreements relating to each of these challenges.

- 1.16 **Recent pension reforms in the region.** The implementation of measures to improve pension systems in Latin America highlights the difficulty of strengthening contributory systems in the context of high informality. The specific nature of Mexico's pension systems makes it difficult to establish parallels with the evidence from other countries. Nonetheless, there is significant evidence confirming the importance of institutional conditions for reducing the financial vulnerability of older adults through better pensions, particularly in the case of women.⁴² Recent literature shows that several countries with systems of individual accounts have introduced similar changes to those being implemented in Mexico, with the aim of building more inclusive and progressive systems. Arenas (2010), for example, describes how the 2008 reform of the Chilean pension system sought to consolidate a new social protection model based on integration between the solidarity pensions, the mandatory individual capitalization system, and the voluntary retirement savings system. A solidarity pension system was established with a view to covering the poorest segment of the older adult population. This involved creating a "basic solidarity pension" that initially benefited the poorest 40% of the country's population but was expanded gradually thereafter to cover the 60% of the poor population in July 2011. In 2022, a new reform created a

³⁹ This includes specific policies such as maternity coverage (i.e., additional coverage with contributions for each child) and compensation for life expectancy (i.e., increases in insured sums in line with projected improvements in life expectancy). See CONSAR (2018).

⁴⁰ [Bonthuis, Boele \(2024\)](#) includes a number of examples of this.

⁴¹ Altamirano et al. (2018), Azuara et al. (2019), and Levy (2018, 2019).

⁴² Asociación Mexicana de Administradoras de Fondos para el Retiro (AMAFORE) (2018), CONSAR (2018).

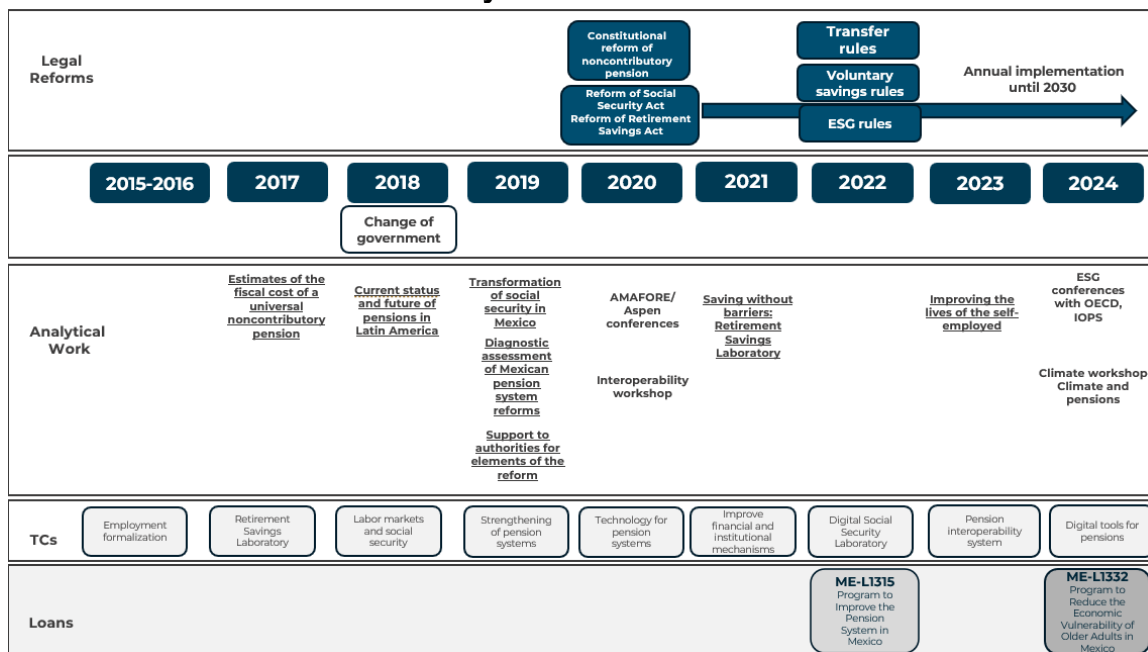
- universal guaranteed pension that benefits 90% of individuals aged 65 or over, whether or not they have a pension.⁴³ These changes have allowed complementarity between workers' contributions, direct subsidies, and the privately administered system.⁴⁴
- 1.17 Similar elements have been proposed by the Uruguayan Commission of Social Security Experts, which suggests the introduction of a minimum guaranteed income and changes to make fund management under the individual savings pillar more efficient by reducing fees and improving investments. The Commission proposes to improve supplementary pension savings by facilitating contribution mechanisms.⁴⁵
- 1.18 **The IDB's project strategy and value added.** Figure 3 and [optional link 7](#) (Value added and technical cooperation operations) summarize the support provided by the Bank to the Government of Mexico since this began almost a decade ago. The analytical component has provided the basis for specific recommendations and support in a variety of fields, as included in the policy matrix. The second operation in the series targets the implementation, continuation, and consolidation of the policy actions included in the first operation, which are transforming the coverage, adequacy, and viability of the country's noncontributory pension system and its main contributory system. The Bank has provided technical assistance to the Mexican authorities for the policy conditions to be met under the second operation, as well as those already achieved under the first one. This support means that there have been no changes in the policy conditions included at the time of the first operation, indicating that implementation has been consistent with the original plans. In other words, Bank support has helped preserve the scope of the series.

⁴³ Pensions for Chile. [Ministry of Finance](#).

⁴⁴ Vargas (2018).

⁴⁵ [Recomendaciones para la Reforma del Sistema Previsional Uruguayo \(Recommendations for the Reform of the Uruguayan Pension System\) \(2021\)](#).

Figure 3. IDB analytical and technical support for strengthening pension systems in Mexico



- 1.19 The IDB has played a recognized role in pensions analysis in Mexico, and it has provided support to the authorities for all of the policies included in the series matrix. The analytical work prepared by the Bank has assisted the Mexican authorities in designing the policy measures included in this series, thus helping establish it as leader in the public debate in this field, both in Mexico and in other countries. This work has included an analysis under operation ATN/OC-15248-ME aimed at estimating the cost of the universal noncontributory pension, including under different scenarios (inputs that are reflected in measures 2.1.1 and 2.2.1). The analysis was carried out jointly with the Department of Welfare (which replaced the Department of Social Development), the SHCP, and CONSAR, and all of these bodies were consulted by the finance authorities during the approval process for the reform that universalized and increased the value of the noncontributory pension. For this second operation, a consultancy was financed under operation ATN/OC-18894-ME to perform an ex post evaluation measuring the impact of the noncontributory pension on the disposable monetary income of beneficiaries and their households (input for measure 2.2.2). This work also provided recommendations to improve institutional coordination so as to reduce the administrative costs of providing this pension.
- 1.20 The Bank performed an in-depth analysis regarding the transformation of social security in Mexico, documented in two publications. The first of these, [“Una prosperidad compartida: Transformando la seguridad social en México para crecer con equidad \(Shared prosperity: Equitable growth through the transformation of social security in Mexico\).”](#) proposed pension reforms accompanied by initiatives in other areas such as health, child care facilities, protection from dismissal, and revenue collection. The second, [“Diagnóstico del Sistema de Pensiones Mexicano y Opciones de Reforma \(Diagnostic Assessment of the Mexican Pension System](#)

[and Options for Reform](#)),” described different factors for improving the pension system as a whole. These were taken into account by the Government of Mexico when designing its reforms (measure 3.1.1). During the preparation and dissemination process, the content was shared with CONSAR and the SHCP’s Insurance, Pension, and Social Security Unit (USPSS).⁴⁶ This second operation provides follow-up regarding the implementation of the reforms, consistent with the original plan defined jointly with the USPSS. An evaluation of the effectiveness of the included measures has also been completed. Under operation ATN/OC-18894-ME, an ex post evaluation was performed of the increase in the guaranteed pension, the restructuring of subsidies, the increase in contributions according to the stipulated calendar, and the parametric changes included in the 2020 reform to reduce the number of weeks needed to obtain a pension under the defined contribution system (input for measures 3.2.1.a and 3.2.1.b). As shown in the evaluation, the expected effect of these measures is already apparent, with higher accumulated balances and a substantial increase in the number of people receiving a pension (as compared with the situation before the reform).

- 1.21 In terms of support for the contributory pension enhancements included in Component III, the SHCP authorities first requested Bank support in 2019 to perform analyses of the different technical aspects of the reform. A detailed analysis was undertaken in that year by an external expert in defined contribution systems, aimed at identifying the differences between the Mexican pension system and those of other countries seen as pioneers in reducing prices in their systems. A technical document also provided a price analysis of pension funds in the United States. Both documents served as inputs to both the SHCP’s USPSS and CONSAR for crafting the final version of the methodology that was used to determine a new fee structure for the pension system (measure 4.1.1). These outputs were financed through technical cooperation operation ATN/OC-17777-RG. This second operation provides follow-up with respect to the implementation of the methodology. It also includes an estimation of the latter’s effect on workers’ accumulated balances (measure 4.2.1) and recommendations for improving the methodology. This work was financed under technical cooperation operation ATN/OC-18894-ME.
- 1.22 With regard to voluntary savings, Mexico is one of the countries where the pilot projects of the [Retirement Savings Laboratory](#) have been implemented. This laboratory has been a pioneer in analyzing the effects of expanding the traditional and digital savings channels available to workers. In Mexico, the Bank has worked with the pension regulator (CONSAR), the SHCP’s USPSS, and multiple financial and technological partners on the design, implementation, and evaluation of [seven pilot projects](#) to promote voluntary savings and improve pensions. These were financed under technical cooperation operation ATN/CF-15495-RG. This work has been key for developing specific recommendations relating to voluntary savings

⁴⁶ The document’s recommendations were presented on several occasions, notably at CONSAR to a pension reform task force that was coordinated by the Aspen Institute. Participants included the SHCP, CONSAR, Instituto del Fondo Nacional de la Vivienda para los Trabajadores (National Workers’ Housing Fund) (INFONAVIT), the Mexican Association of Retirement Fund Managers (AMAFORE), academics, and trade unions. During the event, the document was analyzed, and agreement was reached on the recommendations that could be included in potential reforms to improve the retirement outlook of Mexican workers.

- and the use of digital tools (AforeMóvil) for transferring individual accounts; these recommendations are included in this operation (measures 4.2.2 and 4.2.3). This collaboration will continue and includes new topics such as insurance for the self-employed, as financed under technical cooperation operations ATN/OC-16976-ME and ATN/OC-19030-RG. Support will also be provided under technical cooperation operation ME-T1524 to improve digital tools with the aim of encouraging both the wider use of individual accounts for saving and transferring accounts and the electronic registration of retirement advisors, as reflected in the policy matrix (measure 4.2.3). With respect to the adoption of environmental, social, and governance criteria in the regulations for pension funds, the Bank has supported the regulator in different ways. These have included the preparation of a note on options for classification criteria, as well as activities with other multilateral organizations to support the analysis of this agenda (measure 4.2.5). A workshop has already been held in 2024 with the International Organisation of Pension Supervisors (IOPS) and the Organisation for Economic Co-operation and Development (OECD) to evaluate the methodological improvements developed by the regulator for classifying investments. A workshop on regulatory improvements for adopting the criteria will be held in May 2024 with all of the financial regulators. These activities have all been financed under technical cooperation operation ATN/OC-18436-ME.
- 1.23 In the case of Component IV, state pension systems, the IDB has been the key partner for the SHCP authorities. The Bank's work has provided the framework for the interoperability and financing model for subnational systems, which is aimed at supporting the management of these systems. Technical cooperation operation ATN/OC-18436-ME financed actuarial valuations for the 41 state pension systems, as well as estimates of the fiscal effects of parametric improvements (measure 5.1.1). This work also included a complete analysis of the laws and regulations that will need to be modified if improvements are introduced to these systems. The evaluations, proposals for parametric improvements, and the legal analysis were made available to the SHCP using a [web browser](#). Prior to the pandemic, in February 2020, the Bank and the SHCP organized an interoperability workshop attended by multiple representatives of various agencies, including the SHCP, CONSAR, AMAFORE, IMSS, Government Workers' Social Security and Services Institute (ISSSTE), National Workers' Housing Fund (INFONAVIT), Department of Civil Protection, Department of the Interior (SEGOB), and state governments. The results of this workshop, financed under operation RG-E1693, are the basis for the institutional coordination recommendations for improving the pension system. In 2023, technical cooperation operation ATN/OC-20530-ME was approved to finance the execution of the interoperability system for state systems, and this will help improve management of the systems in those states that decide to implement it (measure 5.2.1). This system will also allow the SHCP authorities to collaborate with subnational governments to improve the performance and sustainability of their pension systems, while also facilitating their compatibility with national systems. All of these outputs have been shared with the pension authorities and are included in the policy matrix for this operation.
- 1.24 In addition to this support, the Bank has a comprehensive support agenda for the country, both for the implementation of labor reforms and for improvements in labor intermediation. The aim of this is to improve quality employment that covers social

security and pension contributions. This includes the following technical cooperation operations: “Support for the implementation of labor market policy and the design of initiatives to support job creation in Mexico” (ATN/OC-19409-ME, ATN/TV-20689-ME), which provides technical support to build and improve the management information systems needed to effectively implement the labor reform; “Support for a successful transition to the new institutions created by the labor reform” (ATN/OC-18686-ME), which seeks to identify the skills and knowledge gaps between private sector demand and the range of technical training available in Mexico; and “Strengthening of the National Employment System and its links with the productive sectors” (ATN/OC-20400-ME), which supports the country’s labor intermediation system.

- 1.25 **Lessons learned.** The Bank has operational experience in pensions with respect to each of the components of this program. In the case of the noncontributory pension and its expansion under Component II, the evidence collected through technical cooperation operation ATN/OC-15248-ME showed the urgent need to increase both the coverage and the amount of this pension. In the case of Component III, the evidence gathered through Bank-financed outputs provided essential information to the authorities during the design and implementation of reforms to the contributory system of individual accounts. Technical cooperation operation ATN/OC-18894-ME showed the differences with respect to the systems used as benchmarks for regulating the fees charged by the AFOREs, as well as possible ways of influencing the structure of the pension industry (measure 4.2.1). Operations ATN/OC-17777-RG and ATN/OC-16976-ME showed the interest of workers in increasing voluntary savings, as well as challenges in the arrangements for transferring individual accounts (measures 4.2.2 and 4.2.3). This included a comprehensive analysis of user experience with the digital tools available to workers for managing their individual accounts. The lessons learned and the digital tools evaluation will be used to improve the digital tools in the system. To this end, support is planned for the regulator under a technical cooperation operation to improve the use of the digital tools available in the Mexican pension system. In the case of retirement advisor registration (measure 4.2.4), the regulator has an existing tool for this process. However, this registry requires constant updates, and support for improving it is planned under the same technical cooperation operation. With respect to ESG criteria, the main lesson learned has been the lack of information on the part of the issuers of financial instruments (4.2.5). Under technical cooperation operation ATN/OC-19030-RG, work is ongoing with the regulator to improve its capabilities in this sphere. Lastly, in the case of state government pension systems, one of the main challenges is to standardize data and processes. The Bank has been working with the SHCP authorities to achieve this harmonization, which is the basis for the interoperability system (measure 5.2.1). This has been financed under technical cooperation operations ATN/OC-18436-ME, ATN/OC-18894-ME, and ATN/OC-20530-ME.
- 1.26 **Coordination with other international development agencies.** The Bank has coordinated the exchange of analytical work with other organizations (including the OECD, the Economic Commission for Latin America and the Caribbean, and the

World Bank)⁴⁷ through several workshops and conferences. At these workshops, the Bank raised the need to improve the coverage and benefits of the system of individual accounts, with particular emphasis on increased contributions and an easing of the required number of weeks of contributions. The specific support to be provided by each institution has been determined directly by the SHCP, which has focused the Bank's support on the reform of individual accounts and the World Bank's on catastrophic insurance.

- 1.27 **Assessment of the policy actions in the series.** Policy actions in the second operation in this series focus on the implementation, realization, and evaluation of the reforms that have been approved by the Government of Mexico and were included in the first operation. Institutional strengthening and the ongoing implementation of the reforms are expected to support a continuation of this trend, maintaining the reduction in the financial vulnerability of older adults over the coming years, as established in the objective for the series. The series helps strengthen the social protection system for older adults by promoting the portability of benefits, interoperability between the country's pension systems, and a strengthening of benefits to support better, more efficient pension coverage. Accordingly, support is being provided under the series for institutional coordination between the relevant pension system actors, so as to improve their complementarity for the benefit of workers. Information is also being generated to improve policy design and strengthen the institutional framework for institutions participating in the pension systems. This second operation in the series has included evaluations that measure the effectiveness of the approved reforms; these have provided targeted information on opportunities for improvement that will support continued progress toward the series objective.
- 1.28 In contrast to the first operation, which mostly supported the design and approval of the legal reforms for both the noncontributory pension and the contributory pension with individual accounts, this second operation supports implementation of these legal changes. This implementation represents a critical public policy challenge, since making these legal changes requires institutional improvements, enhanced processes and fiscal resources to enable people to obtain higher pension resources. This implementation has already yielded significant, tangible results. The value of the noncontributory pension has increased and its coverage has expanded, with a significant impact on poverty reduction in old age (Table 1). The results of the 2022 ENIGH, published in July 2023, show that the poverty rate for the population over 65 years of age dropped by 12 percentage points between 2018 and 2022, from 43% to 31% (Table 2).

⁴⁷ IDB, World Bank, and OECD (2015), OECD (2016), and Economic Commission for Latin America and the Caribbean (2020).

Table 1. Population aged 65 or over with noncontributory pensions, contributory pensions, and no pension

Pension*		Total		Male		Female	
		2018	2022	2018	2022	2018	2022
Total population		10.3	12.6	4.7	5.6	5.6	7.0
Noncontributory pension	Beneficiaries	4.5	9.6	1.8	4.2	2.7	5.4
	% coverage	44%	76%	38%	75%	48%	77%
Contributory pension	Pensioners	3.2	4.2	1.9	2.4	1.3	1.8
	% coverage	31%	33%	40%	43%	23%	26%
No pension	Total	3.1	1.9	1.2	0.8	1.9	1.1
	% no pension	30%	15%	26%	14%	34%	16%

* Categories are not mutually exclusive.

Source: Authors' estimates using data from the 2018 and 2022 ENIGHs.

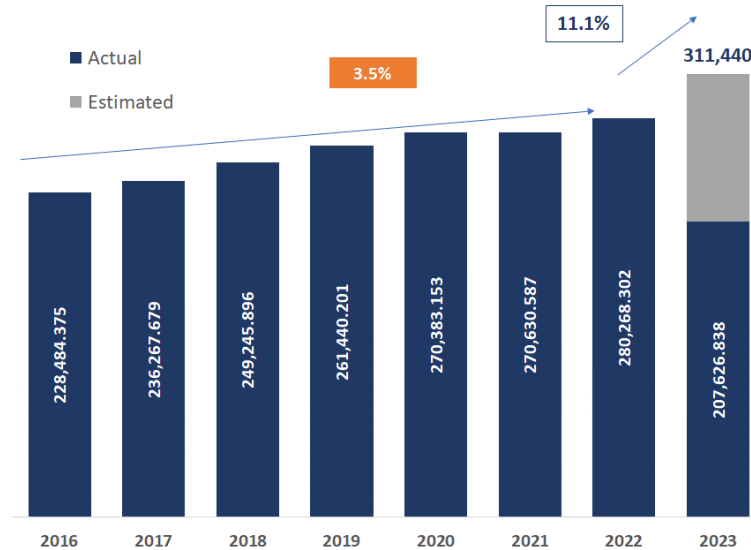
Table2. Poverty levels in the population aged 65 or over

Year	Extreme poverty	Poverty
2010	11%	46%
2012	10%	46%
2014	8%	46%
2016	9%	42%
2018	9%	43%
2020	7%	38%
2022	4%	31%

Source: Authors' estimates using data from the 2010-2022 ENIGHs.

- 1.29 The target of achieving a transfer payment above the welfare line for urban areas was achieved in 2024. Indeed, this pension has become a critical tool for reducing poverty and inequality due to its universal coverage.
- 1.30 With respect to contributory pensions, the evaluations used in the series show that the legal changes have yielded positive results to date. First, an increase has been observed in the rate of growth in the accumulated balances in individual accounts. From 2016 to 2022, these balances rose at a moderate rate, consistent with the growth in employment and wages and the effects of the pandemic. In 2023, there was a significant acceleration in this trend (with estimated growth of 11.1% relative to the end of 2022) as the increase in contributions to individual accounts took effect.

Figure 4. Worker contributions for IMSS retirement, older worker unemployment, and old-age (RCV) insurance (million pesos)



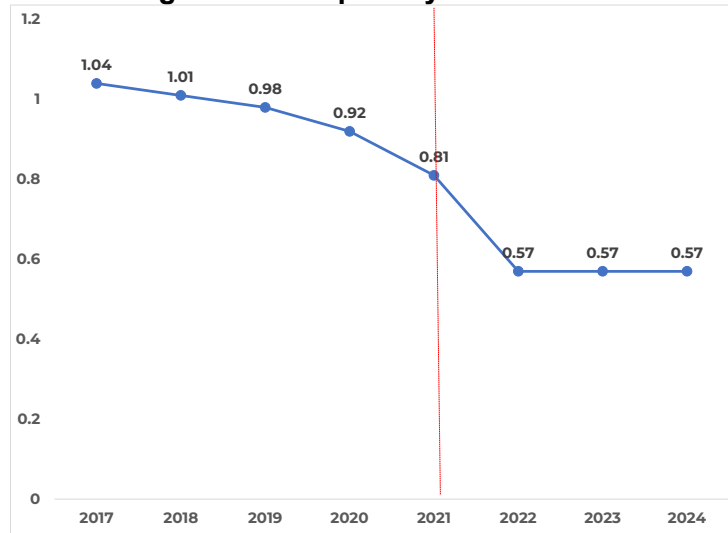
Source: Evaluation of Mexico's pension system reform.

- 1.31 The implementation of more flexible requirements for the contributory pension has already doubled the number of people receiving a pension rather than a lump sum, and this number is growing at a significant rate. The evaluation of the reform shows that from January 2021 to July 2023, 65.145 million pensions were paid under the individual accounts system. Without the reform, only 4.5 million workers would have received a pension. At the same time, data from the regulator show that the guaranteed pension is 28% higher than prior to the reform.
- 1.32 Pension savings have undergone a sustained increase and are set to rise further due to the increase in contributions included in the reform. From January 2020 to January 2024, the total value of resources administered by the AFOREs almost doubled in nominal terms, from US\$189 billion to US\$360 billion.⁴⁸ In addition, the AFOREs have substantially reduced the fund management fees charged to workers. The average commission charged since 2020 is 0.57% of funds under management, compared with 0.98% prior to the reform (Figure 5). In other words, the reduction of more than 40% in the prices charged has yielded savings of close to US\$2.475 billion for workers.⁴⁹

⁴⁸ Source: CONSAR, [Statistical Data](#). Exchange rates of Mex\$21.48:US\$1 and Mex\$16.77:US\$1 were used for 2020 and 2024, respectively.

⁴⁹ Source: CONSAR. [Comisiones que cobrarán las AFORE en 2024](#).

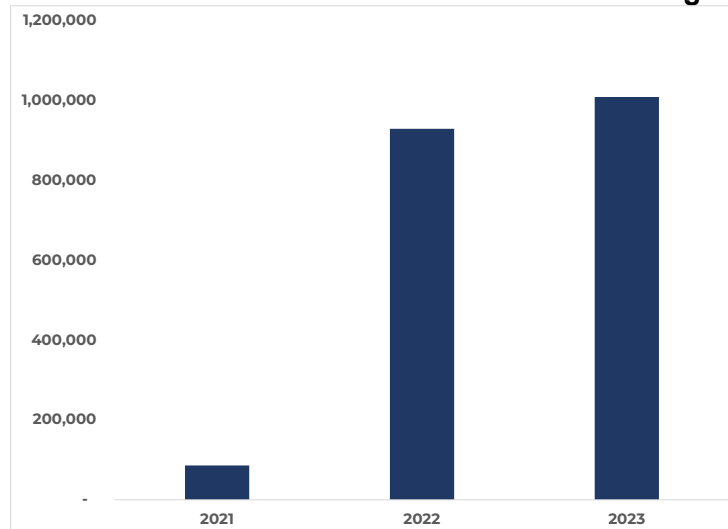
Figure 5. Fees paid by the AFORES



Source: Evaluation of Mexico's pension system reform.

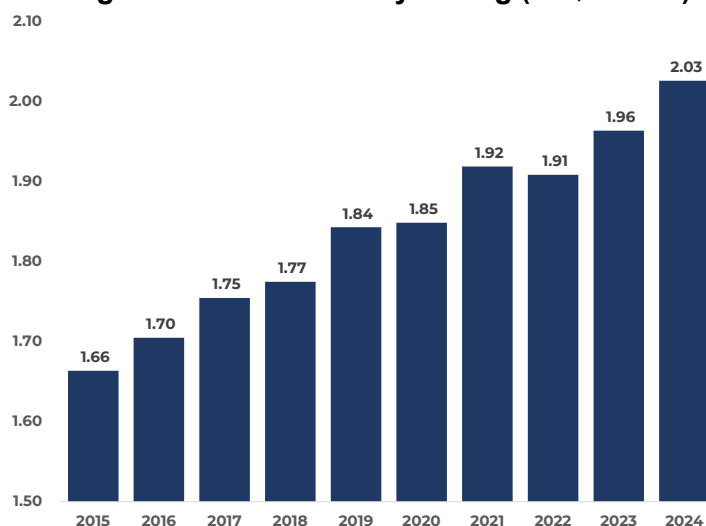
1.33 The AFORE system also has digital tools that allow workers to join a plan, make voluntary savings, and transfer their accounts. These tools have been supported by the Bank and have improved significantly since the reform. In just two years, the number of people using these tools has increased tenfold (Figure 6). This represents significant savings in operating costs within the system, and it strengthens the sustainability of its processes. With respect to voluntary savings, balances initially declined due to the effects of the pandemic, but then increased from 2022 onward. However, the annual growth rate remains under 5% (Figure 7), and this demonstrates the importance of continuing to improve this savings mechanism. The authority has also implemented the adoption of ESG criteria for funds managed by the AFORES, with the aim of encouraging financing for sustainable activities.

Figure 6. Electronic transfers of individual accounts using AforeMóvil



Source: Evaluation of Mexico's pension system reform.

Figure 7. Total voluntary saving (US\$ billion)



Source: Evaluation of Mexico's pension system reform.

- 1.34 With regard to the system of interoperability with state pension systems, the authority already has an initial valuation of the total pension liability of all of the systems, as well as information on the status of each one and options for improving their operations and financing. It also has a system for initiating worker registration, which provides a basis for obtaining the exact number of workers covered by each system. In summary, this second operation will support the transition from the design of policies to their implementation, as is already being reflected in documented improvements in workers' savings and the quality of life of older adults.
- 1.35 **Strategic alignment.** The program is consistent with the IDB Group Institutional Strategy: Transforming for Scale and Impact (CA-631) and is aligned with the following objectives: (i) reducing poverty and inequality; (ii) addressing climate change; and (iii) bolstering sustainable regional growth, as it acknowledges the regulatory and programmatic reforms aimed at reducing poverty in old age, promotes sustainable investments through the adoption of ESG criteria⁵⁰ in the management of pension system resources, and reduces the incentives for informality among low-income workers. The program is also aligned with the following operational focus areas: (i) gender equality and inclusion of diverse population groups; (ii) institutional capacity, rule of law, and citizen security; (iii) social protection and human capital development; and (iv) productive development and innovation through the private sector.
- 1.36 The program is aligned with the IDB Group Country Strategy with Mexico 2019-2024 (GN-2982) through its priority area of supporting equitable and

⁵⁰ This measure is expected to generate sufficient demand to spur the interest of Mexican companies in adopting ESG criteria. As of February 2024, the AFOREs held balances equivalent to 20% of GDP, meaning that companies that fail to implement ESG criteria will be unable to secure financing from AFORE resources and will lose access to the country's largest institutional investor. In addition, the lower financial costs of sustainable instruments represent a benefit for companies. See [optional link 5](#).

sustainable access to social services within Section II (social policy), relating to the strategic objective of strengthening the labor market. The operation is also consistent with the Labor Sector Framework Document (GN-2741-12) which highlights the need to achieve adequate social security.

- 1.37 **Gender equality.** The program contributes to the implementation of the Employment Action Framework with a Gender Perspective (GN-3057), in that it establishes reforms that encourage formal job creation and reduce gender gaps among older adults. Component II makes clear the effect of expanding and increasing noncontributory pension benefits on eliminating gender gaps in old age, while Component III supports changes to the system to improve both the coverage and amount of contributory pensions, thus reducing women's vulnerability in old age. Specifically, the reduction in the required number of weeks of contributions has a proportionally greater effect on women, who have larger gaps in their earning histories.
- 1.38 **Climate finance.** Based on the multilateral development banks' joint methodology for estimating climate finance, climate change funding under the program is estimated at US\$22,222,222, equivalent to 3.33% of IDB financing for the operation. This reflects the program's support for activities to strengthen the use of ESG criteria that seek to encourage sustainable investments by the pension system (particularly green bonds, which are linked to climate change mitigation and adaptation actions) ([required link 5](#)).
- 1.39 **Paris Agreement alignment.** This operation has been reviewed using the [Joint MDB Assessment Framework for Paris Alignment](#) and the IDB Group Paris Alignment Implementation Approach ([GN-3142-1](#)), yielding the following conclusions: (i) it is aligned with the Paris Agreement adaptation target, and (ii) based on specific analysis, it is aligned with the Paris Agreement mitigation target. Alignment is based on consideration of the following elements: (i) the policy actions are not inconsistent with Mexico's targets under its Nationally Determined Contribution, and (ii) although there is some exposure to investment, transition, and stranded asset risks, these are considered negligible when compared with the financial return criteria that currently guide AFORE investments.

B. Objectives, components, and cost

- 1.40 **Program objectives and components.** The program's general objective is to reduce the financial vulnerability of older adults in Mexico. The specific objectives are to: (i) improve the coverage and benefits provided by the noncontributory pension system, and (ii) improve the coverage, adequacy, and equity of benefits provided by the contributory pension systems. The program seeks to achieve these objectives by expanding and increasing the noncontributory pension, implementing parametric improvements to contributory pension systems, and improving the design and coordination of subnational systems. This second operation provides for the implementation of the reforms approved by the Government of Mexico, and it maintains the trigger mechanisms identified at the start of the series. The wording of the policy measures in this operation includes small adjustments to the text included in the first operation so as to more clearly specify the policy conditions. [Optional link 1](#) includes a detailed description of these modifications, which have no impact on the objectives or outcomes of the policies originally proposed for the second operation. These modifications

(measures 1.2.1, 2.2.2, 3.2.1.a, 3.2.1.b, 4.2.2, 4.2.3, 4.2.5, and 5.2.1) specify the expected results of the evaluations, the changes implemented, and the content of the technical proposals for the policy measures approved in the first operation, based on independent information, and they help show the progress made toward program objectives and outcomes.

1.41 **Component I: Macroeconomic stability.** Ensure that a macroeconomic context is maintained that is consistent with the program objectives set forth in the Policy Matrix and the [Policy Letter](#).

1.42 **Component II: Regulatory framework to improve the national noncontributory pension.** This component seeks to improve the coverage and benefits provided under the noncontributory pension system, helping narrow the existing gender gaps (paragraph 1.4). The component includes the establishment and implementation of the constitutional right to a noncontributory pension for older adults. In this second operation, the following policy actions under the component are aimed at increasing this pension to an amount covering the equivalent of the urban poverty line:

- a. Approve and publish annual operating rules providing for an increase in the noncontributory pension amount above the extreme poverty line for urban areas (2.2.1). This will fulfill the objective of ensuring a basic income in retirement.
- b. Perform a gender-disaggregated evaluation to measure the impact of the changes in the noncontributory pension on the effective reduction in poverty among older adults, with recommendations for strengthening the pension pillar and continuing to improve the management thereof.

1.43 **Component III: Regulatory framework to improve the national contributory pension.** This component seeks to improve the coverage, adequacy, and equity of the benefits provided under the individual accounts pension system, as well as improve retirement advisory services, facilitate financial inclusion, and promote investments that incorporate ESG criteria. To this end, the policy actions included in this component seek to:

- a. Support continued implementation of the reforms to the Social Security Act, consisting of the following gradual changes: (i) a reduction in the required number of weeks of contributions; (ii) an increase in contribution rates for retirement, older worker unemployment, and old-age (RCV) insurance; and (iii) the gradual restructuring of federal subsidies for workers' retirement accounts to focus them on low-income workers (3.1.1), all consistent with the timelines included in the reform.
- b. Perform an evaluation to measure the effect of reducing the number of contribution weeks required to qualify for contributory pension coverage (3.2.1.b), validating the increase in the number of people receiving a pension. This measure will confirm the real effect of this change in terms of improving coverage of the system of individual accounts.
- c. Implement the methodology for a ceiling on fees charged by AFOREs as envisaged in the adopted methodology and perform an evaluation of the effects of this fee reduction on workers' individual savings amounts (4.2.1). This seeks

to identify the hurdles to implementing the methodology, while also measuring the real effect of the reform upon individual account balances.

- d. Perform an evaluation of the implementation of the measures to facilitate voluntary savings and their effects on the number of savers and total voluntary savings amounts.
- e. Evaluate the operational effectiveness and use of the mechanisms for electronic transfer of individual accounts (4.2.3), reflecting the effective change in the use of digital tools for the improved management of individual accounts.
- f. Certify and register at least 50% of the total number of retirement advisors and make the following information on each advisor available to the general public: retirement advisor's details; registration number of the retirement advisor; registration status of the retirement advisor (active/inactive); name of the AFOREs and periods of time during which he/she has worked there as marketing agent or retirement advisor; and the reason for any discontinuation, removal, or suspension (4.2.4).
- g. Evaluate implementation of the classification of ESG criteria in AFORE investments in the financial market.

1.44 **Component IV. Regulatory framework to improve subnational contributory pensions.** This component seeks to develop improvements to the design of the state pension systems in terms of equity and interoperability. This second operation provides for approval of the technical proposal to improve the demographic parameters, financial viability, interoperability, and financing of the 41 state pension systems. The proposal contains: (i) an estimate of the total pension liabilities in the state and how they change when their parameters are modified; (ii) the legal basis for each system's benefits and contributions; (iii) a model for interoperability with the national systems; and (iv) a long-term funding model to satisfy pension liabilities.

C. Key results indicators

1.45 **Expected outcomes.** This series seeks to reduce the vulnerability of older adults in the country, as measured by a reduction in the poverty rate for the population aged 65 and above. The attainment of specific objective 1 will be measured through: the poverty rate among older adults receiving a noncontributory pension; the poverty rate among older adult women receiving a noncontributory pension; and the increase in the value of the noncontributory pension as a percentage of the urban extreme poverty line. The attainment of specific objective 2 will be measured as: the increase in the average value of all pensions received by women as a percentage of the average value of all those received by men; the increase in the coverage of individual accounts, measured as reduction in the percentage of older adults who fail to obtain a pension financed through their individual account; an increase in the average pension of those retiring on their AFORE savings as a percentage of the pension received by those who were in the system before 1997 (the transition generation); and an increase in the percentage of assets managed by the AFOREs that fulfill ESG criteria. Lastly, in the case of the state pension systems, a technical proposal will be available to improve the demographic parameters, financial viability, and interoperability of the 41 state pension systems.

- 1.46 **Expected long-term impacts.** This operation encompasses reforms implemented by the Government of Mexico that will help reduce the poverty rate among the older adult population to less than 35% (versus a baseline of 42% in 2018). In addition, for an individual earning the minimum wage, the legal changes are expected to increase the average replacement rate of the guaranteed pension in the AFORE system from 80% to 100% in 2025. Based on the rise in contributions, reduction in fees charged to workers, and improvements in electronic operations, the value of assets managed by the AFOREs is projected to increase from 20% of GDP in 2024 to 56% by 2040.⁵¹ Within this overall savings level, assets that meet ESG criteria are expected to at least double. Lastly, the percentage of state workers registered in an interoperable system is expected to rise from 0% to 25% in 2026 as a result of the actions implemented.
- 1.47 **Beneficiaries.** The project will benefit: (i) 12.5 million adults over the age of 64 who become noncontributory pension beneficiaries; and (ii) 73.4 million workers with an individual account managed by an AFORE, who will benefit from the changes brought about by the reform.
- 1.48 **Economic analysis.** Based on the Office of Evaluation and Oversight recommendations included in its 2011 Evaluability Review of Bank Projects;⁵² the findings of the review of evaluation practices and standards for policy-based loans (PBLs) conducted by the Evaluation Cooperation Group (composed of the independent evaluation offices of multilateral development banks); and the provisions of paragraph 1.3 of the Review of the Development Effectiveness Matrix for Sovereign Guaranteed and Non Sovereign Guaranteed Operations (GN-2489-5), which indicate that there is no need for an analysis of efficiency in the use of the financial resources,⁵³ it has been determined and reported to the Bank's Board of Executive Directors that no economic analysis will be performed for this type of loan. Accordingly, this operation does not include an economic analysis.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 **Instrument and size of the operation.** The Government of Mexico requested a policy-based loan operation under the programmatic modality to improve the functioning of the pension system. This loan is the second one in the programmatic series. It is financed independently and is designed in accordance with the provisions of the document Policy-based Loans: Guidelines for Preparation and Implementation (CS-3633-2). The programmatic modality is appropriate because it: (i) encourages a continuous policy dialogue with the authorities, and (ii) facilitates monitoring of the reform implementation strategy, since some of the

⁵¹ Banxico (2021).

⁵² Document RE-397-1: "Currently, [the score for the] Economic Analysis section is computed as the maximum between the [cost-benefit analysis] (CBA) and the [cost-effectiveness analysis] (CEA). Yet neither a CBA nor a CEA is applicable to PBLs..."

⁵³ According to the ECG, policy-based loans should be evaluated for relevance, effectiveness, and sustainability. Efficiency was not included as a criterion, since the size of the PBL is related to a country's financing gap, independent of the program's benefits.

reforms are far-reaching and complex to implement. This second operation includes the findings arising from the implementation of the reforms promoted by the Government of Mexico, supported by Bank technical assistance.

- 2.2 **Size of the operation.** This second operation is for up to US\$600 million from the Ordinary Capital. It was agreed with the Government of Mexico during the Bank's programming exercise, in accordance with document CS-3633-2. This amount reflects the country's broad need for fiscal resources. It is not directly related to the costs of the reforms, however, which are the responsibility of the borrower, as stipulated in paragraph 3.27(b) of document CS-3633-2. As set out in the fiscal package approved by Congress for 2024,⁵⁴ Mexico's public sector financing requirement equals US\$107.773 billion, and the amount of the operation therefore represents just 0.56% of total financing (0.03% of GDP). Mexico's total public sector financing for 2024 is equivalent to 5.4% of GDP, while total pension spending stands at 5.8% of GDP, indicating that own-source fiscal revenue is the main source of financing. In summary, the total value of the operation does not constitute a primary component of the country's financing requirement for the year or of total pension spending. Mexico has sufficient financing sources for pension payments and this operation serves only to supplement the country's wider financing needs.

B. Environmental and social risks

- 2.3 This PBL is not expected to have any significant direct effects on the country's environment or natural resources. Accordingly, it falls outside the scope of the IDB's Environmental and Social Policy Framework (ESPF), consistent with the provisions of paragraph 4.7 of the ESPF.

C. Fiduciary risks

- 2.4 The proceeds of this operation will go directly to the treasury single account to cover the country's financing needs. Consequently, no fiduciary risks have been identified.

D. Other key issues and risks

- 2.5 **Risks.** The risk assessment identified two medium-high risks. The institutional environment risk arises from a lack of coordination between pension institutions (particularly at the subnational level), which could lead to higher administrative costs that reduce pension system efficiency, thus affecting outcomes under Component IV. To mitigate this risk, the Bank will plan coordination actions between the SHCP authorities and the subnational governments. These actions will be financed under technical cooperation operation ATN/OC-20530-ME. The social environment risk, meanwhile, concerns the differences in the pension amounts awarded under the new system compared with those offered under the previous system. These could create dissatisfaction on the part of workers, potentially leading to protests similar to those that have occurred in other countries in the region; this would affect the legitimacy of the reform and the likelihood of achieving the objectives of the programmatic series. This risk cannot be managed within the program, and developments in this sphere will therefore be monitored.

⁵⁴ SHCP. [Economic and Budget Package](#).

2.6 **Sustainability.** The sustainability of the programmatic series will be ensured by the measures included in the policy matrix, as well as the institutional framework for pension systems. In terms of fiscal cost, the reforms entail long-term efforts for the Mexican government, but with differentiated effects. For the noncontributory pension, the fiscal effort will grow over the coming years given the aging of the population and the number of older adults who will benefit from the transfer.⁵⁵ This cost should be compared with the reduction in the financial vulnerability of older adults, as has been shown in recent years. The institutional modifications included in the programmatic series and the resources devoted to expanding coverage and benefits for the noncontributory pension show the effectiveness of the reforms, since by 2022, over 70% of the target population had received the transfer. As it is now considered to be a constitutional right, it is included in the programmable expenditure in the annual budgets submitted by the Executive Branch to the Legislative Branch. In other words, the finance authorities will need to introduce the necessary measures and budget adjustments to fulfill this constitutional right and implement the provisions of the Federal Budget and Fiscal Responsibility Act.⁵⁶ The evaluation undertaken as part of this second operation in the series includes specific recommendations for improving the performance of the noncontributory pension (paragraphs 1.11, 1.14, 1.15, 1.19, and 1.28) and is part of the agenda for improving social protection in the country. This type of evaluation will need to be performed regularly in order to strengthen this right and identify new areas of opportunity, particularly in terms of ensuring complementarity of the noncontributory pension with other pension systems. In the case of contributory pensions, the AFORE pension system has governance, management, control, and worker participation mechanisms. These mechanisms are contained in legal frameworks, guidelines, circulars, and regulations, and no changes are expected to these in the short term. In terms of fiscal sustainability, official analyses show that the net cost of the reform will be -0.3% of GDP in net present value terms over the 2021-2100 period, based on an estimated cost of 5% of GDP and a fiscal benefit equivalent to 4.7% of GDP. This is due to the fact that the increase in contributions, the increase in individuals insured, and the reduction in fees represent higher income, while the reduction in weeks of contributions and the higher guaranteed pensions are a higher cost. The evaluations included in this second operation (paragraphs 1.12, 1.14, 1.15, 1.20-1.22, and 1.30-1.33) show the progress made in relation to the approved reforms, and issues regarding their implementation have been shared with the regulatory authorities (both CONSAR and the SHCP). Similar evaluations will be carried out on a regular basis over the next few years, consistent with the timeline for reform implementation up to 2030. The Bank is engaged in an active technical dialogue to support these evaluations, in line with the needs that have been identified and requested by the Mexican authorities.

⁵⁵ The cost of the noncontributory pension is projected to reach as much as 1.5% of annual GDP by 2030. See [Centro de Investigación Económica y Presupuestaria \(2024\)](#).

⁵⁶ This Act stipulates the actions that must be taken by the Executive Branch to avoid budget deficits arising from the fulfillment of its obligations. See the [Federal Budget and Fiscal Responsibility Act](#).

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower will be the Government of Mexico, and the executing agency will be the SHCP through its Insurance, Pension, and Social Security Unit (USPSS). The latter is responsible for formulating policies to promote, develop, regulate, and supervise the institutions participating in Mexico's pension systems, and it will be responsible for coordinating and reporting on the implementation of the policy commitments and consolidation of the sector reforms included in the program. Both the SHCP and the USPSS have prior experience as executing agencies for Bank operations.
- 3.2 **Special contractual conditions precedent to single loan disbursement.** Special contractual conditions precedent to the single loan disbursement under the second operation in the series: (i) fulfillment of the policy reform conditions established in the Policy Matrix, and (ii) all other conditions set forth in the loan contract.

B. Summary of arrangements for monitoring results

- 3.3 **Monitoring.** Program monitoring consists of verification of the policy measures agreed as conditions. The outcomes of the reforms and policies included in the program will be monitored using the indicators in the Results Matrix, as well as additional indicators included in the monitoring and evaluation plan ([optional link 3](#)).
- 3.4 **Evaluation.** The monitoring and evaluation plan describes the evaluation that will be performed after disbursement of this second operation in the series to generate evidence on reductions in the vulnerability of retired older adults (as compared with a counterfactual scenario in which the reforms included in the program are not implemented).
- 3.5 A project completion report will be prepared by the project team upon completion of the second loan operation, in accordance with the Bank guidelines set out in document OP-1242-5. The project completion report will evaluate the outcomes achieved.

IV. POLICY LETTER

- 4.1 The [Policy Letter](#) reaffirms the Government of Mexico's commitment to the policy reform measures that Mexico has undertaken to implement in order to achieve the program's objectives.

Development Effectiveness Matrix		
Summary		ME-L1332
I. Corporate and Country Priorities		
Section 1. IDB Group Institutional Strategy Alignment		
Operational Focus Areas	<ul style="list-style-type: none"> -Gender equality and inclusion of diverse population groups -Institutional capacity, rule of law, citizen security -Social protection and human capital development -Productive development and innovation through the private sector 	
[Space-Holder: Impact framework indicators]		
2. Country Development Objectives		
Country Strategy Results Matrix	GN-2982	Contribute to equitable and sustainable access to social services; Strengthen the labor market
Country Program Results Matrix	GN-3207	The intervention is included in the 2024 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		8.1
3.1 Program Diagnosis		2.5
3.2 Proposed Interventions or Solutions		1.6
3.3 Results Matrix Quality		4.0
4. Ex ante Economic Analysis		N/A
5. Monitoring and Evaluation		9.5
5.1 Monitoring Mechanisms		4.0
5.2 Evaluation Plan		5.5
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Low
Environmental & social risk classification		FI
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Budget, Treasury, External Control, Internal Audit. Procurement: Information System, Price Comparison, National Public Bidding.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	ME-T1386, ATN/OC-16953-ME, ME-T1391, ATN/OC-18436-ME, ME-T1465, ATN/OC-18894-ME, ME-T1513, ATN/OC-20530-ME, ME-T1524.

Evaluability Assessment Note:

This is the second operation of a programmatic series, of US\$600 million, aimed at supporting the improvement of Mexico's pension system, via support for measures related to the expansion of coverage, improvement of pension benefits, reduction of intra- and inter-generational pensions, as well as an improvement in the governance of the multiple existing systems. The general objective of the program is to reduce the economic vulnerability of older adults in Mexico. The specific objectives are: (i) improve the coverage and benefits of the Non-Contributory Pension (PNC) system; and (ii) improve the coverage, adequacy and equity of the benefits provided by the Contributory Pension (PC) systems. The program attacks problems related to both the PNC and PC systems. The policy actions of the second operation of this series focus on the implementation, concretion and evaluation of the reforms approved by the government of Mexico and that were recognized in the first operation. Unlike the first operation, which mostly supported the design and approval of pension reforms, this second operation supports the implementation of measures that appear successful. Just between 2020 and 2022 there is a drop from 7% to 4% in the level of extreme poverty, and from 38% to 31% in poverty, in the population over 65 years of age. These drops are even greater if taken since 2018 (from 9% to 4% and from 43% to 31%, respectively), and it is expected that the continued implementation of the measures will continue to contribute to the reduction of the economic vulnerability of older adults in the following years. The second operation includes measures such as evaluations that measure the effectiveness of the approved reforms, providing key information for decision-making about the implementation of the reforms. Additionally, in 2024 the goal of having a transfer with which the well-being line can be exceeded in urban areas has been met, which is crucial given its universal coverage. In the case of PC, the evaluations so far show that the legal modifications are having positive results, with a higher growth rate of the accumulated balances in individual accounts; between January 2020 and January 2024 the total nominal balance of resources administered by the Retirement Fund Administrators (AFORE) has almost doubled.

The proposed result indicators are SMART, with a baseline and identified targets and means of verification. The monitoring and evaluation plan proposes measuring key results before and after the series, with appropriate sources of information. This type of evaluation does not allow the empirical attribution of results.

POLICY MATRIX

Objective: The program's general objective is to reduce the financial vulnerability of older adults in Mexico. The specific objectives are to: (i) improve the coverage and benefits provided by the noncontributory pension system, and (ii) improve the coverage, adequacy, and equity of benefits provided by the contributory pension systems.

Components/ Policy objectives	Policy conditions for programmatic loan I	Policy conditions for programmatic loan II	Status of fulfillment of conditions for programmatic operation II ¹
Component I: Macroeconomic stability			
1. Conserve a macroeconomic context conducive to fiscal sustainability.	1.1.1 Maintain a macroeconomic environment consistent with the program objectives and the sector policy letter.	1.2.1 Maintain a macroeconomic environment consistent with the program objectives and the sector policy letter.	Fulfilled
Component II: Regulatory framework to improve the national noncontributory pension			
2. Improve the coverage and benefits provided under the noncontributory pension system, so as to narrow the existing gender gaps.	2.1.1 Establish the constitutional right to a noncontributory pension for older adults.	2.2.1 Approve and publish annual operating rules providing for an increase in the noncontributory pension amount above the extreme poverty line for urban areas.	Fulfilled (4th quarter 2023)
	2.1.2 Approve and publish annual operating rules providing for an increase in the noncontributory pension amount above the extreme poverty line for rural areas.	2.2.2 Perform a gender-disaggregated evaluation to measure the impact of the changes in the noncontributory pension on the effective reduction in poverty among older adults, with recommendations for strengthening the pension pillar and continuing to improve the management thereof.	Fulfilled (4th quarter 2023)
Component III: Regulatory framework to improve national contributory pensions.			
3. Improve the coverage, adequacy, and equity of the benefits provided under the individual account pension system.	3.1.1 Approve, publish, and begin implementing a reform of the Social Security Law that includes the following progressive changes in line with a preestablished timetable: (i) reduction in the number of contribution weeks required for workers affiliated with the pension fund manager	3.2.1.a Continue to implement the reform of the Social Security Act, consisting of the following gradual changes: (i) a reduction in the required number of weeks of contributions; (ii) an increase in contribution rates for retirement, older worker unemployment, and old-age (RCV) insurance; and (iii) the	3.2.1.a Fulfilled (1st quarter 2024)
			3.2.1.b Fulfilled (1st quarter 2024)

¹ This information is merely indicative as of the date of this document. In accordance with document GN-3633-2 (Policy-Based Loans: Guidelines for Preparation and Implementation), fulfillment of any specified disbursement conditions, including maintenance of an appropriate macroeconomic policy framework, will be verified by the Bank when the borrower makes the corresponding disbursement request and will be reflected in a timely manner in the disbursement eligibility memorandum.

Components/ Policy objectives	Policy conditions for programmatic loan I	Policy conditions for programmatic loan II	Status of fulfillment of conditions for programmatic operation II ¹
	<p>(AFORE) system to qualify for a minimum pension.</p> <p>(ii) progressive increase of up to 15% in the contribution rates for retirement, older worker unemployment, and old age insurance to achieve a higher accumulation of funds in the individual accounts in line with the income level of workers.</p> <p>(iii) progressive restructuring of federal subsidies on workers' retirement accounts to focus them exclusively on low-earning workers (up to four Measurement and Adjustment Units (UMAs)).²</p>	<p>gradual restructuring of federal subsidies for workers' retirement accounts to focus them on low-income workers (3.1.1), all consistent with the timelines included in the reform.</p> <p>3.2.1.b Perform an evaluation to measure the effect of reducing the number of contribution weeks required to qualify for contributory pension coverage (3.1.1), validating the increase in the number of people receiving a pension.</p>	
<p>4. Enhance the adequacy of the benefits provided under the individual accounts pension system, improve advisory support on pension matters, and promote investments incorporating environmental, social, and corporate governance (ESG) principles that strengthen the financial market and facilitate financial inclusion.</p>	<p>4.1.1 Publish and issue regulations implementing a methodology to establish a ceiling on the fees charged by AFOREs to affiliated workers.</p>	<p>4.2.1 Implement the methodology for a ceiling on fees charged by the AFOREs as envisaged in the adopted methodology and perform an evaluation of the effects of this fee reduction on workers' individual savings amounts.</p>	<p>Fulfilled (1st quarter 2024)</p>
	<p>4.1.2 Modify the regulations governing the AFORE system to facilitate voluntary savings by affiliated workers through a mobile registration process, thereby also generating greater interest in the use of individual accounts.</p>	<p>4.2.2 Perform an evaluation of the implementation of the measures to facilitate voluntary savings and their effects on the number of savers and total voluntary savings amounts.</p>	<p>Fulfilled (1st quarter 2024)</p>
	<p>4.1.3 Approve, regulate, and publish mechanisms for electronic transfer of individual accounts to reduce the cost of transfers in the system.</p>	<p>4.2.3 Evaluate the operational effectiveness and use of the mechanisms for electronic transfer of individual accounts (4.1.3), reflecting the effective change in the use of digital tools for the improved management of individual accounts.</p>	<p>Fulfilled (1st quarter 2024)</p>

² In 2017, use of the minimum wage as a reference unit to establish amounts payable for formalities, fines, contributions, and taxes under federal laws was discontinued. The UMA, created that year, is adjusted for inflation.

Components/ Policy objectives	Policy conditions for programmatic loan I	Policy conditions for programmatic loan II	Status of fulfillment of conditions for programmatic operation II ¹
	<p>4.1.4 Create and regulate the position of retirement advisor, and publish the advisors' individual details, to educate workers in the AFORE system about retirement and thus enable them to make better decisions regarding their individual accounts. Retirement advisors will:</p> <p>(i) Provide comprehensive services to workers (including processing of paperwork; advisory services; and registration, transfer, and promotion of voluntary savings); and</p> <p>(ii) Be compensated and receive incentives based on the work performed, ensuring free and informed decision-making by workers regarding the management of their individual account, and operate under a payment system that provides monetary incentives to promote voluntary savings by workers.</p>	<p>4.2.4 Certify and register at least 50% of the total number of retirement advisors and make the following information on each advisor available to the general public:</p> <p>(i) Retirement advisor's details;</p> <p>(ii) Registration number of the retirement advisor;</p> <p>(iii) Registration status of the retirement advisor (active/inactive);</p> <p>(iv) Name of the AFOREs and periods of time during which he/she has worked there as marketing agent or retirement advisor; and</p> <p>(v) If applicable, the reason for any discontinuation, removal, or suspension.</p>	<p>Fulfilled (1st quarter 2024)</p>
	<p>4.1.5 Start implementing a rating of internationally accepted ESG criteria applicable to the pension system's investment rules to strengthen the financial market and facilitate financial inclusion.</p>	<p>4.2.5 Evaluate implementation of the classification of ESG criteria in AFORE investments in the financial market.</p>	<p>Fulfilled (1st quarter 2024)</p>
<p>Component IV. Regulatory framework to improve subnational contributory pensions</p>			
<p>5. Develop improvements to the design of the state pension systems in terms of equity and interoperability.</p>	<p>5.1.1 Design a technical proposal to improve the demographic parameters, financial viability, interoperability, and financing of the 41 state pension systems, including:</p> <p>(i) An estimate of the total pension liabilities in the state and how they change when their parameters are modified;</p>	<p>5.2.1 Approval of the technical proposal to improve the demographic parameters, financial viability, interoperability, and financing of the 41 state pension systems, containing: (i) an estimate of the total pension liabilities in the state and how they change when their parameters are modified; (ii) the legal basis for each system's benefits and contributions; (iii) a model for interoperability with the national systems; and (iv) a long-term funding model to satisfy pension liabilities.</p>	<p>Pending (2nd quarter 2024)</p>

Components/ Policy objectives	Policy conditions for programmatic loan I	Policy conditions for programmatic loan II	Status of fulfillment of conditions for programmatic operation II¹
	(ii) The legal basis for each system's benefits and contributions; (iii) A model for interoperability with the national systems; and (iv) A long-term funding model to satisfy pension liabilities.		

RESULTS MATRIX

Program objective:	The specific objectives are to: (i) improve the coverage and benefits provided by the noncontributory pension system, and (ii) improve the coverage, adequacy, and equity of benefits provided by the contributory pension systems. Achievement of these objectives will reduce the financial vulnerability of older adults in Mexico.
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GENERAL DEVELOPMENT OBJECTIVES

Indicators	Unit of measure	Baseline amount	Baseline year	Expected year achieved	Target	Means of verification	Comments
General development objective 1: Reduce the vulnerability of older adults in Mexico							
Indicator 1: Poverty rate for the population aged 65 and above.	Percentage	42%	2018	2025	35%	National Council for Social Development Policy Evaluation (CONEVAL) Poverty among older adults	CONEVAL regularly publishes reports on poverty in the older adult population based on poverty estimates.

SPECIFIC DEVELOPMENT OBJECTIVES

Indicators	Unit of measure	Baseline amount	Baseline year	Expected year achieved	Project completion	Means of verification	Comments
Specific development objective 1: Improve the coverage and benefits of the noncontributory pension system							
1.1 Poverty rate among older adults receiving a noncontributory pension.	Percentage	51%	2018	2025	40%	CONEVAL Official poverty measurement based on the National Survey of Household Earnings and Expenditure (ENIGH)	Measurements are performed using the methodology developed by CONEVAL to measure monetary income and poverty for the entire population, based on the ENIGH (published by the National Institute of Statistics and Geography (INEGI) in even-numbered years). The 2024 survey will be published in 2025 and will be used as the basis for measuring the indicator.
1.2 Poverty rate among older adult women receiving a noncontributory pension.	Percentage	49%	2018	2025	40%	CONEVAL Official poverty measurement based on the National Survey of Household Earnings and Expenditure (ENIGH)	Measurements are performed using the methodology developed by CONEVAL to measure monetary income and poverty for the entire population, based on the ENIGH (published by the National Institute of Statistics and Geography (INEGI) in even-numbered years). The 2024 survey will be published in 2025 and will be used as the basis for measuring the indicator.

Indicators	Unit of measure	Baseline amount	Baseline year	Expected year achieved	Project completion	Means of verification	Comments
1.3 Noncontributory pension amount as a percentage of the extreme (rural) poverty line.	Percentage	48%	2018	2025	100%	CONEVAL Official poverty line figures	The baseline is the 2018 noncontributory pension amount (Mex\$580 per month) relative to the poverty line published by CONEVAL for calculating the monthly extreme poverty line in rural areas, which in December 2018 was Mex\$1,208.47. At project completion, the indicator will be measured using the approved amount for 2025 and the official CONEVAL poverty lines for that year.
1.4 Noncontributory pension amount as a percentage of the extreme (urban) poverty line.	Percentage	37%	2018	2025	100%	CONEVAL Official poverty line figures	The baseline is the 2018 noncontributory pension amount (Mex\$580 per month) relative to the poverty line published by CONEVAL for calculating the monthly extreme poverty line in urban areas, which in December 2018 was Mex\$1,586.96. At project completion, the indicator will be measured using the approved amount for 2025 and the official CONEVAL poverty lines for that year.
Specific development objective 2: Improve the coverage, sufficiency, and equity of the benefits provided by the contributory pension systems							
2.1 Average amount of total pensions received by women as a percentage of the average amount of total pensions received by men.	Percentage	53%	2018	2025	60%	Estimate based on the ENIGH published by the INEGI	The target is determined by the total average pension amount received by women with respect to the amount received by men. This will be based on the ENIGH published by the INEGI, which is published in even-numbered years. The 2024 survey will be published in 2025 and will be used as the basis for measuring the indicator.
2.2 Percentage of older adults who do not obtain a pension funded through their individual accounts.	Percentage	44%	2021	2025	20%	Administrative data from the National Retirement Savings System Commission (CONSAR)	The target refers to the percentage of older adults who are denied a pension, which is currently estimated at 44% but is expected to be considerably lower once fewer contribution weeks are required. CONSAR data for end-2025 will be used, and these will also provide the basis for calculating the counterfactual. Publication is expected in June 2026.
2.3 Average replacement rate of the guaranteed pension under the pension fund manager (AFORE) system for workers earning the minimum wage.	Percentage	80%	2021	2025	100%	Administrative data from the National Retirement Savings System Commission (CONSAR)	The target is determined by the average pension secured by those retiring using the balance of their individual accounts. CONSAR data for end-2025 will be used, and these will also provide the basis for calculating the counterfactual. Publication is expected in June 2026.

Indicators	Unit of measure	Baseline amount	Baseline year	Expected year achieved	Project completion	Means of verification	Comments
2.4 Average pension for the AFORE generation as a percentage of the average for the transition generation.	Percentage	30%	2021	2025	50%	Administrative data from the National Retirement Savings System Commission (CONSAR)	The target is determined by the general replacement rate that would be obtained without implementing the reform. CONSAR data for end-2025 will be used, and these will also provide the basis for calculating the counterfactual. The expected publication date for these data is June 2026.
2.5 Percentage of AFORE-managed assets that comply with environmental, social, and corporate governance (ESG) criteria.	Percentage	21%	2022	2025	30%	Administrative data from the National Retirement Savings System Commission (CONSAR)	The target refers to the percentage of securities that will be rated as incorporating ESG criteria, promoting sustainable investments to achieve increased climate change mitigation and adaptation.

OUTPUT INDICATORS

Indicators	Unit of measure	Baseline amount	Baseline year	Expected year achieved	Project completion	Means of verification	Lead agency
Component II. Regulatory framework to improve the national noncontributory pension							
2.2.1 Annual operating rules providing for an increase in the noncontributory pension amount above the extreme poverty line for urban areas.	Document	0	2023	2024	2	2023 operating rules of the program Pensión para el Bienestar de las Personas Adultas Mayores (Pension for the Welfare of Older Adults) 2024 operating rules of the program Pension for the Welfare of Older Adults	Ministry of Finance (SHCP)
2.2.2 Evaluation measuring the impact of changes in the noncontributory pension on the poverty rate among older adults.	Document	0	2020	2024	1	Report on the evaluation of the changes to the noncontributory pension based on the CONEVAL methodology, using information from the INEGI, sent by official letter from the SHCP confirming the increase in the approved expenditure for the noncontributory pension and the Pension for the Welfare of Older Adults approved in the 2023 and 2024 Budget of Expenditures of the Federation, approved by the Chamber of Deputies (Annex 14)	SHCP

Component III. Regulatory framework to improve national contributory pensions							
3.2.1.a Documentation of progress in implementing the reform of the Social Security Act (LSS), including the progressive changes listed in 3.1.1 and in accordance with the timelines stipulated in the reform.	Document	0	2024	2024	4	Quarterly reports from the National Retirement Savings System Commission (CONSAR) to Congress on the status of the Retirement Savings System, sent to the Bank by the SHCP	SHCP
3.2.1.b Evaluation measuring the effect on contributory pension coverage of a reduction in the number of contribution weeks required to qualify.	Document	0	2024	2024	1	Report on the evaluation of the changes to the contributory pension based on the information published by CONSAR, contained in the reports to Congress, sent via official letter by the SHCP	SHCP
4.2.1 Implement the methodology for a ceiling on fees charged by the AFOREs (as envisaged in the adopted methodology) and conduct an evaluation of the effects of this reduction on workers' individual savings amounts.	Document	0	2024	2024	2	<ul style="list-style-type: none"> - Fourth quarterly report of 2023 to Congress on the status of the Retirement Savings System, reflecting a historic reduction in the maximum amount of fees charged by the AFOREs. - Report on the evaluation conducted on the effects of the reduction on the workers' individual savings amounts. 	SHCP
4.2.2 Conduct an evaluation on the implementation and effect of the measures to facilitate voluntary savings both on the number of savers and total voluntary savings amounts.	Document	0	2024	2024	2	<ul style="list-style-type: none"> - Fourth quarterly report of 2023 to Congress on the status of the Retirement Savings System, reflecting an increase in the system's voluntary savings. - Report on the evaluation of the implementation of the changes to the provisions of the Retirement Savings System Act, sent by the SHCP validating the effects on the workers' individual savings amounts. 	SHCP
4.2.3 Evaluate the operational effectiveness and use of the mechanisms for electronic transfer of individual accounts (4.1.3), reflecting the effective change in the use of digital tools for better administration of the	Document	0	2024	2024	1	<ul style="list-style-type: none"> - Fourth quarterly report of 2023 to Congress on the status of the Retirement Savings System, reflecting an increase in voluntary savings, registration, 	SHCP

individual accounts.						and transfers of the individual account. - Report on the evaluation of the measures facilitating voluntary savings, sent by the SHCP validating the total voluntary savings and the number of savers in the system.	
4.2.4 Register of at least 50% of the total number of retirement advisors and make the following information on each advisor available to the general public: (i) Retirement advisor's details; (ii) Registration number of the retirement advisor; (iii) Registration status of the retirement advisor (active/inactive); (iv) Name of the AFOREs and periods of time during which he/she has worked there as marketing agent or retirement advisor; and (v) If applicable, the reason for any discontinuation, removal, or suspension.	Document	0	2024	2024	1	CONSAR memorandum reporting the certification and registration of more than 50% of the total number of retirement advisors as a result of the call for the Retirement Adviser Certification Exam (ECAP) for AFOREs (confidential)	SHCP
4.2.5 Evaluation of the implementation of the measures contained in 4.1.5, verifying that the investments made by the pension system meet ESG criteria.	Document	0	2024	2024	1	CONSAR memorandum reporting on the implementation of the inclusion of ESG criteria in the investments made by the AFOREs (confidential)	SHCP
Component IV. Regulatory framework to improve subnational contributory pensions							
5.2.1 Documentation of the technical proposal to enhance the functioning of the 41 state pension systems through improvements to their demographic parameters, financial viability, interoperability, and financing, including the features described in 5.1.1.	Document	0	2024	2024	1	SHCP memorandum confirming the approval of the technical proposal for acceptance of the demographic parameters to improve the financial viability, interoperability, and financing of the 41 state pension systems	SHCP

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/24

Mexico. Loan ____/OC-ME to the United Mexican States
Program to Reduce the Economic Vulnerability of
Older Adults in Mexico

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the United Mexican States, as borrower, for the purpose of granting it a financing aimed at cooperating in the execution of the Program to Reduce the Economic Vulnerability of Older Adults in Mexico. Such financing will be for the amount of up to US\$600,000,000, from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on _____ 2024)