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Pensions and Elderly Assistance in Mexico: Using Micro-Data to Assess Development Impacts

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Social Protection Economist

Content

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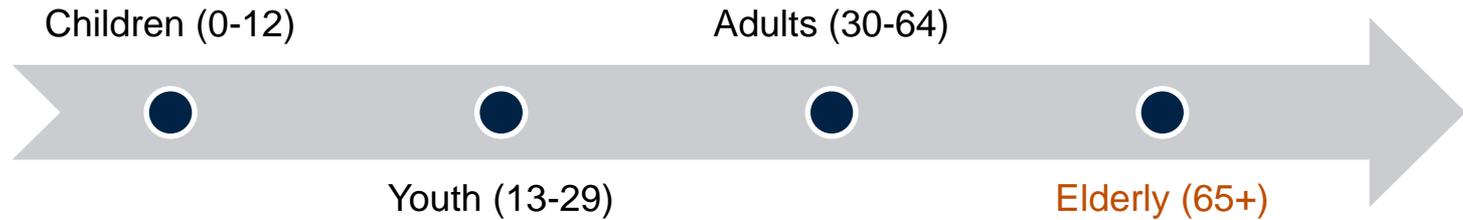
I. Background on Mexico
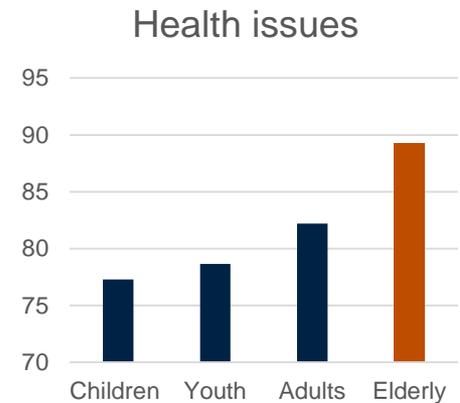
I.   Background on Mexico

1 US dollar = ~20 pesos

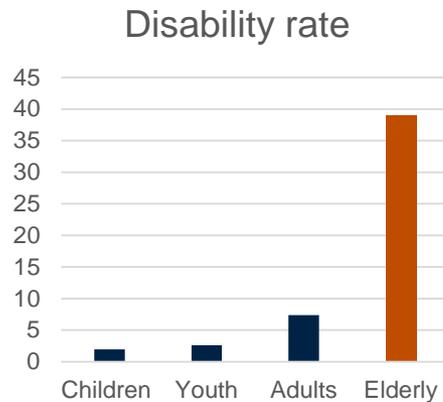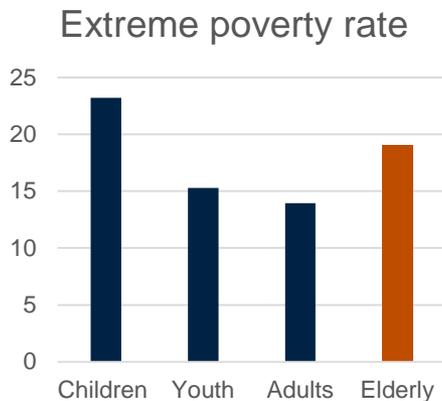- Gross Domestic Product, GDP (2018): US$1.2 Trillions

- GDP per cápita (PPP, 2018): US$18,102

- Total population (2019): 126.6 millions

- Population aged 65+ (2019): 9.4 millions

- 7.4% of the population is 65 years old or older

- Population 65+ (1990): 3.7 m
  Population 65+ (2030): 14 m

- Extreme poverty rate (2018): 16.8%
  - Elderly: 19.1%
  - Non-elderly: 16.6%

- Informality rate > 50%

I.   Background on Mexico

Children (0-12)   Adults (30-64)

Youth (13-29)   Elderly (65+)

- **Elderly population is more vulnerable** than the rest of the population (higher poverty, disability, and morbidity rates)

Extreme poverty rate

Children	23
Youth	15
Adults	14
Elderly	19

Disability rate

Children	2
Youth	3
Adults	7
Elderly	39

Health issues

Children	77
Youth	79
Adults	82
Elderly	89

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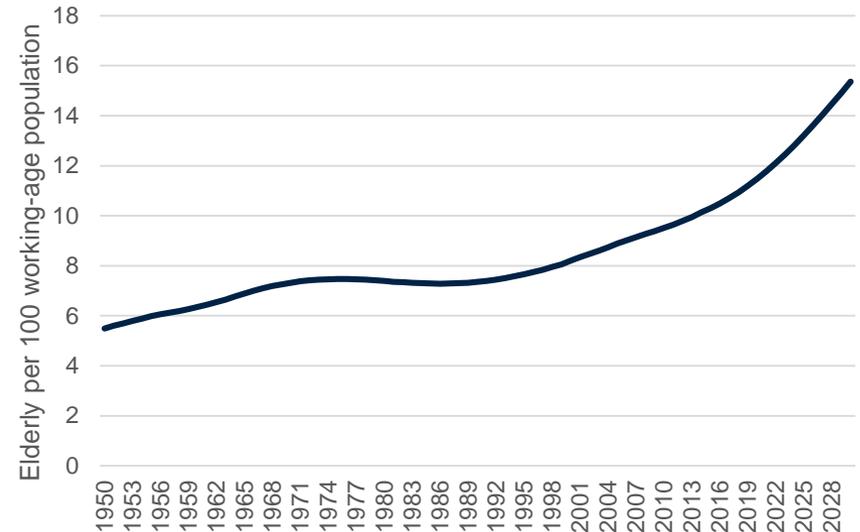
- **Demographic transition**: large increase in the elderly population → pressure on public expenditure

Demographic Transition, 1950-2030
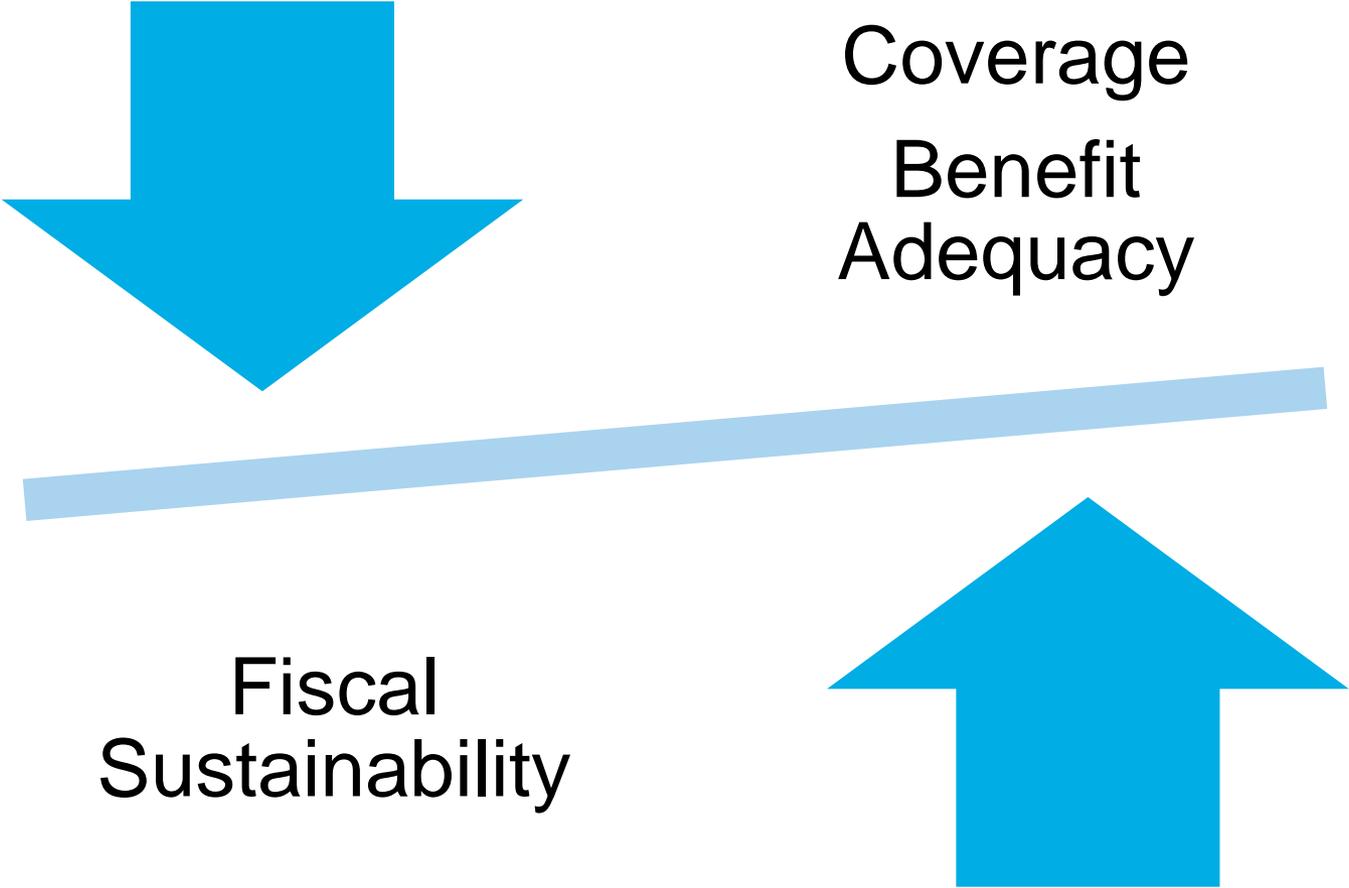
Elderly Dependecy Ratio, 1950-2030

— Gross mortality rate — Gross birth rate — Population (millions)

II. Contributory Pensions

Concepts: balancing sustainability, coverage and adequacy

Coverage

Benefit
Adequacy

Fiscal
Sustainability

II. Contributory Pensions

Major reforms in 1997 and 2007 to improve the **fiscal sustainability** of the pension system:

Pay as-you-go defined benefit → Defined contribution

Lower generosity

Higher requirements to qualify:

Lower coverage

Panel A. Old private-sector DB system for various contribution periods, %

— 45 years --- 35 years — — 25 years
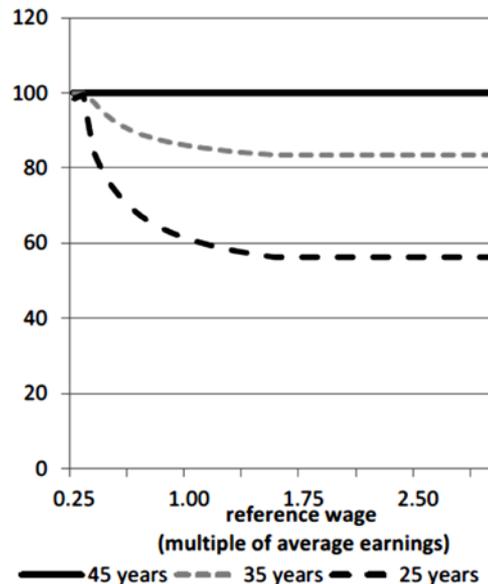
Panel B. Gross replacement rates in the new private-sector DC system for a full-career worker depending on financial returns. %

—— 3% real annual return
••••• 3% real annual return with Infonavit
— · — 1% real annual return
—— 5% real annual return
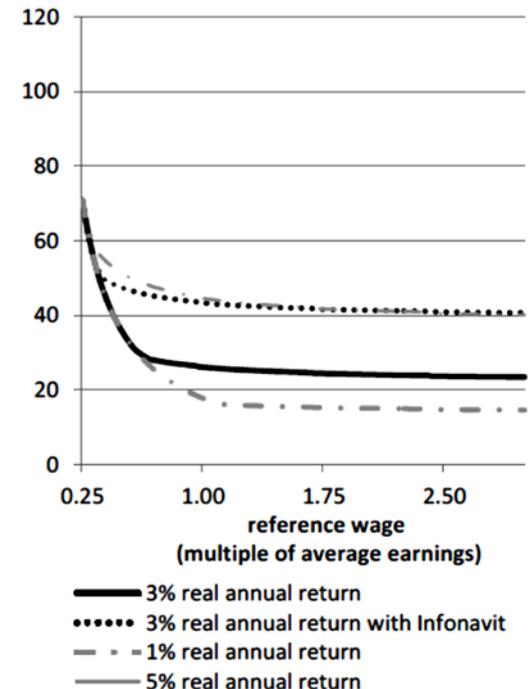
Source: OECD, 2015.

II.   Contributory Pensions

- Historically low coverage rate of contributory pensions

Coverage of Contributory Pensions, Mexico 1990-2018
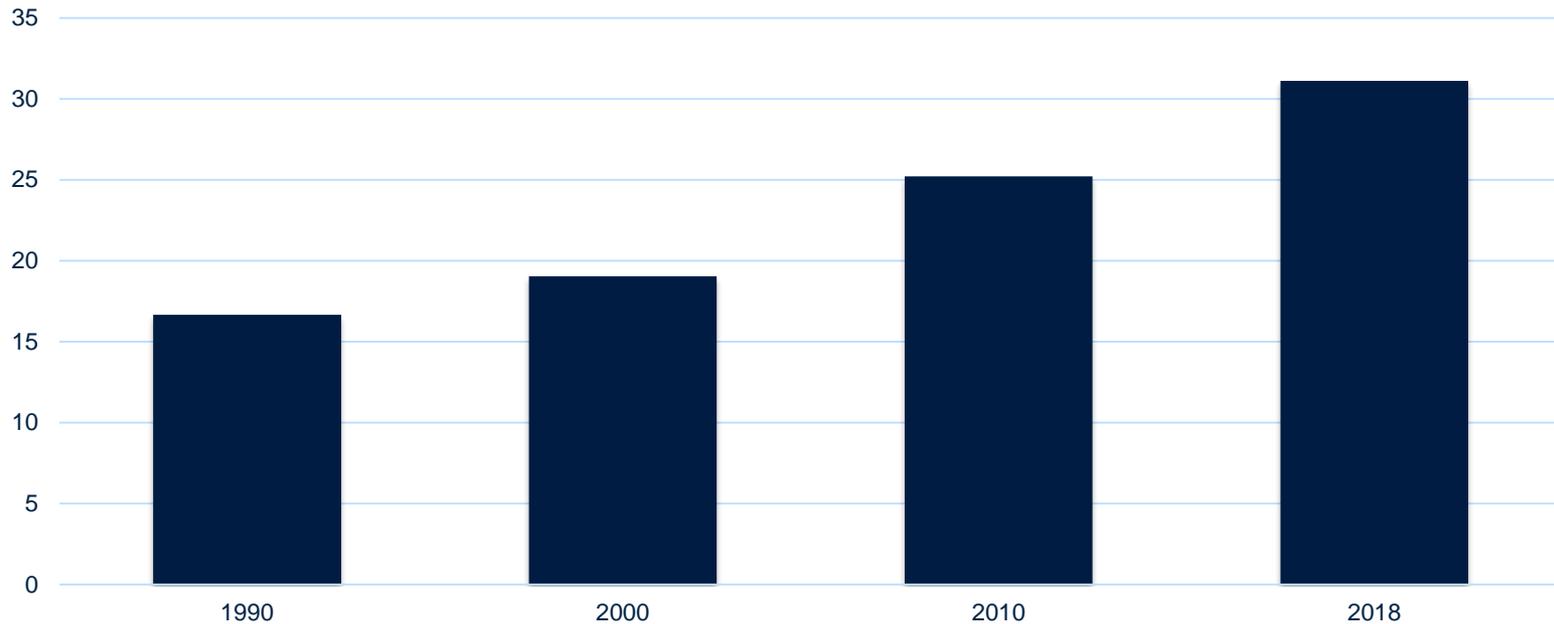
- The majority of the elderly (65+) do <u>not</u> qualify for a contributory pension
- Coverage of contributory pensions is growing… but very slowly

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Note: For 2018 we consider the results from Mexico's National Income and Expenditure Survey (ENIGH), National Institute of Statistics and Geography (INEGI).

II. Contributory Pensions

- Contributory pension coverage is biased towards high-income old-age population

Contributory pension coverage rate, 2018

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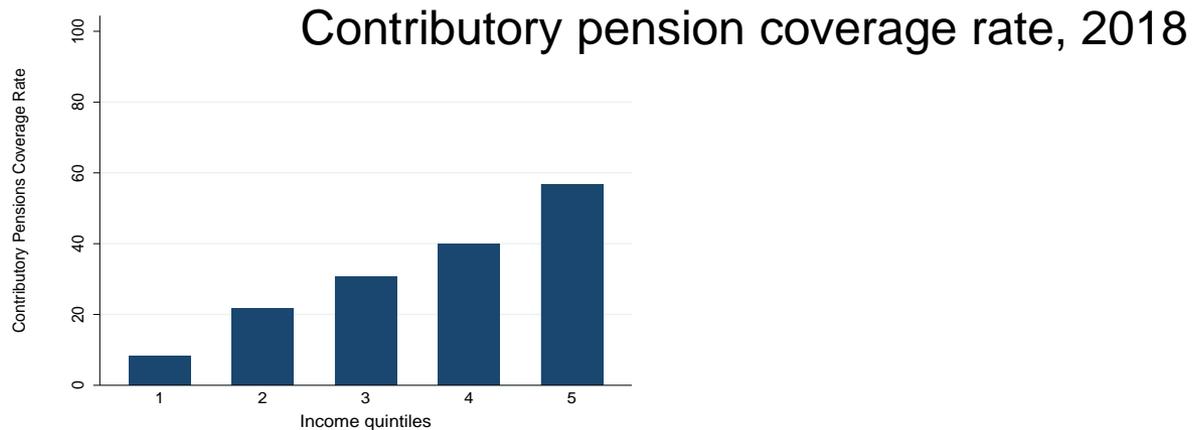
II.   Contributory Pensions

- Contributory pension coverage is different for certain groups

Contributory pension coverage rate, **rural and urban areas** 2018
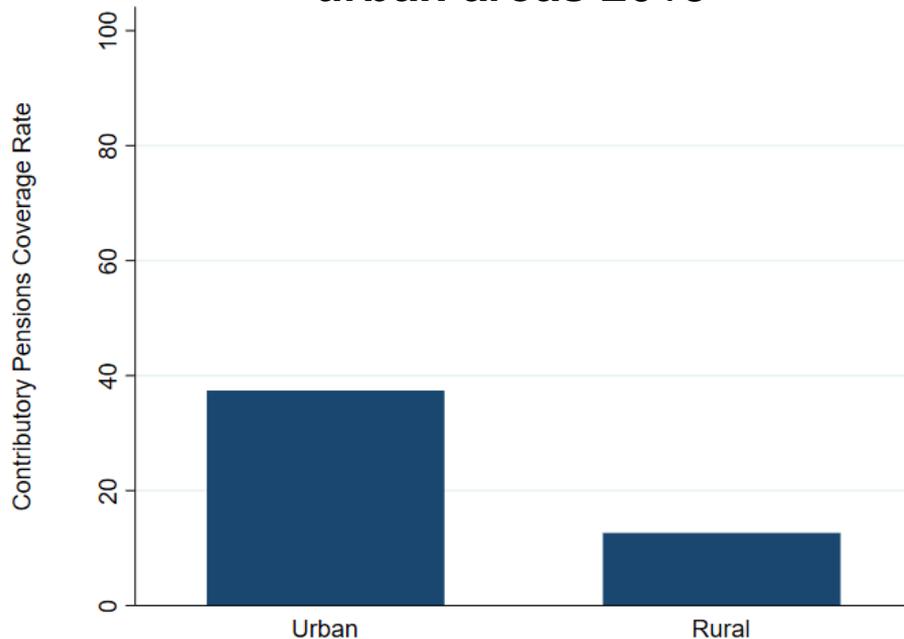
Contributory pension coverage rate, **by sex** 2018
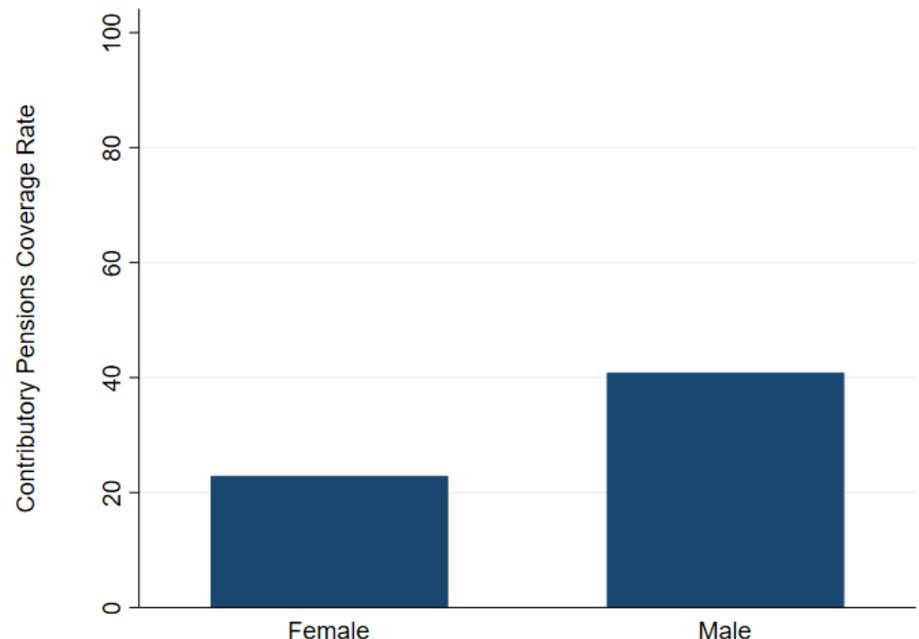
Source: Mexico's National Income and Expenditure Survey (ENIGH), National Institute of Statistics and Geography (INEGI).

- In 2018, **less than 5%** of the **indigenous population** living in rural areas had a contributory pension

III. Non-Contributory Pension Programs in Mexico

III. A few reasons to consider social pensions

- To close the coverage gap of the contributory pension system

- To address old age poverty

- To provide social protection for a population who may face higher vulnerability to sickness and disability

- To comply with the Universal Declaration of Human Rights

- Political motivation?

III. Non-Contributory Pension Programs

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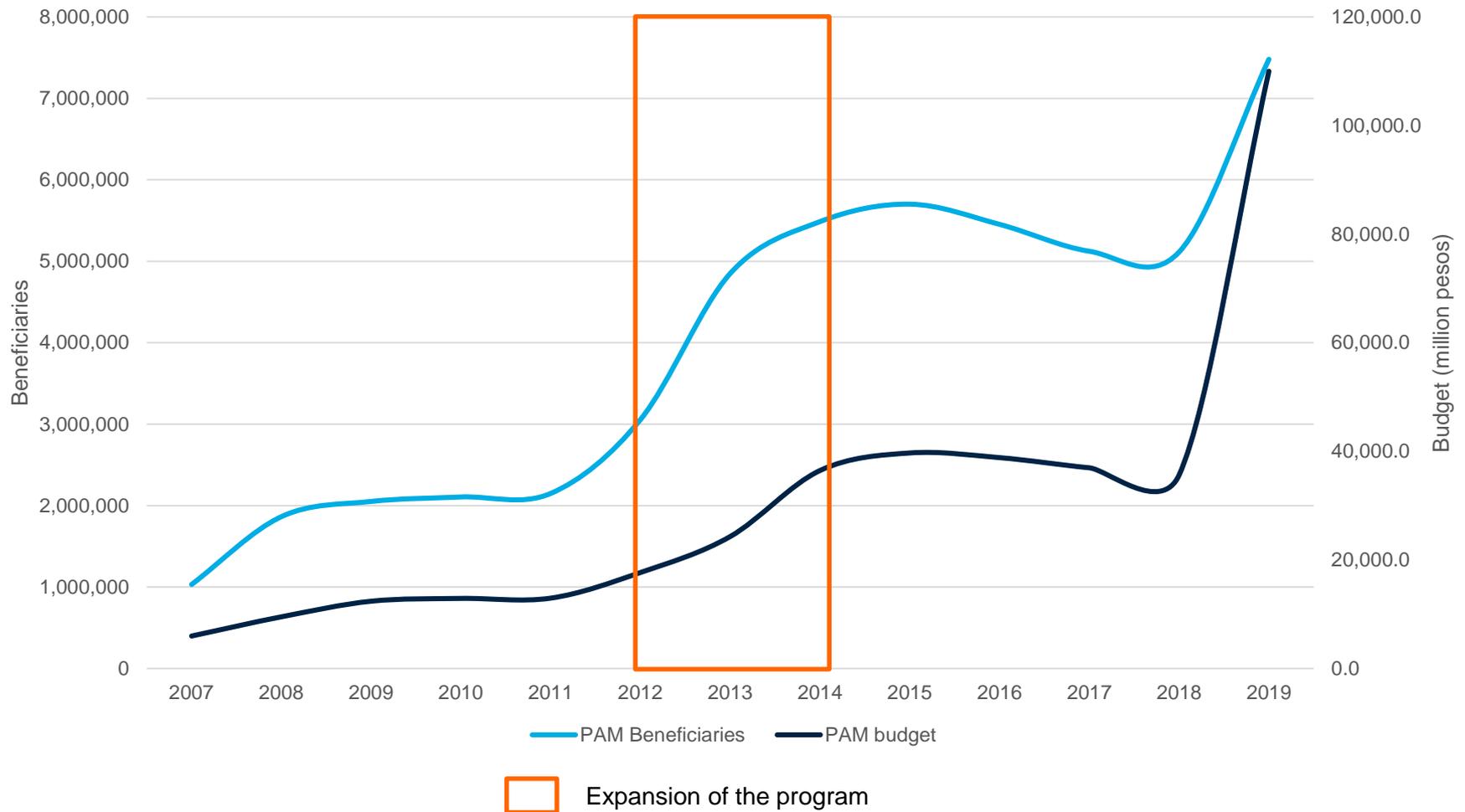
2007: Pension program for the elderly in rural areas (PAM, previously *70 y mas*)

2013: Expansion - Pension program for the elderly: National coverage, expanded to people with 65+, pensions-tested

2019: Expansion of the Pension program for the elderly: Universal coverage to people with 68 years of age or older

III. Pension program for the elderly (PAM)

Budget and Coverage of Social Pensions, 2007-2019

Legend:
— PAM Beneficiaries
— PAM budget

☐ Expansion of the program

IV. Evaluating impacts of non-contributory pension program

IV. Previous evidence of impacts of PAM

Evidence of PAM for the <u>70+ living in rural or semi-rural</u> villages

- **Consumption:** 22% increase in household consumption

- **Health**: Mental health of the elderly significantly improved (score on the Geriatric Depression Scale decreased 12%)

- **Labor force participation/work**:
    - Individuals changed from doing paid work to work in family business (~20%)
    - Reduction in labor force participation of male beneficiaries (allowing retirement)
    - No effect on labor force participation of prime-age individuals
    - No indirect impacts on earnings or savings of future program participants

- **Private transfers**: crowding out effect on private transfers from other households

Gertler, Galiani and Bando. 2014.

Juarez and Pfutze. 2015.

Juarez and Amuedo-Dorantes. 2015.

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IV. Evaluation questions

PAM for the <u>65+ (national level)</u>

- What are the effects of the expansion of PAM in extreme poverty and labor supply of the elderly?

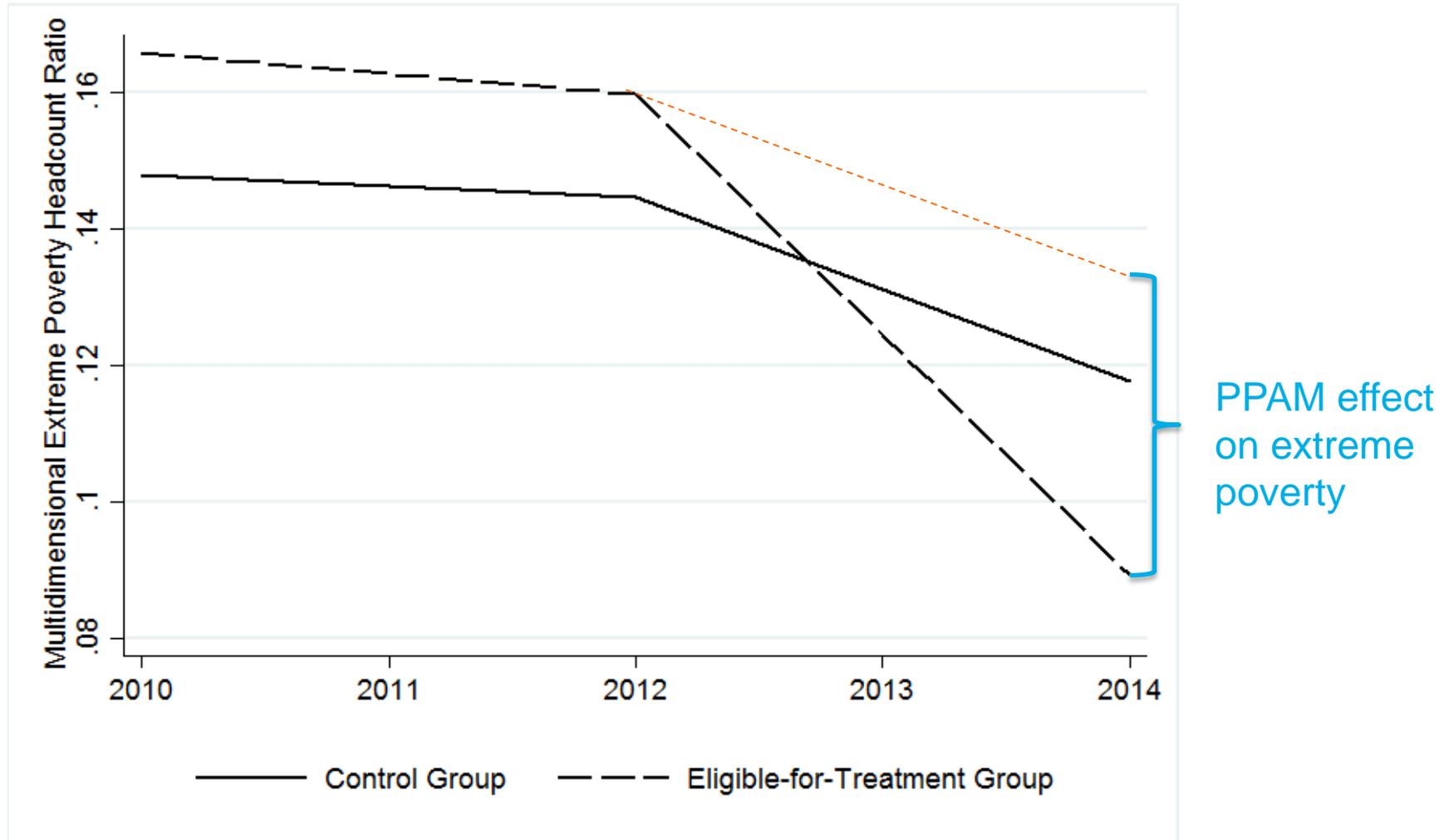- What are the potential transmission channels for the impacts?

IV. Data and methodology (overview)

- Mexico's National Survey of Income and Expenditure (ENIGH) 2010, 2012 and 2014

  - Did not spend resources on specific evaluation surveys

  - Exploited national household survey

- The assignment mechanism to PAM was *not* random

- Exogenous variation in the elegibility criteria (minimum elegibility age from 70 to 65 years old)

	Eligible	Newly Eligible *(Treatment)*	Ineligible *(Control)*
Age	70 +	65 - 69	61 - 64

- Impact evaluation method: difference-in-differences

IV. Empirical strategy

IV. Answers to the evaluation questions

PAM for the <u>65+ (national level)</u>

- PAM reduced extreme poverty of the elderly in Mexico:

  - Reduced official multi-dimensional poverty incidence by 13.5 pp
  - Reduced extreme monetary poverty by 11.5 pp
  - Reduced the extreme poverty gap and poverty severity indexes
  - The poverty reducing effects are generalizable to all members of the PAM beneficiary household

- No negative impacts on labor supply (labor force participation or hours worked) or earnings of the elderly

- No effects on private transfers (domestic or international)

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V. Conclusions and Considerations

V. Tradeoffs and considerations for social pension programs

- Coverage, benefit adequacy and fiscal sustainability

- Many different options:

  - Universal vs targeted?

    – Targeted: Geographic area? Means-tested? Pension-tested? Other characteristics?

  - Eligible age?

  - As an existing social assistance program? As part of the social security program?

Coverage
Benefit Adequacy

Fiscal Sustainability
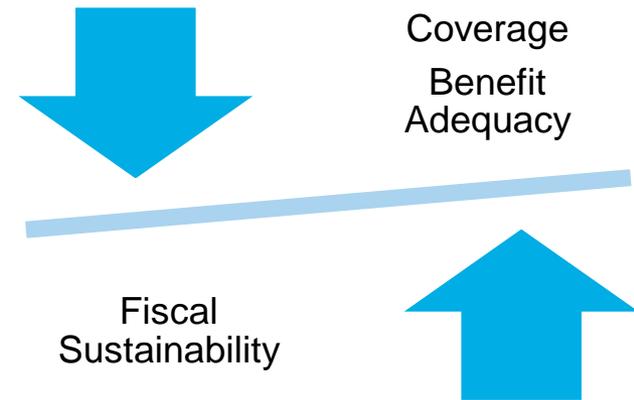
V. Conclusions

- Social pensions have demonstrated in Mexico (and in other countries) to be effective interventions to improve the wellbeing of the elderly and other members of their household

- The decision to implement a program should be based on a diagnosis and on the policy objective

- National surveys are a powerful input that when exploited can inform policy choices

- Policy choices are complex and are often constrained by many different factors, including budget and political considerations

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Thank you!