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I SUMMARY

Social Security

Eligibility	Any person in private employment is eligible. Special systems apply to government employees, workers in the petroleum industry and military personnel.
Retirement Age	65M/F
Contributions	Social Security Benefits are financed from 3 sources: employer, employee and government. Contributions are based on the employee's total remuneration, up to a ceiling of 25 times the Minimum Wage (MW).
Retirement Benefits	Total of contributions with retirement fund administrators (AFORE), paid as lump sum or partially as lump sum and partially as annuity to be purchased from an insurance company. Various supplements exist for spouse, children, parents, etc.
Disability Benefits	Short-term: 60% of daily salary payable for a maximum of 52 weeks. In several cases, benefit continues up to 78 weeks. Long-term: Projected old age pension. If constant care is needed, disability pension is increased by 20%.
Death Benefits	Spouse's pension: 50% of disability pension on total disability plus 20% for each child, payable up to age 16. Full orphans receive 30%.
Medical Benefits	All active and retired employees and their dependants are eligible to reasonable and customary medical care.

Private Benefit Plans

Eligibility	All persons who are covered by social security are eligible. Voluntary participation for persons not covered under social security is possible.
Retirement Age	65M/F
Contributions	Usually non-contributory.
Retirement Benefits	Usually only for persons whose salary is higher than 10 times minimum wages. Benefit is then usually 0.8% of pensionable salary times years of service (normally paid as a lump sum).
Disability Benefits	Usually as a rider to group life.
Death Benefits	Usually no pensions but lump sums, i.e. group life, often supplemented with the rider for “disability pension”. Lump sum: Normally 24 - 36 monthly salaries.
Medical Benefits	Various types of health care plans. Provided by most international companies for full range of medical services, i.e. surgical, maternity, dental, etc.
Vesting	There are no legal requirements for vesting conditions.

Taxation

Employer Contributions	Social security: Deductible. Private benefit plans: Deductible, provided plan is not discriminatory. Severance pay: Deductible. Seniority allowance: Deductible.
Employee Contributions	Social security: Deductible. Private benefit plans: Deductible within legal framework. Medical Plans: Deductible.
Benefits	Benefits exceeding 10 times the minimum salary are liable for tax.

II INTRODUCTION

Country Statistics

Population/ growth rate	120,286,655 (July 2014 est.) / 1.21% (2014 est.)
Age structure	
0-14 years:	27.9%
15-24 years:	18.1%
25-54 years:	40.4%
55-64 years:	7.0%
65 years and over:	6.9% (2014 est.)
GDP purchasing power parity/ Real growth rate	USD 1.845 trillion (2013 est.) 1.2% (2013 est.)
Agriculture	3.6%
Industry	36.6%
Services and Others	59.8% (2013 est.)
Unemployment rate	4.9% (2013 est.)
Inflation rate	4% (2013 est.)
Annual Gross Salary*	in MXN (000s):
Para-professionals	General: 123 Skilled: 209
Professionals	Junior: 327 Senior: 511
Management	Lower middle: 854 Upper middle: 1,456
Legal minimum wage as of January 1, 2015	Zone "A": 70.1 MXN per day Zone "B": 66.45 MXN per day
Exchange rate on February 27, 2015	1 MXN = 0.0668 USD
Currency: Mexican Peso Nuevo	1 MXN = 0.0596 EUR

*Source: Mercer's International Geographic Salary Differentials, Edition 2015

Legislation and Insurance Market Update in Brief

During 2014, there were no major changes in legislation or in the insurance market.

III SOCIAL SECURITY

Background Information

The Mexican social security system was implemented in 1942 and, after a long process of development, has become comprehensive in scope and coverage. The system is administrated by the IMSS (*Instituto Mexicano del Seguro Social or Mexican Social Security Institute*). In 1992, the government started the reform of the pension system creating the Retirement Savings System (SAR or *Sistema de Ahorro para el Retiro*), which offers benefits in the event of disability, old age, early retirement and death. By the end of 1994 there was the general perception that SAR was not the right solution for the operative and financial problems attributed to the Mexican Social Security.

Current legislation has been in force since July 1, 1997. Coverages are separated into disability and life, and retirement. The new system is based on defined contributions and individual accounts. These are managed by AFOREs, retirement fund administrators or *Administradora de Fondos para el Retiro*, created for this purpose. Since the new social security system no longer administers disability and survivors' pensions, the reserves are transferred to private insurance companies, which pay lifetime annuities to the beneficiaries. Since the 1997 pension reform, the system has been steadily evolving and is subject to continuous minor changes and adaptations.

Employees registered with the social security system prior to July 1, 1997 may choose either the old or new plan at retirement. Since July 1, 1997 newcomers are enrolled into the new system. All current SAR accounts are transferred to the AFOREs, where each person has an individual account. Each account contains some sub-accounts for early retirement (*censantia*), normal retirement, housing and voluntary contributions.

Eligibility

Essentially all persons in private employment are compulsorily covered. Voluntary participation of self-employed workers is possible. There are separate systems for government employees, workers in the petroleum and electricity industry and military personnel.

Contributions

A minimum salary has been fixed by federal government to determine benefits and contributions. As of January 1, 2015, this amount is MXN 70.10 per day. 25 times that amount is used for the maximum social security benefits for old age, disability and death. 25 times this amount is used for maximum social security benefits for sickness, maternity and medical benefits. The contribution levels shown below apply to defined earnings contained in an earnings-schedule where the above amount of MXN 70.10 serves as an upper limit.

	Employer	Employee	Government
Social share	0%	0%	5.5% *
Disability and life	1.75% **	0.625% **	0.125% **
Early and old age retirement	3.15% **	1.125% **	0.225% **
Retirement insurance	2% ***	0%	0%

* Minimum salary ceiling

** 25 times minimum salary ceiling

*** 5 times minimum salary ceiling

Contributions for sickness and medical benefits:

	Employer	Employee	Government
Fixed contribution as a percentage of minimum salary	20.4%	0.0%	13.9%
Salary contribution - above 3 x minimum salary	1.1%	0.4%	0.0%
Salary contribution - health and medical benefits in cash	0.70%	0.25%	0.05%
Salary contribution - retirees' health benefits	1.05%	0.375%	0.075%
Nursery and childcare benefits	1.0%	0%	0%

The salary ceiling equals 25 minimum monthly wages (minimum salary) = MXN 52,575

Since March 1999, workers' compensation insurance premiums have been based on each company's experience and assessment of its risk class. The range varies from 0.25% to 15% of covered earnings and is based on earnings of up to 25 times the minimum wage.

Retirement Benefits

Retirement Age

Normal retirement: 65M/F
 Early retirement: 60M/F

Qualifying Conditions

1,250 weeks of contributions.

Benefits

At retirement the individual has 2 options:

- Receive periodic payments or the guaranteed pension directly from the AFORE, or to withdraw part of the account; or
- Transfer the reserve to an insurance company and buy an annuity for life and/or survivors' insurance.

Various factors determine the pension level: AFORE's fees, real annual average yield of the individual's account, number of contribution years, number of years receiving a pension after retirement, and real term average yield on the pensioner's remaining funds. Pensions are adjusted to inflation. (Under the old system pensions were revalued only at the minimum wage level). Old age pension is increased as follows:

Partner's Supplement	15%	of old age pension.
Child's Supplement	10%	of old age pension for each child under age 16, or 25 if in education or disabled.
Parent's Supplement	10%	of old age pension for each financially dependant parent, only payable if the employee has no wife or children.
Employee's Supplement	15%	of old age pension, only payable if there is no other supplement.

Withdrawals from the individual's account may only be made when the person has reached age 65, is entitled to a social security pension, or when the person has deceased. Where these conditions are met, the employee or beneficiaries may receive funds as annuities or lump sums.

Disability Benefits

Qualifying Conditions

If the employee has made at least 150 weekly contributions to social security and subsequently becomes permanently and totally disabled (loss of at least 50% of normal earnings capacity), social security pays a disability pension.

Benefits

Long-Term Disability: This benefit is calculated using the same formula as for the old age pension, based on projected service and salary at the time disability began, increased by 20% if the disabled employee requires constant care.

Total disability (100%): Disability pension amounts to 70% of the insured person's earnings prior to disability.

Partial disability (25% - 50%): Disability pension amounts to a percentage of the full disability pension, which is assessed according to the degree of disability.

Alternatively a lump sum of five years of the pension can also be paid.

If the disability is 25% or less, there is only the option of a lump sum of five years of the pension.

Death Benefits

Qualifying Conditions

Death benefits are paid to a surviving widow, provided that the deceased person was a pensioner or had made 150 weeks' contributions by the time of death.

Benefits

Survivors' Pension:

A widow or a permanently and totally disabled widower receives a pension benefit equal to 50% of the pension that would have been paid to the employee. Each surviving dependant child under 16 receives a pension equal to 20% of this pension, or 30% if a full orphan. If there is no eligible spouse or orphan, a benefit of 20% is paid to each parent. The benefit will never exceed 100% of the pension that would have been paid to the employee.

Funeral Grant:

Upon death of an insured employee, social security pays a funeral grant to the family amounting to 2 months' minimum salary.

Sickness Benefits

Qualifying Conditions

In order to be eligible for cash sickness benefits, four weeks of contributions must have been made immediately prior to the beginning of the illness.

Benefits

Temporary Disability Income (Short-term Disability): After a 3-day waiting period, social security pays a benefit of 60% of the daily salary on which the employee's social security contributions are based. This benefit is payable for the

duration of the disability, but not beyond 52 weeks. In severe cases the benefit continues to be paid up to 78 weeks, but only if contributions have been paid in the 4 weeks immediately preceding disability.

Medical/Health Benefits

Qualifying Conditions

The only requirement for eligibility is to be enrolled in the IMSS System (Mexican Social Security Institute).

Benefits

All insured active and retired employees and their dependants are entitled to reasonable and customary medical care at no out-of-pocket expense. Included are general and specialist care by physicians, hospitalisation or convalescent home care, medication, laboratory services, dental care and prosthetic devices during a period of 52 weeks. This period can be extended by another 52 weeks if recovery is expected during that period. These services are normally provided through clinics and hospitals operated by the government.

Work Injury Benefits

Qualifying Conditions

There is no minimum qualifying period for eligibility to workers' compensation benefits. Benefits are provided to all employees injured at work or on the way to and from their workplace.

Benefits

- If the insured person is totally disabled, 70% of earnings are paid.
- An insured employee who is temporarily disabled receives a disability benefit of 100% of earnings for up to 78 weeks.
- In the event of death, the benefits payable to a widow amount to 40% of the accrued work-related disability pension. An eligible dependant child receives a pension equal to 20% of the pension accrued to the insured person, whereas orphans receive 30%.
- There is a lump sum funeral grant of two months of the minimum wage.

Unemployment Benefits

Labour law requires employers to pay dismissed employees a lump sum depending on years of service. There are no state benefits available. The government announced that the unemployment benefit regime is currently under review.

Other Benefits

Maternity Benefits

During 42 days prior to and 42 days following delivery, the employee will receive a maternity benefit of 100% of the weekly salary on which her social security contributions have been based. This benefit is subject to at least 30 weekly contributions having been made prior to delivery.

MEXICO



Other Information

Reciprocal Social Security Agreements

Argentina, Belize, Canada, Guatemala, Italy, Spain, Uruguay and the United States of America

IV PRIVATE BENEFIT PLANS

Background Information

Around 70% of large and medium-sized companies offer retirement benefits. Most private retirement plans are set up as a means of pre-funding the legal severance indemnity. Defined benefit plans still play an important role in Mexico (about 70% of all pension plans – among the highest rate in Latin America).

Advantageous tax treatment has helped the development of employee savings plans. Plans may be established for the purpose of making loans to employees, but existing plans are used mainly as tax-free compensation vehicles.

Death and disability benefits are normally offered in the form of group life insurance cover. Mexico is a non-tariff country. All insurance policy forms, provisions, premium rates and commissions are supervised by the Insurance and Guaranties National Commission (C.N.S.F.). The local dividend depends on the profit realised by the insurance company in this type of business (*cartera general*). Policy provisions may vary slightly. Some small differences are seen among health insurance policies.

Insurance brokers play a major role in the market. They perform many of the jobs traditionally handled by American and European insurance companies. These include the preparation of proposals (using rates and benefits information from the insurance companies), collection of premiums, forwarding of claims, etc. As a result, the supervisory authorities require the brokers' commissions to be included in the rates. These can only be paid to brokers licensed in Mexico. It is permitted to quote rates without commissions. Most firms use brokers on account of their experience and familiarity with the essential services to be performed. Many of the leading American and European brokerage houses have correspondent arrangements with representatives in Mexico.

Eligibility

All employees compulsorily insured under the Mexican social security system are eligible. Persons who are not affiliated with the social security system, but wish to participate, may do so on a voluntary basis.

Contributions

Most private plans are on a non-contributory defined benefit basis, although there is a trend to contributory defined contributions schemes. Premiums for death, disability and employee medical benefits are usually fully paid by the employer.

Employers are required to register contributions on a bi-monthly basis at a rate of 2% of basic salary. The minimum monthly salary for contribution purposes is MXN 2,103.00. The maximum salary on which contributions may be made is 25 times this amount. A 2% contribution on this results in a monthly maximum contribution of MXN 1,051.50. (2,103.00 x 25 x 0.02) Voluntary additional contributions can be made provided these are in excess of 10 days' minimum salary.

Employee's contributions on a voluntary basis are possible so as to increase the old age pension or disability benefits.

Retirement Benefits

Retirement Age

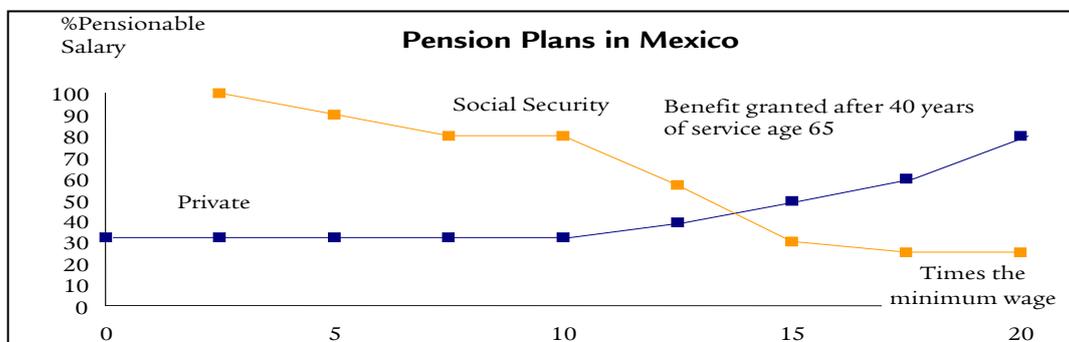
Normal retirement: 65M/F
 Early retirement: 60M/F

Benefits

Private pension plans are relatively new. If the employer terminates a labour contract without just cause a severance payment must be made. That payment amounts to 3 months' salary plus 20 days' pay for each year of service. In order to persuade an older employee to retire at age 65 and thus give up 100% of salary, the social security benefit needs to be supplemented by a basic non-contributory employer sponsored pension plan. Alternatively, the employee may choose to continue working for as long as the company cannot show justified termination.

As a rule, private pension plans provide for additional benefits for those persons who earn more than 10 times the minimum wage, thus compensating for the ceiling under social security.

Private pension plans have proved to be an effective method for employers to pay the legally prescribed security and severance benefits. Accordingly, the plans are designed in such a manner that the old age pension's actuarial value corresponds to these benefits. The old age pension may be defined as 0.8% of pensionable salary times years of service, usually resulting from a pure savings contract with a trust fund or an insurance company.



Vesting

There are no legal requirements for vesting conditions. However, the reserve of the pure savings contract can be used to partially or totally pay the seniority and severance benefits.

Disability Benefits

Private disability benefits, payable for long-term absence, are often provided through a rider to a group term life insurance contract. These benefits supplementing social security are usually payable as a lump sum or in periodic instalments.

The following benefits are normally offered:

- Premium waiver benefit (BEPP): In the event of total and permanent disability, the insured will be protected for life with no premium payment.
- Total and permanent disability benefit (BITP): A permanently and totally disabled person will receive a lump sum payment equivalent to the sum insured under basic group life.
- Total and permanent disability due to accident benefit (BITPA): The insured has the same rights as with the above-mentioned benefit, but only when the disability is caused by an accident.

Death Benefits

Union demands for death benefits beyond those provided by social security are becoming increasingly prevalent. The most popular employer-sponsored employee benefit is group life insurance. Statistics show that 85% of the companies have some form of life insurance plan. The average amount of group life insurance may vary from 24 to 36 times the last monthly salary. These benefits are usually doubled in the event of accidental death.

Sickness Benefits

Social Security benefits for short-term disability are set at 60% of salary and are paid after the third day of incapacity. Commonly, employers pay the full salary for the first three days that are not covered by Social Security.

After the third day, most employers will supplement salary up to 100% with a maximum of 25 times monthly minimum wage for a maximum of 52 weeks.

Medical/Health Benefits

Many international employers have adopted private insured health care plans providing benefits for higher-paid employees not wishing to use government provided services. Most of these plans use the major medical pattern as found in the USA. Because of the great demand of salaried employees for private medical care, there is a trend for employers to provide group medical expense benefit plans for salaried employees. This fringe benefit is useful as a method to attract and retain employees. The trend is towards pure comprehensive medical expense reimbursement plans with a cash out-of-pocket grant for each separate cause.

Example of a typical medical plan:

- Annual insured sum per person: from MXN 250,000 to MXN 1,000,000
- Deductible per illness: from MXN 1,000 to MXN 2,500
- Co-insurance per illness can go up to 10% to 20% of the expenses

The last 2 points depend upon the size of the group.

Some plans include benefits for maternity expenses and most include coverage for the employee's family (spouse and children). By law, these plans may not be discriminatory. The law requires a minimum of 75% participation of the group if the plan is contributory. If this government requirement is not met, the employer's portion of the premium is not tax-deductible. There are 3 different approaches an employer may take to provide major medical expense coverage:

- Provide the benefit on an informal and non-guaranteed basis as a current expense which is not tax-deductible.
- Provide the benefit through an insured plan on a discriminatory basis only for executives, with no tax deduction possible.
- Provide coverage for all eligible employees with tax advantages, but at a higher net cost.

Experience shows that the grant and the contribution render a medical plan unattractive to lower-paid employees who still use the social security facilities. This helps to reduce the loss ratio and keep premiums low. The major insurance companies have had negotiations with hospitals in Mexico, as well as in the USA, in order to change reimbursement plans to direct payments to hospitals. This plan differs somewhat among the insurance companies. The general procedure is that a policyholder pays the deduction upon admission to the hospital and the co-insurance upon discharge. The insurer pays all other expenses directly to the hospital. This new procedure has proven most beneficial to policyholders. Many people who had medical expense policies did not have the cash necessary for treatment in private hospitals.

Other Benefits

Profit Sharing

Nearly all firms are required to distribute 10% of their pre-tax profits annually through a profit sharing plan. The profits are allocated in 2 portions: One in proportion to the number of days worked by each employee and the other in proportion to the employee's earnings.

Termination Indemnities

Substantial lump sum payments have to be made by the employer to an employee whose employment is terminated.

Seniority Benefit (Antigüedad)

Seniority benefit becomes due if the employee has completed at least 15 years of service, regardless of the retirement cause, or if the employee dies (not restricted to 15 years of service). The seniority benefit amounts to 12 times daily salary (with a maximum of 2 times the minimum daily salary) for each year of service.

Bonuses

Payments are prescribed in a number of situations, principally the compulsory payment of a bonus to all workers at Christmas. This bonus equals 15 times the daily salary for all employees with at least 1 year of service or a pro rata bonus for employees with less than 1 year of service.

Holiday Benefit

An employee with 1 year of service or more has the right to paid holidays with an extra remuneration of 25%.

Taxation

There is no premium tax, except in the case of major medical and personal accident plans where a tax of 16% is to be paid. With the new tax reform effective as of January 1, 2010, the value added tax was increased from 15% to 16%.

Contributions paid by an employer towards employee benefit plans (including SAR) are tax-deductible provided that the employee benefit rules do not include any discriminatory provisions regarding any group of persons. Employer contributions do not generally constitute taxable income to the employee.

With regard to defined contribution plans, the maximum deductible percentage is 12.5% of the employee's taxable income. The 12.5% cap applies to the sum of both employers and employees' contributions.

Employer contributions to severance pay (*Cesantia*) and seniority (*Antigüedad*) benefit plans, however, are regarded as taxable income for the employee. For SAR plans, withdrawals made by the employee of amounts below 15 times the minimum salary (15 x MXN 2,103.00 i.e. MXN 31,545) are exempt from taxes; amounts above this are taxed.

Employer Contribution	
Social Security	Deductible
Private Benefit Plan (including SAR)	Deductible, if person is not discriminatory
Severance pay and seniority benefit	Deductible
Employee Contribution	
Social Security	Deductible
Private Benefit Plan	Deductible, with some limitations
Employee Contribution to Severance pay and seniority benefit	Taxable

As of January 1, 2014 pension benefits exceeding 15 times the minimum salary are liable for tax (Income Tax Law 2014).

Double Taxation Agreements

Australia, Austria, Bahrain, Barbados, Belgium, Brazil, Canada, Chile, China, Colombia, the Czech Republic, Denmark, Ecuador, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Japan, Korea (Republic), Kuwait, Lithuania, Latvia, Luxembourg, Malta, the Netherlands, New Zealand, Norway, Panama, Peru, Poland, Portugal, Qatar, Romania, Russia, Singapore, Slovakia, South Africa, Spain, Sweden, Switzerland, Ukraine, the United Kingdom, the United States of America and Uruguay, Venezuela.

Other Information

Funding Methods

Group policies similar to life annuities deferred to age 65 are available through a pure savings contract which allows for the accumulation of reserves with interest and thus builds up the fund from which retirement annuities will be purchased. In the event of death before retirement, the reserve built up on account of employer contributions at 4.5% interest may be paid out as a death benefit. The benefit guarantees an interest rate of 4.5% on the reserves. Dividends are payable as earned, and are a function of the excess interest earned over the 4.5% guaranteed. Such a plan has some of the characteristics of deposit administration funding.