



Strategies to Promote Retirement Savings for Non-Wage-Earning Mexican Workers

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ABSTRACT

The retirement savings fund is one of the least addressed issues by our society in Mexico, which is reflected in current statistics. Figures published by the National Commission for the Protection and Defense of Users of Financial Services indicate that only 1% of Mexican adults set aside part of their salary for retirement savings. A solution for the future population is a good educational structure to encourage retirement savings from an early age, so that it is not necessary to rely exclusively on government support. Finally, more realistic government proposals are needed in terms of the amount of money required for the retired population to live a dignified life. For all the above reasons, it is argued that it is time to generate conversation about the advantages and encourage forms of retirement savings for all Mexican youth and adults.

Keywords: Retirement Savings; Retirement Planning; Mexico; Public Politics.

Introduction

The retirement savings fund is one of the least addressed issues by society in Mexico, which is reflected in current statistics. Figures published by the National Commission for the Protection and Defense of Users of Financial Services (CONDUSEF, 2021) indicate that only 1% of Mexican adults allocate part of their salary to retirement savings. This fund refers to a certain amount of capital that a worker allocates to live with dignity in the future upon reaching an advanced age and, therefore, economically inactive.

Literature Review

Yao&Cheng(2017) made a study examining young adults —born between 1982 and 2000, popularly called Millennials— in United States retirements savings, showing that only 37% of this population had an account earmarked for retirement, also this study conclude that American workers do not save at all for retirement, 52% of individuals over 54 years old, do not have retirement savings, and 50% of individuals over 64 years old rely on Social Security as their primary source of retirement income. These data demonstrate the importance that falls on young adults to plan an economic future for their retirement.

According to Lusardi, Mitchell&Curto(2010) financial education programs are essential before individuals engage in financial contracts and start making financial decisions,since they found that education can improve financial stability, financial programs should start at least in high school.Certain young adults have contact with the financial world since they take loans to continue studying without even having a job yet,therefore some students are already flooded with debts before they even made money at all.

Other studies (van Rooij, Lusardi &Alessie, 2012; Gallego, Montero y Rodriguez, 2022) measure financial knowledge and the relationship that this knowledge has with household wealth, these investigations showed a positive association between financial education and wealth.One reason for this is that financial literacy tends to reduce the barrier to investing in the stock market, but more important, it is demonstrated that financial literacy is associated with a better retirement planning behavior, also these individuals have more liability to make a plan and stick to it. A reason for this is knowing that the

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amount of accumulated wealth the future population is going to need to retire requires a calculation and a plan for spending and saving, as a result, the population can have an economic comfortable retire life, and as studies have shown, financial education plays an important role in the achievement of this goal.

The facts about retirement culture

It is not common to hear a couple of teenagers or young adults talking about the advantages or how to reach the desired goal of saving for retirement and even saving in general, nor is there enough education about it, according to a census conducted by the National Commission of the Retirement Savings System (CONSAR for its acronym in Spanish) (CONSAR, 2021). It is said that compared to the years 2016-2020 (Fig. 1) there has been an increase in informative instruments regarding the Retirement Savings System through the Retirement Fund Administrators (AFORES for its acronym in Spanish), however, this it is not reflected in the figures that the National Commission for the Protection and Defense of Users of Financial Services (CONDUSEF, for its acronym in Spanish) collected regarding the number of Mexican adults who save for this purpose.

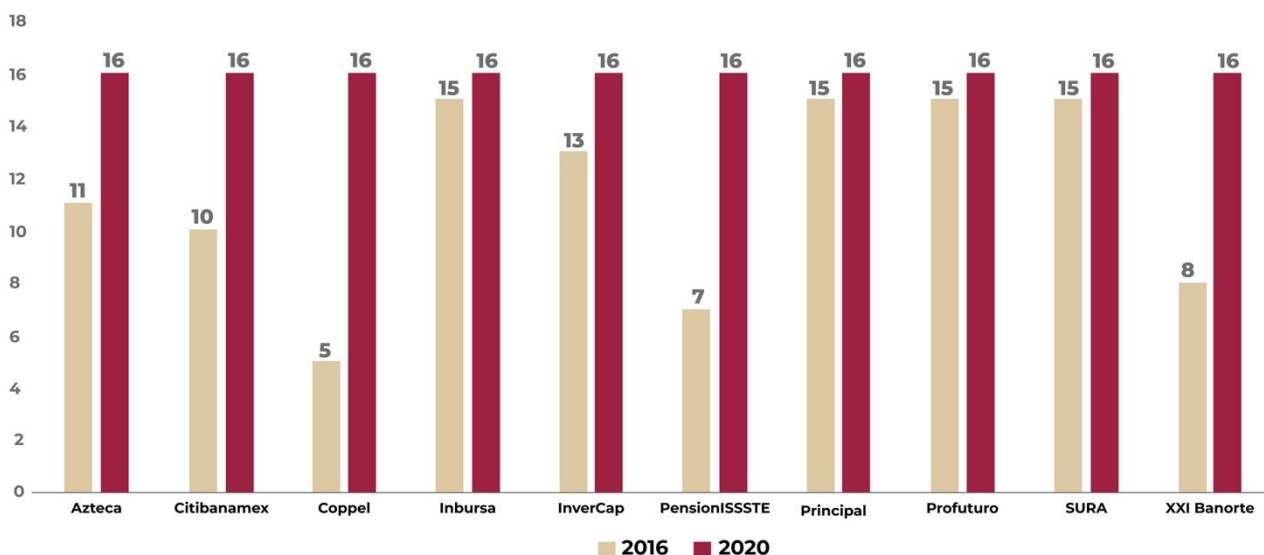


Figure 1 - AFORES Financial and Social Security Education Census in Mexico (CONSAR, 2021). CONDUSEF carries out a census to find out if the savings funds do the necessary work so that the workers master the financial knowledge related to their retirement. The census analyzes each Retirement Investment Fund and evaluates 16 aspects focused on financial and pension education: 1. Contents on administration and personal finances; 2. Face-to-face and/or distance courses; 3. Income planning, current and future expenses and savings; 4. Contents on retirement planning; 5. Personalized advice; 6. Information on Voluntary Savings as a complement to mandatory contributions; 7. Investment information; 8. Benefits and risks implicit in the investments; 9. Detailed information on the procedures offered by the AFORES; 10. Information on existing withdrawal modalities with their advantages and disadvantages; 11. Voluntary Savings Calculators; 12. Dissemination of financial education in social networks; 13. Games with a focus on financial education; 14. Videos on personal finances; 15. Promotion and use of an application; and, 16. Procedures on the website. (CONSAR, 2021).

To put the current Mexican situation in perspective we can look into the pension system in Iceland, one of the best pension systems in the world; the government pension percentage provided by the government is 33% of the average income of workers, which is one of the highest percentages in the world, however, according to the Organization for Economic Cooperation and Development (OECD, 2021) this percentage provided by the government is often unnecessary because Icelanders have an average retirement rate of 45% (OECD, 2021).

Meanwhile in Latin America, specifically Chile, the average percentage that an inhabitant has available for retirement savings is 10% of their average salary during their working life, a figure that represents only a third of what the Icelandic government provides just for having worked, and even so, Chile is ranked as the best positioned country in Latin America in terms of retirement pension systems (OECD, 2021).

On the other hand, the situation becomes worrying when looking at the figures for Mexico, where only 6.5% of the salary earned over the years is available for retirement, which is one of the lowest figures in the world (OECD, 2021). Lack of interest and lack of knowledge about retirement savings alternatives among the population is one of the reasons why the number of retired workers in Mexico, as well as the amount allocated to their retirement, are very low.

Another main cause of the little or no amount allocated to retirement savings in Mexico is the limited remuneration that the salaried working population earns, as this remuneration is often insufficient and does not allow part of the money earned to be allocated to savings; the minimum wage in

Mexico is \$172.87 MXN, which corresponds to 8.49 USD per day (Secretary of Labor and Social Welfare, 2022). The National Directorate of Minimum Wages (CONSAMI, 2021) reports that only 13.3% of paid and salaried workers earn up to one minimum wage for their work, i.e. the remaining percentage is paid less than the minimum wage.

Discussion

The consequence of the scenario described so far and the foreseeable future is that the Mexican elderly population will become poorer, in addition to causing people to retire at an increasingly advanced age or to have to depend on relatives to be able to lead a dignified life out of poverty, an objective that is generally not achieved. For this reason, retirement savings should be encouraged throughout society as a whole, and specifically in Mexico.

One of the solutions that the Mexican government has proposed to eradicate this problem has been to give a payment of MXN 1,550, corresponding to USD 76.14 every two months to all older adults aged 68 and over, and 65 for the country's indigenous populations, respectively. This is the only alternative presented by the government for all salaried workers, which raises the question of whether the solution presented is in fact efficient (OECD, 2021).

Conclusion

In conclusion, the solution provided by the Mexican government is not optimal for the eradication of the problem of the lack of budget for retirement, because with the only payment they provide, corresponding to \$1,550 MXN (76.15 USD), older adults cannot live in dignity.

A solution for the future population is a good educational structure to encourage retirement savings from an early age, so that it is not necessary to rely exclusively on government support.

Finally, more realistic government proposals are needed in terms of the amount of money required for the retired population to live a dignified life. For all the above reasons, it is argued that it is time to generate conversation about the advantages and encourage forms of retirement savings for all Mexican youth and adults.

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