Social Security Abroad

Recent Changes in Mexican Social Security*

A decree law, effective January 1, 1971, substantially increased contribution and benefit levels under the Mexican social security system. The reforms embodied in the law are particularly significant because of the techniques used to broaden the tax base for social security. The new legislation expanded the definition of earnings to include not only cash wages but also all fringe benefits as established in the Mexican Federal Labor Law of December 2, 1969. Consequently, covered workers have been reclassified into higher earnings brackets for tax and benefit purposes.

At the same time, the lowest three wage classes have been eliminated because they fell below the statutory minimum wage. For contribution purposes, four new wage classes have been added to the upper end of the scale, creating a new ceiling and making persons with higher earnings subject to increased contributions and eligible for higher benefits. Minimum cash benefits were raised in all programs. Although the benefit formula has not been changed, the above modifications improved benefits to all workers, particularly those at either end of the salary scale.

This new law is the first major change in the tax and benefit structure of the Mexican Social Security Institute (IMSS) since 1959. It was brought about in response to the demand from many sectors of the economy that social security benefits be raised to a level commensurate with higher wage levels and Mexico's general economic growth. The main effect of this amendment has been to increase the ceiling on benefits by an average of 180 percent above the 1960-70 maximum. During this same period, prices have risen by 30 percent and wages in manufacturing 112 percent.

At the other end of the scale, minimum benefits were raised 300 percent. This change is most significant in terms of the number of workers affected. In 1967 more than 42 percent of the workers covered under the IMSS system were earning salaries at the minimum level. The new minimum pension, therefore, represents a substantial gain for workers in the lowest wage brackets.

The IMSS has over 3 million contributing members and provides protection for almost 10 million persons out of a total population of 49 million. It is the largest of the Government social security programs and extends to four-fifths of the population covered by all programs. The balance—approximately 2.5 million people—are insured under seven other separate systems.

Although the IMSS program covers only about 18.6 percent of the economically active population, it has been gradually expanded as the financial and organizational capacity of the system allowed. Its coverage is predominantly within the urban population, although new provisions permit an extension of benefits to more workers in the rural areas. In 1968, 87.6 percent of the workers covered by the IMSS were in urban areas, and 12.4 percent were in rural areas.

The latest revision in pension ceilings and the higher replacement rate of earnings for those in the lowest wage class now places Mexico among the countries of the world in which the benefit paid by the general social security system will become a significant element in retirement income.

NEW DEFINITION OF WAGES

"Wages and salary" were previously defined under the social security law as "the total income received by a worker for services rendered." Actually only cash pay was subject to tax and certain fringe benefits were excluded. Under the revised social security law, contributions as well as benefits are to be computed on the basis of wages and salary as defined in the new Labor Law. "Wages" under that law include, in addition to cash payments at the daily rate, the value of "bonuses, allowances, lodging, premiums, commissions, benefits in kind, and any other sum of money or benefit given to the worker on account of his work." For tax purposes the new definition is also interpreted to extend to the payment of overtime work.

Fringe benefits provided under Mexican law or obtained through collective bargaining may run as high as 50 percent of cash wages. Thus the broadened definition of salary moves more workers into

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higher wage classes for social security tax and benefit purposes.

Contributions by employers and employees to the IMSS are wage-related, based on the “earnings class” of the employee. To facilitate administration, the earnings class of an employee is determined by his “daily wage” and contributions are assessed according to a table prescribed by law. Before 1971, there were 12 such wage classes, ranging from a minimum of 8 pesos a day to a maximum of 80 pesos. (One Mexican peso equals 8.17 U.S. cents.) The amendments of January 1, 1971, establish four new wage classes and raise the maximum to 220 pesos a day.

The 1971 amendments also eliminated three wage classes at the bottom of the scale, since they fell below the legal minimum wage now in force. The lowest wage class for contribution and benefit purposes now covers wages up to 15 pesos a day, with the assessments based on an average wage of 13.50 pesos per day. (The lowest legal minimum wage at the present time is 15.75 pesos a day for general labor and 13.75 pesos per day for farm labor in the State of Oaxaca.) For workers in the next eight wage classes (those earning more than 15 pesos but less than 80 pesos a day), contribution and benefit rates remain unchanged.

The complete schedule for contributions and retirement benefits as of January 1, 1971, for the 13 wage classes is as follows:

<table>
<thead>
<tr>
<th>Earnings class</th>
<th>Daily earnings in pesos</th>
<th>Retirement pension 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than</td>
<td>Average</td>
<td>up to</td>
</tr>
<tr>
<td>1</td>
<td>13.50</td>
<td>15</td>
</tr>
<tr>
<td>2</td>
<td>16.50</td>
<td>18</td>
</tr>
<tr>
<td>3</td>
<td>20.00</td>
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<td>45.00</td>
<td>50</td>
</tr>
<tr>
<td>7</td>
<td>60.00</td>
<td>70</td>
</tr>
<tr>
<td>8</td>
<td>75.00</td>
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<td>220</td>
</tr>
<tr>
<td>13</td>
<td>250.00</td>
<td>300</td>
</tr>
</tbody>
</table>

1 The pension for invalidity (non-work-connected total disability) is identical.

CONTRIBUTIONS AND BENEFITS

The system of contributions used by the Mexican social security system is not affected by the 1971 amendments. Sickness and maternity in-

OTHER CHANGES

The amended law also extends social security coverage to a larger number of independent farmers. Under previous legislation, only farmers
holding less than 10 hectares (24.7 acres) of irrigated land or its equivalent were eligible for social security coverage. The new legislation has eliminated this restriction and has permitted the Government to assume a greater share of the insurance costs (previously limited to 50 percent). The Government will also adjust social security contributions in accordance with the farmer's earnings and economic capacity. The number of independent farmers who qualify for social security under the new law can be expected to increase sharply over the present level of 120,000.

In order to meet the increased demand for medical services under broadening social security coverage in rural areas, the IMSS has been authorized to contract with other public and private institutions for services required. All persons currently insured under the IMSS and their dependents are entitled to medical, surgical, pharmaceutical, and hospital benefits for 52 weeks per illness.

In the past, to qualify for coverage under the social security system a worker needed a "contract of employment." By adopting a concept of the new Labor Law, the IMSS now may insure any person who has a dependent work relationship with another, whether or not a contract of employment exists. This change will also result in the coverage of a larger number of salaried workers.

The eligibility of dependent children for cash supplements and medical benefits under retirement, disability, and sickness insurance has been increased from age 16 to 18. Previously, only dependent children under age 16 were eligible for such benefits.

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