

The Future of Retirement

It's time to prepare

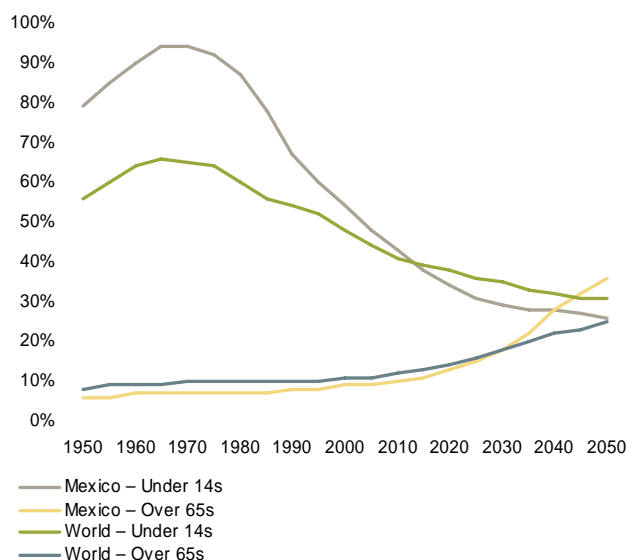
Fact Sheet Mexico

The fifth annual **HSBC Future of Retirement** report builds on the previous year's reports in exploring the current attitudes and behaviour towards retirement. Whilst for many Mexicans retirement is viewed as a new age of opportunity, the issue that needs to be addressed is how families envisage funding and supporting their retirement years. The report explores how people are responding to the new responsibility of being increasingly accountable for their pension provision. The report also identifies a preparedness gap – the feeling shared by the vast majority of Mexicans that they are currently doing too little to actively prepare for a comfortable retirement.

Demographic Trends in Mexico

Mexico – like most countries in the world – is facing the challenge of an ageing population. As can be seen from the chart below in **2040** the number of dependent adults in Mexico will surpass the number of dependent children for the first time. This crossover arrives much later when compared with mature economies giving Mexico more 'time to plan', often referred to as a 'demographic dividend'.

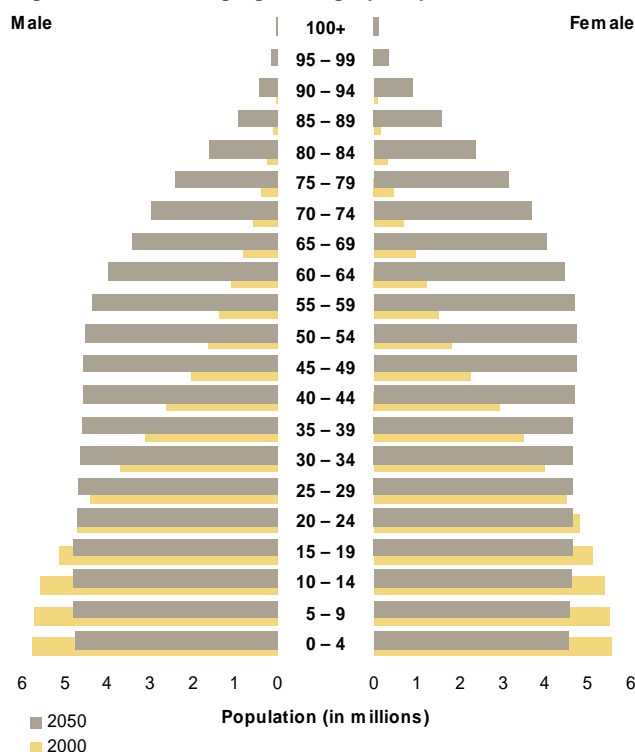
Figure 1 – The ageing Mexican population



Source: UN World Population Prospects: The 2008 Revision, Population Database

In Mexico's population pyramid it is clear that in the year 2000 (the yellow section of the chart) the bulging section of the population was between age **0-19** years, however, as we fast forward to 2050 (the grey section of the chart) this bulge swells to age **40** and beyond. This signals a future in which the elderly population will be greater than today, posing many questions for governments and individuals as to how to fund retirement.

Figure 2 – The changing demographic profile of Mexico



Source: U.S. Census Bureau, Population Division

The Pension Pillars

In looking at the future of retirement, the World Bank has established a model with three pillars of pension provision: the state, occupational and the individual – each pillar has a differing level of importance within a country, but together these pillars encompass a country's total pension provision. In Mexico, the state's traditional pension provision role was reduced as a result of reforms during 1997. This saw a wholesale shift towards compulsory individual pension savings – AFOREs – which has shifted the focus towards new 'personalised' pensions products

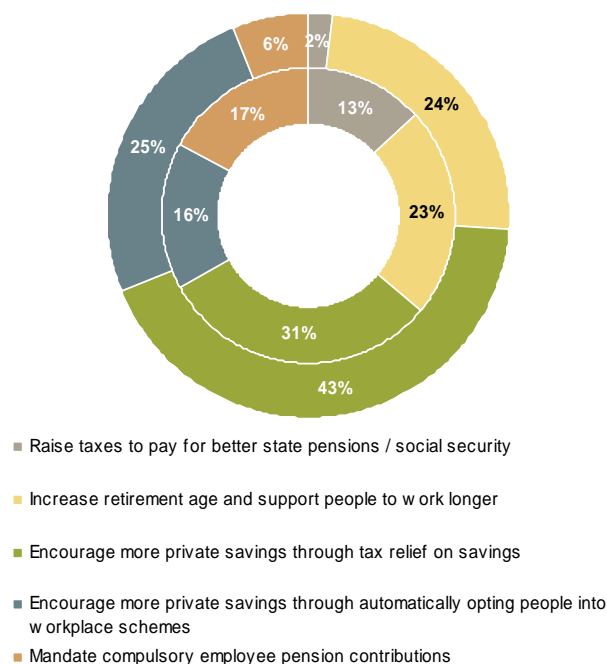
(Pillar 3). The findings reveal that the Mexican survey respondents have embraced the need to save. However, saving for retirement is still seen as a much less persuasive motive to save (at 6%) when compared with other motives such as saving for one's children (26%).

The Pillars	Pillar 1: the state	Pillar 2: occupational	Pillar 3: the individual
Mexico	Social insurance scheme was in place until reforms in 1997. Workers entering scheme after that date are migrated to mandated scheme.	There are no occupational pension schemes in Mexico.	Mandated individual accounts entered force in 1997. AFORES allows for additional voluntary contributions with tax relief on contributions and investment income.

Meeting the Demographic Challenge: The Path to Pensions Reform

Respondents in Mexico see the voluntary approach as the most popular way to help people fund their retirement: **43%** of those surveyed favoured encouragement to save through further tax relief on savings. This is in line with responses from across Latin and North America. This preference for tax relief may highlight the fact that many people in Mexico accept that they are now responsible for their retirement income and look to the government more as an enabler.

Figure 3 – What the government should do in supporting and financing an ageing population (Mexico's results are the external ring; global results are the internal ring)



The Conditions for Realising Successful Retirement Planning

In line with all the countries in the 2009 survey, the research revealed a major preparedness gap in Mexico. This may reflect the general shift towards personalised 'money purchase' pension provision, which increases the uncertainty around retirement outcomes. Given this uncertainty – made all the greater as a result of the current economic climate – only 8% of respondents in Mexico currently feel well prepared for retirement. The findings reveal that an alarming **92%** of people do not know what their retirement income will look like.

Figure 4 – Levels of preparation

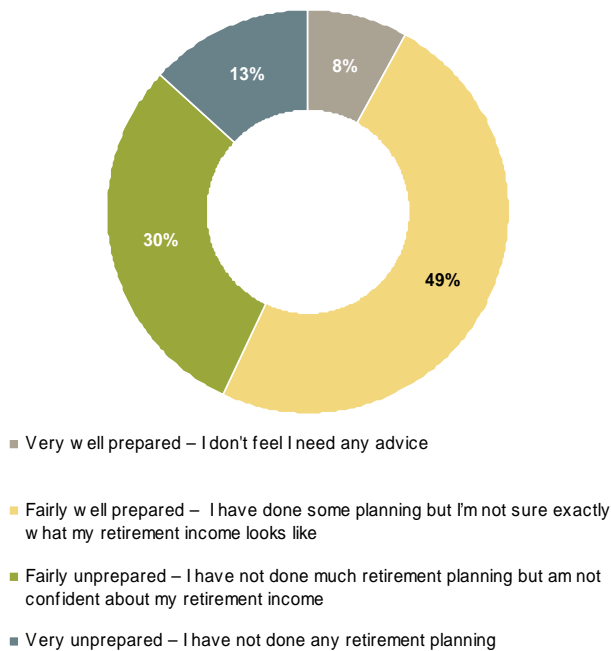


Figure 5 – Understanding of finances

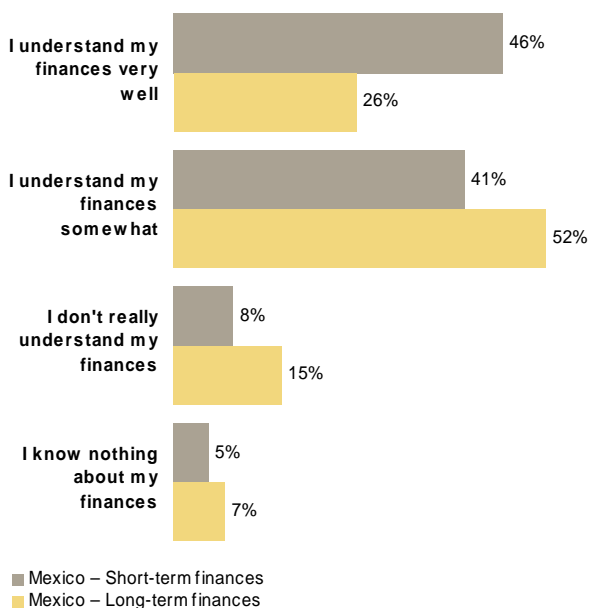
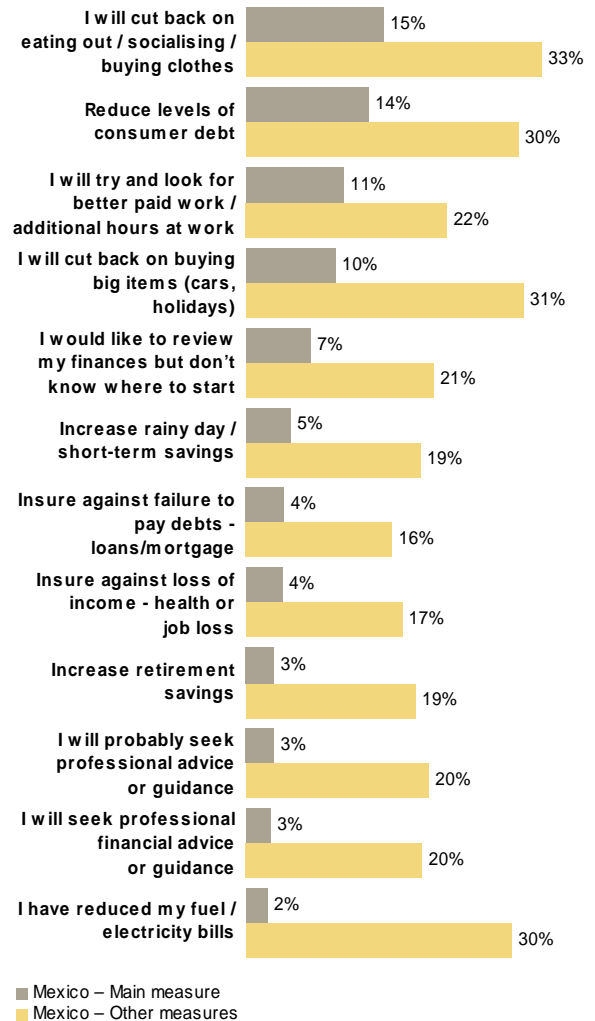


Figure 6 – Coping methods to survive the economic downturn



The feeling of being unprepared is also driven in part by people's lack of understanding about their long-term finances. Whilst **46%** of Mexicans understood their short-term finances very well only **26%** felt as confident about their long-term finances.

The Preparedness Gap

These low levels of understanding of personal finances in Mexico may mean that this 'preparedness gap' is linked to a lack of access to both financial advice and guidance. **44%** of the people surveyed had never accessed any general financial education, whilst **49%** of people have never accessed any form of professional advice. Given the responsibilities

people now face in planning for their retirement, this lack of financial education and guidance could become a major impediment. With Mexico having moved rapidly towards personal pensions, the need to develop personal finance education programmes is paramount in order to help people quickly develop a better understanding of their finances and plan adequately for their retirement.

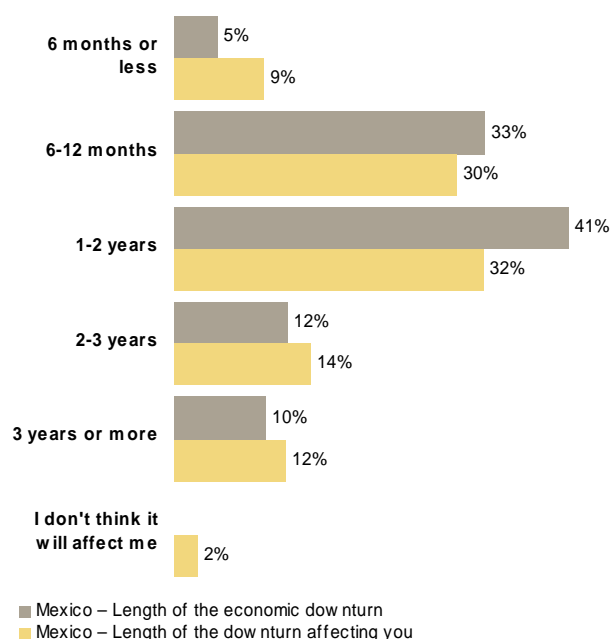
The Economic Downturn

Over the last 18 months the economic downturn has had a significant impact on people's finances as well as their attitudes. The International Monetary Fund (IMF) expects Mexico to remain in recession throughout 2009 and most of 2010 and many of the survey's respondents agreed with this view. However, people in Mexico – along with other emerging economies – are generally more optimistic than the overall global picture. **37%** of Mexicans expect the downturn to last less than 12 months; globally this falls to just **29%**.

When viewing survival strategies adopted by Mexican families to cope with the economic downturn, it is clear that people are attempting to create a 'buffer' of savings by reducing expenditure on both large and small purchases, whilst also paying down debt. Debt was seen as a key obstacle to saving by as many as **31%** of respondents in Mexico. The only other country to have such a high level of concern over debt as an impediment to saving was the US. The findings also reveal that over twice as many people in Mexico (24%) have either reduced or stopped saving into a pension compared to the global average. A further **23%** say they would like to seek financial advice to help them make sense of the choices facing them.

Surprisingly large numbers of Mexicans have switched between cash and equities during the past 12 months. However, there has not been a clear directional flow with as many people moving into equities (16%) as there are moving out of equities (16%).

Figure 7 – The length of the downturn



Concluding Remarks

Like most countries, Mexico is faced with an ageing society. In response, individuals are increasingly taking more responsibility for funding their retirement. However, having taken steps to put in place more comprehensive individual pension arrangements, Mexico still faces challenges with its compulsory savings schemes. This includes the extent to which they go against the grain of household preferences in terms of saving for retirement, and the degree of ownership people seem to like to feel when managing their growing pension assets. Survival strategies in the current economic downturn focus on cutting spending and debt. Mexicans are also becoming more inclined to insure their debt repayments and their income. However, the impact of this is that pension savings rates have been hit hard in Mexico, as elsewhere in North and Latin America. Increasing access to financial advice and education will enable Mexican families to become better placed to understand their longer term finances and plan accordingly.