

IGP Country Profile

Mexico





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Customary employee benefits

Death benefits

Death benefits provided by Social Security (survivors' pensions and funeral grants) are adequate overall, but they do not provide a sufficient lump sum benefit at the time of death to assist the employee's survivors in dealing with immediate bills and normal expenses.

As a result, most employers in Mexico provide group life insurance for their employees, providing a multiple of the monthly salary (most often 12, 24 or 36) as a lump sum death benefit or a fixed sum expressed in Mexican pesos.

Approximately two-thirds of the group life insurance plans in Mexico include either a companion accidental death & dismemberment benefit or a provision for payment of the death benefit to the insured if they become permanently and totally disabled.

Disability benefits

This benefit is becoming more popular. The coverage is a rider to the Group Life Insurance Plan and is available in two options:

1. Waiver of premium for total and permanent disability: If disability occurs, an individual life annuity policy is offered to the employee only for the basic coverage, with the same sum insured he or she had in the group life policy, with no further premium payments.
2. Lump sum for total and permanent disability: The life insurance benefit is paid at the time the disability is declared.

Medical benefits

Group health insurance is usually provided for salaried employees. In some cases, dependents may be included. The plan structure follows a design that most employers in the United States are familiar with; e.g., a deductible, coinsurance, and a maximum benefit (sum insured) per event or illness per participant.

New comprehensive medical plans may provide an insured sum of between MXP 500,000 to MXP 1,000,000 or more or may be based on a multiple of the monthly minimum wage. The deductible sum varies from one to three times the monthly minimum wage payable by the employee. The coinsurance varies from 10% to 20% payable by the employee.

Many of the supervisory and management employees prefer to pay their own expenses and go to private institutions rather than to Social Security facilities.

A typical medical plan is as follows:

- Insured Sum: 500 times the monthly minimum wage per illness
- Deductible Sum: One times the monthly minimum wage per illness
- Coinsurance: 10% per claim

Deductible and coinsurance do not apply in the event of an accident if the expense exceeds the deductible.

Cesarean birth and normal birth are covered up to an average of twenty times the monthly minimum wage.

Medical coverage in Mexico is typically provided on a reimbursement basis. However, some brokers and insurance companies have introduced agreements with various hospitals and physicians in order to offer cheaper services and direct payment by the insurer.

Seguros Monterrey offers direct payment medical plans through its medical provider with a network of doctors, medical suppliers, and major hospitals available in many of Mexico's cities, as well as some abroad.

Retirement

Although an old-age benefit is provided by Social Security, employers must still decide whether to establish a defined old-age staff termination policy. If the employer does so, the employer must fund the corresponding liability.

The legal severance indemnity may be funded by means of a pension plan granting benefits equivalent to the liability (unit credit pensions ranging between 1.0% and 1.5% per year). It is also very common to provide supplemental pensions for higher paid employees whose Social Security old-age pension will not compensate them adequately.

Old-age pensions in Mexico are normally placed in a bank in the form of a trust known as “Fideicomiso”. Professional actuarial services are usually contracted with a brokerage firm, and the bank does the financing. It is not customary to use insurance for old-age pensions in Mexico, but since 1993, it is possible to invest funds in “Fideicomisos” managed by insurance companies.

On February 24, 1992, Mexico’s Congress passed a law that established a complementary pension scheme to supplement Social Security. This scheme is called: “Sistema de Ahorro para el Retiro” (SAR).

AFORES

On April 19, 1996, the Social Security law privatized the old-age pension program.

Since July 1, 1997, the old-age pension is administered on a defined contribution basis following the Chilean model. These privately administered pension funds are called “Administradoras de Fondos de Retiro” (Retirement Funds Administration Companies) or AFORES.

Individual capitalization accounts are designed to cover unemployment after age 60, normal retirement (age 65), and an old-age benefit. Funds formerly held in SAR accounts have been absorbed by the new program and combined with contributions from employees.

The employer continues to play a major role in funding individual capitalization accounts provided by this Mexican reform. Employers must continue to pay the SAR contributions but are spared former old-age and disability payroll taxes.

Capitalization accounts will be managed by competing for-profit

management companies (AFORES). Management companies will be, as usual in any privatization program, under close government control when referring to operations and fund investments.

Pension account owners are free to choose the AFORE that they would like to work with and are free to switch from one AFORE to another once a year.

AFORES in Mexico are a consequence of the necessity of generating long-term internal savings to constitute a strong financial system. The objective of AFORES is to create an individual plan that replaces the preceding collective plan.

AFORES administer individual employees’ accounts, investing these funds in SIEFORES, which operate as investment agents looking for appropriate instruments in which to invest employees’ money.

Benefits offered by AFORES are:

- Future security
- Maintenance, as far as possible, of the same living standard the employee had prior to retirement
- Freedom to choose any AFORE
- Opportunity to make voluntary deposits

Main differences between the prior system and AFORE are:

| Prior System | AFORE |
|---|--|
| The government invests resources with low profits. | The employee chooses the AFORE where funds will be invested at higher rates. |
| The employee makes additional deposits. | The employee makes voluntary deposits to increase savings. |
| General Fund Administration | Individual Account |
| The employer receives employee’s information. | Employee receives information directly by personal mail. |
| The Government will continue paying retired employee’s pensions with the corresponding monthly minimum wage increase. | Employee Plan Pension – retirement pensions increase by investment earnings and any voluntary deposits. |
| Employee is not able to increase the benefits. | Employees can increase their account through voluntary savings. Additional contributions can be made for individual accounts, applying tax deductibility up to twenty-five times the monthly minimum wage. |

Complementary Pension Scheme (SAR)

On February 24, 1992, the Mexican Congress passed a law establishing a complementary pension scheme to supplement Social Security. That scheme is called “Sistema de Ahorro para el Retiro” (SAR), and it came into force on May 1, 1992.

Employer contributions are tax-deductible, and tax is not levied on the interest earned by individual accounts.

One point of this law concerns the housing fund administered by Mexico’s housing agency (INFONAVIT). The Institute of National Fund for Housing (INFONAVIT) was established in 1972 with the objective of having a fund for employees to obtain credit at low cost for acquiring housing. Employers had been paying 5% of monthly basic salary into INFONAVIT since 1972.

Since 1992, 5% of an employee’s base salary up to ten times the minimum wage, and in actuality, twenty-five times the minimum wage continues to be paid into INFONAVIT. But now personal housing funds have been established, and employees receive reports itemizing their current accumulated credits.

The employer decides into which credit institution the funds are placed, and an individual account is available for each employee. (These individual accounts have two sub-accounts, one for the SAR pension scheme, and the other corresponding to the INFONAVIT housing scheme).

While the employer’s deposits must always be placed in a bank, since January 1, 1993, the employee has had the option of transferring his or her funds to an alternative investment fund offered by another bank, a holding company, a stock brokerage firm or an insurance company. The Financial Ministry (SHCP) must approve these alternative funds.

Once the retirement is effective, the employee may withdraw his or her funds plus interest or may elect to purchase an annuity. The same options are available upon total and permanent disability or permanent partial disability greater than 50%, or to the employee’s beneficiary in the event of death. Employees may withdraw up to 10% of their savings in the case of unemployment, and the same amount is available as an alternative resource for a disabled employee who has depleted all other disability allowances and is not eligible for the permanent total or permanent partial disability benefit described above.

There is no limit on the amount of voluntary employee contributions. However, the employee receives a tax deduction on voluntary contributions provided that the total of the voluntary contributions, plus any employer contribution to an employee savings plan, does not exceed ten times the minimum wage.

The new complementary pension scheme is expected to improve the economic situation in Mexico.

Legislative news

Reform to public pensions and retirement savings (2021)

With the goal of increasing access to retirement benefits, the Mexican government approved reforms to the public pension system. Effective January 1, 2021, these changes affect those covered by the Mexican Social Security Institute (IMSS) 1997 Law, which applies to employees who began working on or after July 1, 1997

Summary of the reform

The intention of the reform is to increase participation in the system, particularly among lower-paid workers, by making sure that the system provides an adequate pension. The amount of income replaced under the system prior is low as compared to other developed countries.

Contributions

Beginning January 1, 2023, and over a period of eight years, employer contributions for the individual account advanced and old age pension will gradually increase from 5.151% to 13.875% of pensionable salary.

Employee contributions will not increase

Beginning in 2023 and over a period of eight years, the government's contribution to the individual account will gradually increase from 0.225% to 8.724% of pensionable salary for employees earning the minimum wage. For employees earning up to 4 UMA (Measurement and Updating Unit), the government contribution will increase to 1.798%.

Contribution period

- The number of weeks of contributions required to receive the advanced and old age retirement pensions was temporarily reduced from 1,250 to 750 weeks, effective January 1, 2021.
- But after 2021, the number of weeks will start increasing by 25 weeks a year, until reaching 1,000 weeks in 2031

Increase to guaranteed minimum pension

- To assist lower paid employees, the amount of the guaranteed pension will be calculated based on the employee's average contribution salary during his or her working career, weeks of contributions and his or her age of retirement.
- This change will be gradually implemented between 2023 and 2030. Prior to the reform, the guaranteed pension was a fixed amount based on the minimum wage.

Payout options

- Instead of taking their pension benefit as either a lifetime annuity or in programmed withdrawals, retirees will have the option to do a combination of both.
- Employees will be able to withdraw their voluntary savings at any time. The six-month waiting period to make withdrawals is eliminated.
- Pensioners or survivors can claim the remaining balance on their individual account ten years after the pension becomes payable.

Considerations for the employer and employees

- Employers will need to advise their employees about the changes to the number of weeks needed to access a pension and make any necessary adjustments to their private employee benefits plans.
- While employers will absorb most of the increase in contributions and not the employee, there is still the possibility that the employee will not have enough saved in their AFORE to meet their needs in retirement.

Trends

Market trends

There are employee benefits policies that set clear trends, as shown below (based on a 2023 Benefits Study – MercerMarsh Benefits):

| Benefits and coverage | | |
|--|--|--|
| Traditional and flexible plan | Traditional plan | Flexible plan |
| <ul style="list-style-type: none">• Major medical expenses• Life insurance• Dental plan• Funeral expenses | <ul style="list-style-type: none">• Major medical expenses• Life insurance• Dental plan• Funeral expenses | <ul style="list-style-type: none">• Mental health• Dental plan• Minor medical expenses• Check-ups |

Coverages that companies would like to include in EB Plans

- Dental plan
- Mental health
- Check ups
- Life insurance
- Family coverage

Wellness

- Improve health for the employees, to obtain more job satisfaction and sense of belonging.
- Doctors, nurses, Human Resources professionals, psychologists, and nutritionists
- Health education, nutrition program, psychological medical evaluation, psychological assistance, promotion of emotional well-being and check ups

Work - life balance

- Main programs implemented:
- Home office
- Casual clothing
- Flexible schedule

Additional services within the company:

- Coffee shop
- Coffee dispensing machines
- Snacks
- ATM or a Bank
- Nursery room
- Vacation days additional to those of the law
- Less work hours of Fridays all year long

Retirement plans

- Main wealth formation programs:
 - Saving fund
 - Pension plan
 - Savings bank
 - Money loans
 - Financial well-being

Diversity, equity, and inclusion

- Components that are considered within the benefits program (most common):
 - Maternity leave
 - Paternity leave
 - Psychological help program
 - Mental Health support
- Groups contemplated within DE&I initiatives:
 - Gender (women's equality)
 - LGBTQIA+
 - Disability
 - Generation gaps
 - Family diversity



Please refer to the following article that appeared in IGP Network News:

The unique opportunities and challenges presented by nearshoring to Mexico (2024)

Typical Employee Benefits Plans

Major medical expenses

Sum insured

According to MMB's 2023 study in Mexico, 17.02% of companies have a monthly sum insured of 1,001 – 2,000 UMAs.

The UMA (Unidad de Medida y Actualización) is a reference unit in Mexican pesos used to calculate various government obligations and provisions, such as social security, taxes, etc.

Current values of the UMA:

Daily: MXN 113.14

Month: MXN 3,439.46

Annual: MXN 41,273.52

Deductible

34.8% of companies have a monthly deductible of 2 UMAs.

Coinsurance

94.4% of companies in Mexico have a coinsurance of 10%.

Most common special conditions

- Natural childbirth
- Caesarean section
- Nose surgery
- Pregnancy complications
- Abortion
- Eye surgery
- Prematurity
- Emergency abroad
- Coverage of congenital conditions
- Pre-existing conditions without waiting period.

Life insurance

Benefits and coverages

- Accidental death
- Total and permanent disability
- Dismemberment
- Funeral expenses

Sum Insured

In Mexico, 28.6% of companies, offer a sum insured of more than \$1,000,000 MXN in fixed amounts or 19-24 months of salary.

Useful links

Demographic information and macro-economic indicators:

[CIA World Factbook](#) (please select the country to review)

[World Bank Group](#) (please select the country to review)

Mexican Institute for Social Security (IMSS)

<http://www.imss.gob.mx/>

Bank of Mexico

www.banxico.gob.mx

Ministry of Finance and Public Credit

<https://www.gob.mx/hacienda>

Tax Administration Service

<https://www.sat.gob.mx/portal/public/home>

Mexican Federal Institute for Worker's Housing (INFONAVIT)

<https://portalmx.infonavit.org.mx/>

More information on Seguros Monterrey New York Life S.A. de C.V.

Your Local Link to IGP in Mexico

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