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## Labor Market and Social Security in an Aging Society: A Survey for Mexico

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## CONTENTS

### TABLE OF CONTENTS

|  |    |
|--|----|
| I. Introduction .....  | 3  |
| II. Labor Market for Older Adults .....                      | 3  |
| II.1 Trends in Labor Force of Older Adults in Mexico .....   | 3  |
| II.2 Characteristics of Work around the Retirement Age ..... | 6  |
| III. Older Adult's Income Protection Sources in Mexico ..... | 10 |
| III.1 Social Security and Coverage of Older Adults .....     | 11 |
| III.2 Income Sources for Older Adults' in Mexico .....       | 12 |
| IV. Conclusions .....  | 14 |
| References .....   | 15 |

### FIGURES

|  |    |
|--|----|
| I.1a Labor Participation Rate, Older Adults, Men 55-59 years .....         | 4  |
| I.1b Labor Participation Rate, Older Adults, Men 60-64 years .....         | 4  |
| I.1c Labor Participation Rate, Older Adults, Men 65 years and over .....   | 4  |
| I.2a Labor Participation Rate, Older Adults, Women 55-59 years .....       | 5  |
| I.2b Labor Participation Rate, Labor Adults, Women 60-64 years .....       | 5  |
| I.2c Labor Participation Rate, Older Adults, Women 65 years and over ..... | 6  |
| II.1 Importance of Secondary Job in Mexico .....                           | 8  |
| II.2 Older Adults and Economic Sector .....                                | 10 |
| III.1 Older Adults' Income Sources .....                                   | 13 |
| III.2 Older Adults' Income Sources by Age Group .....                      | 13 |
| III.3 Number of Income Sources of Older Adults .....                       | 14 |

### TABLES

|  |    |
|--|----|
| II.1 Employment Condition by Age Group in Mexico .....                   | 7  |
| II.2 Employment Status by Age Group in Mexico .....                      | 8  |
| II.3 Weekly Working Hours in Mexico .....                                | 9  |
| II.4 Younger Workers and Older Adults by Economic Sector in Mexico ..... | 10 |
| III.1 Rates of Coverage for the Population of 65 Years and Over .....    | 12 |

## I. Introduction

Social security programs are the main source of monetary income during old age in most countries for many or most families. With the exception of a few of the richest countries, when there is an old age pension, it is usually the most important source of income for people aged 65 or more. The following factors may have a great impact on the individual decision to retire from the labor market at a certain age: having social security coverage, the structure and level of taxes and benefits the individual faces, and the access to health insurance after retirement.

Recent studies show that the rate of activity of older adults in Latin America –lower to the one of the groups in working age– is quite superior to the one observed in the industrialized countries. At the end of the 90's, seven out of each ten men with 60 years or more were still part of the economically active population (CEPAL 2001); such a high labor participation rate makes clear that old age people need to get an income for their daily surviving. A factor that presses in such direction is the weakness of the social security systems, due to the limited coverage or to the relatively low amounts of their retirement pensions.

The purpose of this document is to conduct a comparative description of some of the aspects of the life condition of the older adults in Mexico and to present an overview of the social-economical situation of the older persons, since this elements make possible to identify of who they are and how they live, and therefore it would be easiest to implement appropriate programs. The document begins with an analysis of the Labor Market for Older Adults, and then the Older Adults' Protection Sources are identified, considering the social security coverage and different income sources of the older adults, finally the Conclusions are presented.

## II. Labor Market for Older Adults

### II.1 Trends in Labor Force of Older Adults in Mexico

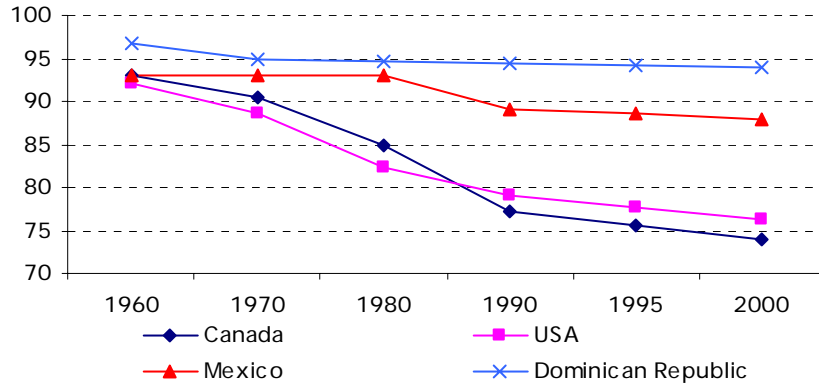
Since the end of the sixties industrialized countries have shown a decreasing trend in the labor force participation rate (LFP) among older adults (persons aged 55 years and over). This trend is also seen in the Latin American countries, specifically in Mexico and Dominican Republic.

There are several factors related to the permanence of the older adults in the labor market, which mainly include: higher social expenditure, a decrease in the percentage of people engaged in agriculture, and more developed social security programs (Gruber and Wise 2004).

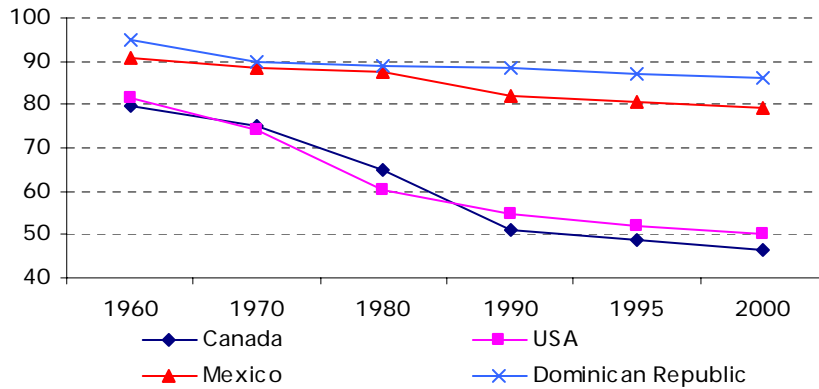
According to Figure I.1 the evolution of labor force participation rate of men older adults has been decreasing for all the age sub-groups, and the magnitude of this decline varies among countries.

**Figure I.1**  
**Labor Participation Rate**  
**Older Adults, Men**

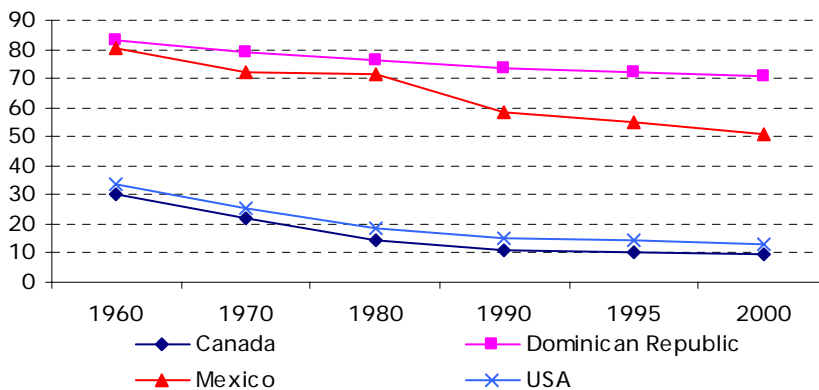
a) Older Adults, 55-59 years



b) Older Adults, 60-64 years



c) Older Adults, 65 years and over



Source: ILO, several years.

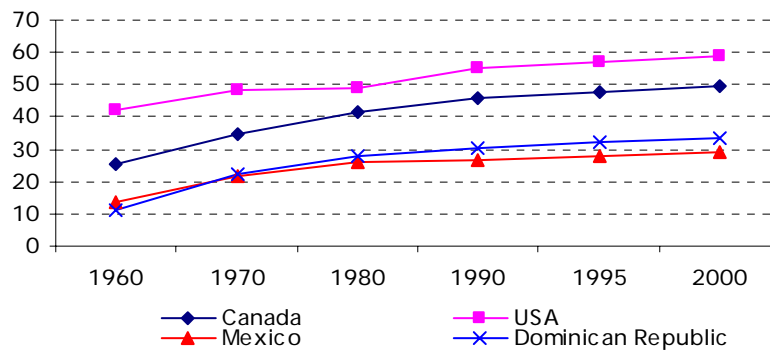
The figure shows that until the four countries presents decreasing labor force participation rates, Canada and the United States presents similar levels (developed countries), while Mexico and Dominican Republic have higher levels than de other two countries. For the age sub-group of 55-59 Dominican Republic is the country with the

higher participation rate, with levels around 95%. The age sub-group for 60-64 years presents a similar trend. Nevertheless, the most remarkable differences arise when the sub-group of people aged 65 and over, for the year 2000 it is observed that the participation rate in Canada and the United States is not superior to 20%, whereas in Mexico and Dominican Republic is higher than 50%.

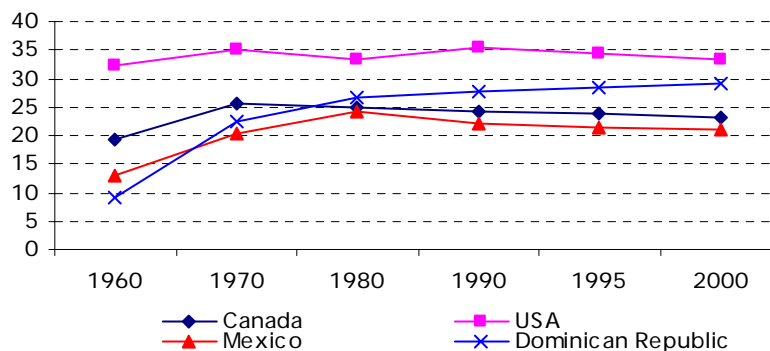
Figure I.2 shows the trend in the labor participation of the women by age sub-group. We can say that for the groups of 55-59 and 60-64 it has been rising from 1960, being the United States the country with the higher levels of participation in these groups. It is possible to emphasize that in both groups Mexico is the country with the lower levels of participation, for 2000 they were higher than 20%. The trend is different in the case of the women of 65 years and over, the figure shows that the participation rates have been diminishing, Mexico is the country with the greater levels –around 12%- and Canada is where the lowest levels of participation for this group are presented.

Figure I.2  
Labor Participation Rate  
Older Adults, Women

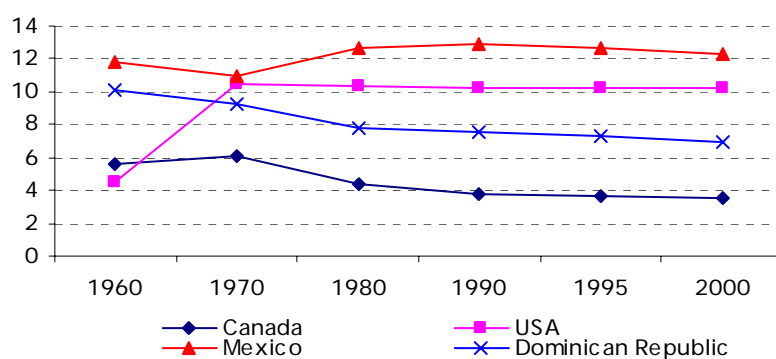
a) Older Adults, 55-59 years



b) Older Adults, 60-64 years



c) Older adults, 65 years and over



Source: ILO, several years.

However, the levels of participation of the women cannot be considered low, so one of the challenges for the programs of social security is to consider the change in the balance of the composition of the labor force that will cause a greater participation of women.

Although women's pension coverage will grow eventually with expanded labor force participation, it is necessary to also consider the conditions in which the economic activity of the women is developed during its life cycle –spent a smaller time in the labor market, usually they have discontinuous labor careers, receive lower wages and they work with greater incidence in the informal market. Therefore, their pensions, as well as their personal savings are likely to be lower, and a large proportion of them will not meet the minimum requirements to obtain pension benefits.

## II.2 Characteristics of Work around the Retirement Age

There are several factors that determine the time in which the people leave the labor market, which mainly include the productive structures of the country and the policies of social security.

The main objective of this section is to describe the labor conditions that face the older adults in Mexico, these conditions are described through their employment condition, importance of a secondary job, duration of their working day (measured with the working hours), economic sector and occupational category.

### Employment Condition

Table II.1 presents the employment condition by gender for the population of 15 years and over. It is observed that most of the main remains employed –more than half of the population in all the groups-, it is necessary to emphasize the fact that a high proportion of adults of 65 years and over remain active. On the other hand, women present smaller labor participation rates relative to men. Nevertheless, for men

and women, the percentage of employed persons diminishes as long as the workers get older.

The “inactive” category gets great importance in the case of women; in all the groups the proportion of inactive women is higher than 50%. As the age increases, the number of women in this category also does, 55% of the women in working age does not do it, whereas 80% of the women of 65 years and over remain inactive. Unemployment is only important for men in working ages.

**Table II.1**  
**Employment Condition by Age Group in Mexico**  
(percentage)

|            |       | Men  | Women |
|------------|-------|------|-------|
| Employed   | 15-54 | 82.0 | 45.5  |
|            | 55-59 | 88.3 | 38.4  |
|            | 60-64 | 74.7 | 28.5  |
|            | 65+   | 54.0 | 19.9  |
| Unemployed | 15-54 | 3.1  | 1.0   |
|            | 55-59 | 1.4  | 0.0   |
|            | 60-64 | 1.8  | 1.0   |
|            | 65+   | 0.9  | 0.1   |
| Inactive   | 15-54 | 15.0 | 53.4  |
|            | 55-59 | 10.3 | 61.5  |
|            | 60-64 | 23.6 | 70.5  |
|            | 65+   | 45.1 | 80.1  |

*Source:* Own elaboration using data from INEGI-ENIGH (2002).

As it is observed, there are a high proportion of older adults working; this could be associated with lower levels of income, low coverage of the social security and even low amounts of pension and retirement.

### Occupational Category

In industrialized countries it is identified a noticeable difference between the population in working age and the older adults in terms of activity condition and occupational category. In most developing countries it is observed that, as long as workers get older, they tend to be self employed.

Table II.2 confirm this fact, since the proportion of salary workers tends to diminish as the population increases of age, whereas the percentage of self-employed people trend to increase when the population is aging. Around 70% of the population in working age is salary employed, and more than 3% is self-employed, it contrasts the fact that 31% of the people aged 65 and over are salary workers relative to the 57% of this group that is self-employed.

**Table II.2**  
**Employment Status by Age Group in Mexico**  
 (percentage)

|                     |       |      |
|---------------------|-------|------|
| Salary workers      | 15-54 | 69.8 |
|                     | 55-59 | 48.1 |
|                     | 60-64 | 41.0 |
|                     | 65+   | 31.6 |
| Self-employed       | 15-54 | 3.6  |
|                     | 55-59 | 40.3 |
|                     | 60-64 | 47.7 |
|                     | 65+   | 56.8 |
| Other <sup>1/</sup> | 15-54 | 26.7 |
|                     | 55-59 | 11.6 |
|                     | 60-64 | 11.2 |
|                     | 65+   | 11.5 |

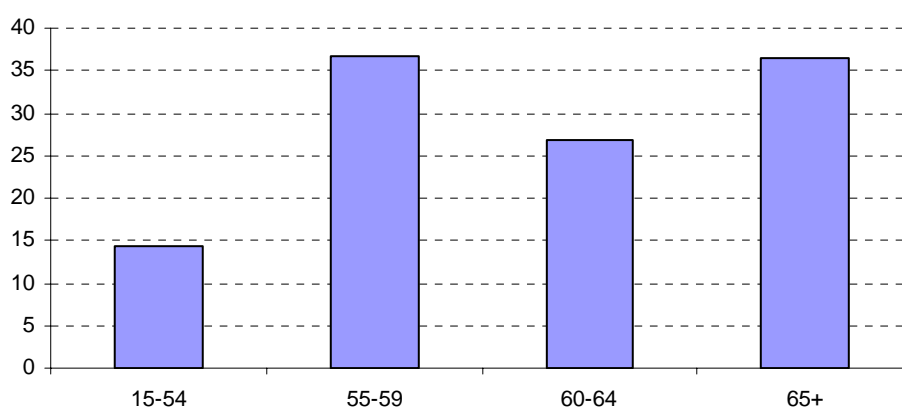
*Note:* 1/ Includes the items: employer, member of a co-operative and non-paid family worker.  
*Source:* Own elaboration using data from INEGI-ENIGH (2002).

The data of the table show the existing problems in Mexico related to the inflexibility of the labor market for older adults, it is very difficult that people who are near to the retirement can access to salary works.

#### Secondary Job

Previous sections have shown statistics that allow us to observe that there is a high proportion of older adults that remain working in Mexico, and they do it in informal markets. A major incidence of informal job came along with a major proportion of workers who have a secondary job.

**Figure II.1**  
**Importance of Secondary Job in Mexico**  
 (percentage)



*Source:* Own elaboration using data from INEGI-ENIGH (2002).

There is an increase in the percentage of workers who have a secondary job when observing the change of the 15-54 age group to the one of the 55-59, for the workers of 65 years and over the importance of the secondary job shows a rate of 36.5%, which allow us to conclude that in Mexico older adults usually perform additional jobs to obtain an income that allows them to subsist.

## Working Hours

The experience in the developed countries suggests that increasingly more full-time workers do the transition to retirement through a part-time job. An increase in the importance of the part-time job for workers aged 55 and over was observed since the end of the eighties and the beginning of the nineties (CISS 2005).

Nevertheless, in the case of the developing countries the behavior is different, since the older adults cannot switch their full time job to part time jobs with the same facility.

Table II.3 presents the number of weekly working hours in Mexico, there is a strong trend to work full time, more than 50% of the population of all the age sub-groups works 40 hours and over.

Table II.3  
Weekly Working Hours in Mexico  
(percentage)

|       | 1-20 | 21-39 | 40 + |
|-------|------|-------|------|
| 15-54 | 19.1 | 27.3  | 53.6 |
| 55-59 | 15.8 | 18.9  | 65.3 |
| 60-64 | 23.4 | 18.5  | 58.2 |
| 65+   | 23.6 | 25.3  | 51.1 |

Source: Own elaboration using data from INEGI-ENIGH (2002).

Thus, the evidence shows that in Mexico there is inflexibility in the labor market related to the working hours, so it should be convenient to promote policies that allow workers to work in part time and well remunerated jobs as long as they get older.

## Economic Sector

The results of the Table II.4 shows that in Mexico there is a major proportion of people in working age in the services sector, whereas adults of 55-59 years tend to work in services and agriculture and livestock. The greater part of adults of 60 years and over works in the agricultural sector, an important fact is that more than 40% of the population over 65 years works in this sector.

**Table II.4**  
**Younger Workers and Older Adults by Economic Sector in Mexico**  
 (percentage)

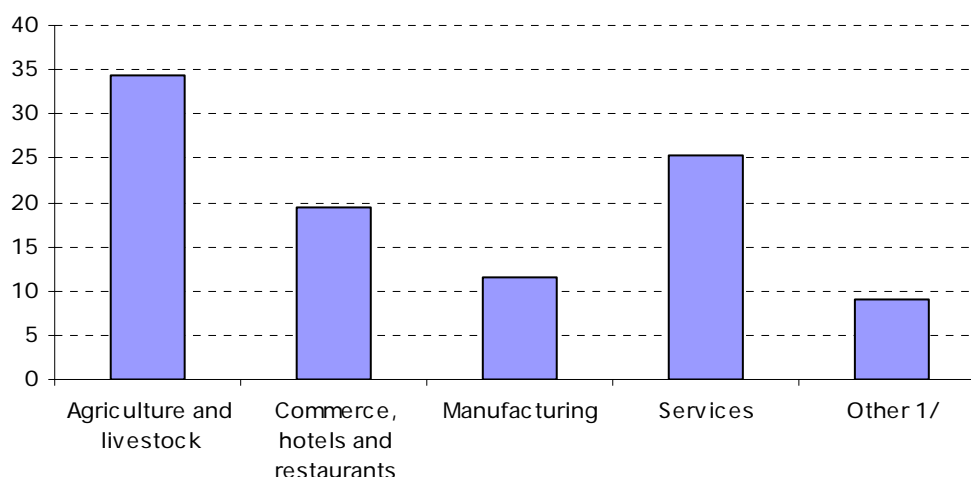
|       | Agriculture and livestock | Commerce, hotels and restaurants | Manufacturing | Services | Other <sup>1/</sup> |
|-------|---------------------------|----------------------------------|---------------|----------|---------------------|
| 15-54 | 13.8                      | 20.3                             | 18.3          | 34.3     | 13.3                |
| 55-59 | 25.4                      | 21.2                             | 14.1          | 26.9     | 12.5                |
| 60-64 | 33.8                      | 19.3                             | 10.3          | 27.1     | 9.7                 |
| 65+   | 43.3                      | 18.2                             | 10.2          | 22.9     | 5.4                 |

*Note:* 1/ Includes building, mining, electricity and water; transportation, storage and mail.

*Source:* Own elaboration using data from INEGI-ENIGH (2002).

Figure II.2 shows that the economic sector in which most of the older adults work is agriculture and livestock, around 35% of this people work in agricultural activities.

**Figure II.2**  
**Older Adults and Economic Sector**  
 (percentage)



*Note:* 1/ Includes building, mining, electricity and water; transportation, storage and mail.

*Source:* Own elaboration using data from INEGI-ENIGH (2002).

The results shown in this section have a direct relation with those reviewed in the previous sections, since workers in rural areas have less access to social security and that makes it more likely to keep working.

### III. Older Adult's Income Protection Sources in Mexico

The available data show that a significant proportion of older adults stay in the labor marker, and that the lack of coverage of social security and the relatively low amounts of retirement benefits and pensions are some of the factors behind this permanence. Thus, a main characteristic of the labor insertion of older adults is its precarious condition, data on occupational category and working hours demonstrate it; most of the older adults are self-employed so they do not have access to social

security. The analysis of the working hours allow us to consider that older adults are full employed because they work in average more than 40 hours weekly. In addition to the labor and pension income or retirement benefits, most of the older adults receive income from family transfers. These transfers are direct monetary aid, personal care or both.

Hence, one of the main targets of social security programs is to provide a monetary income source at old age, either as the substitution of income from labor (contributive programs), or as a tool to alleviate poverty (non-contributive or supplemental programs).

The main difference between contributive and non-contributive programs is that the first ones are financing by general taxes and does not depend on previous labor participation, in contrast to contributive programs. In general, the amounts granted in this kind of programs are small relative to the level of pensions from contributive programs, since the purpose of non-contributive programs is to guarantee a minimum level of consumption.

### III.1 Social Security and Coverage of Older Adults

In this section an analysis of the coverage degree in Mexico is presented. Table III.1 shows the coverage rates for the population over 65 years by sex and geographic zone in this country. The results show the low levels that exist in the country. This means that there is a difference that can be important as measure of the social security coverage. In some cases, the transfer programs to the population of low income are defined as social security, whereas in other cases they are not considering in this category. The data of the table shows these measurement differences; if we consider the percentage of people who are covered, under the strict concept of social security it is observed that only 19% of the population of 65 years and over are receiving benefits, nevertheless, if the social programs such as PROGRESA, OPORTUNIDADES and PROCAMPO were considered, social security coverage rise up to 30%.

Also, the differences in gender are not significant, since the coverage varies in less than one percentage point between men and women. Another important aspect is the difference between coverage in urban and rural zones, it is observed that there is a greater proportion of older adults receiving social security benefits in urban areas than in rural areas. According to Rofman (2005) this relies in the fact that pensions are directly linked to contributors in a context of formal labor markets, thus the extent of social security coverage is mainly urban.

**Table III.1**  
**Rates of Coverage for the Population of 65 Years and Over**  
 (percentage)

|                                       |                                    |      |
|---------------------------------------|------------------------------------|------|
| Coverage rates for adults aged 65+    | Only pensions                      | 19.2 |
|                                       | Pensions and other social programs | 28.8 |
| Covered EAP of 65+ by sex             | Men                                | 17.8 |
|                                       | Women                              | 18.0 |
| Covered EAP of 65+ by geographic zone | Urban                              | 28.8 |
|                                       | Rural                              | 4.8  |

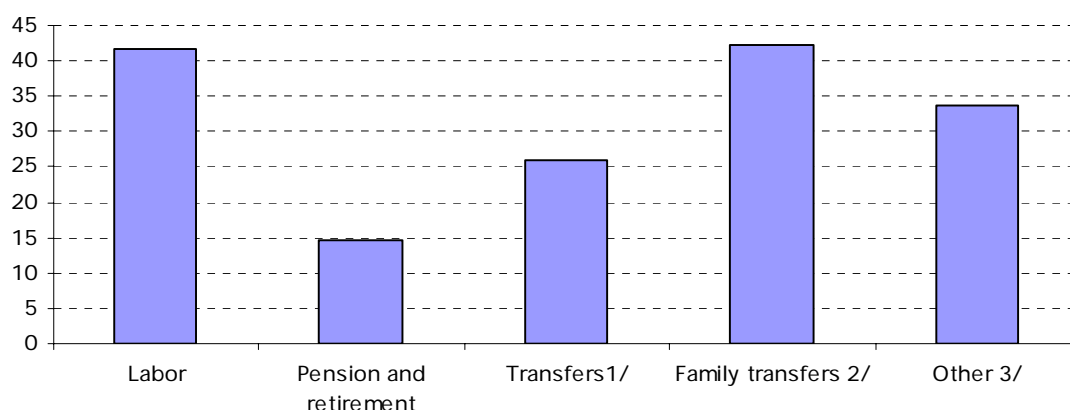
*Source:* Rofman (2005).

As we have seen, the coverage of the social security systems is low, a little proportion of older adults receive pension or retirement income, for this reason is important to analyze the different sources that they receive. The next section presents an analysis about the income sources that the older adults in Mexico are receiving.

### III.2 Income Sources for Older Adults' in Mexico

The *Encuesta Nacional de Ingreso y Gasto de los Hogares (2002)* was used to identify the income sources that older adults are receiving. Figure III.1 shows in general, the different income sources of the older adults. It is observed that the most important income sources are family transfers -42.3% of the population over 55 years is receiving income from this category. This is an important fact since it indicates that the financing mechanism of consumption of the older adults is family support. Also labor income represents a significant percentage, 41.7% of the older adults are receiving this source, and this indicates that they remain working. Pension and retirement is less than 15%, confirming the fact that people have to continue working or receiving some kind of family help to subsist.

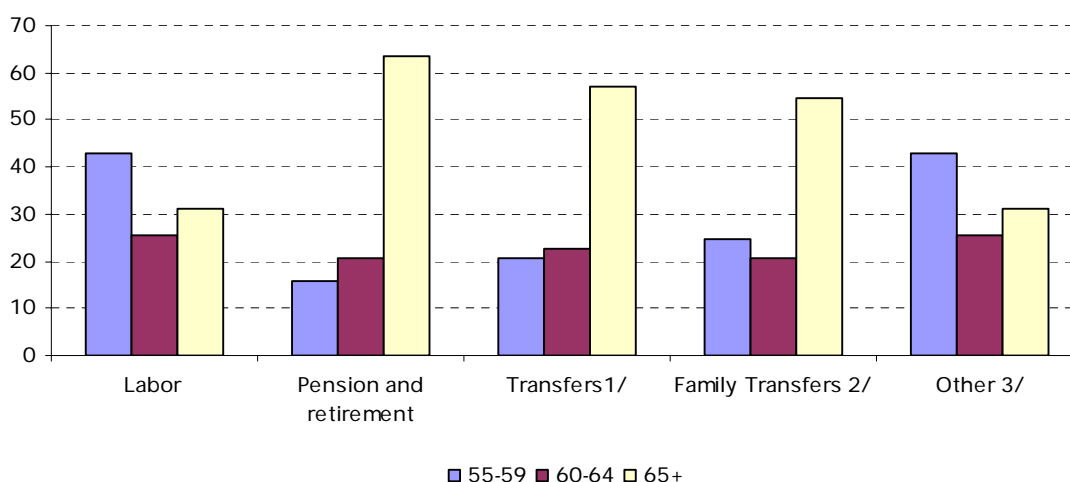
**Figure III.1**  
**Older Adults' Income Sources**  
 (percentage)



*Notes:* 1/ Include donations and governmental programs such as PROCAMPO, PROGRESA and ORTUNIDADES. 2/ Corresponds to the percentage of older adults who report no receiving any individual income source and live from the family income they live with. 3/ Includes several payments, incomes from aboard, financial and capital incomes, income from business, renting and other non specified concepts.  
*Source:* Own elaboration using data from INEGI-ENIGH (2002).

Figure III.2 allows observing how changes the importance of the different income sources according to the age sub-groups. In Mexico 30% of the adults in the group of 65 years and over receive labor income, while in the group of 55-59 years more than 40% are receiving it. The category of pension and retirement, and transfers (general and family) is the one with the greater change.

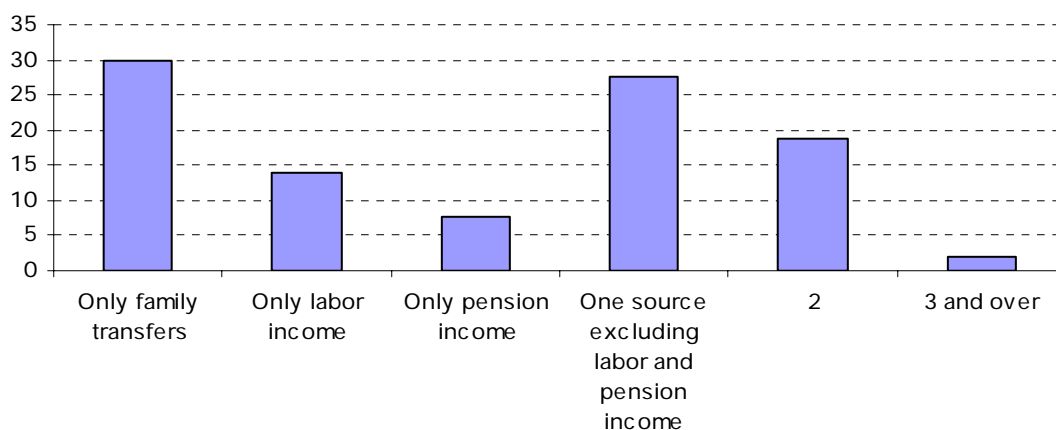
**Figure III.2**  
**Older Adults' Income Sources by Age Group**  
 (percentage)



*Notes:* 1/ Include donations and governmental programs such as PROCAMPO, PROGRESA and ORTUNIDADES. 2/ Corresponds to the percentage of older adults who report no receiving any individual income source and live from the family income they live with. 3/ Includes several payments, incomes from aboard, financial and capital incomes, income from business, renting and other non specified concepts.  
*Source:* Own elaboration using data from INEGI-ENIGH (2002).

Figure III.3 shows the proportion of older adults according to their income source –people who only receive family transfers, only labor income, only pension income, one source except the last two, two sources and those who receive 3 or more sources. An important fact in this figure is that only 30% of the older adults have as unique income source the family transfers, while the 8% are receiving pension and retirement income as unique income.

**Figure III.3**  
**Number of Income Sources of Older Adults**  
 (percentage)



*Note:* Categories in figure are excluding. The total of older adults who reported to get only one income source were divided in individuals who receive i) only family transfers, ii) only labor income, iii) only income from pension and iv) just one source except labor and pension.  
*Source:* Own elaboration using data from INEGI-ENIGH (2002).

The previous results shows that family transfers represent an important income source for older adults in Mexico, due to the low social security coverage the means to maintain the consumption during old age are provided by the family.

#### IV. Conclusions

There are low levels of coverage in Mexico, and contrast the fact that most of the population living in urban areas is receiving social security benefits related to those who lived in rural areas. This indicates that a small proportion of older adults receive a pension income when they retire, hence it is necessary that older adults find alternative income sources for their oldness.

The analysis allow us to observe that many older adults continue working in full time jobs and in their majority they are self-employed so they can obtain an income to subsist. However, although labor income is of great importance, family transfers are the most important income source for these persons; family networks are the one who provide the means for older adults to maintain their consumption as long as they get older.

Due to this, it is necessary to make great efforts to widen the coverage and the access to social security in order to allow the older adult population to have access to the benefits of the social programs. Besides extending coverage and improving incomes granted by retirement and pension, labor policies for older adults so as to achieve a gradual transition from full-time job to part-time day's work, in such a way that this does not have a negative impact on their income.

Finally, it must also be considered the role of the family to provide the means for older adults to maintain their consumption level, thus it is important that public policies and the family may complement each other, and it is expected that social security promotes this relation.

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