

TERMS OF REFERENCE

Analysis the reform impacts on fiscal and labor markets efficiency

Mexico
ME-T1391

<https://www.iadb.org/en/project/ME-T1391>

Applying Technology to Create an Integrated and Comprehensive Pension System in Mexico

1. Background and Justification

1.1. Mexico is still a relatively young country, but it is rapidly aging. Its demographic bonus will end in the next 30 years and the country's social security systems will have to adjust to face this demographic reality¹. Mexico's social security systems already have significant structural challenges. First, the costs of Mexico's social security systems are already high and will represent a serious challenge during the next decade. Public spending on pensions in 2018 was around 3.6% of gross domestic product (GDP), or almost all of the value-added tax (VAT) collection (estimated at 3.8% of GDP). With current projections, if left unchecked, the deficit from of these systems could reach 5.7% of GDP by the year 2030. Second, low (about 30%) coverage of contributory pension schemes means that much of the aged population that receives pensions receives non-contributory pensions that are paid entirely with public funds. Third, the pension system itself is fragmented into over 1,000 different disconnected national and sub-national systems. These structural challenges to pension systems have identifiable root causes. One is the lack of effective regulatory supervision to determine which pension systems, under which specific parameters, should be permitted to operate. Another is the high levels of informality within the Mexican labor market, which limits the percentage of the working population that regularly contributes to their future pension. For example, even in formal firms, data from the fourth quarter of show that 28.9% of subordinated workers in private firms do not have access to social security. Finally, there is the lack of connection of the information systems between the myriad pension systems, and the ensuing lack of portability of benefits for workers that wish to move between jobs that offer different types of pension schemes².

Solutions are needed to address these pressing issues. Some key solutions that address these challenges and their root causes are reform designs that consider labor market incentives, and inter-operable social security systems that support labor market formalization.

This TC seeks to use and apply recent technological advances to facilitate and strengthen an integrated and comprehensive pension system in Mexico. Types of new technology under

¹ Bosch, Melguizo, and Pages, 2013.

² For more information, please see:

https://publications.iadb.org/publications/spanish/document/Diagn%C3%B3stico_del_sistema_de_pensiones_mexicano_y_opciones_para_reformarlo_es_es.pdf.

consideration are different types of system interoperability options to support different pension systems and portability of benefits, as well as the potential use of big data in activities like formalization pilots to identify likely cases of labor rights abuse.

Some limited interoperable, accessible, social security systems already exist in Mexico. For example, the federal pensions regulator CONSAR has created a public-facing mobile application for accountholders in the Retirement Savings System, which is interoperable with the Retirement Fund Administrators and the federal tax collection agency.

Through this TC, the IDB will collaborate directly with the Insurance, Pensions, and Social Security Unit at the Ministry of Finance to 1) support the Government of Mexico's work on technical analyses of federal and sub-national reform impacts on fiscal costs and labor market efficiency, and 2) support the execution of pilots for social security compliance using technological advances.

2. Objectives

- 2.1.** The objective of this consulting work is to analyze the reform impacts on fiscal and labor markets efficiency, through an analysis of the impacts of different types of pension reforms currently under consideration by the Ministry of Finance and the impacts of other parametric indicators related to pension pay-outs, for private sector pensions, public sector pensions, and state-level pensions.

3. Scope of Services

- 3.1.** The consultancy firm will carry out an analysis of the impacts of different types of pension reforms currently under consideration by the Ministry of Finance and the impacts of other parametric indicators related to pension pay-outs, for private sector pensions, public sector pensions, and state-level pensions.

4. Key Activities

- 4.1.** Carry out a diagnosis of the labour market an analysis of the impacts of different types of pension reforms currently under consideration by the Ministry of Finance and the impacts of other parametric indicators related to pension pay-outs, for private sector pensions, public sector pensions, and state-level pensions, which includes:
- Analysis of 2020 pension reform proposal impact and deaccumulation (converting savings into pensions) options;
 - Analysis of a potential reform of federal public workers pension system;
 - Analysis of potential reforms of subnational pension systems;
 - Portability of benefits within different Mexican pension schemes.

5. Expected Outcome and Deliverables

- 5.1. This consultation must submit the following products. All these products must be approved to be considered final products. These outputs may be published as IDB technical notes with the authorization of the Insurance, Pensions, and Social Security Unit at the Ministry of Finance.
- 5.2. Work plan;
- 5.3. Analysis of 2020 pension reform proposal impact and deaccumulation (converting savings into pensions) options;
- 5.4. Analysis of a potential reform of federal public workers pension system;
- 5.5. Analysis of potential reforms of subnational pension systems;
- 5.6. Portability of benefits within different Mexican pension schemes.

6. Project Schedule and Milestones

6.1.

<i>Delivarables</i>	<i>Timeframe</i>
1. Workplan (5.2)	One week after the signature of the contract
2. Analysis of 2020 pension reform proposal impact and deaccumulation (converting savings into pensions) options (5.3)	Six weeks after the signature of the contract
3. Analysis of a potential reform of federal public workers pension system (5.4)	Twelve weeks after the signature of the contract
4. Analysis of potential reforms of subnational pension systems (5.5)	Eighteen weeks after the signature of the contract
5. Portability of benefits within different Mexican pension schemes (5.6)	Twenty-two weeks after the signature of the contract

7. Reporting Requirements

- 7.1. Every report must be submitted in Spanish to the Bank in an electronic file. The report should include cover, main document, and all annexes. This file must also be in an electronic format used by the Bank, such as: one of the MS Office, JPG and / or TIFF formats. ZIP files (compressed) will not be accepted as final reports due to the regulations of the Bank File Management Section.

8. Acceptance Criteria

- 8.1. David Scott Kaplan, Specialist Leader in Labor Markets and Social Security is authorized to accept the work.

9. Other Requirements

- 9.1. All Offerors shall assume all costs associated with the preparation and presentation of their proposals. The Bank does not assume any responsibility, whatsoever, to reimburse Offerors for costs incurred in the preparation of proposals in response this RFP.

10. Supervision and Reporting

- 10.1. The consulting firm will be reporting to David Scott Kaplan (dkaplan@iadb.org), who will give comments to any reports, approve reports, documents, work, and give comments or any instructions for changes. It shall be Firm's responsibility for ensuring that such reports are submitted to the Bank.

11. Schedule of Payments

- 11.1. Payment terms will be based on project milestones or deliverables. The Bank does not expect to make advance payments under consulting contracts unless a significant amount of travel is required. The Bank wishes to receive the most competitive cost proposal for the services described herein.
- 11.2. The IDB Official Exchange Rate indicated in the RFP will be applied for necessary conversions of local currency payments.

Payment Schedule	
<i>Deliverable</i>	<i>%</i>
1. <i>Workplan (5.2)</i>	20%
2. <i>Submission and approval of the analysis of 2020 pension reform proposal impact and deaccumulation (converting savings into pensions) options (5.3)</i>	20%
3. <i>Submission and approval of the analysis of a potential reform of federal public workers pension system (5.4)</i>	20%
4. <i>Submission and approval of the analysis of potential reforms of subnational pension systems (5.5)</i>	20%
5. <i>Submission and approval of the portability of benefits within different Mexican pension schemes (5.6)</i>	20%
TOTAL	100%

TERMS OF REFERENCE

Creation and/or maintenance of an actuarial analysis tool with continuous updates to accompany a potential pension reform process

Mexico
ME-T1391

<https://www.iadb.org/en/project/ME-T1391>

Applying Technology to Create an Integrated and Comprehensive Pension System in Mexico

1. Background and Justification

1.1. Mexico is still a relatively young country, but it is rapidly aging. Its demographic bonus will end in the next 30 years and the country's social security systems will have to adjust to face this demographic reality³. Mexico's social security systems already have significant structural challenges. First, the costs of Mexico's social security systems are already high and will represent a serious challenge during the next decade. Public spending on pensions in 2018 was around 3.6% of gross domestic product (GDP), or almost all of the value-added tax (VAT) collection (estimated at 3.8% of GDP). With current projections, if left unchecked, the deficit from of these systems could reach 5.7% of GDP by the year 2030. Second, low (about 30%) coverage of contributory pension schemes means that much of the aged population that receives pensions receives non-contributory pensions that are paid entirely with public funds. Third, the pension system itself is fragmented into over 1,000 different disconnected national and sub-national systems. These structural challenges to pension systems have identifiable root causes. One is the lack of effective regulatory supervision to determine which pension systems, under which specific parameters, should be permitted to operate. Another is the high levels of informality within the Mexican labor market, which limits the percentage of the working population that regularly contributes to their future pension. For example, even in formal firms, data from the fourth quarter of show that 28.9% of subordinated workers in private firms do not have access to social security. Finally, there is the lack of connection of the information systems between the myriad pension systems, and the ensuing lack of portability of benefits for workers that wish to move between jobs that offer different types of pension schemes⁴.

Solutions are needed to address these pressing issues. Some key solutions that address these challenges and their root causes are reform designs that consider labor market incentives, and inter-operable social security systems that support labor market formalization.

This TC seeks to use and apply recent technological advances to facilitate and strengthen an integrated and comprehensive pension system in Mexico. Types of new technology under consideration are different types of system interoperability options to support different pension

³ Bosch, Melguizo, and Pages, 2013.

⁴ For more information, please see:

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systems and portability of benefits, as well as the potential use of big data in activities like formalization pilots to identify likely cases of labor rights abuse.

Some limited interoperable, accessible, social security systems already exist in Mexico. For example, the federal pensions regulator CONSAR has created a public-facing mobile application for accountholders in the Retirement Savings System, which is interoperable with the Retirement Fund Administrators and the federal tax collection agency.

Through this TC, the IDB will collaborate directly with the Insurance, Pensions, and Social Security Unit at the Ministry of Finance to 1) support the Government of Mexico's work on technical analyses of federal and sub-national reform impacts on fiscal costs and labor market efficiency, and 2) support the execution of pilots for social security compliance using technological advances.

2. Objectives

- 2.1.** The objective of this consulting work is to create and/or ensure maintenance of an actuarial analysis tool with continuous updates to accompany a potential pension reform process.

3. Scope of Services

- 3.1.** The consultancy firm will carry out the creation and/or maintenance of an actuarial analysis tool that is available for real-time analysis of pension policy reform proposals.

4. Key Activities

- 4.1.** Carry out the Creation and/or maintenance of an actuarial analysis tool that is available for real-time analysis of pension policy reform proposals, which includes:

- Present value of the federal pension liability for the next 100 years;
- Implications for long-term federal fiscal sustainability;
- Estimations of annual resources needed to maintain the system as a percentage of contributions and federal transfers (subsidies);
- Present value of total federal net pension liability.

- 4.2.** Preparation of financial-actuarial studies of up to five pension reform proposals

5. Expected Outcome and Deliverables

- 5.1.** This consultation must submit the following products. All these products must be approved to be considered final products.

- 5.2.** Work plan;

- 5.3.** Present value of the federal pension liability for the next 100 years and implications for long-

term federal fiscal sustainability included in the actuarial analysis tool;

5.4. Estimations of annual resources needed to maintain the system as a percentage of contributions and federal transfers (subsidies) and present value of total federal net pension liability include in the actuarial analysis tool;

5.5. Financial-actuarial studies of up to five pension reform proposals.

6. **Project Schedule and Milestones**

6.1.

<i>Delivarables</i>	<i>Timeframe</i>
1. Workplan (5.2)	One week after the signature of the contract
2. Present value of the federal pension liability for the next 100 years and implications for long-term federal fiscal sustainability included in the actuarial analysis tool (5.3)	Six weeks after the signature of the contract
3. Estimations of annual resources needed to maintain the system as a percentage of contributions and federal transfers (subsidies) and present value of total federal net pension liability include in the actuarial analysis too (5.4)	Twelve weeks after the signature of the contract
4. Financial-actuarial studies of up to five pension reform proposals (5.5)	Twenty weeks after the signature of the contract

7. **Reporting Requirements**

7.1. Every report must be submitted in Spanish to the Bank in an electronic file. The report should include cover, main document, and all annexes. This file must also be in an electronic format used by the Bank, such as: one of the MS Office, JPG and / or TIFF formats. ZIP files (compressed) will not be accepted as final reports due to the regulations of the Bank File Management Section.

8. **Acceptance Criteria**

8.1. David Scott Kaplan, Specialist Leader in Labor Markets and Social Security is authorized to accept the work.

9. **Other Requirements**

9.1. All Offerors shall assume all costs associated with the preparation and presentation of their proposals. The Bank does not assume any responsibility, whatsoever, to reimburse Offerors for

costs incurred in the preparation of proposals in response this RFP.

10. Supervision and Reporting

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11. Schedule of Payments

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Payment Schedule	
<i>Deliverable</i>	<i>%</i>
1. <i>Workplan (5.2)</i>	25%
2. <i>Present value of the federal pension liability for the next 100 years and implications for long-term federal fiscal sustainability included in the actuarial analysis tool (5.3)</i>	25%
3. <i>Estimations of annual resources needed to maintain the system as a percentage of contributions and federal transfers (subsidies) and present value of total federal net pension liability include in the actuarial analysis too (5.4)</i>	25%
4. <i>Financial-actuarial studies of up to five pension reform proposals (5.5)</i>	25%
TOTAL	100%

TERMS OF REFERENCE

Coordination of a pilot project supported by the Ministry of Finance to assess interoperability of different federal and subnational pension systems or big data informed enforcement

Mexico
ME-T1391

<https://www.iadb.org/en/project/ME-T1391>

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1. Background and Justification

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systems and portability of benefits, as well as the potential use of big data in activities like formalization pilots to identify likely cases of labor rights abuse.

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Through this TC, the IDB will collaborate directly with the Insurance, Pensions, and Social Security Unit at the Ministry of Finance to 1) support the Government of Mexico's work on technical analyses of federal and sub-national reform impacts on fiscal costs and labor market efficiency, and 2) support the execution of pilots for social security compliance using technological advances.

2. Objectives

- 2.1. The objective of this consulting work is to contribute to a pilot for social security compliance, by permitting the identification of likely abuses of the social security system, which could help target enforcement efforts.

3. Scope of Services

- 3.1. The consultancy firm will carry out the coordination of a pilot project supported by the Ministry of Finance to assess interoperability of different federal and subnational pension systems or big data informed enforcement.

4. Key Activities

- 4.1. The Provider must develop and support at least one pilot project to either 1) assess interoperability of different federal and subnational pension systems or 2) utilize big data to target enforcement efforts to increase labor formality and social security compliance. The exploitation of the rich data that can be accessed by achieving interoperable information systems could permit the identification of likely abuses of the social security system, which could help target enforcement efforts.

5. Expected Outcome and Deliverables

- 5.1. This consultation must submit the following products. All these products must be approved to be considered final products.
- 5.2. Work plan;
- 5.3. Analysis of the current interoperability of different federal and subnational pension systems;

5.4. Analysis of the targeting efforts to increase labor formality and social security compliance;

5.5. Proposal of the design of the pilot;

5.6. Implementation report of the designed pilot.

6. Project Schedule and Milestones

6.1.

<i>Delivarables</i>	<i>Timeframe</i>
6. Workplan (5.2)	One week after the signature of the contract
7. Analysis of the current interoperability of different federal and subnational pension systems (5.3)	Six weeks after the signature of the contract
8. Analysis of the targeting efforts to increase labor formality and social security compliance (5.4)	Twelve weeks after the signature of the contract
9. Proposal of the design of the pilot (5.5)	Sixteen weeks after the signature of the contract
10. Implementation report of the designed pilot (5.6)	Twenty-two weeks after the signtaure of the contract

7. Reporting Requirements

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Payment Schedule	
<i>Deliverable</i>	<i>%</i>
1. <i>Workplan (5.2)</i>	20%
2. <i>Analysis of the current interoperability of different federal and subnational pension systems (5.3)</i>	20%
3. <i>Analysis of the targeting efforts to increase labor formality and social security compliance (5.4)</i>	20%
4. <i>Proposal of the design of the pilot (5.5)</i>	20%
5. <i>Implementation report of the designed pilot (5.6)</i>	20%
TOTAL	100%