Data Management and Reform of Unemployment Benefit Scheme in Mexico

ERNESTO BRODERSOHN
EBRODERSOHN@GMAIL.COM

ECA REGIONAL FORUM ON MANAGEMENT INFORMATION SYSTEMS AND MODERNIZATION OF SOCIAL PROTECTION PROGRAMS
WORLD BANK

ISTANBUL, TURKEY
MAY 22ND, 2014
Structure of the presentation

- Implementation and Data Management
- Data Management creating synergies in Mexico’s pension system reform from 1997, to 2007 …
- Implementation built within policy decisions
- New Reforms in Mexico’s Social Security System
- Integrating Unemployment Insurance
• A proper Implementation and Data Management will augment policy success and efficient use of resources.

• Same questions that are addressed at the policy level should be addressed at the implementation level…
  o How do we provide (better) services to the population
  o How do we make the best use of resources
  o How do we make it transparent, sustainable…
  o How do we make the policy last beyond our administrations
  o And more…

• “Vision without execution is just hallucination” – Henry Ford.

• Policy without Data and proper implementation is guessing and wishful thinking.
• Mexican pension system is based on individual accounts.

• It has been built with a strong Data Management infrastructure from the early days, even before the reform was in effect in 1997.
Data Management in Mexico’s Pension System

- The heart of the implementation differentiator of the pension system is a centralized database management company which acts as a switch within the system.

Collection of Contributions

Employers

Private Sector (1997)

11 PFAs

PFA Switching

DB

Government Agencies

Public Sector (2007)

Social Security Agencies

PFA – Pension Fund Administrator
Some Facts about Procesar

- Procesar is a government concession from the finance ministry, supervised by CONSAR.
- Pension Fund Administrators (PFA) own Procesar, in equal shares.
- Procesar’s core business is maintaining and operating the national retirement savings database which
  - Holds all historic records of transactions since the creation of the system (now almost 2 billion records)
  - Holds identity information of every individual in the system, as well as which pension fund administrator holds his/her account
  - Act as a switch between collecting banks, pension fund administrators and social security agencies.
- Procesar’s got started by borrowing other banks “batch based” infrastructure and for the past 5 years has been moving towards becoming transaction based.
- Has played a key role in all pension reforms (1997 and 2007).
When looking at new policy, in Mexico, we always look at implementation.

We need to build policy around accurate data to ensure
- Budgetary constraints are met for the program itself,
- Population target is accurate to maximize its benefit,
- … as much as it can be

We need to make sure that the services and programs
- Are simple to operate,
- Efficient in the execution,
- … as much as possible

Checks and balances need to be put in place.
• Mexico is currently debating various reforms.

  o Universal pension for the population over 65 years
    - Provided you do not have another pension
    - *Substitutes:* “older” programs (Oportunidades & Sedesol).
    - *New benefit:* twice the pension (minimum wage), provide incentives to incorporate state level programs.

  o Unemployment Insurance
    - Provided you are not employed,
    - Provided you do not have another pension, and
    - Provided you do your share and try to find a job.
    - *Substitutes:* partial one time withdrawal schemes with no insurance scheme, unconditioned.
    - *New benefit:* percentage of your last 2 years wage with a government guarantee of minimum wage for 6 months.
    - *Funding:* Splitting the current 5% of housing contribution into two contributions, 3% for unemployment, 2% for housing.

• Make use of what we already have, substantially benefiting from the pension system’s infrastructure.
A new unemployment insurance presents a challenge to the pension system.

- Current unemployment partial withdrawal is provided by PFAs, but certification is done at Social Security Administration, requiring two trips to complete service. This makes it unviable for a program where both certification and payout happens every month for 6 months.

PFA – Pension Fund Administrator
A new unemployment insurance presents a challenges to the Data and Infrastructure requirements as well.

- Pension data requirements focus on the history of all contributions
- Unemployment does require some history but tend to focus on much shorter term data.
If unemployment insurance policy is to be efficient, a single Unique ID needs to be used across all social security agencies.

<table>
<thead>
<tr>
<th>Private Sector Social Security Agency</th>
<th>Public Sector Social Security Agency</th>
<th>National Employment Agency</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Universal Pension</td>
<td>• Unemployment Insurance</td>
<td></td>
</tr>
<tr>
<td>• Program for Independent Workers</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Consensus reached that CURP, the national Unique Identification number in Mexico, will be adopted.
New unemployment insurance can use the same infrastructure used by PFAs for the last 17 years.

Integrating Unemployment Insurance

Collection of Contributions

Employers

Private Sector (1997)

11 PFAs

Government Agencies

Public Sector (2007)

Social Security Agencies

PFA – Pension Fund Administrator
Sure, but how do you implement it...

- The pension system already collects and keeps employment records...
- The pension system already collects and keeps pension records...

- A new player would be added to the model to certify if someone is enrolled in the employment service
- Proper handoff mechanisms reducing arbitrage of people who manage to get employed to continue receiving the benefit.
• Additional benefits from the implementation proposal
  ○ Advocacy
    ✷ Provide population a better understanding of PFAs purpose, presence, and benefits.
    ✷ Bring a short term benefit to pensions administration should help improve pension “awareness”
  ○ Administrative and Fiscal
    ✷ Diminish administrative burden to Social Security Agency

• Changing the focus and “culture” of PFAs to a shorter term recurring service to the population can be a challenge.

• Reputation is key. It’s better to provide a short term solid solution which can be matured, than a perfect solution that could fail that would expose the policy to criticism.
Data Management and Reform of Unemployment Benefit Scheme in Mexico

ERNESTO BRODERSOHN
EBRODERSOHN@GMAIL.COM

ECA REGIONAL FORUM ON MANAGEMENT INFORMATION SYSTEMS AND MODERNIZATION OF SOCIAL PROTECTION PROGRAMS
WORLD BANK

ISTANBUL, TURKEY
MAY 22ND, 2014