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Ageing and Retirement Security:
United States of America, Mexico and
Mexican Americans

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PREFACE

The Population Division of the Department of Economic and Social Affairs (DESA) of the United Nations Secretariat is responsible for providing the international community with up-to-date and scientifically objective information on population and development. The Population Division provides guidance on population and development issues to the United Nations General Assembly, the Economic and Social Council and the Commission on Population and Development and undertakes regular studies on population estimates and projections, fertility, mortality, migration and population structure.

AGEING AND RETIREMENT SECURITY: UNITED STATES OF AMERICA,
MEXICO AND MEXICAN AMERICANS *

of America (almost a third); and much lower social security coverage, a third in Mexico relative to 90 per cent in the United States of America.

Table 1 reports on a smaller set of indicators for Mexicans and people living in the United States of America, including Mexican Americans or more generally, "Hispanics", as noted below. The proportion of older persons among Mexican Americans is much lower than other Americans and Mexico, partly because of the high fertility of Mexican Americans, but also because of the continued inflow of young Mexican migrants to the United States of America.

Table 1. Selected socio-demographic indicators for Mexico, and Hispanic and non-Hispanic white populations in the United States of America

| | | | |
|--|--------|-------------------|-------------------------------|
| | Mexico | Hispanic USA, USA | |
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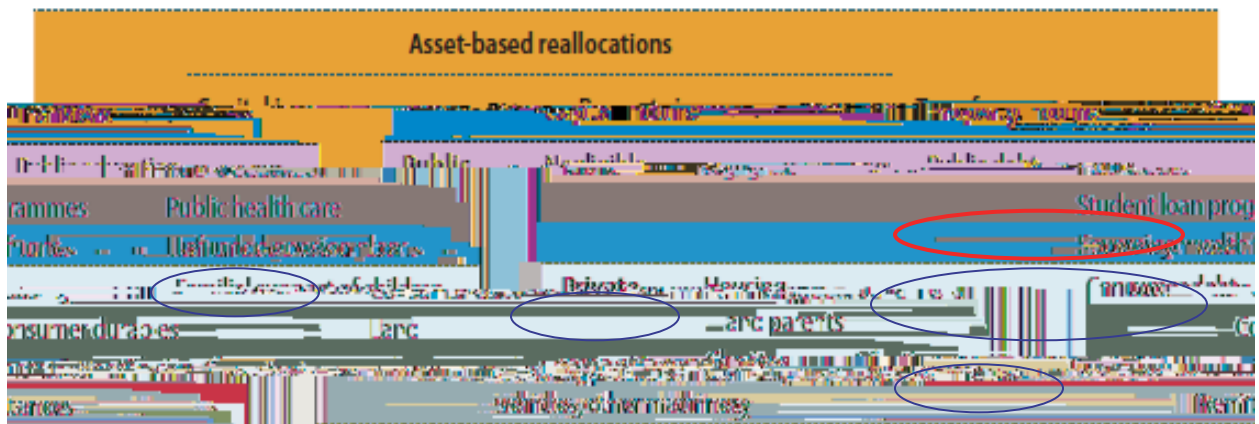
the different sources of economic sustenance in the three populations under study was examined and reflected on what that entails for their economic security in old age.

B. ANALYTICAL APPROACH

For the main part of this paper, the National Transfer Accounts framework that considers the economic flows between national and a given country over the life course was adopted. The framework is based on following classification (table 2) of economic flows or “reallocations”, which includes pensions and public health care, which are very significant in more developed countries, especially in the United States of America. The framework also includes other important sources of intergenerational support, namely familial transfers as well as remittances, very important for Mexicans with relatives living in the United States of America, as well as income from financial and real assets (e.g., stocks, bonds, savings on the one hand and physical capital, land and real estate on the other). A comprehensive exposition and numerous applications of the framework, including to the United States of America and Mexico, is available in Lee and Mason (2012).

TABLE 2. NATIONAL TRANSFER ACCOUNTS(NTA)

A classification and examples of national transfer account age reallocations



Source United Nations (2013), Lee (1994) and Mason and Lee (2011).

Two additional variables need to be introduced: total final consumption, which includes both private consumption expenditures and government consumption spending, and labour income, a major source of economic support throughout the life-cycle. Thus the complete accounting of life-cycle consumption and its sources can be summarized as:

Consumption = Labour income + Asset-based reallocations + Net Transfers (public and private)

¹ See Lee, Donehower and Miller (2011), chapter 15, and Mejía-Guevara (2011), chapter 13.

In words, consumption at any given age can be financed by working (thus perceiving labour income), drawing income from own assets, including dis-saving, and by receiving (net) transfers from the government or private individuals, most commonly, from family members. Details on the concepts, measures and the estimation procedures of the various NTA components are presented in the newly released National Transfer Accounts Manual (United Nations, 2013).

1. Data

In the case of Mexico, the NTA estimates for 2004 and are based on micro-data from the Household Income and Expenditure Survey for 2004 (ENIGH-2004, see INEGI, 2008), National Accounts of Mexico (INEC 2006), as well as administrative records from the Ministry of Finance (SHCP 2008) and the National Statistical Institute (INEGI 2008a).

In the case of the United States of America, estimates used in this paper are for 2007, based on the Consumer Expenditure Survey (CEX), the Current Population Survey (CPS), and National Income and Product Accounts (NIPA). Micro survey data, sometimes supplemented with administrative records are used to estimate the age profiles of consumption and all types of income, while the national accounts are used as macro controls for the component elements of the accounts.

In this paper, Mexican Americans are identified through the self-reported questionnaires in the CEX and CPS as “Mexican, Mexican American or Chicano”. Therefore, Mexican Americans are self-identified persons born in the United States of America or in Mexico, but are currently living in the United States of America. Non-Mexican Americans are all other respondents not being self-reported as “Mexican, Mexican American or Chicano”.

C. RESULTS

1. Consumption

Mexico’s overall per capita consumption age profile (figure 1) is characterized by a relatively flat consumption through most of the adult ages, dropping moderately later in the life-cycle, after age of 60. This age pattern is not typical of Latin America; other countries like Chile have a flatter per capita consumption curve across all of the adult ages, including after age 60, while in others like Brazil, Costa Rica and Uruguay, the average level of consumption among adults increases with age. The overall age profile of consumption in Mexico is in fact more like that of certain developing countries outside of Latin America, such as Indonesia and Thailand.

Mexico’s decline in consumption at older ages is not consistent with consumption-smoothing models, which predict that individuals would maintain an even

level of consumption over their lifetime through borrowing, saving and dis-saving.² The data shows that most of the components of consumption in Mexico drop at the older ages, with two exceptions: consumption of housing is stable through the older ages, and the consumption of health care increases. However, the impact of this increase is fairly modest, as public and private health care account for 10 per cent of the total consumption for Mexicans aged 65 years or more (and 5 per cent for younger adults), a relatively low figure even by developing country standards.

Figure 1. Per capita consumption, Mexico, 2004



Source: Calculations based on NTA methodology.

Mexican Americans, on the other hand (figure 2a), have a consumption profile that is increasing with age, similar to that of other Americans (figure 2b), a pattern, which is typical of more developed countries. In virtually all industrialized countries, especially in the United States of America, the upward trend of consumption by age is driven by a sharp increase of health care expenditure, and also high housing per capita consumption of housing of older adults,³ while most of the other consumption components stay relatively constant. Persons aged 65 years or older in the United States of America dedicate 37 per cent of their total consumption to health services, as compared to younger adults who on average dedicate 18 per cent of their total consumption to health care.

² The fact that Mexicans do not appear to smooth out consumption over the adult ages could be a reflection of insufficiently developed financial markets and high income inequality, which prevents large segments of the population from accumulating substantial savings over their life-cycle.

³ Most older persons, especially in the case of the United States of America, tend to live primarily alone or with a spouse only (see Annex table 1, also United Nations, 2012), driving the per capita value of housing consumption up.

Another way to compare the three populations is to look at their per capita consumption normalized by their average labour income (figure 3). Factors affecting the age profile of the ratio of per capita consumption to labour income include labour productivity, household composition, and the receipt of other sources of income over the life-cycle. In most of the 23 countries in WTA data (United Nations, 2013; NTA, 2013), adults consume typically between 60 and 70 per cent of the average labour income. In this regard, Mexico stands out because it has a rather high consumption to labour income ratio, 80 to 90 per cent.

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Despite this particular similarity of Mexican Americans with the general United States of America population, it is important to keep in mind their very different levels of income and consumption, as this has an important bearing for the interpretation of the results of sources of retirement security, presented next.

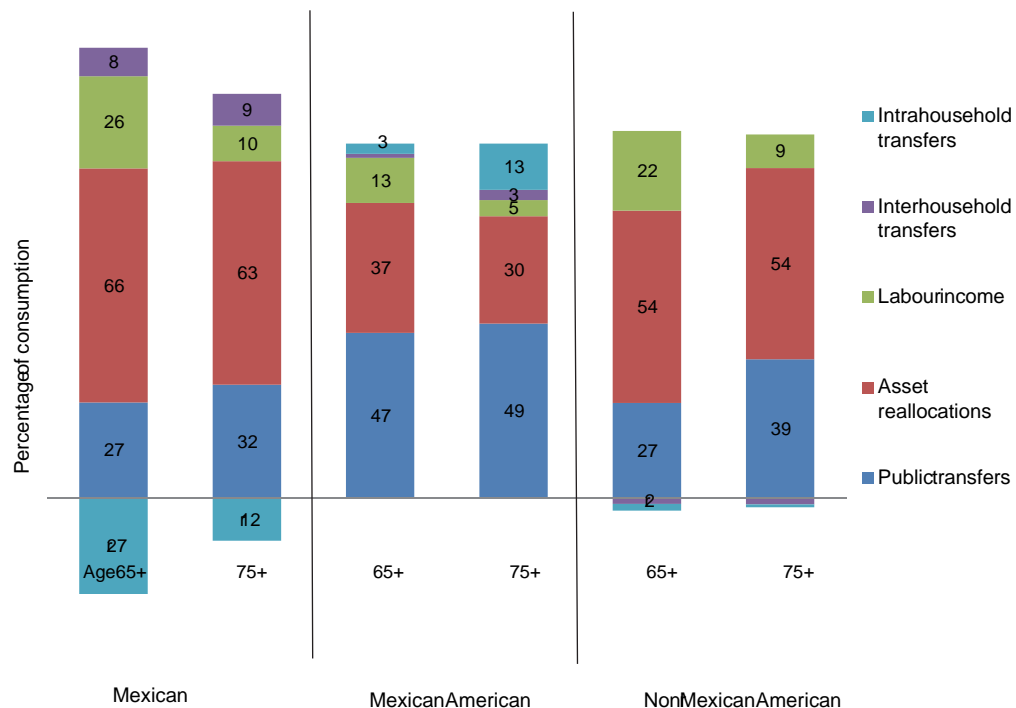
2. Finance of consumption

Coming to the central question of this paper: what are the sources of old-age economic support in these three populations? Figure 4 presents the results on the major sources of income that support older persons' consumption in Mexico and the United States of America, including labour income, public transfers, private transfers subdivided into intra and interhousehold transfers, as well as asset-based reallocations.

Figure 4 shows, first, that older people in Mexico and older non-Mexican Americans finance their consumption in a roughly similar manner. Both labour income and public transfers are quite significant for them (they each finance one fifth to a quarter of old-age consumption), but asset income is the most important source of retirement sustenance, accounting for a half to two thirds of consumption for those aged 65 years or over.

Figure 4. Finance of consumption for persons age 65 years or over: Mexico (2004), United States of America (2007) and Mexican Americans (2007)

Labour income, public transfers, private transfers (intra and inter-household) and asset-based reallocations, as a percentage of total final consumption



Source Calculations based on NTA methodology.

Older Mexican Americans rely even more heavily on public transfers, which finance almost a half of their consumption. Asset reallocations (asset income and dis-savings) are also significant, but come in second place, accounting for one third of their consumption.

Second, familial transfers are positive and important for the Mexican American elderly, but not for older persons in Mexico or for non-Mexican Americans. Older Mexican Americans receive net familial transfers that represent an average of 4 per cent of their consumption and this share increases as they age further: those aged 75 years or over finance 16 per cent of their consumption with familial transfers, of which 13 per cent is transfers within their household (intra-household transfers) and the remaining 3 per cent is between households (inter-household transfers).

The pattern is the reverse for non-Mexican elders in the United States of America. Instead of net receivers, they are net givers of familial transfers to their children and grandchildren, in an amount equivalent to 4 per cent of their consumption. The very different forms of intergenerational family support may be explained partly by the distinctive living arrangements. Approximately 40 per cent of Mexican American people aged 65 years or over live with adult children in an arrangement that is known to facilitate intra-familial transfers, while only 15 per cent of non-Mexican Americans do so. Also, non-Mexican elders are wealthier and they have significantly higher lifetime labour and asset income compared to Mexican Americans. They are therefore better able to self-finance their consumption with asset income and dis-savings and do not need to rely on familial transfers. Cultural factors may also play a role directly or through the mediating effect of co-residence.

Older people in Mexico are the only group studied here that receives net inter-household transfers and in quite significant amounts: 8 per cent of the consumption of those aged 65 years or more and 9 per cent of those aged 75 years or more.⁵ However, older Mexicans transfer even larger amounts to their younger relatives in the form of intra-household transfers (27 per cent and 42 per cent, respectively), which makes them net givers of familial transfers, even at the oldest ages (see figure 4, column labelled 75+).

Third, and not surprisingly public transfers are an essential source of old-age support, both in Mexico and the United States of America, accounting for 27 per cent to 32 per cent of the consumption of people aged 65 years or over. A somewhat unexpected result, however, is that public transfers finance an even larger share (about half) of the old-age consumption of Mexican Americans. A small proportion of older Mexican Americans may receive a pension from Mexico in addition to the United States of America social security benefits, but it is believed that there are two more important factors: the lower overall level of income and consumption that drives up the per capita value of whatever public transfers they receive, which include not only means-tested

⁵ A large share of this flow is likely to come from remittances from migrant children living in the United States of America

quantitatively less significant source of support in old age as fertility continues to fall in the Americas and independent living becomes more common in the ageing Latin American societies.

According to the data examined, asset reallocations have become a major source of income in old age, both in Mexico and the United States of America and this is also true in other countries with NTA data. However, there are reasons to believe that asset reallocations are not always reliable, as the recent housing and financial crises have showed.

The historical trend of the importance of old-age security emanating from public sector programmes (mainly social security and public health) during the twentieth century was for the most part increasing (Miller, 2011) although it is unclear if that trend will continue into the future. In any case, defined-benefit public sector transfers are inherently more stable than either employment, private pension funds or other assets, particularly during periods of economic and financial instability, as evidenced during the recent crisis and subsequent slow recovery.

In sum, older persons in the three populations studied have diverse sources of retirement security and in most cases these sources combined provide adequate protection and sustenance of basic consumption needs in old age. However, Mexican Americans and older people in Mexico are more vulnerable to live in poverty and therefore rely more on familial and public transfers, respectively, than other Americans. Over the longer-term, all population groups would benefit from further diversification and from policies to expand life-cycle investment in human capital (Lee and Mason, 2013) to supplement financial and physical capital assets, as family sizes continue to decline and therefore provide a stronger base for old-age support.

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Annex Table 1a. Selected demographic indicators, Mexico and United States of America
(compared to selected countries and regional average values for Latin America and the Caribbean and Northern America)

| Country or area | Population aged 60 years or over | | | | Sex ratio, 2013** (men per 100 women) | | Life expectancy at birth 2010-2015** | | Life expectancy at age 60 2010-2015** | |
|---------------------------------|--|---|------|------|--|-----|--------------------------------------|-------|---------------------------------------|-------|
| | Proportion of total population** 60 years or over (percentage) | Share of persons aged 80 years or over** (percentage) | 2013 | 2050 | 60+ | 80+ | Men | Women | Men | Women |
| LATIN AMERICA AND THE CARIBBEAN | 11 | 25 | 15 | 23 | 81 | 65 | 72 | 78 | 20 | 23 |

Annex Table 1b. Selected economic and social indicators, Mexico and United States of America (compared to selected countries and regional average values for Latin America and the Caribbean and Northern America)

| Country or area | Proportion married 60 years or over* (percentage) | | Proportion living independently, 60 years or over* (percentage) | | Old-age support ratio** 2013 | | 2050 | | Proportion in labour force 60 years or over* (percentage) | | Social security coverage* Working- age 60+ (percentage) | |
|-----------------|---|-------|--|-------|------------------------------------|-------|------|-------|---|-------|--|-------|
| | Men | Women | Men | Women | Men | Women | Men | Women | Men | Women | Men | Women |
| | | | | | | | | | | | | |