

## Salary Profiles of Affiliates of Pension Funds

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**Abstract:** Calculating the retirement benefits under a defined contribution pension plan requires information about lifetime salary profiles along with the density of contribution. Most often, in developing countries, a simple income profile is assumed with no regard to actual income profiles. One commonly used rule is to assume a  $x$  percent growth in income throughout the working lives of affiliates. Does the reality correspond to such assumptions? Using Mexico as an example, we set out to examine this question. We start with a dataset of 100,000 men and 100,000 women who are in the Mexican defined contribution scheme during the period 1998-2005. The dataset is a stratified random sample with equal number of people from each quintile of income distribution such that the age of each affiliate is 20, 25, 30, 35, 40, 45, 50, 55 and 60 in 1998. Thus, we follow the actual income path of each person in each group during 1998-2005. We show that for each group, the real income is almost always increasing during this period. However, the rate of increase vary substantially between age groups, between income levels and between men and women. We also show that macroeconomic factors play a significant role in the behavior of income dynamics. We draw policy conclusions from these observations.