

Premium increase on labor risk insurance

Please be advised that the Mexican Institute of Social Security has issued administrative resolutions with the purpose of modifying the premium paid by employers as Labor Risk Insurance (hereinafter referred as: "the premium"), mainly affecting the Maquiladora industry.

As you may know, every year employers must carry out a risk management review in their company, in order to file an annual return which shall determine the premium to calculate the monthly payment of social security quotas, taking into consideration, the activities of the company and the accidents at work.

Likewise, the Mexican Institute of Social Security, through its corresponding technical department, has the legal authority to carry out an annual review of the risk level; this authority may confirm, lower or increase the risk premium, and in this way may be able to verify if the applied premium is correct.

When the Institute increases the premium, it must adhere to certain legal principles and comply with certain requirements; failure to do so, would invalidate such action.

However, the authority often does not adhere to these principles, for example: The Institute increases the premium without previous notification to the employers of the disabilities granted to their workers; they take into consideration accidents occurred in transit to work (which by law, are to be excluded to determine the risk level), etc.

This generates serious consequences to the companies, since they must pay a higher monthly amount of employee/employer quotas. Suppose that a company has been paying a premium of 2.4543% and that the Institute increases such premium to 4.37627%, and also suppose that the monthly quota currently paid was \$132,000.00. With the premium increase, now this amount would be \$236,000.00, that is a monthly difference of \$134,000, that multiplied by 12 months add up to \$1'608,000.00

As you can see, this increase in premium may cause severe economic damage to the company, and it is therefore imperative to review if the authority, upon exercising their acts, adhered to the legal provisions; if they fail to do so, the premium established by the employer in the annual return shall prevail.

If you believe your company may be in a similar situation, please feel free to contact us to determine if the increase in risk premium was made pursuant to law, and if this is not the case, be able to file the corresponding actions.

Respectfully,

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