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Current Issues for U.S. Social Security and the Canadian Pension Plan (CPP)

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Summary: Reforms of the U.S. and Canadian Social Security programs, in light of anticipated demographic shifts and other factors, have been widely discussed this year. The Society of Actuaries (SOA), American Academy of Actuaries (AAA), and the Canadian Institute of Actuaries (CIA) have each been doing a variety of analyses of the U.S. and Canadian Social Security programs and options available for the future. The focus of this session is on analyses of recent action and proposals, including:

- *considerations in "privatizing" social security programs,*
- *the introduction of the new Canadian "Seniors' Benefits,"*
- *a framework for analyzing Social Security options, and*
- *the impact of changes in Social Security on early and normal retirement ages.*

Mr. Joseph A. Applebaum: I chair the Society's Committee on Social Security and I work at the Pension and Welfare Benefits Administration of the U.S. Department of Labor (DOL). The views expressed by either me or the other speakers are our own and do not necessarily represent the views of our employers. Throughout this meeting many speakers have talked about the aging of the population that has occurred in Canada and the U.S. Such change of course is not confined to just these two countries, but is occurring throughout most of the world. The direction of change is anticipated to continue into the future, resulting in significant changes in the proportion of the elderly within our societies. This change necessitates that

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nations examine the nature and provisions of income security commitments for the elderly. Actuaries, because of their training, can and do play a unique role in the analyses of such programs. Our panel will bring you up to date on the financial status of the CPP and the Social Security Cash Benefits Program and our two nations' major governmental pension programs, as well as the issues confronting them.

The panel assembled here is well qualified to discuss these issues. All have worked and written extensively on social insurance. First is professor Robert Brown of the University of Waterloo. Rob is an FSA and a Fellow of the Canadian Institute of Actuaries (FCIA) as well as an Associate of the Casualty Actuarial Society (ACAS). Rob is also a newly elected vice president of the Society. Rob will focus his remarks on the CPP and its recent reforms. Joining Rob is Steve Goss, Deputy Chief Actuary for Long-Range Projections at the U.S. Social Security Administration (SSA). Steve is an ASA and a member of the AAA. Steve will bring us up to date on the status of the OASDI program and discuss some of the suggested reforms for the program. Last is Professor Krzysztof Ostaszewski of the University of Louisville. Krzysz is an Associate of the Society and a member of the AAA. Krzysz will help us understand the different meanings for privatization within the context of social insurance. Krzysz will also discuss some proposed U.S. reforms. I'll talk a while about the Social Security activities in which the SOA and the AAA have been engaged, and Rob Brown will lead a parallel discussion about CIA activities. Social insurance is a topic that always provides a wide range of views, so we've left about 20 minutes for comments and questions from the audience.

Both the SOA and the AAA have been active in the Social Security arena, with slightly different emphases reflecting their different institutional roles. The Academy has published a monograph entitled *Solutions to Social Security and Medicare's Financial Problems*. In addition, the AAA's Committee on Social Insurance has published briefs on selected issues, two of which have been on privatization—one on the investment policy of the trust funds and another on individual accounts. There are also briefs on the changes to the benefit formula and taxation of benefits, as well as means testing and changes to the retirement age. The briefs are aimed at an audience including actuaries, but also others with some technical knowledge and a sustained interest in the field of social insurance. Their intent is to give a balanced analysis of the issues at hand, identifying both the technical and policy advantages and disadvantages associated with that issue. Ron Gelersbauer has testified before the Social Security Subcommittee of the Ways and Means Committee and has also appeared with a number of senators and representatives who help the public understand the general nature of the problems confronting Social Security. These joint appearances have given the actuarial profession public visibility that might not be possible any other way. The SOA held seminars in 1996

on Social Security in Toronto, Canada. These seminars were part of the SOA's program of continuing education. The Seminar speakers included actuaries, economists, and journalists with interest in the employee benefits and social insurance areas. The SOA Foundation published a pamphlet on Social Security that's been widely distributed and I think well received. It's intended to be an aid to the general public to help understand the issues confronting Social Security.

On the institutional side, the SOA's retirement systems and large practice areas and the SOA Foundation have made a major commitment along with the Retirement Research Foundation to fund research on the impact of mortality improvement on the social insurance programs of Canada, Mexico, and the U.S. While this project has not been completed, it is well underway. A conference of experts will meet soon to help the researchers set parameters for mortality improvement in the three countries. The proceedings of the conference will be published and used to estimate the effects on the social insurance programs of the three countries for different probable levels of mortality improvement. From what I've seen of the research to date, it will be a major resource for all actuaries who have to consider the impact of mortality improvement on financial security programs.

Finally, on the individual side, actuaries have provided service to the Advisory Councils of the Social Security System since the beginnings of the system. This last advisory panel was no exception. Mark Twain was a member of the 1994–96 Advisory Council, and Howard Young and Mike Zee were members of the Advisory Council Technical Panel.

Mr. Robert L. Brown: I'm briefly going to tell you about some of the things that are happening in Canada, and I'll start by alluding to the impact the CIA has had on the process of Social Security reform in Canada. The Canadian Institute has more of an analogy to the AAA than to the SOA. Canadians get their education and their university qualification equivalent through the SOA, but they see their identity as professionals with the CIA. It is also the CIA that talks to the government. We're pleased with the level that we are heard by the government. I should also say that we're heard by the media. I can absolutely expect, when I hear a story breaking about Social Security, that I will get a call the next day from the media, not just asking me for a personal response as a professor, but also a response on behalf of the CIA. I try to be careful to reflect the Canadian Institute's position. However, I will not be doing that today. I will not be giving you the official Canadian Institute position; I will be giving you more of my own feelings.

The Canadian Institute has published several papers about the future of Social Security in Canada and if I could generalize the tone of these papers, they are meant to be calming in their effect. The Canadian Institute went out and told the Canadian

public that the sky is not falling. We may need to make some changes and the patient may need medical assistance, but we're not talking about a terminal patient. That was the tone. To understand the full essence of reform for Social Security in Canada, you have to understand that we don't have a system parallel to OASDI. We have a multi-tiered system. Until recently and, in fact, in existence today are three tiers of support sponsored by the government. There's something called the Guaranteed Income Supplement/Spousal Pension Allowance, which is income-tested and paid for out of general tax revenues. There are no contributions to this system. That is the first layer of protection and I suppose it has some analogy to Social Security Income (SSI), except that it's far more predominant and important. Then we have a system, old age security, which is a constant dollar value benefit paid to Canadians who are aged 65 and over and who are residents of Canada. It is also paid out of general tax revenues and has no earmarked contributions. That's the second layer of protection in our Social Security net. We'll talk about some reforms to that plan in a moment.

In 1989 it was announced that old age security would no longer be universal, that wealthy people would have their benefits "clawed back," so that by the time you had personal retirement income in excess of $52,000, you would not receive old age security. At that moment, old age security became much more like the guaranteed income supplement (GIS). There was a needs test in essence for you to receive old age security.

The last tier is an earnings-related plan, the Canada/Quebec Pension Plan, which started in 1967, as did the GIS. They came in at the same time. Notice that it is not a huge plan. The maximum pension would replace 25% only up to the average industrial wage, so the maximum benefit today is less than $9,000 a year. In terms of the World Bank Report, we have a floor of protection and an earnings-related plan that in total, for someone at the average industrial wage, would replace about 40% of final salary. For someone less wealthy than that, it will replace more. For someone wealthier than that, it will replace less. The CPP stops at the average industrial wage; old age security is constant dollar, and GIS is needs tested. You can see that it does more for the poor and little for the wealthy. This is not a huge plan and it fits in with the World Bank's idea of a three-tiered plan, where the government and the employer both participate and individual savings are still encouraged and provided with tax incentives. The Canada/Quebec Pension Plan was affected by a number of changes in its environment that I will review with you, but at the time of the 1993 report the actuary told Canadians that if the plan wasn't changed, contribution rates, which had been very low, would have to rise to 14.2% by the time the baby boom was fully retired. In fact, in the first 20 years, contribution rates initially had only been 3.6% of wages (and those contributions stop at the average industrial wage) and this was split between the employer and the

employee, so 1.8% plus 1.8%. It had risen slowly until the had reached 5.6% in 1996. This created a level of concern politically in Canada and also created concern related to intergenerational equity. There is also growing lack of confidence in Social Security, so when Canadians were asked, "Do you think you will get the Social Security benefits that have been promised to you?" for those already retired, 85% felt confident. But for younger Canadians, only 23% said they were confident in Social Security. If you don't have psychological confidence, you don't have the security of Social Security. That's a very important component. Twenty-three percent of Canadians feeling confident in Social Security is about the same as the percentage of Canadians in that age group who believe in UFOs. In terms of intergenerational equity, the CPP paid its first full benefits in 1976 after a 10-year transition period. For those people born in 1920 who made very small contributions, in an actuarial sense, for every dollar of contribution they made, in actuarial terms, they received more than $7 of value back. For those born in 1960, for every dollar of contribution, they received $2.60 of actuarial value back. This is discounted in probabilities and all those other things we tend to do, but for those born in 1980 it could be argued that it was a straight saw, and there were concerns then about rates of return—is this a good deal, would I be better off if I opted out, and why do I have to contribute—all the things that you've heard in the U.S. Really, the younger generation thought they had it tough. The elderly were retired and playing golf through the use of unfunded pensions, medical care, drug plans, and old age security and they had passed the bill on to the next generation. If the next generation mentioned that this might be unfair, they were called the Me Generation or whiners. People were beginning to think that there was growing statistical evidence that these promises were simply a mirage; that by the time they crawled across this desert of vocational occupation, the pension would not be there as promised. So, the Canadian government wanted to increase confidence in Social Security without increasing its cost as the population aged.

Here's one from Sally Forth that I kind of like. Sally says, "I ran the numbers Ted. If we don't start saving more money, we won't have enough to retire on." Ted replies, "Did you include Social Security?" and they collapse in fits of laughter. Sally remarks, "Boy that was a good joke." But here's the punch line: Ted says, "I can't take the credit. Our parents are the ones who played the joke on us." This is what people believed, that it was a Ponzi scheme and wasn't going to be there when they retired—a misconception that needed to be replaced by confidence in Social Security. What the Canadian Government has announced are some relatively small amendments to the Canada/Quebec Pension Plan that decrease the benefits by about 9%. The plan is now about 10% smaller than it used to be. It will now be more difficult to qualify for disability income benefits, and the death benefits are capped at a lower level. Where it used to be analogous to a three-year final average type plan, it's now going to be analogous to a five-year final average

type plan, in small modifications, they were able to snip away 9.3% of the benefits without anyone feeling the cut. They then decided that they would bump the contribution rate dramatically and quickly from 6%, as it now sits in 1997, to 9.9% well ahead of the pay-as-you-go actuarial projections, but this would then create a $110 billion fund. I've seen other estimates of $135 billion. They're only estimates because they're based on a number of assumptions, but we're going to go from having a small rainy day contingency fund equal to about two years of benefits to a fund that will be equal to five or six years worth of benefits. That fund will be invested in private markets. This investment will be done by a committee appointed by but at arm's length from the government, and many of the investments are supposed to be passive in the sense that they're supposed to match indices as opposed to picking winners and avoiding losers. There's an attempt then to control political influence. Why is this happening? Because life expectancy is up, and fertility rates are down. Certainly in Canada, the labor force participation rates have been stagnant and worker productivity has not improved. This has been a problem and a struggle for us. At the same time, real rates of interest are high. Real wage increases are low and this is important because if I had gone back to the 1960s and had been the consulting actuary when the Canada/Quebec pension plan was brought in, I would have done very reasonable projections on best estimate assumptions that would have shown that pay-as-you-go was going to cost ultimately in a mature plan—about 11% of payroll—but that full funding with the interest rates of the 1960s would cost about 16.5% of payroll. So, in fact, the decision to set up the Canada/Quebec Pension Plans as they existed in the 1960s was not a stupid decision. I read that in the newspaper all the time—if only they hadn't been so stupid in 1967. Well, nobody was stupid in 1967. Based on the previous 15 years of high fertility and low interest rates and high productivity increases, pay-as-you-go looked good. But in the 1990s with productivity down, wage increases down, fertility down, life expectancy up, and real rates of interest high, pay-as-you-go now for a fully mature Canada/Quebec Pension Plan looks like 14.5% of payroll, whereas full funding looks like 7.2%. The government looked at this again and talked to economists and actuaries and said, "Maybe we should have some funding."

What I'd like to introduce are some of the actuarial questions around funding or not funding because security for Social Security comes from the ability to transfer wealth. It comes from having a healthy economy. To argue that funding is going to help means that funding must represent true increases in gross national savings; that those savings have to be used in a manner that increases wealth production and productivity when there is no other way for government to achieve this. Because if there is a better way, why wouldn't you do it that way?

The questions haven't started yet, but I think people will be asking questions after we start to accumulate this $135 billion. Is it going to increase gross national savings? In terms of trying to predict that, if you read the literature it's difficult to draw any conclusions because there's something called behavioral response. Behavioral response is a difficult thing to factor in to an actuarial projection, and I can tell you that the federal government in Canada never factors behavioral response into their projections, which means that about nine times out of eight they're wrong. Can you show that even if you do increase savings, it increases worker productivity? There's evidence that you should question that and continue to question the assumptions on which that conclusion is based.

Another argument that's often given is if we all fund our total retirement income security schemes, then we're demographically immune. If I have all the money I need to retire, then I don't have to worry about the baby boom. You are not demographically immune because those assets have to be backed by the production of goods and services. If there's no production of goods and services, government bonds, General Motors shares, and Microsoft shares are only pieces of paper. Your two story, four-bedroom house isn't worth much if everybody is trying to sell their two-story, four-bedroom house. Think about that.

I also argue from time to time that it's a strange situation to hear a Minister of Finance (MOF), who is the person responsible for introducing this legislation in Canada, get up and say two things. Number one, we have a huge debt and we need to pay if off. Number two, I'm going to increase taxation by jumping the contribution rate to Social Security and building up a side fund of $135 billion. I have trouble following the consistency of the logic of those two statements. He also, by the way, limits the ability for me to save for retirement by limiting my contributions to the equivalent of IRAs. We call them registered retirement savings plans (RRSPs) in Canada. Again, is that consistent?

Then you have all these behavioral response issues. Do you get more savings or do people respond? Do corporations respond? Do they start to issue more bonds as the government issues fewer bonds? Is it a zero sum net gain? What do we really have at the end of the day? Given the demographic environment, having made the decision to start to build up a fund in 1997 that will then be liquidated when the baby boom retires, are we painting ourselves into the inevitable situation of buying high and selling low? Because on a pure projection basis, here are the private pension plan funds in North America over the next 60 years. We will add to savings increasingly until about 2020, when we will start to liquidate. That cannot happen. People cannot consume unless somebody is producing. You can't liquidate your assets unless there's somebody there to buy them. So, in fact, some of these people are not going to sell their two-story, four-bedroom houses; they're

going to continue to live in them. They won't be able to buy recreational property in Sedona. Personally, I think Sedona is being ruined by the number of recreational properties, but maybe that's a good thing. But they will have to change their decision making processes, and we will have to continue to maintain an equilibrium between production and consumption. You cannot deny that.

The key is creation of wealth, so let's get there via the best way possible. Old Aged Security Demograph Benefit will be combined into one needs-based benefit called the Seniors Benefit. It was announced this will not happen until 2001 and if you are 65 by 2001, you can have the better of the two systems. You can choose to stay with Old-Age Security (OAS), or GIS, or you can choose to go with the Seniors Benefit. How long do you think the government will carry two parallel systems? Nevertheless, this is the way it was sold politically.

What does the new Seniors Benefit look like? It pays about the same level of benefits as a full GIS, as well as a full OAS. It actually turns out that it pays $120 a year more, which is an additional $10 a month. A single senior with no outside income of any kind is guaranteed $11,420 a year. That may sound like a lot, but these are Canadian dollars. An elderly couple with no outside source of income is guaranteed $18,400 a year. This is a tax-free benefit and it's funded from general tax revenues, not contributions. But as you bring your own personal resources into the picture, these benefits are clawed back. For an individual, somewhere around $53,000 income, your benefit goes to zero, and for a couple, somewhere around $73,000, your benefit goes to zero. What does the single benefit look like? I would suggest to you, this is the sort of thing only a Government Committee could design; you're guaranteed $11,420 if you have no income in your own right. The claw-back is 50 cents on the dollar in the early going. Then there's a period of time when there's no claw-back, and later on the claw-back is 20%. Why did they design the single benefit in such a weird way? There were two things that the politicians intended. One, they wanted to guarantee the social net so that the poorest Canadians would not be worse off. In fact, they would be $10 a month better off. Number two, the majority of Canadians would be better off. What they really did was take the old GIS, which had a 50 cents on the dollar claw-back, and they drew an analogy to OAS, which had a claw-back at 15% and they glued them together. The minister could then get up legitimately in the house and say, "75% of Canadians will be better off," but here's where behavioral response comes in because Canadians are now looking at both a claw-back and, with some of this income, a tax. The total of these is astounding. For someone who brings income of their own right, between $6,500 and $12,500, into the system, the effect of marginal claw-back is 50 cents on the dollar, plus they're going to pay 27% marginal income tax. The government will take 77 cents out of every dollar they bring into the system. Later on, for someone bringing resources in their own right

between $36,000 and $51,750, at a 20% claw-back, plus 40% marginal tax, the government will take 60 cents out of every dollar. Now I ask you, do you think there will be behavioral response? Well, the government, in its projections of what this will do and the cost of what will ultimately be paid by taxpayers in the next century, factors in no behavioral response. Those are the kind of issues that we can talk about.

Mr. Stephen C. Goss: Well I guess I'd like to start out by saying, I agree with almost everything Rob said, and it'll be interesting to see what Krzysz has to say, and how much of it he agrees with. We sometimes have some interesting discussion. Let me start off with one item that Rob mentioned that I think is worth discussing. It's been one of the items that has driven much of the discussion here in the U.S. about the nature of the Social Security System and its fate in the future. It's this issue of public confidence. I'm glad to hear that the response in Canada is similar to the U.S. When you ask people—especially under 40—do you think you're more likely to see a UFO or Social Security Benefits in the future, you're more likely to hear UFOs. Many times when I have an opportunity to ask people under 30 this question, as the survey predicts, we almost always get the answer, yes. They laugh and say, "We'll never see Social Security Benefits." When I have followed it up with another question, "What are you doing about it? I assume you all have high personal savings rates because, of course, you'll never receive anything from Social Security," they say, "Oh, well that's another issue." I have yet to find the instance where I've received this response: "Yes, we're saving a lot because we don't expect to get the benefits. On pursuing it further, this seems to be the "cool" response. This seems to be the thing to say. People seem to have a certain confidence that the government is going to eventually take care of them. I'm not suggesting that this means that people believe that Social Security, either in Canada or in the U.S., will remain in the form that they see it today, but there seems to be different thinking out there than these surveys suggest—that there will be something out there that will provide substantially similar benefits to what we have today.

Speaking of substantially similar benefits to what we have today, what is the current status of the program? Surely in the U.S. we're not nearly as far along as Canada is in terms of developing the next round of comprehensive reform; we're at an early stage. I think we have much to learn by observing what's going on in Canada. More of that in a minute. First of all, where we are in the U.S. I'm assuming everybody here is familiar with the OASDI system, the Social Security System, and the nature of the benefits. We have this graded benefit formula that provides a higher benefit per amount of contribution for the lower income workers and a lower benefit per amount of contribution and earnings level for the higher income workers. Much of what Rob mentioned is also true for the U.S.; not surprising, given that we're just a border away.

One of the most important items is the dependence on the population aspect. I bring this up in particular, not because it's the truth about both the Canadian and the U.S. Social Security systems, but because it's a point of controversy and a current issue of some importance, as will be true later in the week, when the Society will have a seminar on mortality. We will have a number of demographers and actuaries discussing the issue.

I should note that some people have noted that demographics and population changes are not the only thing that will influence Social Security in the future; that's just in the projections that we make. That is the one aspect of all the various assumptions and parameters that changes by far the most. The economic assumptions are relatively more stable and most of the other assumptions are fairly stable in the long-range projection, but the demographics by their nature can radically change. Much of this is because of the baby-boom generation. The impact of the baby-boom generation is to keep the cost rate low until 2005. When the baby-boom generation starts to retire massively between 2010 and 2030, the taxable payroll will go up rapidly, then stay about flat, and actually go up to some extent in the future after that. It will stay at that level primarily because our expected fertility rates, i.e., our birth rates, are expected to stay fairly low at about 1.9 children per woman. The mortality rates are expected to improve in the future. Joe mentioned earlier that we have two members of the Advisory Council's Technical Panel here, Bob Myers and Mike Zee, who came out with a couple of suggestions that would change the assumptions currently used for the Social Security OASGI projections and the Medicare projections. The assumptions were first, to have a somewhat higher fertility rate—change the fertility rate from 1.9 to 1.95, which would have a slightly positive effect. Another factor that was suggested by the technical panel was to have a boost in the fertility rate, between the year 2000 and 2005, based on expected higher rates of wage growth during that time for workers; therefore there might be a reaction to have somewhat higher fertility. The evidence at this point is not moving us in that direction. Fertility rates since 1991 have been stable or have decreased somewhat, but we'll be waiting and hoping. The combination of those two factors, if we included them, would improve the long-range balance of the system by about 0.25% of payroll, wiping out slightly more than 10% of our long-range deficit.

The other side of the issue of these demographic assumptions, though, is a much more controversial one—the mortality rates. The current mortality rates are projected to improve. They're about half the rate that's occurred so far this century. On an overall basis, it varies by age group. The technical panel suggested that maybe a better idea would be to have the rate of improvement that's occurred so far this century for each age-sex-specific group just carried on for the future. If this were to occur, we would have an improvement in the long range financing system

of the program. And, in fact, it would improve the long-range financing by about 10% of the long-range deficit and these two factors would offset, which is convenient but unintentional as I'm sure Bob and Mike would attest. Our mortality projections in the future will be an area of great controversy, and this is true not just for the U.S., but also for Canada. With these projections where do we stand in terms of the financing for the Social Security Program? Are we at the edge of a cliff? Are we going off this cliff? Is the financing woefully inadequate? Most of the reports that you hear indicate that there will be a major problem in the year 2012, when the taxes for the Social Security System will be insufficient to pay for the benefits in the current year. In fact, the Medicare program hit that point in, I believe 1995, and, it wasn't even realized until after it happened, much less being a major problem. Certainly, if we don't change the law, there will be some significant issues to deal with as we approach the year 2012, the year in which the trust funds that are now building up—they're about 1.6 years worth of the payout of the system—will be peaking. They will spent down completely by the time we hit 2029, which will leave us with about 74 cents of taxes coming in for every dollar that's specified to be paid out in the program. It gets worse than that after the year 2029. Under the current projections, as we near the year 2070, there will be 69 cents for every dollar of benefits. Clearly we're not in great shape, but this is not catastrophic; it's not as though there's only 10, 20, or 30 cents on the dollar available. Changes have to be made, but they are manageable.

In terms of these accounts of current issues regarding Social Security retirement age, normal retirement age increases is certainly one, even outside of discussion of possible changes to Social Security. Under the current law we will have changes starting in the year 2000, when the normal retirement age will be increased to 67. There's a lot of discussion about possibly raising it further. However, the earliest eligibility is at the age of 62, the first age at which you can start to get benefits. That is not schedule to increase. This is significant because if you thought about it, if you're a Congressman and you had to vote on it and you wanted to be reelected, raising the earliest eligibility age—the age of which you get zero under that age, but you can get a benefit at that age and above—is probably more difficult than raising the normal retirement age. Fewer people understand what the normal retirement age is, and that implies that you have a lower level of benefit for people at all ages who retire, no matter what that age is. If you raise the age to 65, then prior to age 65 people will simply not be able to get the retirement benefit. This wasn't pursued in the 1983 amendments, which were the last comprehensive amendments for Social Security. It was considered recently for Medicare, but it was dropped. Remember they have only one age. They have a no-benefit and then a full-benefit age, which starts at age 65. They considered raising it in a manner similar to the increase in the benefit age for normal full benefits under Social Security, that is raising it up to 67, but it failed to gain the support, not surprisingly. One other

matter that's highly related to this issue of raising retirement ages, that will have to be dealt with is the relationship between morbidity improvement and mortality improvement. This is a very difficult area to analyze, but there has been some work in this area. We're fairly good at measuring mortality improvement as it occurs historically, but, I say fairly good because, of course, the statistics are not perfect. Morbidity, though, is really tough. You are hard-pressed to push for raising the retirement age, just on the basis of people living longer, if they're not living healthier, so more needs to be done in that area. Let me mention a couple of other issues, one being the Consumer Price Index (CPI) as a result of the Boskin Commission. You've all heard about the accusation that the CPI overstates price inflation by maybe a full percentage point or more.

Another important current issue in Social Security is the changing disability insurance benefits costs. Disability insurance benefits have been getting more expensive since the late 1980s for two primary reasons. First, because there have been more people entering the rolls with mental impairments. Second, because women, as in many other areas, have been catching up with men and have started to have somewhat higher incidents of disability under the Social Security program.

Enough for the current issues. Let me review a few things before Krzysz takes over on the possible changes that we'll be facing in the future. Remember that under the current tax provision, we will have only 74 cents on the dollar starting around 2029. For the current benefit provision, we'll drop down to about 69 cents for every dollar. Congress has to fix this. The Advisory Council and all of the members of Congress who have been looking at this problem have had a few goals that they've put more weight on than others, but these are goals that have been under consideration here. The major goals are to restore the long-range balance to the OASDI system, to eliminate this 2.23% of payroll deficit, to change the situation from being able to pay only 74 cents on a dollar of benefits, going down to 69, and to be able to pay the whole thing, in terms of the best projections. The other factor is to try to do this in such a way that this will be a stable, long-lasting solution as we go into the future. The current technologies for making estimates will make that job easier; as long as all the assumptions, of course, come true. Another factor that has been strong in the minds of policymakers is improving the rate of return that is provided by the Social Security System. More in a minute about Rob's points on that, which are very important. I should say that when we're talking about the rate of return for the Social Security System, there has been a large body of study and much desire to look within the small segment of the Social Security benefits—what you get out, relative to what you put in.

Rob makes a very good point. It's something that has been discussed frequently; that if we move along into a system that appears to provide a greater rate of return

under Social Security, it's possible that we might be, in effect, providing a lower rate of return or lower earnings somewhere else in the economy that might result in a zero-sum gain. When the Advisory Council on Social Security, which concluded a year ago, came to realize that this was a possibility for a number of the proposals, they stepped back and acknowledged the possibility for a zero-sum gain but felt it was important to consider possibilities for changing the benefits under the Social Security System, so that they would, if only apparently, give a higher rate of return. Part of the argument for this was that the Social Security System as it stands now on a pay-as-you-go basis, with investments small in volume and restricted only to government bonds, is not getting the full opportunity that other retirement systems in the country have to make substantial investments and invest in higher yielding securities. It's not always true that when we talk about these as Rob mentioned that we'll necessarily see a great stimulus to the economy and have a bigger pie to divide out. It may only be with some of these plans that we end up in the situation where more of the pie is shown to be coming under Social Security at an apparently lower cost at the expense of other institutions.

How would this occur? It would occur as a result of moving toward advanced funding, but before getting to that, there are two other goals that have been considered. One, is to maintain the current benefit levels provided under the Social Security System. All the Advisory Council plans strove to do this in their own way. Two, the one that Rob alluded to, is to increase national savings, domestic investment, and economic growth. I agree absolutely with Rob that Social Security may not be the best and certainly not the only way to increase savings investment and economic growth. In the U.S., changes in Social Security are often referred to as the third rail, yet somehow it seems as though it may be easier to make changes there that could result in increased savings in the economy than in other areas. I would suggest that there have been surveys in the past that when people are asked how they feel about taxes, of course they feel negative about taxes, but in past surveys, as negative as people have felt about the payroll taxes for Social Security, they felt even more negative about other kinds of taxes. Ultimately, some people have felt that if you want to find a way to get your hands on more money to increase taxes and to use that money to encourage more savings and investment, Social Security might be the place to go, for better or worse.

Regarding the Advanced Funding issue, under the question of Options for Change, all three of the Advisory Council Proposals would support more advanced funding. In fact, almost all the plans that we've seen today would move toward more advanced funding under the Social Security System. Most of them would have some component of the money going into stock investments. It's been argued that this is the only way to maintain benefit levels that are scheduled under present law, which are inadequately financed without increasing taxes. Again, Rob is absolutely

right. If we find a way to have a big advanced funding mechanism under Social Security, we enjoy the benefits of investing in stocks, and we have more money coming into Social Security at a given tax rate. This is something that we all have been aware of and have been observing for a long time. It's the total production in an economy in a given year that determines what is available to be distributed and the fact that we may have lower tax rates in a given year, if we desire to give the same amount to the nation's elderly, means that we have to come up with it in some other way. The other way under these advanced funding systems is selling off some of the assets of the advanced funding mechanism, but the workers of the day would have to put up the money to buy these securities. One way or another, the money has to come out of the pockets of today's workers to be transferred to the elderly. If it comes from taxes, it's very direct and obvious. If it comes from having an advanced funding mechanism, then the young people have to buy those securities and, in effect, put up the money that will be transferred. The real issue, as we're told by the economists, and, as to whether we get anything positive out of this, is whether we actually end up encouraging a net increase in savings investment and economic growth.

Let me quickly run down the approaches that have been considered so far. The first is what we might refer to as the traditional approach, in which we would solve the financing problem for the Social Security System in the future by some combination of cutting benefits and raising taxes. There is one very important proposal that is on the table. It has not yet been submitted to Congress to the best of my knowledge, but it's by our own Bob Myers, who has suggested that we could indeed raise taxes by some stepped increases, raise the retirement age further, and have these two be the primary elements. The current system and its present manifestation could be continued on a pay-as-you-go basis. Most of the other suggestions would involve advanced funding. The second option is the so-called maintained benefits plan that was put forth by the Advisory Council, which essentially would keep the current defined-benefit plan and the current structure of benefits almost exactly intact, but we would bring advanced funding into the system. It would increase the size of the trust funds dramatically above current projected levels and allow about 40% of the funds to be invested in stocks. Again, however, it is true that if this resulted in no net increase in savings or investment that would mean near-term reduction in consumption by Americans, which is probably hard to bring about, but if we don't get the extra savings in investment, we won't have the bigger pie in the future. The problem is just as difficult to finance, but it would be done in a different form. The third option is to cut benefits to live within the current 12.4% tax rate, but don't increase it, just cut benefits and then on an individual account mechanism. There are two plans that have been proposed in the U.S. to take this approach. One is Sherman Gramlick's plan, the individual account plan from the Advisory Council. The second is by the Council for Economic Development, which is a sort of super-

Gramlick plan. It does more than the Gramlick plan. It cuts benefits more and it provides for a bigger individual account mechanism. Both of these plans would be intended to make the defined-benefit plan shrink down to live within the current 12.4% and add on an individual account, which means extra taxes. The argument of course is that the extra taxes will not be as repugnant to people because they'll see it going into an individual account.

The fourth and final approach, which is in many ways the most intriguing, is to cut benefits even further than the third option, so that the current system will be shrunk down to be able to live within a less than 12.4% tax rate and be able to take that residual amount above the cost of the system up to the 12.4% rate and provide that to people to be put forth into individual accounts. There was a proposal by Senators John Kerrey and Alan Simpson (R-Wyo.) to do this and create a 2% individual account mechanism. I have covered the cost of doing and providing this, primarily by substantially cutting the benefits for current beneficiaries through modifications of the cost-of-living adjustments. The Advisory Council's Personal Security Account Program would do essentially the same thing, but it's much more aggressive. It would create a 5% carve-out of the 12.4% tax rate moved into the individual accounts. The problem with this proposal is that it results in such a large reduction in money coming in through payroll taxes that it's just not enough to pay benefit amounts for many, many years. To cover the residual benefits under the Social Security plan, they had to raise tax rates as much as the individual account plan did, and even that wasn't enough. Taxes still needed an additional increase of about 1.5% of pay. They had to also borrow from the Treasury very large amounts of money for about the next 35 years. It takes another 35 years after that to pay it back, resulting in substantial and difficult negative effects on the unified budget deficits.

We had one more plan that was put forth that would do this, by Rep. Nick Smith (R-Mi.), which, in this line of succession, would go even further. It would cut benefits even more dramatically and would eventually eliminate the the Old Age and Survivors Insurance (OASI) program as we know it and move us toward full privatization for retirement and survivors.

Those are some of the plans that are out there. Let me pass the baton to Krzysz. I'm looking forward to hearing what he has to say as I'm sure you all are too.

Mr. Krzysztof M. Ostaszewski: What I would like to deliver is more or less a Halloween talk. I hope the stock market is still open and that's where your Social Security money may be. I would like to discuss some general comments about Social Security and what privatization is about by starting the discussion with some ways we think about Social Security. This is a statement that is popular among the

actuaries: the pay-as-you-go system is different from advanced funding. Here's my response and I'd like you to think about it. How is a Treasury bill funded? A Treasury bill is a forward contract on the delivery of taxes in the future. You have a forward with the government. How is Social Security funded? How are your benefits funded? You have forward arrangements with the government. They will deliver taxes to you. They are funded exactly the same way.

Larry Cutlick of Boston University basically described Social Security as equivalent to initial beneficiaries generation receiving welfare transfer payments, government issuing bonds in return for payroll tax contributions, benefits termed contributions plus interest, special taxes, and transfer payments instituted for the beneficiaries in order to achieve the prescribed benefit level, so that you get the benefits exactly as the law states. Imagine that this last part is removed. What you then get is more or less the system in Singapore; therefore the last part is an integral part of the public policy of Social Security. It's partly why Social Security exists. If you think about it this way, you may hopefully think about the rate of return issues and other things somewhat differently.

I've heard this from an economist and I was very amazed by this. Pay-as-you-go is a system which merely cancels dollars that go in and go out, and collects and distributes what is needed. Basically everybody is given to each according to his or her need, except that somebody has to determine those needs. The question then is, how do you normally pay for future cash flows? What about the redistributive function at Social Security, that public policy function? That's the part where the debates about rates of return concentrate. I'm a Halloween person. I'm against increasing rates of return on Social Security. I want them to go down. I want basically, if not the Singapore system, something close to it. Singapore meaning that you get what government bonds pay because this is a government bond system.

Historically, by the way, the average in the U.S. Social Security System has been about 9%. Nine percent real. If you attribute this performance of this investment correctly, then of this 9%, about 3.5% is attributable to a payroll tax increase. If anybody tells you that you will get this kind of benefit in the future, telling you that money is worth 9% in the future, then they should tell you that they intend to raise taxes at the rate of 3.5% a year. They won't. But, as I said before, I basically favor returns in the bonds level, and indeed there is a very old theorem by Paul Samuelson that says what the rate of return on this pay-as-you-go system is, and that's basically increases in the national wages in what is taxed as the basis for the distribution. If it's steady state, then the two have to behave the same way. As the wages grow, so do the benefits. That means that you have some redistribution within generations, and, in addition to that, the government basically borrows additional amounts for future generations to subsidize current generations.

Let me review some popular myths that need to be reconsidered. For instance, that Social Security has no effect on the economy; that basically money flows in, and money flows out. There's nothing there. There's no funding, so there's no effect on interest rates. I think there should be a major study of overall accumulation of accrued benefits and the relationship of the level of national debt combined with the level of accrued benefits and social insurance, and how these affect interest rates. We can see that real interest rates used to be much lower. Now they're higher. Wouldn't it be natural that since we have accrued benefits in the range of $10 trillion in Social Security, a national debt of about $5 trillion, and accrued benefits in Medicare at an even higher range, that we will have high interest rates? It's not an accident.

It's worth thinking about how things relate to each other in the economy. An economy-neutral assumption is an extremely dangerous way to think about this because the basic axiom of the economy is that people respond to incentive. It's not feasible that we can take money from some people and give to others and nothing will happen. The underlying statement is what counts is how much we produce, not how we distribute it. But how we distribute something affects how much we produce. This is a basic statement of economics; otherwise it's all accounting.

How we distribute more or less determines how much we produce. That's where the whole science of economics originated. There is a very interesting statement in relation to the rate of return on Social Security that Samuelson proved in his theorem. This results in a change in the relation of human and physical capital in the economy. People who propose changes to Social Security usually propose them in order to increase the savings rate because they would like to see, what the economists like calling, capital deepening in the economy, which is more physical capital.

What's the relationship of Social Security to that? Social Security creates income to you, which is related to your wages. It creates an artificial security that doesn't exist in the private marketplace, which pays you in retirement, in relation to your wages. It's important to note that there are many studies indicating that people do desire such a security in many countries. In a sense, if you want, you can call this almost a market failure; that there isn't really a predominance of such a security in the private markets. I just finished a study of what's happened to the defined-benefits plan versus the defined-contribution plan, and it's an absolutely amazing thing that happened over the last 20 years, because some people started talking about the disappearance of the defined-benefit plan. Defined-benefit plans have been providers of that security in the private market and yet, something is happening that makes them much less popular.

I'm suggesting in this study—I hope that I'll publish it soon—that the reason is the change in the distribution of national income; that wages that are subject to producing income through defined-benefit plans have declined as a proportion of national income over the last 20 years from as much as 75% twenty years ago to 65% now. It's a dramatic decline. We also can see that real wages, especially at the lower income levels, are not increasing. The security has become less attractive. Now why is that? I think that's a very important question for all of us. In relation to this, I'd like to suggest studying this relationship of physical capital to human capital. These are two ways of producing income: the physical capital and the human capital. It's very popular among many economists, especially the ones who I agree with. I have a preference for privatization of Social Security, and economists who like it generally talk about this physical capital. Those economists predict that as it increases, you will have higher savings rates, but I have a hard time with that, because I tend to disagree with them on this point. It's very hard to stand out there on the corner by yourself with your opinion.

Why do I think about this? Because if Social Security increases your returns on your human capital—effectively it does; it produces income that relates to your wages, and makes them more attractive—then Social Security creates incentives for you to accumulate more human capital. We all cry about low savings rates in the U.S., which we do have, but on the other hand, if you want a very quick increase in the savings rate in the U.S., all you need is a quick, good, deep, and solid recession. Put 20% of people out of work and the others will start saving. Believe me they will.

Which is the country right now that has the highest savings rate in the world? As I understand, it's Iraq. Iraq had a period in 1996 when it had the fastest growing economy in the world, but that was a very short period because they were just allowed to sell more oil. The issue, though, is that the country has changed. When these Social Security benefits were provided to the soldiers that came back from World War II, what did they do? They went to college. What does that mean? That means they invested in their own human capital. Because of the security provided by Social Security, which increased their returns on their wages creating an artificial security of wages, they found it attractive to accumulate more human capital. You have to be a college professor to see how the country has changed. You really have to know how unattractive hard work and studying have become to younger people. I have no idea what I can do. I tell stories and jokes—anything to get them into the classroom. I give bonuses for homework. This is a very different group of people than past generations. Why? I don't have an exact theory, but what I'm trying to say is that the incentive that was created by Social Security to accumulate more human capital seems to be disappearing. It has turned into an

incentive to consume, which is scary. What used to be good once may now be very scary, and that's worth thinking about.

There is no free lunch either way if you privatize or you don't privatize. You want to increase wealth. The good thing about Social Security might be that it increases the stock of human capital in the economy. Maybe artificially, but sometimes that's needed. The good thing about the private systems, so-called prefunding, is that they increase, hopefully, the stock of physical capital. I'm not trying to say that it will not happen, but think about the tax cuts of the 1980s. One of the promises of the tax cuts of the 1980s was an increase in the savings rate. Was there one?

From The Floor: That's a big lie.

Mr. Ostaszewski: I don't think it was a lie. I think there was a surprise for many economists that people instead of saving their money, went shopping. Shopping is a nice thing of course, but there is no certainty. People will respond to incentives in the way they choose to do so according to their values. For Social Security, there have been historically generous returns. They came from factors that can no longer exist, from increasing taxes to increasing the coverage for more people. I don't know of any definite study that attributes this performance, but I would guess that of this 9% historical average, as much as 6% could be attributed to these increases of coverage that were more or less one-time events. That means that in the future the returns will have to follow Samuelson's theorem, which I think is good because I like Halloween.

Part of the reason why privatization is popular is that people think they can make 18% in the stock market. Now if we're going to have a 2% savings rate, they may make 18% in the stock market because capital is so scarce that we'll have to pay it. But if the hope of people who want to privatize—like myself; I'm criticizing in a sense myself—is that we will increase the savings rate and make 18% in the stock market, we may find that these two contradict.

Why talk about privatization? What is privatization? What is Social Security? Let's step back. There is the public policy part of Social Security that results in your benefits in relation to your contributions being set by the government. That is effectively a mechanism for government setting interest rates, returns on your capital and that's price control. Price control may be very good if you're a beneficiary of it, but price controls have effects on people's behaviors. The main factor here that I find most troubling is that big returns are expected, based on historically big returns in Social Security, with no risk because it is a government program that will not allow any cuts in benefits. I would very much like to see those cuts in benefits on

their relative basis because if we have a growing economy, we can deliver what Samuelson predicted, which is basically the growth of wages.

But if wages are a declining part of the economy, we're going to have problems. Don't you find it troubling that in a growing economy, over the last several years, we have developed large deficits in social insurance? This is strange, and it shouldn't have happened. So, what's the problem? The problem is that you can earn benefits through political gain instead of earning them. That's really the same problem as when people say, "I made 40% in the stock market and that's what I'm going to make next year too." Well I don't think so. That's why I think that yesterday's event was great. It was very healthy for us. We need to feel our pain; otherwise people will believe that they can make 40% in the stock market. Unfortunately, this impetus is not in the Social Security System. The pricing mechanism is not present, and these incentives have become political instead of economic. That is the dangerous part, and I don't know how it will turn out. But privatization means that pricing of your future benefits will be done in the market, not by the state for example.

In the handouts I distributed, I gave you the description of the three proposals. The proposal for the government to invest in the stock market is what I mentioned at the beginning of my presentation. How is your Social Security money doing in the stock market? Think about the need for a special session of Congress because the market crashed and we're going to have some problems funding Social Security next year. Do we really want this kind of a scenario?

Essentially, the idea of investing the trust fund in the stock market is not privatization, it's nationalization. It's exactly what nationalization has been in the 20th century—yet another attempt to keep the setting of benefits through legislation, instead of the market. As I said, the system is equivalent financially to funding it with debt, with the amount of debt increasing at the rate that corresponds to the growth of wages. That was invented by David Ricardo after the Napoleonic Wars, the rolling over of debt. That's a very old strategy that's OK. Paying off debt is a crazy idea. Do we really want to do this? Take $5 trillion from all Americans and just pay off the debt to the same Americans, and in the process create havoc? Do we really want to engage in these kind of activities? David Ricardo had that problem after the Napoleonic Wars. The British debt went up about tenfold to fight Napoleon and they won, but they didn't pay off the debt; they just rolled it over. They went back to the gold standard and sincerely paid the debt, paying the interest, and rolling over the debt. It's not really scary if the economy is growing faster than the debt. If the wages are solidly growing, then the strategy of rolling over, which is essentially Social Security, is not dangerous as long as these incentives created for accumulation of human capital work properly. What I'm

trying to suggest is that we have a very serious problem with the working of these incentives, so privatization should be aimed at improving incentives for the benefits to be earned and not assigned by the legislature. That's my main point.

Mr. Robert J. Myers: There's one point on which I must strongly disagree with Krzysz. He lays great emphasis on money's worth or rate of return on Social Security benefits, relative to the employer and employee taxes. Social Security in my view is not an investment program. It was never intended to be an investment program. It's an income maintenance program. It combines social adequacy and individual equity. There's no reason that people should look at whether they get their money's worth because there are much broader things than that involved. It's somewhat like school taxes. People don't say, I don't get my money's worth out of my school taxes, but the country as a whole does. The second thing I'd like to say is when you consider any of these proposals to partially privatize Social Security, you must realize that the more extreme of them, like the more extreme of the Advisory Council programs, are absolutely impossible to enact. They cannot be enacted because proposals like that have three significant no-nos. First of all they increase taxes; second of all, they increase the national debt; and most important of all, they increase the budget deficit. That certainly cannot be done after all the efforts of Congress and the President this year to balance the budget—to next year pay us a bill that would just throw the budget completely out of kilter. The extreme nature of these proposals would put the budget deficit way through the ceiling, and no budget balance would be possible for decades.

Mr. Ostaszewski: I guess then it's an agreement to disagree because my main claim is that Social Security does not exist in a vacuum, but it's a part of the economy and the cash flows of Social Security and the government that have the same effects on the economy as the cash flows from budget deficits or any other form of tax collection. If you take $1,000 from somebody and give it to another person, it matters little what the stated purpose is. It has the same effect on these people. With respect to whether people consider the money's worth or not, it's the same question as with the schools. If the price controls result in mild distortions, in other words, if Bill Gates gets $2 billion less, but poor kids get to go to school, then it probably has very little effect. In other words, some price controls are a price to pay for certain things. But when we go to the extreme with the price controls, we need to step back and think about the effects. If the entire middle class becomes clients of the state as a result of introducing big price controls, we have a huge problem because these people should be earning their benefits.

Ms. Daisy M. McFarlane-Coke: Given the collective wisdom that we have had, if you were starting afresh now, would you do a privatized scheme?

Mr. Ostaszewski: What kind of people do you have in your country?

From the Floor: Real ones.

Ms. McFarlane-Coke: A democracy.

Mr. Ostaszewski: Americans in their 30s, then—

Ms. McFarlane-Coke: No, today's world, say a developing country.

Mr. Brown: I think there is a growing consensus that you have to have a mix and a dynamic system; the type of suggestion made by the World Bank that you have a Social Security net that saves people from poverty but is minimal. You add to that employer-sponsored and individual savings, and that is the general description of what you want. I think one of the things that has upset me is that people have taken the World Bank Report and used it to criticize the existing systems in Canada and in the U.S., when in fact I think they exactly fit that. They give a Social Security net that is minimal and the government provides incentives for employer-sponsored plans and individual savings, so I have been rather loud in criticizing the way that the World Bank Report has been used more than the actual World Bank Report. I am still very much in favor of that kind of tripartite system. If you want to get down to details, as with pay-as-you-go full funding, I think there's a growing consensus that it makes a difference.

Mr. Ostaszewski: In the U.S. there is such a variety of these private plans that in a sense this complication and variety works against them directly. Over the last two years we've had, how many, six, seven, maybe eight new types of retirement accounts created? One of the big pluses of the privatized system in Chile was that there was a universal private account that everybody understood. This is also a big advantage for Social Security. People understand Social Security much better than the relationship between IRA and simple IRA, step IRA and rough IRA, and simple KEOGH and KEOGH, etc. The list is immense, so simplicity is a great virtue. I noticed that rough IRA is the first one ever created that has the same tax treatment as Social Security. Maybe there is a chance to do something there.

Mr. Goss: In the current climate, and I think it's almost suggested by raising the question, there are many people in this country—well not so many I think in Canada, given the state of the pension system—who would think that an appropriate answer to that question would be to go for complete individual accounts to cover all types of benefits. I think there are many problems even considering doing that, if indeed we could roll back the clock and say there never had been any Social Security, so that moving in that direction would have no transition costs, which of

course, makes it very difficult to do so in any case. But the difficulty with having an operation where we would be working just with individual accounts are the same challenges that I think are presented moving toward individual accounts today. One of the primary challenges is the assurance that the money that is invested in individual accounts will still be there accumulating when you reach retirement. As we've seen with 401(k)s and IRAs in this country, people end up having access prior to retirement and it seems probable that people would have access to money that was in their name, built up, getting monthly statements, under certain circumstances, they would have access to that money in the future. For that reason I think that Rob is exactly right, that we will be extremely wise if we continue and if we were starting out today, to have a mixed system with a defined-benefit plan that is much more untouchable than individual accounts tend to be, with the opportunity to save. I would just suggest, I think Krzysz said earlier, something to the extent that we are limited in the amount we can put into IRAs. Well we're not. The additional amount you put into IRAs you don't get a tax break on, but you can invest all you want as an individual.

From The Floor: I must say that Steve Goss has already taken one of my major criticisms of the individual account plans. We all know that there's going to be access to them. The politicians are votes, by letting people fund their individual account, whether you call it an IRA or a 401(k) or an individual Social Security Whoop-De-Do Account, people will be allowed in this country to loot those accounts ahead of time. It's happening as we speak in the 401(k) area. Watch your politicians. More importantly, we need to find a way to reduce and I think the painless way is to do CPI minus one and CPI minus two, the current level of benefits people are receiving. We have to increase the taxation of benefits. This nonsense that we currently do, it should be 50% up to the poverty level and then 85%—commence doing that right away. Why? We need to invest in our children. Throughout the Northeast, and the Midwest, and the South, we need to rebuild schools and rebuild infrastructure that's over 100 years old. Walk through any urban city and see the schools crammed with non-English speaking people. We have young workers today earning real wages that are about three quarters of what their parents made 30 years ago, especially in the lower income strata. We're going to ask them to pay more payroll taxes. Sounds immoral to me.

Mr. Goss: I just have one or two final comments additional to this. The first one is that I think that in deciding what kind of benefit structure a country wants to use, there are no unique answers. A mix of some sort is probably a prudent approach. But there are many other issues that are associated with how that mix is developed and much of that has to do, of course, with public acceptability. The other one is that there are in many countries other support programs, food support programs, a number of other things that exist within the context of a country, in defining what

the income security needs are. It's more complex than just trying to figure out that there's some unique answer that you can reach.