

How Partisan Politics Threaten Retiree Security

By: Tim Hill, Alliance for Prosperity and a Secure Retirement



Public pensions boost [families' economic stability](#), reduce income inequality and support local economies, which makes the recent trend of partisan politics interfering in investment decisions a disturbing — and growing — problem.

Both pro- and anti-environmental, social and governance (ESG) interests have been using pension funds as the latest political football to pressure companies to toe the line on things like the environment and social issues. Some elected officials have even threatened to remove plan trustees for fulfilling their fiduciary duties to retirees and taxpayers, rather than follow a politician's political whims.

But whatever side is pushing, they're seeking to score points on the backs of firefighters, police officers and teachers, who deserve the secure retirement they were promised in exchange for years of sacrifice and serving others.

We've seen it in [Texas](#) and [Oklahoma](#), which have enacted laws that require pension funds to invest in the fossil fuel and firearms industries, and [Indiana](#), where pension funds are prohibited from investing in funds or with firms that consider ESG issues. It's also happening in New York City, which is insisting that local pension funds [fight climate change](#) with their investment choices.

These are expensive mistakes. For example, a [study last year](#) found Texas' anti-ESG legislation could cost the state more than \$821 million in 2024 alone. Divesting Oklahoma's public pension fund of assets managed by two firms on the state treasurer's "restricted" list was estimated to total \$10 million.

In January, the attempt to encourage or restrict ESG investing by public pension funds leaked into the private sector. A judge ruled that [American Airlines](#) had breached its fiduciary responsibility because it employed an asset manager who allegedly considered ESG objectives — even though American Airlines didn't offer any ESG-focused funds to its retirement plan participants. ☹

This is all bad policy. Smart, responsible pension fund management requires a long-term strategy, not a focus on whichever side of the culture wars won the latest election. Allowing politics to interfere with investment choices can reduce long-term returns and increase volatility and risk by creating inconsistent strategies. It can leave funds with no choice but to turn to untested investment firms, resulting in subpar returns and higher costs.

In addition to damaging the funds and undermining their ability to meet future obligations, this interference can torpedo credibility, which is crucial for both current and future retirees who need to trust that their pensions are in safe hands. If allowed to run amok, political interference in pension investments can result in today's public servants being forced to invest a greater chunk of their paychecks in hopes of maintaining future benefits. Current retirees could even be left with a sudden decrease in benefits. All the while, taxpayers would be stuck footing the bill, forced to contribute more to meet minimum pension-funding requirements. The result would be significantly more financial uncertainty for everyone.

Worse yet, it's totally unnecessary. By federal law, employers are required to place the financial interests of their retirement plan participants above other considerations. It should be a no-brainer that arbitrarily eliminating investment managers who offer well-regarded funds at rock-bottom costs is a dumb way to ensure retirement security for hardworking public servants. The truth is that limiting investment choices for public pension funds means less competition, higher prices and lower returns.

However, there is some good news. Lawsuits seeking to prevent these sorts of political litmus tests have been filed in various states — and courts in Oklahoma and Missouri have struck down all or parts of laws there. Oklahoma's public pension fund refused to deprive its retirees of the \$10 million it would have cost to divest.

But it's far too early to declare victory. Just last fall, the U.S. House of Representatives [passed two bills](#) targeting ESG investing. In state legislatures, despite pushback, [161 anti-ESG bills](#) and resolutions were proposed in 2024. Many legislators continue to advocate for forcing professional asset managers to make investment decisions based on political considerations. Others are demanding that pension funds divest immediately from funds or managers that have different political leanings, regardless of any losses. Neither focus on providing the best returns for public pensions.

Managers of public pension funds have one job: securing the largest returns possible for beneficiaries. We should all demand that politics stay out of pensions. Our elected officials must stop threatening the security of public servants and work to protect the economic stability of retirees — who, after all, dedicated their entire careers to protecting *them*. ♦

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