Comments on Ohio Senate Bill 6

Prepared for: Financial Institutions Committee
The Ohio House of Representatives

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Date: June 18, 2024

Chairman LaRe and members of the committee:

Thank you for the opportunity to offer our brief analysis of Ohio Senate Bill 6 (SB6) and the need for more clarity around the fiduciary standards of public trustees.

My name is Steven Gassenberger, and I serve as a policy analyst for the Pension Integrity Project at Reason Foundation. Our team conducts quantitative public pension research and offers pro-bono technical assistance to officials and stakeholders aiming to improve pension resiliency and advance retirement security for public servants in a financially responsible way.

Ohio's public pension funds are among the world's largest, most influential institutional investors. SB 6 would protect taxpayers and public pensioners from the growing prevalence of political activism in the investment of public trusts like pension systems and the financial products and services they rely on. In many states, pension systems are increasingly pressured by activists and elected officials to invest in or divest from specific companies or entire industries. These efforts run counter to pension systems' primary fiduciary duty to ensure prudent investments that maximize investment returns needed to provide benefits to retirees.

The nature of pension investments is evolving. Public pension systems and other public trusts no longer rely on vanilla investment portfolios comprised of stocks and bonds. To make up unfunded liabilities by utilizing overly optimistic investment return assumptions, even Ohio's largest pension systems have dramatically increased their risk-taking through increasing holdings of alternative investments, like private equity and hedge funds.

Since 2000, asset allocations within Ohio's major public pension portfolios have moved from having nearly 85% invested in fixed-income assets and large U.S. equities, to having nearly 29% of their portfolios comprised of private equity, real estate, and other alternative investments. This trend toward private and often opaque limited partnership arrangements has helped foster conditions for activists to leverage public dollars under their management and push ideologies or political agendas.

Since the 2008 financial crisis, the assets that stakeholders depend on have become less transparent and more vulnerable to special interests and political activism. What makes SB 6 unique and effective is the fact that the bill avoids directing, limiting, or interfering with public pension trustees' core duty, which is to maximize returns and deliver constitutionally protected retirement benefits at a reasonable cost.

SB 6 would help prevent the politicization of Ohio's public pension fund investments by providing clear boundaries for public fiduciaries to ensure investment decisions are based on material factors.

Public pension systems should invest to maximize returns so constitutionally protected retirement benefits are delivered at minimal cost to taxpayers and employees. Investments targeted toward political agendas should play no role in that process.

Policymakers should consider additional policies to increase transparency and ensure good governance through private investment and proxy voting reporting, as well as requirements allowing more access to investment-related public meetings, to complement SB 6.

Implementing the policies included in SB 6 would effectively elevate risk analysis and performance to their rightful positions as the sole factors in the fiduciary decision-making process. Depoliticizing the investment management of these important public trust funds and protecting trustees' ability to consider quantifiable risks is in the best interest of all direct stakeholders.

Thank you again for the opportunity to offer our perspective, and I am happy to answer any questions.

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