



Jonathan Williams
@TaxEconomist
@ALEC_States

About ALEC

- Founded in 1973
- The American Legislative Exchange Council is America's largest nonpartisan, voluntary membership organization of state legislators dedicated to the principles of limited government, free markets and federalism.
- Comprised of nearly one-quarter of the country's state legislators and stakeholders from across the policy spectrum, ALEC members represent more than 60 million Americans and provide jobs to more than 30 million people in the United States.

Statement of Principles on Sound Pension Practices

- Stability
- Predictability
- Adequacy
- Affordability
- Transparency
- Responsibility
- Ownership
- Choice
- Transportability
- Liquidity
- Safety

The ALEC Comment on the DOL Rule Change -- July 2020

- The U.S. Department of Labor was correct in enacting this rule change.
- Politically-based investing and divesting practices that lead to lower investment returns is a breach of fiduciary duty.
- Public pensions offer a real-world example of pension funds that do not always have clear rules on politically-motivated investing.

Best Practices for Sound Public Pension Governance

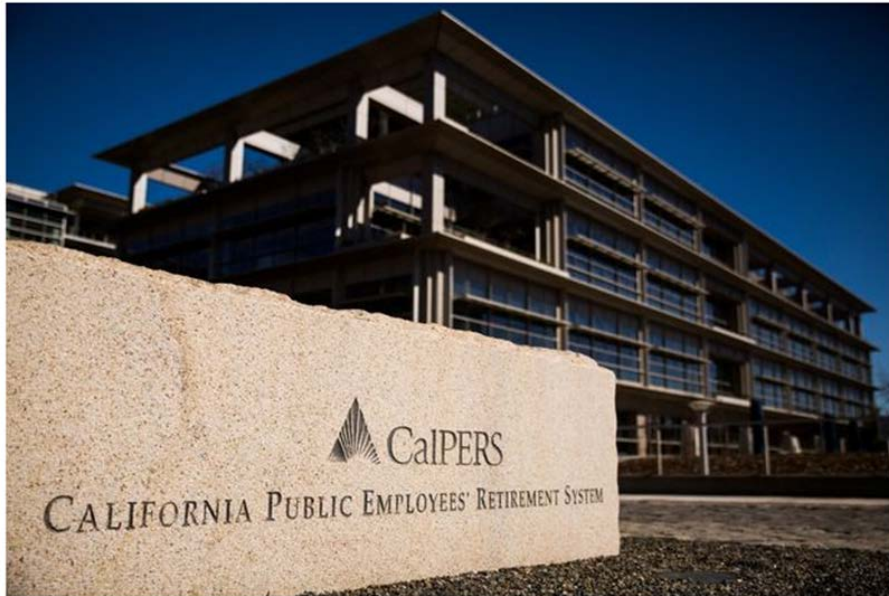
- Trustees should manage pension funds solely in the interest of plan participants and beneficiaries as a whole.
- Fiduciary provisions requiring any introduction of or vote on shareholder resolutions to be based solely on pursuing the best long-term, risk-adjusted returns.
- Comprehensive reporting before any divestment action is approved detailing the estimated short-term and long-term costs of the proposed divestment.

THE WALL STREET JOURNAL.

RISK & COMPLIANCE JOURNAL

Conservative Group Wants to Stop State Pensions From Pursuing ESG Initiatives

A proposed model bill from the influential right-leaning group ALEC would bar state pension funds from looking beyond returns in their investment decisions



“The minute that they put the hard-earned dollars of state employees, and others within state pension systems and use that ESG- or social- or politically-based investing motivation, they’re foisting their political views on the individual retiree.”

- Jonathan Williams in *The Wall Street Journal* (4/6/22)

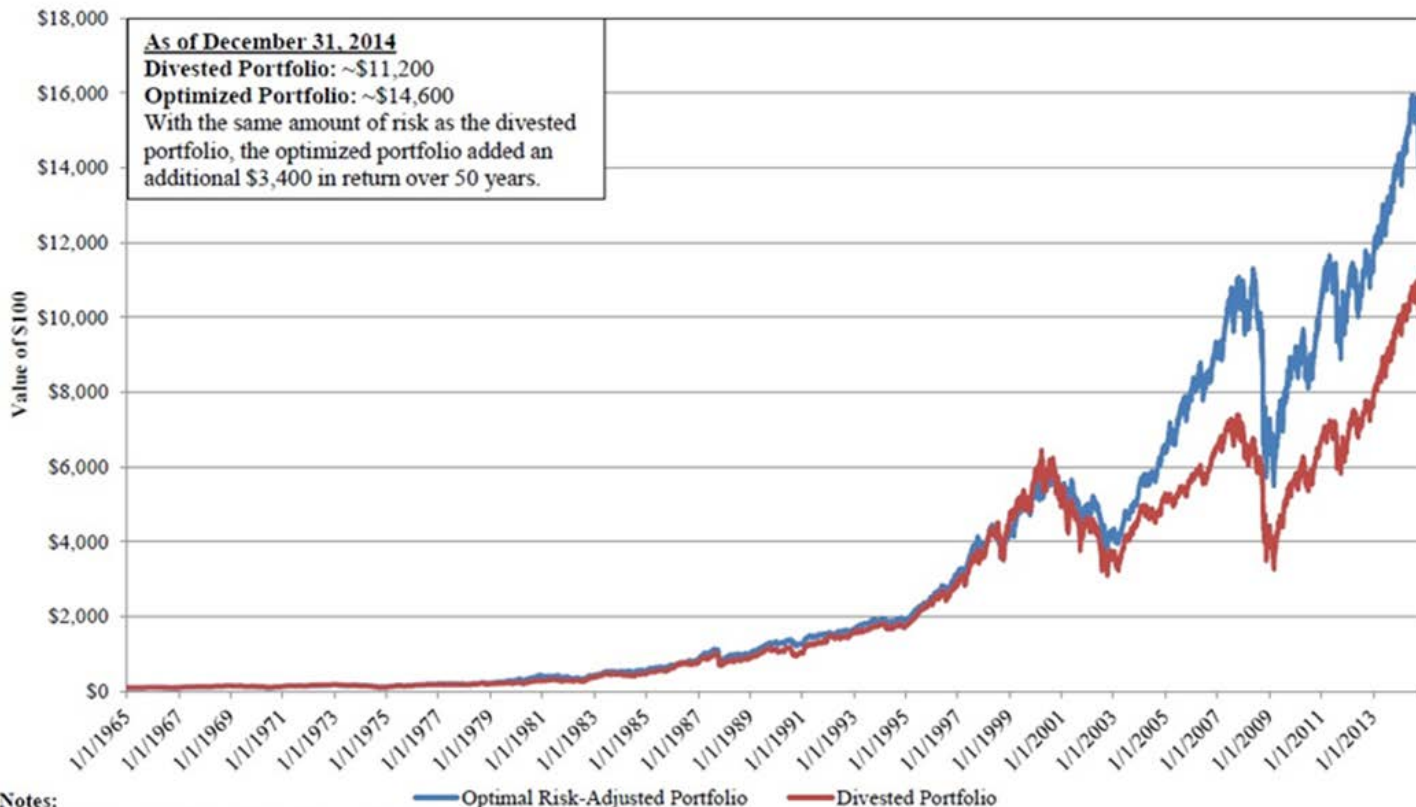
“Every state employee should have full faith and confidence that their retirement funds are being invested for maximum growth and not being used to promote a political agenda.”

- Lee Schalk in *Bloomberg* (4/7/22)

New ALEC Model Policy



Optimal Risk-Adjust Portfolio vs Divested Portfolio, 1965-2014

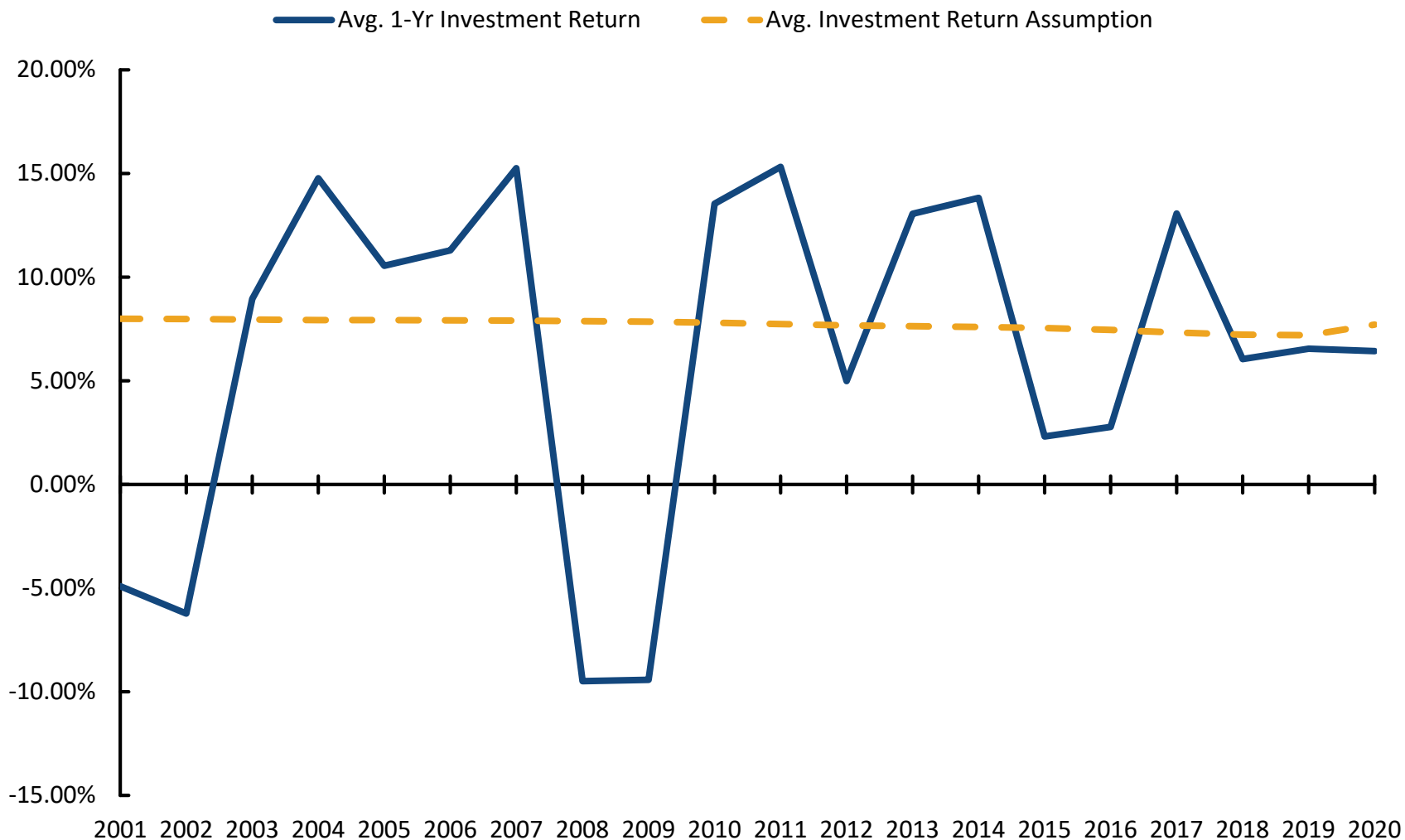


Notes:

- [1] The indices are value-weighted by market capitalization.
- [2] The Optimal Risk-Adjusted Portfolio is comprised of the energy index and 1-month Treasury bill, optimized by matching the standard deviation of the Divested Portfolio.
- [3] The Divested Portfolio is comprised of only the non-energy index.

Sources: CRSP; Kenneth R. French.

Assumed vs. Annual Rates of Return



Jonathan Williams
Chief Economist
Executive Vice President, Policy

Email: JWilliams@alec.org

Twitter: [@TaxEconomist](https://twitter.com/TaxEconomist)

