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NEW HORIZONS FOR PENSION FUND INVESTMENTS?

Late in 1979 the 13th AFL-CIO Convention adopted a recommendation of the AFL-CIO Executive Council calling for the continuation of efforts to gain greater union influence over the investment of negotiated pension funds. The resolution also called for an examination of the reported misuse of pension funds, through investments which undermine the economic and social interests of workers.

In May of this year, the Industrial Union Department of the AFL-CIO issued its "Report on Benefit Fund Investment Policies," which was followed in August by the "AFL-CIO Pension Fund Investment Study," prepared for the Executive Council of the AFL-CIO.

Significant Findings of the Reports

Both reports survey the awesome parameters of pension fund investment power in U.S. Capital markets, and conclude that total pension fund assets are 565 billion or greater, and increasing at a rate of 10% a year or greater. Government plans (federal, state, and local) represent 40% of total fund assets. The other 60%, in the private sector, may be legally administered by company and union together; however, only a fraction of the assets of private sector funds are actually subject to joint control. The IUD report estimates only 35-50 billion; the AFL-CIO report estimates as high as 92 billion. Both reports agree that the beneficiaries of these funds only rarely enjoy input investment decision making that profoundly affects their interests.

Both reports also include important surveys of investment practices and policies now in effect among union affiliates, and incorporate the following conclusions:

.....most pension funds are controlled by employers or their hired managers, and the assets of such funds are often invested in a manner at odds with the immediate and long range interests of the employees for whose benefit the funds were established.....

.....the assets of the funds are being used to take away jobs of employees in this country; large portions of these assets are used not only to furnish capital to build foreign plants, but also to finance companies who follow anti-union practices.....

.....the rate of return on company-controlled investments over the last decade has not only lagged behind the inflation rate and average stock market yields, but has been less than the interest rate on savings accounts.....

.....unions can, at this time, take a number of significant steps to make benefit fund management more responsive to the overall needs of covered employees.....

Significant Recommendations of the Reports

IUD: Gaining Union Leverage.....the IUD report urges affiliates to use the collective bargaining process to obtain as much of a voice as possible in the management of benefit funds established for union members. The first goal should be joint administration. But short of achieving that, the affiliate is urged to obtain from the employer the right to participate in important decisions, including (a) the selection of fund trustees, (b) the selection of investment managers and counselors, (e) the determination of the fund's general investment policy, and (d) the exercise of voting rights attached to stock owned by the fund.

IUD Investment Objectives.....positive guidelines for investment include funding for mortgages and other investments that promote the development of communities in which fund beneficiaries work and live; investment in firms with domestic rather than foreign workforces; investment in firms that have good labor relations records. The IUD also urges a vigilant regard for avoiding potential conflicts of interest among employers and investment managers--and the IUD study notes how frequently these conflicts occur in practice.

AFL-CIO Approach.....this study led to the following kinds of similar but more general recommendations, which were adopted by the AFL-CIO Executive Council last August. First, the major policy objectives of union participation in pension fund management should be (a) to increase employment through reindustrialization in all key sectors necessary to revitalize the economy; (b) to advance social purposes such as worker housing and health centers; (c) to improve the ability of workers to exercise their rights as shareholders; (d) to exlude from union pension plan investment portfolios companies whose policies are hostile to workers' rights.

Implementation.....the AFL-CIO proposes to achieve the employment objective not only by legislation, but also by encouraging more investment in government guaranteed mortgages targeted to increase housing supply and health care and child care and other community facilities--as well as jobs in the building trades. The Executive Committee also plans to develop (a) a mechanism to coordinate the exercise of shareholder rights that come with the equity stocks owned by pension funds; (b) an information system to advise affiliated organizations which companies should be considered unworthy of investment or capital purchase; (c) special national training programs (which have already begun) to assure that trustees, negotiators, union officers and others have the information and the knowledge they need to become responsibly involved in investment policy.

New Urgency for Union Initiative

Both of these reports are concise, easy to read, and remarkably free of the "complication and mystification" syndrome usually confounding all pension issues. Although the reports lead to some dismay over the enormity of the problems involved, they face up directly to the responsibility which belongs to unions to help improve the sorry record of past pension fund investment performance.

While both reports emphasize the requirement of prudent fund management in compliance with the law, both also convey a poignant message: there are no legal or economic "principles" or fundamental truths which lead to definitive guidelines for the union's role in pension fund management, or for an optimal investment strategy to meet the needs of all pension plan participants. Thus, union involvement and experimentation in this area can influence the ways in which both laws and economic alternatives are perceived and interpreted in the design of investment policy and strategy.

Finally, a more sobering conclusion emerges when these reports are considered against the background of the November election, which many interpret as a demand to return to "business-as usual" economics. A kind of investment revolution is required, if the economic needs and interests of working people are ever to be seriously considered by those who now set, unilaterally, all the rules for "allowable" pension fund investing in the United States. It will not occur unless the key international unions, working through their top leadership organizations, can devise and implement both vigorous and courageous new thinking and action focused directly on pension fund investment strategy.

-- Bruce Poyer and Teresa Ghilarducci