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UNIVERSITY OF CALIFORNIA, BERKELEY
CENTER FOR LABOR RESEARCH AND EDUCATION
INSTITUTE OF INDUSTRIAL RELATIONS
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(415) 642-0323

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PENSION FUND INVESTMENTS

(Editor's Note: This is a summary of a longer Research Report with the same title, by Bruce Poyer and Ramon Castellblanch. Copies of the Research Report will be sent free of charge to those readers who request them.)

1. Pension Plans are in Danger

The economic legacy of the 1970s has raised two key questions about the pension plans of both public and private sector workers: First, will the plans be able to pay the benefits promised? Second, will retired workers be able to live on the benefits that are paid?

High rates of inflation and unemployment have had devastating effects on pension plans. So have population changes, because a declining work force is being called upon to support an increasing number of retirees. But it is when these factors are added to the poor record of past pension fund investing, and the underfunding of many plans, that a serious threat emerges to the real value of all pensions promised to all workers in the U.S.

For several reasons, recent concern about pensions has focused on the investment of funds. In the private sector, many union members have become aware that considerable portions of their pension fund assets have been invested in firms such as J. P. Stevens, which have been using these funds while successfully blocking union organizing drives. In the public sector, in cities like New York and Cleveland, a key issue has been whether or not to commit employee pension funds to help these governments avoid "bankruptcy"--a condition which has now become more likely to happen in "tax revolt" states like California.

Union members have been aware for some time that investment capital has shifted to low-wage areas of the country (especially to the less-unionized sun-belt) and to the low-wage overseas operations of conglomerates and multi-national corporations. When pension fund capital is thus shifted, money which is withheld from a worker's wages can be used by someone the worker never heard of to undermine his own wage scale or to destroy his own job. When that happens, the worker usually doesn't even know that it happened.

All of these reasons for concern (and many others) were brought into sharp focus recently in a remarkable book entitled The North Will Rise Again (subtitled Pensions, Politics and Power in the 1980's), by Jeremy Rifkin and Randy Barber (Beacon Press, Boston, 1978). It is available in paperback (BP 585, $4.95). The authors trace the pension fund investment pattern of the past 15 - 20 years, illustrate its often disastrous financial and social consequences, and suggest alternative investment approaches.

2. Improving Investment Policy

Investment policy in public sector pension plans has taken at least four changed directions in recent years. First, a number of major universities (including Harvard, Yale, Stanford, and Wisconsin) have taken active steps to divest pension fund investment in firms doing business in South Africa. Regent John Henning (Executive Secretary of the California Labor Federation) has led the fight--so far unsuccessful--to make the same policy change at the University of California.

Secondly, public sector compared to private sector plans have relied less on the blue chip equity issues of major corporations, and more on government insured loans--not only in housing but also in other federally guaranteed programs.

Third, some states like Kansas and Alabama (to be joined now by Wisconsin) have successfully used pension investment policy to help enhance the general economic climate of the state, or a particular region or local area in the state.

Fourth, there have been efforts in many states (successful in only a few instances) to establish a state bank or loan guaranteeing agency, backed up by taxing or bond-issuing authority, to act like existing federal agencies in guaranteeing or insuring the use of funds deposited by governmental units or by public employee pension funds. Although the California state bank proposal has not yet been voted out of legislative committee, it has been strongly supported by the California Labor Federation.

In the private sector, recent changes in policy also take several directions. First, unofficial discussion with trustees or plan managers usually reveals that "divestment" actions are being taken, and that equivalent investments are gradually being substituted (a) for those which go to firms with heavy involvement in South Africa, and (b) for those which go to well-known anti-union firms.

Secondly, some private sector plans are seeking to provide more services to plan participants or beneficiaries, or to working people generally. This is one goal of the Mortgage Insurance program of the AFL-CIO. Also, the Plumbers and Pipefitters of Southern California have phased out most of their equity investments in order to concentrate on first trust deeds on new construction projects (built with union labor) in the L.A. area. And in the UAW agreement recently reached with Chrysler, the Corporation agreed to place at least 10% of available pension funds annually in "socially desirable" investments. These will be in housing in areas where UAW members live, but they will also be in non-profit nursing homes, nursery schools, and federally qualified Health Maintenance Organizations.

Third, a growing number of private sector plans now allocate funds to investors who utilize service or "social policy" criteria--such as the Third Century Fund of the Dreyfus Corporation, or the Union Labor Life Insurance Company ("J for Jobs" program), or Drexel, Burnham, Lambert ("Union Funds Management for Organized Labor" program).

Fourth, some unions are using pension fund investment policy to bring direct economic pressure to bear either on corporate directors or on institutional investors. Examples are the Amalgamated Clothing Workers in their organizing battle with J. P. Stevens, and the Food and Commercial Workers in their organizing battle with Seattle First National Bank.

3. Conclusion

Thus, there are valid and legal alternative investment approaches that have been tried, and there are many ideas and proposals for new strategies. Even more significant changes in pension fund investment policies must be initiated in the future. The first step in beginning to implement new ideas is to provide trustees, plan participants, and union officials with specifics on the kinds of investment policy proposals they can and should be making. A recent AFL-CIO resolution called on all affiliates to allocate resources to research and develop these specifics. Labor unions and organizations can best begin by joining together to establish a program and a staff to do this job.

EVALUATION: LABOR CENTER REPORTER

Dear Brothers and Sisters:

The answers to the following questions will help the Labor Center Reporter staff determine the needs of labor organizations for economic news and analysis from labor's perspective. Please complete the questionaire and return it to the Labor Center Reporter, Center for Labor Research and Education, 2521 Channing Way, U.C. Berkeley, CA 94720.

PLEASE EVALUATE THE ENCOSED ARITCLES AS IF YOU WERE GOING TO PUBLISH THEM IN YOUR OWN NEWSLETTER FOR DISTRIBUTION TO YOUR OWN MEMBERS. Use the reverse side if additional space is needed:

CONTENT

1. Would you consider these articles timely and interesting to your members?

2. What are your suggestions for topics for future articles?

STYLE AND LENGTH

1. Are these articles too long? too short? about right?

2. Are the articles too general? too technical? too academic?

3. What are your comments or suggestions for improvements?

OVERALL

1. Do you distribute a newsletter or other publication to your membership?

2. If so, would you incorporate one or more of these articles in your publication?

3. If not, why not?

Yours very truly,

Board of Editors, Labor Center Reporter