Value over Values: Evidence from State Pension Funds

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Abstract: This paper uses newly available data to systematically analyze the financial and ideological determinants of voting by pension funds in corporate governance. For shareholder meetings held after July 2023, a new regulatory mandate requires pension funds to disclose their voting decisions for executive compensation issues. We use the first batch of regulatory filings from public pension funds to reveal a striking partisan gap in the decision to vote against management on executive compensation issues. Democratic-run pension funds are approximately five percentage points more likely to vote against management, but their decision to do so does not seem to be driven by the financial performance of the firm. Instead, Democratic-run funds seem to be influenced by proxy advisor recommendations and the magnitude of CEO compensation. On the other hand, funds from Republican states that have been most vocal about corporate governance issues or passed laws forbidding their pension funds from considering environmental, social, and governance (ESG) factors base their executive compensation votes on firm performance and are less reliant on proxy advisor recommendations or the magnitude of CEO compensation. Finally, we use the disclosures' novel data on share lending to find that funds with worse financial support are more likely to lend out their shares.

JEL classification: G34, G38, H75, K22, M14

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1. Introduction

> Public pension funds face distinctive investment conflicts that limit the benefits of their activism. Public fund managers must navigate carefully around the shoals of considerable political pressure to temper investment policies with local considerations, such as fostering in-state employment, which are not aimed at maximizing the value of their portfolios' assets.
>
> —Romano (1993)

Whose interests do public pension funds serve? On the one hand, they have a fiduciary duty to maximize value for the pension fund participants whose retirement savings they invest. On the other, they can use their considerable ownership stakes to pressure management at portfolio firms to change governance practices or become more or less favorable to environmental, social, and governance (ESG) issues. The tension between these objectives, and the best way for public pension funds to resolve them, has been the object of considerable scholarly debate (Andonov et al. 2018, Anzia and Moe 2019, Fisch and Schwartz 2023, Romano 1993). This paper uses new data to shed light on public pension fund involvement in corporate governance.

We exploit the first set of filings pursuant to a recent Securities and Exchange Commission (SEC) rule change obliging public pension funds to disclose how they voted on say-on-pay (SOP) proposals on executive compensation. Executive compensation is one of the most controversial topics in corporate governance, and "excessive" compensation has drawn the ire of public pension funds. As You Sow, a nonprofit group focusing on corporate social responsibility, reported that public pension funds voted against 100 "overpaid" chief executive officers (CEOs).[1] In one high-

[1] See https://www.asyousow.org/report-page/the-100-most-overpaid-ceos-2020#voting-practices-pension.

profile example, the California pension fund CalPERS opposed Tesla CEO Elon Musk's pay package, calling it "excessive" and "at odds with CalPERS' longstanding views on executive pay."[2]

The data provides important new information about the role of public pension funds in corporate governance. Voting has traditionally been seen as the primary mechanism for shareholders to hold management accountable (Easterbrook and Fischel 1983, Levit et al. 2024), but intermediaries such as public pension funds are obligated to exercise their voting rights to maximize value for their clients—the pension plan participants (Schanzenbach and Sitkoff 2020, Webber 2014). However, we document that partisanship might influence funds' ability to satisfy this legal duty to maximize value. Democratic-run public pension funds are significantly more likely to vote against management on SOP proposals. However, their opposition does not seem to be dictated by the financial performance of portfolio companies. Instead, Democratic pension funds seem to be influenced by proxy advisor recommendations and the size of the CEO pay package in voting against management. On the other hand, the data suggests that pension funds from Florida and Texas—the two Republican states most vocal about issues in corporate governance—base their SOP votes on the actual performance of portfolio firms and are less concerned about proxy advisor recommendations or the gross size of the CEO pay package.

We also analyze the new disclosures' data on share lending by public pension funds. We find that funds with worse funding ratios are markedly more likely to lend out their shares. This is unsurprising, because these funds presumably need to raise money through activities such as share lending. However, high levels of share lending may dilute the influence of public pension funds and reduce the scope of their activism in corporate governance. We do not find any noticeable political valence to the prevalence of share lending.

[2] See https://www.calpers.ca.gov/page/newsroom/calpers-news/2024/calpers-to-vote-against-tesla-ceo-multibillion-dollar-pay-package.

Our paper makes three contributions to the literature. First, it adds to work on the political economy of public pension fund involvement in corporate governance. We add an empirical element to the mostly theoretical work on the political pressures facing public pension funds (Fisch and Schwartz 2023, Romano 1993). Our work is most closely related to Andonov et al. (2018), who show that pension funds with more political representation on the board demonstrate inferior financial performance in their private equity investments. This paper adds to the literature by providing insights into the *voting* decisions made by pension funds, over which they have absolute control, as opposed to financial returns at portfolio firms, which could be driven by unrelated factors.[3] Moreover, unlike the previous work in this literature, we ground our analysis in the increasing polarization between the Democratic and Republican parties in the United States, and find that partisan affiliation is potentially a first-order driver of public pension fund behavior.

Second, our paper contributes to work on the role of proxy advisors in institutional investor voting. Proxy advisors occupy a highly controversial position in contemporary corporate governance, being criticized for excessive concentration in the proxy advisory industry, conflicts of interest for advisors, and ideological bias (Bolton et al. 2020, Levit and Tsoy 2022, Shu 2024). Institutional investors, in turn, have been shown to follow the recommendations of proxy advisors, not exercising their own judgment regarding a given proposal (Larcker et al. 2015). We show, in the public pension fund context, that proxy advisor recommendations do wield considerable influence. However, this influence is ideologically asymmetrical: Democratic-aligned funds vote as though they are influenced by proxy advisors, but Republican-run ones are not. This is consistent with the real-world political economy of the proxy advisory industry, which has been under attack from

[3] Duan et al. (2021) claim that public pension funds are more likely to vote with activist shareholders than mutual funds. However, they do not have access to our comprehensive dataset on actual public pension fund votes, because their sample pre-dates the SEC rule change studied in our paper. Instead, they rely on a private data source that in turn uses Freedom of Information Act (FOIA) requests to get voting data. Therefore, their analysis only uses an incomplete and relatively unreliable set of public pension fund votes. Moreover, unlike this paper, they do not study how public pension funds balance financial and political considerations in SOP votes.

Republican Party politicians for its alleged ideological bias on issues such as climate change (Wall Street Journal 2023).

Finally, this paper's analysis of novel data on share lending adds to longstanding work about "empty voting." This work has mostly focused on the incentives of hedge funds and been mixed in its assessment of the desirability of voting decoupled from share ownership. While some previous work asserts that empty voting can increase market efficiency (Brav and Matthews 2011), others have highlighted possible perverse outcomes from empty voting and recommended regulations to curb the practice (Hu and Black 2006, Hu and Black 2007). Our contribution lies in showing that the prevalence of empty voting is partially driven by fiscal (ir)responsibility in the public pension fund context: these funds are more likely to lend shares if they are in a relatively worse financial position, as proxied by a lower pension funding ratio.

The rest of this paper proceeds as follows. Section 2 details the institutional background for public pension fund involvement in corporate governance and builds intuition for why partisan affiliation may affect how the funds vote on executive compensation. It explains the impact of the 2022 SEC rule change on public pension fund disclosure of their SOP votes. Section 3 describes the data used in the paper and presents summary statistics. Section 4 presents the main empirical results, documenting a partisan difference in public pension fund voting on SOP proposals and exploring the role of financial returns, proxy advisor influence, and the size of the CEO pay package in explaining this partisan divide. Section 5 contains our analysis of the novel share lending data and shows that the prevalence of share lending is associated with interstate variation in the fiscal robustness of public pension funds. Section 6 discusses the implications of our results for corporate governance research, and section 7 concludes the paper.

2. Institutional Background

As of 2023, the largest public pension funds collectively held defined benefit plan assets of almost $5 trillion. Of this, 43.6% of these assets were invested in public equities.[4] These funds thus have a considerable ownership interest in the public equity markets and could potentially embarrass management by voting against it on proposals relating to issues such as executive compensation. Beyond voting, public pension funds can also engage with portfolio firm management to express their opinions about corporate governance issues. While much of the literature on engagement has focused on the Big Three asset managers (Aggarwal et al. 2023), public pension funds also engage with portfolio firms. For example, CalPERS publicly states that it engages with firm management on issues including board diversity, climate risk, and executive compensation.[5]

Finally, and most adversarial, public pension funds often act as lead plaintiffs in securities class actions against portfolio firms. Congress, as part of the 1995 Private Securities Litigation Reform Act (PSLRA), created the presumption that a class member with the largest financial interest in the lawsuit would act as the lead plaintiff. As Congress intended, this dramatically increased public pension funds' involvement as lead plaintiffs in securities class actions. Public pension funds are generally superior monitors of plaintiff's attorneys, paying lower attorney's fees as lead plaintiffs (Choi et al. 2011).

Public pension funds hence exert notable influence through traditional processes of shareholder rights: ownership, engagement, and litigation. Motivating our analysis, political considerations influence each of these three axes of public pension fund involvement in corporate governance. Starting with ownership, the Chicago Teachers' Pension Fund voted in 2022 to completely divest its $350 million investment in fossil fuels by 2027.[6] In stark contrast, a 2021 Texas

[4] See https://www.nasra.org/publicfundsurvey.
[5] See https://www.calpers.ca.gov/page/investments/corporate-governance/corporate-engagement.
[6] See https://www.chicagobusiness.com/crains-forum-state-esg/esg-investing-backlash-spills-across-political-divide.

law requires that state's pension funds to divest actively or passively managed investment funds that boycott fossil fuel companies (Rajgopal et al. 2024). Thus, the political leanings of the pension fund's home state affect the kinds of companies comprising its portfolio.

Turning to engagement, public pension funds in Democratic-leaning states explicitly incorporate ESG issues with a political valence into their engagement strategy. For example, CalPERS states that it engages with portfolio firm management on issues of board diversity and climate risk.[7] On the other hand, a 2023 state law mandates that the Retirement System Investment Commission, which makes investment decisions for the South Carolina Retirement System, may only engage with a portfolio firm based on pecuniary considerations, and not consider ESG factors.[8] Therefore, while Democratic-leaning pension funds explicitly incorporate ESG factors with political valence into their engagement strategy, Republican pension funds are being prohibited from doing so.

Finally, political factors affect public pension funds' role as lead plaintiffs in securities class actions. While these funds are usually better than other lead plaintiffs in monitoring plaintiff's lawyers, this monitoring breaks down when the attorneys are political donors. Choi et al. (2011) show that public pension funds pay higher attorney's fees to attorneys who make campaign contributions to the officials managing the fund. They conclude that this "pay to play" between state pension funds and plaintiff's attorneys undermines Congress's legislative intent to make sure that public pension funds act as superior monitors of lawyers.

Politics thus affects ownership, engagement, and litigation by public pension funds. But what about voting? Current work does not provide a coherent view of the determinants of public pension fund voting in corporate governance, because these funds were not historically obligated to disclose

[7] See https://www.calpers.ca.gov/docs/proxy-voting-guidelines.pdf.
[8] See https://www.ropesgray.com/en/insights/alerts/2024/06/the-state-of-state-esg-activity-as-an-election-looms-a-mid-year-review. The statutory text is codified at Section 9-16-30(G) of the South Carolina Code.

their votes in a standardized or machine-readable format. This changed in 2022, when the SEC adopted a rule change to "newly require institutional investment managers to disclose how they voted on executive compensation, or so-called 'say-on-pay' matters."[9] For the first time, public pension funds were mandated to use Form N-PX to report how they voted on SOP issues for any security where they either had the ability to vote, or the authority to recall shares they had previously loaned out before the vote (Committee on Federal Regulation of Securities 2023: 893–95). Thus, starting with 2023, public pension funds' Form N-PX can tell us how these funds voted on SOP issues, as well as what fraction of shares they voted versus loaned out.

The new regulatorily mandated disclosures on public pension funds' SOP votes provide an appropriate environment for studying the political economy of these funds' voting decisions. SOP has been an issue on which Democratic and Republican policymakers have strongly disagreed. Virtually all major SOP regulations have been adopted on a strict party-line basis: both the original 2011 rule mandating SOP disclosures as well as the 2022 rule change that is the subject of our paper were passed with a 3–2 vote, with both Republican commissioners dissenting. In both cases, the Republican commissioners cited the compliance costs of SOP disclosures in opposing the SEC's rulemaking.[10] More broadly, from the city to the presidential levels, all major efforts to curb CEO pay in recent years have emerged from the Democratic side. While Republicans do not necessarily condone high CEO pay packages, they do not display comparable fervor to reduce executive compensation. Indeed, the Republican Party's generally pro-business and deregulatory policy platform cuts against efforts to regulate CEO pay.[11]

[9] See https://www.sec.gov/newsroom/press-releases/2022-198.
[10] See https://www.plansponsor.com/sec-adopts-say-on-pay-rules/; https://www.sec.gov/newsroom/speeches-statements/uyeda-statement-amendments-form-npx-110222.
[11] See https://variety.com/2019/politics/features/democrats-ceo-pay-packages-1203201674/.

This section's overview of the political economy of public pension fund ownership, engagement, and litigation, and the general political valence of SOP issues in the United States, builds intuition for what we may hypothesize about the new N-PX data. Broadly speaking, one would expect Democratic-run funds to be more likely to vote against management on SOP issues, given their ideological opposition to executive pay. This would especially be the case for companies with CEOs receiving large pay packages. Less clear is the relationship between portfolio firm performance and pension funds' ideological biases on SOP issues. On the one hand, one may expect that Democratic-leaning funds would temper their opposition to high executive pay if the portfolio firm delivers value for shareholders. On the other, their ideological bias may make them more likely to vote against management on SOP regardless of financial performance. Thus, it is empirically unclear whether portfolio firm performance mediates ideological voting by public pension funds.

3. Data and Summary Statistics

A significant contribution of this paper is to assemble the first comprehensive dataset on public pension fund voting on executive compensation SOP issues. Using the first batch of N-PX filings complying with the SEC's new rule from 2023, we collect data on two variables of interest: public pension funds' votes on SOP issues, and their disclosures regarding share lending. Table 1 lists the 20 public pension funds for which we were able to find these new N-PX disclosures in the SEC's Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system. We code for whether the fund voted against management on an SOP issue. We also compute the ratio of shares loaned out by public pension funds to the number of shares they voted. This ratio is a proxy for the extent of share lending by the funds.

Since we are interested in the political factors affecting pension fund voting, we code an indicator *Democrat*, equaling 1 if the governor of the state is a Democrat. We focus on the governor's affiliation to code this variable for two reasons. First, governors have wide latitude in setting policy

for public pension funds. Across U.S. states, governors appoint nominees to pension fund boards (Shnitser 2014), who can implement their vision through the fund's activities. The "anti-woke" stance of Florida state pension funds, for instance, has been attributed to the strong political interest in the subject by Governor Ron DeSantis (Weinberg 2022). Second, the governor's partisan affiliation is a strong proxy for the overall political sentiment or culture of the state, given that she is elected by the popular vote of the state's entire electorate. As an alternative measure of a state's political sentiment, we code a binary variable *Anti-ESG Statute*, which equals 1 if the state had enacted a statute prohibiting ESG considerations by its pension funds as of 2023. We collect the information about anti-ESG legislation from the live ESG tracker maintained by Pleiades Strategy.[12]

Next, we compute different financial and governance variables that may explain the funds' voting decisions. We measure the financial performance of the portfolio companies using total shareholder return (TSR) over the preceding one- or three-year period from Compustat. Since funds may fixate on the absolute magnitude of the CEO pay package, we compute CEO compensation as the natural logarithm of the *TDC1* variable from Execucomp. Finally, we collect data for proxy advisor recommendations. As one of us has explained in the business press, proxy advisors have stopped making their recommendations available to academic researchers.[13] We therefore use *imputed* Institutional Shareholder Services (ISS)and Glass Lewis recommendations from Zytnick (2024), which have a reported accuracy rate of about 99%, using his cross-walk between the imputed recommendations and the SOP proposals in our sample. We create a dummy variable *Proxy Advisor Against* if, based on this imputed data, either ISS or Glass Lewis recommended that shareholders vote against management on the SOP proposal.

[12] See https://www.pleiadesstrategy.com/pleiades-anti-esg-bill-tracker-state-legislation-attacks-on-responsible-investing.
[13] See https://www.forbes.com/sites/shivaramrajgopal/2024/02/11/why-dont-corporate-monitors-notice-when-key-data-items-from-capital-market-datasets-vanish/.

Finally, to capture the fiscal health of pension funds, we calculate the funding ratio (plan assets divided by liabilities) for each of the plans in our sample. We obtain this data from Public Plans Data, maintained by the Center for Retirement Research at Boston College.[14] Table 2 presents the definitions of all variables used in our empirical analysis. To ensure that our results are not driven by outliers, we winsorize continuous variables at the 2.5% level at each tail.

4. The Partisan Gap in Public Pension Fund Voting

We examine the political, financial, and governance factors that correlate with a public pension fund's decision to vote against management on SOP issues. We estimate cross-sectional regressions where the dependent variable is a dummy equaling 1 if the fund voted against management. We include portfolio firm fixed effects to absorb idiosyncratic factors specific to that company, and cluster the standard errors at the portfolio firm level. Note that we cannot include year fixed effects, because we are analyzing the very first set of disclosures, and thus have just one Form N-PX per pension fund. We emphasize that the data does not allow us to make causal claims about public pension fund behavior. However, we believe that the novelty of data compiling actual votes by funds allows us to document important new facts about the political economy of public pension fund behavior.

Table 3 presents the plan-wise incidence of pension funds voting against management on SOP proposals, as reported in the new Form N-PX. There is sizable variation in the prevalence of votes against management between public pension funds, ranging from 1.2% for Utah Retirement Systems to 52.1% for the Florida Retirement System. To get a broad estimate of the correlation between partisan affiliation and SOP votes, we regress the dummy for voting against management against the *Democrat* binary variable, controlling for portfolio firm fixed effects and clustering standard errors at the portfolio firm level. The result from this univariate regression shows that Democratic-aligned

[14] See https://publicplansdata.org/about/our-research/.

funds are 4.78 percentage points more likely to vote against management. The coefficient for *Democrat* is highly statistically significant ($p<0.01$).

Table 4 presents the results from regressing the dummy for voting against management on SOP against proxies for the state's partisan lean interacted with lagged TSR (total shareholder returns for the firm). Columns (1) and (2) show that Democratic-leaning funds are about four percentage points more likely to vote against management. However, the interaction term between *Democrat* and TSR does not have a statistically significant coefficient. Thus, Democratic-run funds do not seem to base their SOP votes on shareholder value considerations at least in the context of this finding. In columns (3) and (4), we repeat the analysis replacing *Democrat* with an indicator for whether the fund is from Florida or Texas, the two states recently most vocal about basing state pension fund decisions solely on pecuniary considerations. While these states are generally 14.6 percentage points more likely to vote against management, they become more pro-management if the portfolio firm demonstrated superior financial returns. A one-standard-deviation increase in one-year TSR is associated with a 2.4 percentage point decrease in the probability that a Florida or Texas fund votes against management on SOP. This initial evidence from public pension fund voting shows that Florida and Texas pension funds seem vote in a manner consistent with their value-centric rhetoric.

In Table 5, we re-run the preceding analysis, replacing TSR with the absolute size of CEO compensation, as proxied by the natural logarithm of *TDC1* for CEOs. The results provide a snapshot into partisan differences in attitudes toward large CEO pay packages. The interaction between CEO pay and *Democrat* is positive and statistically significant. This implies that Democratic funds penalize large CEO pay packages when voting on SOP proposals. On the other hand, the interaction between Florida or Texas funds and CEO pay is negative and significant, indicating that these funds become less likely to vote against management when CEO packages are larger.

Combined with the results from Table 4, this indicates that Republican state pension funds prioritize shareholder value in deciding SOP votes, even if it means approving larger CEO pay packages.

Next, we use *Anti-ESG Statute* as a measure of state partisan leaning instead of *Democrat*. Simply regressing the dummy for voting against management on SOP against *Anti-ESG Statute*, including portfolio firm fixed effects and clustering errors at portfolio firm level as before, shows that funds from states with anti-ESG statutes are 3.25 percentage points less likely to vote against management on these issues. This is consistent with the earlier finding that Democratic-leaning funds are more likely to vote against management, because a state having such an anti-ESG statute is far more likely to be Republican. The correlation between *Democrat* and *Anti-ESG Statute* is –0.9.

Table 6 explores how pension funds from states that have adopted anti-ESG statutes modify their approach to SOP votes based on shareholder value and the size of the CEO pay package. Consistent with Tables 4 and 5, we find that funds from anti-ESG states are less likely to vote against management if the portfolio firm has superior financial performance, and that these funds are willing to tolerate large CEO packages so long as the firm is delivering returns. The consistency in the results after using *Anti-ESG Statute* suggests that Republican states as a whole focus on pecuniary shareholder value when voting, and this phenomenon is not limited to prominent examples like Florida or Texas.

As a final exercise in excavating the drivers of partisan differences in public pension fund votes on executive compensation, we interact *Democrat* with an indicator for whether ISS or Glass Lewis recommended that shareholders vote against management on the given SOP proposal. Given the left-leaning political economy of the proxy advisory industry described in section 2, we would expect that Democratic-leaning funds would be more likely to outsource their voting decisions to proxy advisors. Table 7 presents the results of this analysis. Consistent with our intuition, column (1) shows that Democratic-leaning funds are more likely to vote against management on SOP issues if

ISS or Glass Lewis recommended that they do so, given the positive and significant coefficient for the interaction between *Democrat* and *Proxy Advisor Against*. Column (2), on the other hand, shows that funds from Florida or Texas do not become more or less likely to vote against management based on proxy advisor recommendations to do so. Finally, column (3) is a mirror image of column (1): the interaction between *Anti-ESG Statute* and *Proxy Advisor Against* is negative and significant. This indicates that funds from states with anti-ESG laws (which are overwhelmingly Republican dominated) are *less* likely to vote against management if the proxy advisors recommend that they do so.

5. Understanding Share Lending

The recent changes to Form N-PX allows us to investigate the prevalence of share lending by public pension funds in a systematic manner. As explained in section 1, previous work has come to differing conclusions about the desirability of "empty voting," where the exercise of shareholder voting rights is decoupled from actual ownership. We do not make any normative judgments about empty voting in this paper. However, we can analyze how some public pension funds (and not others) become lenders of shares used in empty voting. Commissioner Mark Uyeda of the SEC, a Republican, specifically criticized making institutional investment managers disclose share lending, citing compliance costs. He also stated that funds could be incentivized to curtail securities lending if forced to reveal the number of shares loaned, to look more "responsible."[15]

Table 8 lists the ratio of shares loaned to shares voted by different public pension funds in our sample. There is great variation between different pension funds. While Alaska's pension fund has the lowest ratio, of 1.73, Wyoming has the highest, with loaned shares being over 735 times as many as shares voted. The striking takeaway from Table 8 is the extent of share lending at U.S. state

[15] See https://www.sec.gov/newsroom/speeches-statements/uyeda-statement-amendments-form-npx-110222.

pension funds: each pension fund loans far more shares than it votes, diluting its voice in the corporate governance of portfolio firms.

Table 9 presents the results of a regression analysis where we take this ratio of loaned to voted shares as the dependent variable, continuing to apply portfolio firm fixed effects and clustering standard errors at the portfolio firm level. At first, in column (1), we regress the share lending ratio against *Democrat* and observe a positive and statistically significant coefficient. This suggests that there may be a political valence to share lending by public pension funds too. However, in column (2), we add an interaction between *Democrat* and the pension plan funding ratio. Unsurprisingly, funding ratio has a negative and statistically significant coefficient, indicating that better funded pension plans are less likely to lend their shares. None of the variables including *Democrat* have significant coefficients.

Therefore, the fiscal health of pension plans seems to explain share lending better than their partisan affiliation. In our view, this weighs against the concern alluded to by Commissioner Uyeda that funds could be pressured into curtailing share lending to appear more "responsible." Our results are most consistent with public pension funds engaging in share lending to raise revenue to plug holes in pension plan funding. Given the long-running nature of such fiscal challenges to state and local pensions (Giesecke and Rauh 2023), it is unlikely that incremental short-term pressure arising from disclosures would alter public pension funds' share lending policies.

6. Discussion

Our paper is primarily concerned with a novel descriptive account of the interplay between political and financial factors in explaining how public pension funds vote on SOP proposals. We do not claim to ascertain which pension fund is "better" at deciding how to vote on these issues, because there is no ex-ante answer to what the correct vote on any given proposal is. However, we think our finding that some pension funds, especially ones from Democratic-leaning areas, seem to

prioritize ideological opposition to executive pay over shareholder return is normatively troubling and raises serious legal issues. While the details of the legal regime governing public pension funds are complex, state and local pension funds generally have a strict fiduciary duty to maximize the economic interests of the pension plan, and to not consider non-economic factors.

Most state statutes have borrowed the fiduciary duty standards from the federal Employee Retirement Income Security Act of 1974 (ERISA). While ERISA does not technically apply to state pensions, this borrowing of statutory language and legal concepts from the federal regime means that, in practice, regulations and case law pertaining to ERISA is persuasive or even binding legal precedent when applied to the functioning of state pension funds (Webber 2014: 2119–21). ERISA guidelines are very explicit about what pension funds can and cannot do. Section 404 of ERISA puts forth the exclusive purpose rule: "a fiduciary shall discharge his duties with respect to a plan solely in the interest of the participants and beneficiaries and (A) for the exclusive purpose of (i) providing benefits to participants and their beneficiaries; and (ii) defraying reasonable expenses of the plan." The Department of Labor interpreted this statutory provision in 2008 to mean that "ERISA . . . establishes a clear rule that . . . fiduciaries may never subordinate the economic interests of the plan to unrelated objectives, and may not select investments on the basis of any factor outside the economic interest of the plan except in very limited circumstances" (Webber 2014: 2122–25).

Given that ERISA's exclusive purpose rule is persuasive or binding legal precedent for state pension funds, we believe that these funds' potential use of political or ideological opposition to executive compensation is incompatible with their fiduciary duties. The results in section 4 show that Democratic-leaning funds appear to prioritize proxy advisor recommendations, and the absolute size of CEO pay packages over shareholder return, as measured by TSR. The lack of correlation between Democratic-leaning funds' voting choices and TSR, when compared to the seemingly TSR-driven decisions of Republican-leaning funds, call into question whether

Democratic-run funds are using non-economic factors in their decision-making. We do not claim to prove that any funds have violated legal duties. However, we believe that the absence of any correlation between public pension fund voting and TSR at least raises questions related to whether the fund abides by the exclusive purpose rule.[16]

Our finding regarding the partisan asymmetry in responsiveness to proxy advisor recommendations is consistent with the political tenor of recent controversies regarding the proxy advisory industry. On September 19, 2024, the Republican-controlled House of Representatives passed the Protecting Americans' Retirement Savings from Politics Act, which had several provisions specifically attacking proxy advisors. The bill requires proxy advisors to register with the SEC and make disclosures, which would significantly increase compliance costs for ISS and Glass Lewis. Moreover, the legislation asked the SEC to study "whether regulations and financial incentives have created and protected the outsized influence of proxy advisors or a duopoly in proxy advice, and if so, what are the benefits and costs of that outsized influence or duopoly."[17]

While the bill has not yet passed the Senate or been signed into law, the Republican victory in the 2024 presidential election has increased the prospect that proxy advisors will face heightened legal scrutiny with Republicans controlling both the executive and legislative branches of the federal government. Our results, showing that proxy advisors appear to wield significant influence over public pension funds controlled by Democrats but not those run by Republicans, reinforce the notion that there is a partisan divide in receptivity to these advisors' recommendations. The role of

[16] Democratic-leaning pension funds may argue that their focus on large CEO pay packages is proof that they are advancing their beneficiaries' pecuniary interests. After all, a larger CEO pay package means less is left over for shareholders as residual claimants to the portfolio firm's cash flows. However, we do not find this argument persuasive. CEOs are, at least in theory, awarded larger compensation packages if they deliver more value for shareholders (Jensen and Murphy 1990). Thus, larger portfolio firm CEO pay may be *positively* correlated with the welfare of pension plan beneficiaries. Moreover, CEO pay is a small percentage of firm value (Edmans et al. 2023). We do not think it is plausible that a fund focused on value for its beneficiaries would account for CEO pay, a small portion of firm value and an imperfect proxy for shareholder welfare, while ignoring TSR.

[17] See https://www.congress.gov/118/bills/hr4767/BILLS-118hr4767rh.xml.

ISS and Glass Lewis will be scrutinized further by the new Republican administration that took office in January 2025. The sponsor of the House bill, Representative Bryan Steil (Republican of Wisconsin), asserted that ""proxy advisors have pushed professional investors to vote contrary to retirement savers' economic interests. . . pension funds . . . should be focused on securing your retirement, not advancing their political agenda."[18] Our results should be seen in the light of these ongoing debates about whether proxy advisory recommendations stifle pension funds' ability to maximize value for their pension plan participants.

Finally, our analysis of the new share lending data shows that pension funds seem to loan shares because of deeper structural issues with the adequacy of funding for the associated pension plans. While some policymakers were worried that these disclosures would "shame" plans into reducing share loaning to seem more responsible, we believe the long-running and severe nature of state and local pension deficits reduces the prospect of such shaming. We do not have a strong view on the normative desirability of share lending by pension funds and the associated empty voting by the borrowers of these shares.

However, one interpretation of our results could be that the political conflicts clouding public pension fund judgment increase the desirability of these funds loaning shares to entities like hedge funds. Hu and Black (2005: 901) speculate, consistent with this paper's findings, that public pension funds may have political rather than value-enhancing motives. They assert that voting outcomes could be improved if these conflicted institutions lent out their shares to unconflicted actors such as hedge funds, which are laser-focused on shareholder return. While our data does not allow us to analyze the costs or benefits of empty voting, we believe that our results could be read as being consistent with this optimistic interpretation of share lending and empty voting.

7. Conclusion

[18] See https://steil.house.gov/media/press-releases/house-passes-steil-legislation-to-protect-americans-retirement.

This paper uses novel data stemming from a recent regulatory mandate to study the political and financial determinants of public pension fund voting decisions. We document a significant partisan divide in how public pension funds vote on executive compensation. Democratic-leaning funds are almost five percentage points more likely to vote against management on SOP proposals. This is consistent with the Democrats' ideological opposition to "excessive" executive compensation. Democrats prioritize proxy advisor recommendations, and the gross size of the CEO's pay package over shareholder value in deciding whether to vote against management. On the other hand, Republican states that have been most vocal about championing shareholder value in corporate governance or have passed anti-ESG legislation prioritize shareholder return over proxy advisor recommendations or the size of the CEO pay package when voting on SOP issues. Republican state pension funds thus chase value, while Democratic funds prioritize ideological or political values. We also document that the prevalence of share lending by public pension funds is driven by the funding of their associated pension plans and does not have a political valence.

The regulatory mandate we study does not compel public pension funds to disclose votes on issues other than SOP proposals. Therefore, we cannot analyze whether these funds display partisan divides on other, potentially more divisive environmental and social issues such as climate change or board diversity. However, our findings establish important facts about the political economy of public pension fund voting in corporate governance. The partisan patterns in our data raise questions about whether some public pension funds rely on non-pecuniary factors in making voting decisions. The findings also stress the increasing politicization of market participants' views of the proxy advisory industry, and the structural public finance origins of share lending by pension funds.

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Table 1

List of State Pension Plan Funds in Sample (with available CIK)

#	Name	CIK
1	Arizona State Retirement System	1558481
2	Arkansas Public Employees Retirement System	720214
3	California Public Employees Retirement Fund	919079
4	Colorado Public Employee Retirement Association-State Division	315297
5	Connecticut State Employees Retirement System	1393645
6	Employees Retirement System of Texas	1398739
7	Employees' Retirement System of Alabama	1593051
8	Employees' Retirement System of the State of Hawaii	900381
9	Firemen's Annuity and Benefit Fund of Chicago	1093112
10	Florida Retirement System	938076
11	Illinois Municipal Retirement Fund	1541910
12	Kansas Public Employees Retirement System	939638
13	Louisiana State Employees' Retirement System	1537191
14	New York State Common Retirement Fund	810265
15	State of New Jersey Common Pension Fund	1483066
16	Wisconsin Retirement System	854157
17	State of Wyoming	1821626
18	California State Teachers' Retirement System	1081019
19	Utah Retirement Systems	1548392
20	Washington State Investment Board	943712

List of Public Pension Funds that have CIKs but no N-PX

#	Name	CIK
1	Michigan State Employees' Retirement System	762152
2	New York State Teachers' Retirement System	314969
3	Ohio Public Employees Retirement System	1007280
4	Ohio State Teachers Retirement System	820478
5	State of Alaska Public Employees' Retirement System	1370102
6	Teacher Retirement System of Texas	796848
7	Teachers' Retirement System of Alabama	1259338
8	Teachers' Retirement System of the State of Kentucky	714142
9	Texas Municipal Retirement System	1998161
10	Missouri State Employees' Retirement System	1074021
11	Oregon Public Employees Retirement Fund	1110885
12	South Carolina Retirement System Group Trust	1822762

Table 2. Definitions

Variable Name	Definition
Voting Against on Say-On-Pay	Indicator whether the pension plan has voted against the Say-On-Pay proposal reported on the N-PX form for 2024.
Democrat	Defined a one if the governor of the state where the state pension plan is affiliated with is a democrat, zero if republican.
FLTX Indicator	Indicator if the state plan is in Florida or in Texas.
TSR (t-1,t)	Total Shareholder Returns one year horizon (2023-2024).
TSR (t-3,t)	Total Shareholder Returns three-year horizon (2021-2024).
CEO Comp	Log(TDC1) from ExecuComp as of 2023.
Loaned Shares/Voted Shares	Ratio of Shares Loaned to Shares Voted reported in N-PX form for each state pension fund's holding.
Funding Ratio	Actuarially Funded Ratio from GASB, sourced from Public Plans Data at https://publicplansdata.org/public-plans-database/download-full-data-set/
Proxy Advisor Against	Indicator equals one if the (imputed) Glass Lewis or ISS recommendation is to vote against management on the SOP proposal, based on Zytnick (2024)
Anti-ESG Statute	Indicator equals one if the state has an anti-ESG statute. Source: Pleiades Tracker Website, https://www.pleiadesstrategy.com/pleiades-anti-esg-bill-tracker-state-legislation-attacks-on-responsible-investing.

Table 3: By-Pension-Plan tabulation of proportion voting against the Say-On-Pay Proposal

This table shows the propensity (linear probability model) of voting against the executive compensation package on the Say-on-Pay annual proxy vote in 2024 for portfolio companies, as regressed on a constant, per each state pension plan in the sample. We include interactions of "democrat" governor indicator (or indicator for Florida and Texas state pension plans) with the log(TDC1) and CEO Pay Slice. Included are portfolio stocks for all state pension funds with available N-PX forms as of December 2024. The control variables are defined in Table 2. Continuous variables are winsorized at 2.5% in each tail. T-statistics based on robust standard errors are displayed in parentheses. The ***, **, and * denote significance at the 1%, 5%, and 10% levels.

Fund	Coefficient Estimate	Coefficient T-stat	Obs.
New York State Teachers' Retirement System	0.125***	(16.596)	1,921
Colorado Public Employee Retirement Association-State Division	0.114***	(15.133)	1,780
Michigan State Employees' Retirement System	0.121***	(17.522)	2,231
Teacher Retirement System of Texas	0.165***	(19.106)	1,849
Ohio State Teachers Retirement System	0.145***	(13.285)	1,040
California Public Employees Retirement Fund	0.402***	(28.16)	1,183
Florida Retirement System	0.521***	(52.575)	2,544
Ohio Public Employees Retirement System	0.148***	(21.285)	2,603
State of Alaska Public Employees' Retirement System	0.095***	(12.694)	1,544
Employees Retirement System of Texas	0.105***	(5.275)	237
Illinois Municipal Retirement Fund	0.100***	(11.252)	1,135
Arizona State Retirement System	0.168***	(20.357)	2,055
Employees' Retirement System of Alabama	0.034***	(5.381)	820
Wisconsin Retirement System	0.441***	(45.15)	2,580
New York State Common Retirement Fund	0.263***	(22.433)	1,409
State of New Jersey Common Pension Fund D	0.121***	(16.991)	2,106
State of Wyoming	0.106***	-10.986	1,019
California State Teachers' Retirement System	0.237***	-16.018	827
Utah Retirement Systems	0.012***	-3.626	1,049
Washington State Investment Board	0.181***	-23.337	2,459

Table 4: Likelihood of Voting Against Say-on-Pay and Total Shareholder Returns

This table shows the propensity (linear probability model) of voting against the executive compensation package as part of he Say-on-Pay annual proxy vote in 2024 for portfolio companies. We include interactions of "democrat" indicator (or indicator for Florida and Texas state pension plans) with the one- and three-year total shareholder returns. Included are portfolio stocks for all state pension funds with available N-PX forms as of December 2024. We include firm fixed effect. The control variables are defined in Table 2. Continuous variables are winsorized at 2.5% in each tail. T-statistics are displayed in parentheses. Standard errors are clustered at the firm level. The ***, **, and * denote significance at the 1%, 5%, and 10% levels.

	(1)	(2)	(3)	(4)
	Voting *"Against"* on Say-On-Pay	Voting *"Against"* on Say-On-Pay	Voting *"Against"* on Say-On-Pay	Voting *"Against"* on Say-On-Pay
Democrat	0.038***	0.040***		
	(7.856)	(8.745)		
Democrat * TSR(t-1, t)	0.016			
	(1.302)			
Democrat * TSR(t-3, t)		0.009		
		(1.346)		
Indicator for FL & TX			0.146***	0.146***
			(26.257)	(27.045)
Indicator for FL & TX * TSR (t-1, t)			-0.074***	
			(-5.155)	
Indicator for FL & TX * TSR (t-3, t)				-0.070***
				(-8.775)
Observations	31,492	28,496	31,492	28,496
R-squared	0.456	0.444	0.468	0.457
Firm Fixed Effects	Yes	Yes	Yes	Yes

Table 5: Likelihood of voting against Say-on-Pay and CEO Compensation

This table shows the propensity (linear probability model) of voting "against" the executive compensation package as part of the Say-on-Pay annual proxy vote in 2024 for portfolio companies. We include interactions of "Democrat governor" indicator (or indicator for Florida and Texas state pension plans) with log(TDC1). Included are portfolio stocks for all state pension funds with available N-PX forms as of December 2024. We include a firm fixed effect. The control variables are defined in Table 2. Continuous variables are winsorized at 2.5% in each tail. T-statistics are displayed in parentheses. Standard errors are clustered at the firm level. The ***, **, and * denote significance at the 1%, 5%, and 10% levels.

	(1)	(2)
	Voting *"Against"* on Say-On-Pay	Voting *"Against"* on Say-On-Pay
Democrat	-0.402***	
	(-8.491)	
Democrat * Log TDC1	0.051***	
	(9.357)	
Indicator for FL & TX		0.349***
		(5.805)
Indicator for FL & TX * Log TDC1		-0.026***
		(-3.787)
Observations	23,641	23,641
R-squared	0.418	0.424
Firm Fixed Effects	Yes	Yes

Table 6: Likelihood of voting against Say-on-Pay and State Anti-ESG Statutes

This table shows the propensity (linear probability model) of voting "against" the executive compensation package as part of the Say-on-Pay annual proxy vote in 2024 for portfolio companies. We include interactions of "Anti-ESG Statute" indicator with TSR or log(TDC1). Included are portfolio stocks for all state pension funds with available N-PX forms as of December 2024. We include a firm fixed effect. The control variables are defined in Table 2. Continuous variables are winsorized at 2.5% in each tail. T-statistics are displayed in parentheses. Standard errors are clustered at the firm level. The ***, **, and * denote significance at the 1%, 5%, and 10% levels.

	(1) Likelihood of Voting Against on Say-On-Pay	(2) Likelihood of Voting Against on Say-On-Pay	(3) Likelihood of Voting Against on Say-On-Pay
Anti-ESG Statute	-0.027***	-0.030***	0.414***
	(-5.259)	(-6.171)	(8.462)
Anti-ESG Statute * TSR(t-1, t)	-0.032**		
	(-2.505)		
Anti-ESG Statute * TSR(t-3, t)		-0.012*	
		(-1.931)	
Anti-ESG Statute * Log TDC1			-0.051***
			(-9.100)
Observations	26,358	24,930	20,196
R-squared	0.432	0.423	0.394
Firm Fixed Effects	Yes	Yes	Yes

Table 7: Likelihood of voting against Say-on-Pay and ISS Recommendations

This table shows the propensity (linear probability model) of voting "against" the executive compensation package as part of the Say-on-Pay annual proxy vote in 2024 for portfolio companies. We include interactions of Democrat, FL & TX, or Anti-ESG Statute indicator with a proxy for whether the imputed ISS or Glass Lewis recommendation would be to vote against management on SOP. Included are portfolio stocks for all state pension funds with available N-PX forms as of December 2024. We include a firm fixed effect. The control variables are defined in Table 2. Continuous variables are winsorized at 2.5% in each tail. T-statistics are displayed in parentheses. Standard errors are clustered at the firm level. The ***, **, and * denote significance at the 1%, 5%, and 10% levels.

	(1)	(2)	(3)
	Likelihood of Voting Against on Say-On-Pay	Likelihood of Voting Against on Say-On-Pay	Likelihood of Voting Against on Say-On-Pay
Democrat	0.029***		
	(6.631)		
Democrat * Proxy Advisor Against	0.089***		
	(6.865)		
Indicator for FL & TX		0.129***	
		(21.629)	
Indicator for FL & TX * Proxy Advisor Against		0.018	
		(1.453)	
Anti-ESG Statute			-0.015***
			(-3.652)
Anti-ESG Statute * Proxy Advisor Against			-0.081***
			(-6.573)
Observations	26,359	26,359	26,359
R-squared	0.436	0.445	0.434
Firm Fixed Effects	Yes	Yes	Yes

Table 8: By-Pension-Plan tabulation of share of loaned shares to voted shares by pension funds

This table shows an OLS model of the ratio of loaned shares to voted shares reported in form N-PX for portfolio companies, regressed on a constant, per each state pension plan in the sample. Included are portfolio stocks for all state pension funds with available N-PX forms as of December 2024. Continuous variables are winsorized at 2.5% in each tail. T-statistics based on robust standard errors are displayed in parentheses. The ***, **, and * denote significance at the 1%, 5%, and 10% levels.

Fund	Coefficient Estimate (%)	Coefficient T-stat	Obs.
New York State Teachers' Retirement System	109.214***	(6.981)	1,921
Colorado Public Employee Retirement Association-State Division	7.065***	(3.322)	1,780
Michigan State Employees' Retirement System	329.345***	(16.146)	2,231
Teacher Retirement System of Texas	679.662***	(16.781)	1,849
Ohio State Teachers Retirement System	315.982***	(8.36)	1,040
California Public Employees Retirement Fund	540.489***	(14.625)	1,183
Florida Retirement System	154.066***	(9.277)	2,544
Ohio Public Employees Retirement System	177.782***	(11.329)	2,603
State of Alaska Public Employees' Retirement System	1.726*	(1.674)	1,544
Employees Retirement System of Texas	19.608*	(1.668)	237
Illinois Municipal Retirement Fund	266.859***	(8.116)	1,135
Arizona State Retirement System	304.984***	(11.584)	2,055
Employees' Retirement System of Alabama	218.070***	(7.305)	820
Wisconsin Retirement System	49.756***	(6.485)	2,580
New York State Common Retirement Fund	54.016***	(4.93)	1,409
State of New Jersey Common Pension Fund	664.264***	(20.758)	2,106
State of Wyoming	735.516***	(16.735)	1,019
California State Teachers' Retirement System	86.426***	(3.815)	827
Utah Retirement Systems	18.808**	(1.996)	1,049
Washington State Investment Board	173.711***	(9.683)	2,459

Table 9: Percent shares loaned and state pension plan underfunding

This table shows the OLS model of the ratio of loaned shares to voted shares reported on form N-PX in 2024 for portfolio companies. We include interactions of "democrat" indicator with the latest available funding ratio for the pension fund. Included are portfolio stocks for all state pension funds with available N-PX forms as of December 2024. We include firm fixed effect. The control variables are defined in Table 2. Continuous variables are winsorized at 2.5% in each tail. T-statistics are displayed in parentheses. Standard errors are clustered at the firm level. The ***, **, and * denote significance at the 1%, 5%, and 10% levels.

	(1)	(2)
	Loaned Shares/Voted Shares (in decimal)	Loaned Shares/Voted Shares (in decimal)
Democrat	1.12436***	0.92678
	(10.573)	(1.543)
Funding Ratio		-3.11610***
		(-4.970)
*Democrat * Funding Ratio*		.36650
		(0.495)
Observations	32,243	32,243
R-squared	0.192	0.193
Firm Fixed Effects	Yes	Yes