Received: July 20, 2020
Status: Pending_Post
Tracking No. 1k4-9hx5-liza
Comments Due: July 30, 2020
Submission Type: API

PUBLIC SUBMISSION

Docket: EBSA-2020-0004
Financial Factors in Selecting Plan Investments

Comment On: EBSA-2020-0004-0002
Financial Factors in Selecting Plan Investments

Document: EBSA-2020-0004-DRAFT-0245
Comment on FR Doc # 2020-13705

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General Comment

My name is Logan Albright and I am a professional economist writing in support of the Labor Departments proposed Investment Duties Rule, which would ensure that fund managers prioritize returns to investors over the furthering of any social or political cause they may wish to promote. There are a number of reasons why such a rule is necessary to safeguard the retirement savings of American workers from the whims of activist investors.

If there is any lesson we can draw from the policy failures in health care and other areas, it is that when third parties disrupt the feedback and incentive mechanisms between producers and consumers, market signals become distorted and consumers--or in this case investors--find themselves holding the short end of the stick. Owing to the all-but-inextricable link between employment and retirement savings, many workers have their retirement savings automatically deposited into funds over which they have limited knowledge and few investment choices.

However, the managers of these funds, with relatively little oversight, have a modicum of freedom to make investment decisions and with negligible repercussions in the case of mismanagement, as few of their charges will notice a slight reduction in their returns. While the incentive of individual investors may be to maximize their financial returns, these fund managers can have an entirely different set of objectives, which do not necessarily comport with those of their ostensible clients.

In this era of public virtue signaling designed to appease a certain highly vocal segment of the population, larger corporations--a group that includes investment funds frequently--often pursue policies which are not immediately profitable, but which make them look good in the eyes of their peers. If the owner of a company wishes to drive his own business into the ground for the sake of popularity it is his right to do so, but when the money at stake belongs to hard-working Americans who have little choice in how their retirements are managed and a limited ability to oversee their investments, it is another matter entirely.

A variety of studies have consistently found that these socially conscious ESG funds produce lower returns than passively-managed index funds. Moreover, the management fees for ESG funds at BlackRock, the worlds largest investment firm, are up to ten times higher than those of standard index funds. Lining the pockets of BlackRock executives is hardly a justifiable use of money that is supposed to be going towards workers retirements.

Surveys have also found that a majority of workers would prefer a maximization of retirement wealth ahead of any social activism. Given investment firms poor track record at successfully navigating the waters of social change that makes perfect sense. For example, the California Public Employees Retirement System rapidly transitioned from a healthy surplus to a deficit of over $100 million when its managers began prioritizing environmentally friendly investments in 2007. Most notably, the pension system cost its investors in excess of $3 billion due to a decision to divest its holdings of tobacco-related products out of a concern for social responsibility.

As a qualitative, fundamentally opinion-based good, there is no objective metric for measuring social responsibility. Not only can we not quantify how much good a particular investment might do for society, we cannot even objectively say whether it is doing any good at all. The upshot of this is that the managers of ESG funds have been given free rein to promote any causes they support with no way of objectively measuring the cost-tradeoff of that decision. And with no requirement for managers to put their own money--or indeed their own jobs--on the line, there is nothing stopping them from being reckless with their investment choices, as they can justify their decisions on the grounds that they are socially responsible. Clearly, this runs contrary to the interests of workers who only want a secure and dependable savings account to rely on upon exiting the workforce.

If individual investors desire to invest in socially or environmentally conscious funds, they are of course free to do so, but no one should be coerced or tricked into pursuing an investment strategy that runs contrary to their financial interests. With this in mind, it makes sense for the Labor Department to move forward with its proposed rule to rein in activist fund managers, and better secure the retirements of the working men and women of America.

Sincerely,
- Logan Albright
Director of Fiscal Research, Capital Policy Analytics