THE WALL STREET JOURNAL.

Pension Fund Politics
Editorial
Wall Street Journal
6 May 2005

One of the more dangerous political trends these days is the misuse of public pension assets for partisan ends. So it was encouraging this week to see the Labor Department give a refresher course on fiduciary duty to the AFL-CIO.

The instruction came in the form of a legal warning that spending pension fund assets on partisan crusades is a violation of the Employee Retirement Income Security Act, or Erisa. "A fiduciary may never increase a plan's expenses, sacrifice the security of promised benefits, or reduce the return on plan assets, in order to promote its views on Social Security or any other broad policy issue," wrote Alan Lebowitz, a deputy assistant secretary and career Labor official, in a letter to the union group.

This legal brushback pitch is a response to the AFL-CIO's attempts to enlist pension managers as partisan allies. The union umbrella has threatened to pull its $400 billion pension business from any financial services company that supports personal Social Security accounts. This is political intimidation that no corporate pension fund would dare to attempt, lest it be sued. But it is part of a new union strategy that runs from California's Calpers fund siding with striking unions against Safeway last year, to New York State's Democratic Comptroller, Alan Hevesi, threatening Sinclair Broadcasting out of running a documentary critical of John Kerry.

The AFL-CIO claims to be unworried by the Labor warning, but this is probably both a legal and political mistake. Union leaders are already under scrutiny for wasting member dues on politics, with no apparent results or accountability. If workers discover that unions are also dipping into their pension assets, or are picking investment advisers based on politics more than return on assets, their desire to join unions will only decrease.

Labor's resort to pension-fund politics reflects its overall shrinking fortunes in the workplace. Union membership has fallen precipitously for years, and last weekend came news that the AFL-CIO was forced to dismiss more than a third of its 424 employees. During John Sweeney's 10-year presidency, the AFL-CIO's reserve fund has dropped to $31 million from $61 million. Pension fund assets are the last stash of cash out there to exploit.

As the Labor Department has now made clear, that's illegal. Resisting that advice will invite a lawsuit, as well as Congressional oversight to underscore that the fiduciary obligation of public pension managers is to workers, not to the political causes of union leaders.