

— LEGISLATIVE —  
**TESTIMONY**

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**Public Pensions Should  
Serve Workers, Not  
Political Movements**

Michigan House Oversight Subcommittee on  
Corporate Subsidies and State Investments

# Public Pensions Should Serve Workers, Not Political Movements

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Thank you, Chair and members of the committee. My name is Jarrett Skorup, and I am here to discuss environmental, social and governance investing, commonly known as ESG, how and why some labor unions are pushing it, and why Michigan should protect workers, taxpayers and pensioners from its misuse.

ESG is an investment strategy that considers environmental, social and governance factors when deciding where to invest. In theory, some of these factors may be financially relevant. For example, poor corporate governance or regulatory risk may affect a company's long-term value. But ESG is often used for something very different: injecting political, social or ideological goals into investment decisions that should be focused on risk, return and fiduciary duty.

The World Economic Forum and other organizations, including some state pension boards, rate organizations on ESG principles. These have supported shareholder resolutions pushing companies to reduce or eliminate fossil fuel or plastics, adopt diversity and equity mandates, change political spending policies, and take positions on controversial social issues. Labor unions and allied organizations have also used ESG to pressure companies to adopt union-friendly policies, including restrictions on employer speech and alternatives to secret-ballot elections. These are political and labor-policy goals, not financial ones.

That distinction matters. Public pension systems exist for one purpose: to provide secure retirement benefits for public employees. They are not political action committees. They are not social policy tools. They are not piggy banks for favored causes. Every dollar in those systems belongs, in a very real sense, to workers and retirees and is guaranteed by the Michigan Constitution. And when returns fall short, taxpayers are left to fill the gap.

California provides a warning. Its large public pension systems adopted extensive ESG-related principles, and research estimates those decisions cost the funds \$1.4 billion in missed investment growth over eight years. Losses like that cannot be written off. They are paid for through higher taxes, reduced services or less secure benefits.

Michigan pension systems hold enormous financial power. If that money is directed toward political goals – whether climate mandates, labor activism, social credit scoring or industry boycotts – then workers and taxpayers are forced to subsidize someone else's agenda. This could especially harm Michigan workers in energy, manufacturing, transportation, mining, defense, agriculture and other industries often targeted by ESG campaigns. It is somewhat ironic that some unions are supporting ESG policies while other union workers are trying to make a living in trucking, mining, energy production and more.

Current Michigan law points in the right direction. Pension fiduciaries must invest “solely in the interest of the participants and beneficiaries.” The law allows consideration of

investments that benefit the general welfare of the state only when returns are comparable. That is good, but it is a standard that should be clarified and strengthened.

In my recent report, “Unions and ESG: From Worker Representation to Shareholder Activism,” I suggest four reforms states should consider.

First, adopt a sole fiduciary standard requiring public fund managers to consider only factors that materially affect financial risk or return. Second, prohibit public pension systems and public entities from contracting with firms that boycott lawful industries for nonfinancial reasons. Third, ban the use of ESG scores or social credit-style ratings in public contracting, lending, procurement or access to public services. Fourth, require transparency where investment managers disclose ESG-related policies, proxy voting, shareholder activism and any use of nonfinancial criteria.

Private investors are free to invest according to their values and people should be free to use their own money as they (legally) wish. But public pensions are different and Michigan should make clear that retirement funds must serve workers and taxpayers rather than political movements.

**Sources:**

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