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# Abstract

This research adds to a estment return assumptions associated with public sector defined benefit (DB) pension plans may partly be explained by political opportunism. This research adds to this literature by examining how oversight and monitoring efforts and investment boards’ relative independence from the political process influence adopted investment return assumptions. Based on a multivariate regression analysis of data on 88 state DB pension plans in the United States, the results of this study suggest that adopted investment return assumptions are partly determined by investment boards’ affiliation with the political process. The results also indicate that the adopted assumptions are influenced by asset allocations and the fiscal condition of pension plans. The findings of the study are important in part because they draw attention to possible linkages between the quality of financial information that is reported about the financial condition of public pension funds and their surrounding governance structure. Reliable information about the actual size of unfunded pension liabilities is critical in political environments, where there tend to be a bias toward shifting pension obligations to future constituents.

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# Appendices

**Appendix**: Correlation Matrix

| | PropPol Appt | InvCncl | PPCC award | Union | PropBrd Part | PercARC | BudGap | FailThresh hold | Pro C |
|---|---|---|---|---|---|---|---|---|---|
| PropPolAppt | | | | | | | | | |
| Pearson's correlation | 1 | −0.070 | −0.095 | −0.042 | −0.203 | 0.106 | 0.150 | −0.213* | − |
| Sig. (two-tailed) | | 0.517 | 0.377 | 0.698 | 0.057 | 0.325 | 0.162 | 0.046 | 0 |
| *N* | 88 | 88 | 88 | 88 | 88 | 88 | 88 | 88 | |
| InvCncl | | | | | | | | | |
| Pearson's correlation | −0.070 | 1 | 0.095 | 0.060 | 0.049 | 0.019 | −0.151 | −0.210 | − |
| Sig. (two-tailed) | 0.517 | | 0.378 | 0.579 | 0.653 | 0.857 | 0.159 | 0.050 | 0 |
| *N* | 88 | 88 | 88 | 88 | 88 | 88 | 88 | 88 | |
| PPCCaward | | | | | | | | | |
| Pearson's correlation | −0.095 | .095 | 1 | 0.184 | 0.159 | 0.110 | −0.034 | −0.292** | − |
| Sig. (two-tailed) | 0.377 | 0.378 | | 0.086 | 0.140 | 0.306 | 0.753 | 0.006 | 0 |
| *N* | 88 | 88 | 88 | 88 | 88 | 88 | 88 | 88 | |
| Union | | | | | | | | | |

| | PropPol Appt | InvCncl | PPCC award | Union | PropBrd Part | PercARC | BudGap | FailThresh hold | Pro |
|---|---|---|---|---|---|---|---|---|---|
| Pearson's correlation | −0.042 | 0.060 | 0.184 | 1 | 0.049 | 0.177 | 0.043 | −0.260* | 0 |
| Sig. (two-tailed) | 0.698 | 0.579 | 0.086 | | 0.647 | 0.098 | 0.691 | 0.014 | 0 |
| *N* | 88 | 88 | 88 | 88 | 88 | 88 | 88 | 88 | |
| PropBrdPart | | | | | | | | | |
| Pearson's correlation | −0.203 | 0.049 | 0.159 | 0.049 | 1 | 0.108 | −0.023 | −0.107 | − |
| Sig. (two-tailed) | 0.057 | 0.653 | 0.140 | 0.647 | | 0.318 | 0.832 | 0.322 | 0 |
| *N* | 88 | 88 | 88 | 88 | 88 | 88 | 88 | 88 | |
| PercARC | | | | | | | | | |
| Pearson's correlation | 0.106 | 0.019 | 0.110 | 0.177 | 0.108 | 1 | 0.093 | −0.190 | 0 |
| Sig. (two-tailed) | 0.325 | 0.857 | 0.306 | 0.098 | 0.318 | | 0.389 | 0.076 | 0 |
| *N* | 88 | 88 | 88 | 88 | 88 | 88 | 88 | 88 | |
| BudGap | | | | | | | | | |
| Pearson's correlation | 0.150 | −0.151 | −0.034 | 0.043 | −0.023 | 0.093 | 1 | 0.012 | 0 |

| | PropPol Appt | InvCncl | PPCC award | Union | PropBrd Part | PercARC | BudGap | FailThresh hold | Pro |
|---|---|---|---|---|---|---|---|---|---|
| Sig. (two-tailed) | 0.162 | 0.159 | 0.753 | 0.691 | 0.832 | 0.389 | | 0.915 | 0 |
| *N* | 88 | 88 | 88 | 88 | 88 | 88 | 88 | 88 | |
| FailThresh hold | | | | | | | | | |
| Pearson's correlation | −0.213* | −0.210 | −0.292** | −0.260* | −0.107 | −0.190 | 0.012 | 1 | 0 |
| Sig. (two-tailed) | 0.046 | 0.050 | 0.006 | 0.014 | 0.322 | 0.076 | 0.915 | | 0 |
| *N* | 88 | 88 | 88 | 88 | 88 | 88 | 88 | 88 | |
| PropFixed Cash | | | | | | | | | |
| Pearson's correlation | −0.020 | −0.015 | −0.061 | 0.105 | −0.155 | 0.122 | 0.074 | 0.047 | |
| Sig. (two-tailed) | 0.851 | 0.892 | 0.575 | 0.330 | 0.149 | 0.259 | 0.490 | 0.661 | |
| *N* | 88 | 88 | 88 | 88 | 88 | 88 | 88 | 88 | |

*
Correlation is significant at the 0.05 level (two-tailed).
**
Correlation is significant at the 0.01 level (two-tailed).

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