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The influence of political bias in state pension funds[☆]

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Abstract

Using a sample of state pension funds' equity holdings, we find evidence of not only local bias, but also bias towards politically-connected stocks. Political bias is detrimental to fund performance. State pension funds have longer holding durations of politically-connected local firms and display disposition behavior in these positions. Political bias is positively related to the percentage of politically-affiliated trustees on the board and Congressional connections. The more politically-affiliated trustees on the board, the more the fund shifts toward risky asset allocations. Overall, our results imply that political bias is likely costly to taxpayers and pension beneficiaries.

Keywords: State pension funds, Political bias, Pension beneficiaries, Disposition effect

JEL Classification: G11; H55; H75

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