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Retirement at Risk: The Political Economy of Public Pension Governance

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Retirement at Risk: The Political Economy of Public Pension Governance

Abstract

State public pension systems manage over $6 trillion in assets while facing approximately $1.3 trillion in unfunded liabilities, raising fundamental questions about governance effectiveness and fiduciary accountability. This Article examines these challenges through the analytical framework of governance, applying insights from public choice, principal-agent models, and corporate governance to argue that details in implementation significantly impact outcomes. We offer Ohio's State Teachers Retirement System (STRS) as a case study. Recent governance reforms in Ohio—including legislative restructuring of the STRS board and enactment of fiduciary standards legislation modeled on the American Legislative Exchange Council's framework—suggest the potential for earlier governance problems. Reported investment returns exceeded audited returns in 19 of 20 fiscal years examined (2003-2022), with an average annual overstatement of 0.33 percentage points and a single exception in fiscal year 2020, resulting in approximately $9.3 billion in cumulative overstatement. By contrast, the Ohio Public Employees Retirement System (OPERS) exhibited minimal, bidirectional discrepancies (0.08 percentage points), consistent with measurement variation rather than systematic bias. This divergence reflects predictable institutional failures: performance bonuses tied to unaudited metrics create concentrated benefits for administrators while dispersing costs across beneficiaries and taxpayers. This Article proposes tying performance-based compensation exclusively to CPA-audited returns derived from net fiduciary position, arguing that this incremental reform would reduce information asymmetry and restore transparent accountability without requiring wholesale institutional restructuring. This analysis contributes to ongoing scholarship on pension governance by demonstrating how institutional design predictably shapes reporting behavior and by offering grounded reform that addresses incentive misalignment while preserving pension system architecture.

Keywords

Public pensions, ESG investing, public choice, Ohio STRS

JEL Code

H55, P16, H75, J26

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1. Introduction

State public pension systems collectively manage assets exceeding six trillion dollars (NASRA, "Public Pension Assets"; U.S. Census Bureau, "Annual Survey of Public Pensions"). Defined-benefit pension plans represent deferred compensation owed to employees and are inherently susceptible to opportunistic behavior. An employee who dedicates 30 years of service only to discover that promised pension benefits are unavailable to him or her faces an irreparable loss; those years of labor cannot be reallocated elsewhere. Accordingly, the prudent and responsible management of public pension systems is essential.

Each state public pension system operates within its own governance framework, typically distinct from direct control by elected officials, to ensure sound investment decisions and shield the fund from predatory political interference. These pension funds, often among the largest financial entities within a state, attract a host of demands—from assisting state governments with budgetary shortfalls to promoting local economic development to, more recently, advancing environmental, social, and governance (ESG) objectives.[1] We define ESG as "the nonfinancial standards, metrics, or factors that asset management firms, financial institutions, and institutional investors, among others, consider when they allocate capital or assess risk" (Mendenhall 325).

Pension systems are not immune to the perennial risks of managerial shirking and agency loss familiar to all complex enterprises. Are public pensions being effectively managed? Evidence suggests otherwise, with persistent underfunding and investment returns that fail to meet actuarial assumptions (Trujillo; Giesecke & Rauh; Draine et al., "An Increase in Pension Obligations Adds to States' Unfunded Liabilities"). Such deficiencies underscore the importance of governance design and the complicated interplay of economics, law, and political science that it entails.

The analytical framework for examining these challenges draws upon the principal-agent model in economics, corporate governance theory, public choice analysis, and legal doctrines of fiduciary duty. These theoretical perspectives converge in a case study of the State Teachers Retirement System (STRS) of Ohio, which, as of 2024, serves 543,000 members and manages $96.2 billion in assets (State Teachers Retirement System of Ohio 2025). STRS has experienced multiple governance controversies over the past decade, culminating in legislative efforts to

[1] We discovered in prior research that public pension systems have advanced ESG objectives not chiefly by divesting but through shareholder engagement, allowing them to shape corporate behavior without altering their portfolios. We found limited evidence that such activism has directly reduced investment returns and noted that the broader costs are shifted to companies and investors through compliance burdens and operational changes. The result, we suggested, is a subtle but significant expansion of state influence over corporate governance and a corresponding erosion of market autonomy (Mendenhall and Sutter, "Beyond the Bottom Line").

restructure its governing board. These disputes render STRS a particularly illuminating case study in the governance of public pension systems.

Following this introduction, this article proceeds in seven parts. Part 2 examines the national landscape of pension performance, documenting approximately $1.3 trillion in unfunded liabilities across state systems and establishing that widespread underperformance warrants systematic investigation of governance structures. Part 3 applies public choice theory to illuminate inherent governance weaknesses in public pension administration, emphasizing the principal-agent problems that arise when multiple principals with heterogeneous interests must monitor administrators whose incentives are misaligned with beneficiary welfare. This part also discusses the governance challenges introduced by ESG investing.

Part 4 establishes STRS as a particularly telling case study given ongoing litigation challenging board restructuring, recent fiduciary legislation, and the convergence of legal, fiscal, and political pressures that mirror national debates about pension governance. In addition, our case can use comparisons with the Ohio Public Employees Retirement System as a type of control. Parts 5 and 6 discuss the case study, focusing on two questions, evidence of STRS governance as impacting its financial performance and an observed divergence between reported and audited returns. Audited investment returns are subject to professional standards and legal liability while reported returns are not. Yet STRS Ohio used the reported returns for bonus compensation, which lack comparable external oversight. We argue that this institutional design predictably invites opportunistic behavior.

We present empirical evidence showing that STRS's reported returns consistently exceeded audited returns, while OPERS exhibited minimal, bidirectional differences (0.08 percentage points), consistent with measurement variation rather than systematic bias. The differences sum to $4.8 billion, but when a standard dollar impact compounding approach commonly used in financial and pension calculations is applied, STRS's cumulative overstatement amounts to approximately $9.3 billion. This pattern is consistent with rent extraction, a dynamic in which administrators capture concentrated benefits thorough compensation tied to overstated metrics while costs are dispersed across beneficiaries and taxpayers. Part 7 discusses the lessons from our case study. Our major recommendation proposes tying performance-based compensation exclusively to CPA-audited returns, arguing that this reform would reduce information asymmetry and restore transparent accountability without requiring wholesale institutional restructuring. Part 8 concludes.

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2. Pension Performance

The national landscape of pension underfunding described in Part 2 serves as context for our central analytical question—why audited and self-reported investment returns diverge systematically at some pension systems but not others—rather than as an independent object of inquiry; the governance mechanism driving that divergence, not underfunding per se, is the dependent variable we seek to explain. Empirical evaluation of pension performance reveals significant variation across states. Many systems report declining returns and growing unfunded liabilities, contributing in some instances to municipal bankruptcies and raising concerns that similar pressures could threaten state solvency, as in Illinois. Nevertheless, suboptimal performance does not automatically imply managerial failure. Outcomes depend heavily on factors outside the control of pension administrators, chiefly the willingness of legislatures to make required contributions and the broader investment environment. The prolonged era of near-zero interest rates dampened returns across asset classes, a structural change that now appears to represent a “new normal” rather than a transient anomaly.

As of the conclusion of fiscal year 2023, according to the Reason Foundation, the aggregate unfunded liabilities across 118 state public pension systems in the United States were estimated at approximately $1.3 trillion, calculated under the assumption of a 7 percent annual investment return (Reason Foundation 2023). The states with the most significant projected pension obligations included California, Illinois, New Jersey, and Texas, while funding ratios varied substantially across jurisdictions, ranging from approximately 47 percent in Kentucky to levels exceeding 100 percent in states such as Washington and New York (Reason Foundation 2023).

This analysis underscores the considerable sensitivity of pension liability projections to investment return assumptions, demonstrating that lower-than-anticipated returns or underfunded contributions could substantially exacerbate the divergence between promised benefits and available assets. Although certain states have achieved modest improvements in their funding ratios, the data reveal the enduring nature of elevated pension debt and the consequent long-term fiscal strain on taxpayers and future generations (Reason 2023). The findings illuminate the systemic character of state pension challenges and emphasize the critical importance of adopting realistic actuarial assumptions, implementing prudent funding policies, and pursuing state-specific reforms tailored to address the considerable heterogeneity in pension sustainability across the nation (Reason Foundation 2023).

The seventh edition of the American Legislative Exchange Council’s *Unaccountable and Unaffordable* provides a comprehensive analysis of the fiscal sustainability challenges confronting

state public pension systems in the United States. The report quantifies aggregate unfunded state pension liabilities at approximately $6.96 trillion, representing a per capita obligation of nearly $21,000. While acknowledging the sensitivity of liability estimates to discount rate specifications—particularly yields on U.S. Treasury securities—the authors contend that the scale of unfunded obligations remains substantial under any reasonable set of actuarial assumptions (Savidge and Williams 1, 6).

Savidge and Williams present multiple metrics that show the disparate funding conditions across states, including unfunded liabilities per capita and the proportion of the actuarially determined contribution (ADC) that states actually remit. Their report indicates that while certain states contribute more than 100 percent of their ADC, many contribute substantially less, and the median funding ratio falls well below the optimal benchmark of 100 percent (Savidge and Williams 8-10). Finally, Savidge and Williams emphasize that, in the absence of substantive reforms addressing funding policies, asset-allocation strategies, actuarial assumptions, and benefit structures, the considerable net obligations associated with public pension systems present a serious threat to state fiscal sustainability. These liabilities risk displacing tax relief, essential public services, and intergenerational equity. *Unaccountable and Unaffordable* cautions that prevailing trends—characterized by aggressive investment strategies, optimistic return assumptions, and inadequate contribution levels—portend an expanding burden for current and future taxpayers (Savidge and Williams 19).

Since 2008, public pension obligations have consistently been the largest of the three key long-term liabilities that U.S. states report, greater than both outstanding bond debt and unfunded retiree health-care obligations (Draine et al., “An Increase in Pension Obligations Adds to States’ Unfunded Liabilities.”). By fiscal year 2022, states’ collective unfunded pension liabilities (the gap between promised benefits and assets set aside) reached about $1.27 trillion, which equated to nearly 66% of states’ combined own-source revenue (taxes and fees collected by the states) (Draine et al., “An Increase in Pension Obligations Adds to States’ Unfunded Liabilities.”).

The increase in pension shortfalls arises from several interrelated factors: prolonged underfunding of actuarially required contributions, investment returns below assumptions, and benefit enhancements not matched by funding (Draine et al., “An Increase in Pension Obligations Adds to States’ Unfunded Liabilities.”). Draine et al. highlight how in 2021, strong stock-market returns temporarily narrowed the gap, but investment losses in 2022 widened it again, illustrating the vulnerability of pension funding to market volatility (Draine et al., “An Increase in Pension Obligations Adds to States’ Unfunded Liabilities.”).

By doing a state-by-state breakdown for fiscal 2022, Draine et al. demonstrate extreme variation across states: e.g., one state's unfunded pension liability reached 197% of its own-source revenue, while only four states had pension plan assets that exceeded their obligations (Draine et al., "An Increase in Pension Obligations Adds to States' Unfunded Liabilities."). The required contribution to adequately fund state pension plans also shifted: in 2008, the benchmark was about 5.9% of state own-source revenue, rising to 7.8% in 2021 and then falling to 4.9% in 2022 (reflecting the short-term impact of investment gains) (Draine et al., "An Increase in Pension Obligations Adds to States' Unfunded Liabilities."). When long-term liabilities grow faster than revenue, they can squeeze state budgets, limiting capacity for new investments and shifting costs onto future generations.

3. Governance Issues

Public choice theory has identified a range of inefficiencies inherent in representative democracy. Direct democracy—whereby citizens vote on policy measures through ballot initiatives—can also yield inefficient outcomes because the principle of "one person, one vote" fails to register the intensity of individual preferences (Buchanan and Tullock 1962). Mechanisms such as logrolling may improve allocative efficiency by enabling voters or legislators to trade support on less salient issues for reciprocal support on matters of greater personal importance. Nevertheless, in electorates of even modest size, the probability that any individual voter will cast a decisive ballot is vanishingly small (Mueller, *Public Choice III*). The instrumental value of voting is therefore minimal, implying that the expected benefits of casting a ballot seldom exceed its costs.

This lack of decisiveness, in turn, undermines incentives to acquire political information, producing what Downs (1957) famously described as the problem of rational ignorance. If the act of voting cannot be justified on instrumental grounds, it may instead serve expressive purposes, allowing individuals to affirm identities or moral commitments rather than to advance self-interest (Brennan and Lomasky 1993).

By contrast, corporate governance operates under a system of proportional control, in which voting power is tied to share ownership. Large shareholders, with greater voting weight, are more likely to influence outcomes in elections for directors or on shareholder resolutions. Rational ignorance should therefore be less severe in corporate contexts than in representative democracies. Moreover, shareholders may delegate voting authority to proxies who are comparatively well-informed about firm performance and governance issues.

Even so, investors holding highly diversified portfolios are unlikely to devote significant attention to the management of individual firms. In contemporary capital markets, a substantial share of the equity of major corporations is held by institutional investors whose strategies aim to replicate the composition of broad market indices such as the S&P 500, S&P 1500, or Russell 2000. These index funds invest not for capital gains derived from superior management but to mirror market performance. Historically, the shares they held were often left unvoted.

To illustrate how details matter for governance, consider issues related to corporate boards. Clearly, stockholders are too numerous and diversified in their investments to allocate and coordinate significant time and effort to overseeing managers of any one company. The board of directors is crucial in limiting shirking by the CEO and top management. But board members themselves typically have other primary jobs and own little stock in the company (Core, Holthausen, and Larcker 1998). Will they exercise sufficient control over CEOs or be willing to accommodate management at the expense of stockholders? Fama and Jensen (1983) argue that reputation will discipline board members to effectively protect shareholder interests. But the ability of a board member to govern a firm is limited by access to information and often a lack of expertise in the firm's core functions (Bebchuk and Fried 2004, pp.36-7). CEOs also have numerous ways, formal and informal, to influence board members, beginning with significant control over board appointments and reappointments (Bebchuk and Fried 2004, pp. 25-39). The effectiveness of governance can only be teased out through careful examination.

With these preliminaries concluded, we can turn now to specific governance issues for public pensions. Applying the principal-agent framework, pension fund managers—agents acting on behalf of multiple principals—must be monitored across numerous potential dimensions of malfeasance. But a complication is the existence, arguably, of multiple principals, including beneficiaries, the employing governments, and taxpayers. Multiple principals are well recognized for enormously complicating the principal-agent problem and generally allowing the agent to be less tightly controlled (Dixit, Grossman, and Helpman 1997). And we also have elected officials, who introduce an additional layer of complexity: true pension independence from political bodies is an essential component of sound governance.

The political economy of public pensions is indeed complicated. As Norcross and Smith (2021) observe, at least three classes of stakeholders can be distinguished. The first is elected officials, beneficiaries, and taxpayers. The second group is the boards of directors, which have the authority to hire managers. And the third is the directors or CEOs of the pension system, along with other top managers and key financial advisors. The interplay between these groups is complex, and numerous variations of the elements of governance exist across their plans. State

lawmakers ultimately control the institutions or rules governing pension systems; these rules affect the flow of information and the incentives for the numerous participants in this process. Yet, as Norcross and Smith emphasize, legislators themselves do not have direct access to the details of a pension system and its investments and frequently lack the professional background to understand the workings of a defined benefit pension plan. Legislative, legal, and in some cases constitutional guarantees of accrued and future benefits also shape the incentives of all parties. Even one group of stakeholders can have conflicting interests. Members, on the one hand, have a strong interest in the financial health of a system so that promised benefits can be paid. But overstating the system's financial health might allow for the expansion of benefits.

The primary obligation of fiduciaries is to secure sufficient returns to meet promised benefits while prudently managing investment risk. Economic theory acknowledges that optimal investment strategies vary across an individual's life cycle, yet many public systems have been criticized for adopting unrealistically high assumed rates of return relative to the risks undertaken.

Political opportunism also poses a persistent threat. Elected officials are prone to present bias, favoring short-term political gains over long-term fiscal prudence. Legislatures may underfund pensions by deferring required contributions—effectively transferring costs to future taxpayers—as exemplified by Illinois's "Edgar Ramp" (see generally Dabrowski, "Lessons from the Edgar plan"). Constitutional guarantees of pension benefits mitigate some risks to retirees but raise intergenerational equity concerns: future taxpayers, unrepresented in current decisions, may be bound by obligations they did not consent to incur.

Benefit guarantees can also distort incentives. Legislators may augment pension benefits without proportionately increasing contributions, effectively granting a deferred pay raise at the expense of future taxpayers. Similarly, overoptimistic return assumptions reduce present-day contribution requirements while masking long-term liabilities. These guarantees may further encourage socially motivated but financially underperforming investments, such as those aligned with ESG objectives.

Fiduciary responsibility addresses the coordination of heterogeneous preferences among beneficiaries. Although assets belong collectively to workers, fiduciaries must prioritize financial returns to safeguard retirement security for all members. Pension boards, which select and oversee fund managers, serve as the principal institutional check on management discretion. However, as public choice theory and corporate governance research remind us, elections and boards are imperfect mechanisms of accountability. Pension board elections may suffer from rational ignorance among members, and boards themselves can be captured by management, paralleling the dynamics observed in corporate contexts.

Public pension systems are typically overseen by boards of trustees that function analogously to corporate boards of directors. The selection method for trustees directly impacts the quality of pension governance. Three principal methods of board selection prevail: appointment by the governor; election by plan members for fixed terms; and service by certain state officials—such as treasurers or comptrollers—*ex officio*.

Analysis by Dove, Collins, and Smith (2018) of the nation's largest pension systems finds that roughly one-half of trustees are appointed, one-third elected, and one-sixth serve *ex officio*. Considerable variation nonetheless exists across states, with some systems featuring majorities—or even supermajorities—of trustees chosen by a single method.

Differences in selection procedure do not automatically entail corresponding differences in board composition or policy outcomes. A governor, for instance, might appoint individuals favored by public employees to curry political support. Whether these institutional arrangements translate into measurable effects is ultimately an empirical question. The available evidence indicates that board structure correlates strongly with outcomes such as investment returns, funding ratios, and even state bond ratings. Mitchell and Hsin (1997) report that boards with higher proportions of elected members tend to exhibit lower funding ratios, although they also receive larger state government contributions. Comparisons of performance must be interpreted cautiously, however, since states employ varying methods to calculate and report pension metrics. Dove, Collins, and Smith (2018) further demonstrate that pension board composition is associated with state bond ratings: states whose boards have greater representation of appointed or *ex officio* members tend, *ceteris paribus*, to receive higher ratings than those dominated by elected trustees. In practical terms, this translates into lower borrowing costs and signals stronger fiscal health for financial markets.

Before turning to the Ohio case study, it is worth noting one additional governance complication—the emergence of ESG investing—that the principal-agent framework helps illuminate, not as a direct cause of the reporting discrepancy documented below, but as a broader illustration of the fiduciary drift that creates conditions under which such discrepancies persist. ESG can be viewed as reconceptualizing finance as a tool for social change as demonstrated by the role of the United Nations in promoting ESG; the acronym originated at a U.N.-sponsored conference that produced the 2004 report, Who Cares Wins, and subsequently led to the formulation of the Principles for Responsible Investment. As Jonathan Macey (2022) observes, ESG investing really took off after Donald Trump's election in 2016 and withdrawal of the United

States from the Paris Climate agreement. Financial institutions would redress the "government failure" keeping national governments from more aggressively addressing climate change.[2]

Of more consequence has been the endorsement of ESG-related principles by reputable business leaders and academic economists. A prominent example is the 2019 "Statement on the Purpose of a Corporation" by the Business Roundtable, a consortium of nearly two hundred chief executives. This declaration that corporations exist to serve stakeholders broadly rather than to maximize shareholder value overturns Milton Friedman's (1970) famous proposition that "[t]he Social Responsibility of Business is to Increase its Profits."

Academic research within economics and finance, particularly, as well as Nobel laureate Oliver Hart and University of Chicago economist Luigi Zingales (2017, 2022), contends that corporations ought to aim for welfare maximization rather than shareholder wealth maximization.[3] Beyond this, numerous empirical studies, both academic and industry, claimed that deviating from narrow profit considerations might now yield higher returns. A highly publicized report from the McKinsey Company argued that diversity among executives lead to higher returns for major corporations. Education and scholarship within business schools more broadly likewise lent theoretical support to the idea that firms should pursue social and environmental objectives (Mendenhall, Sutter & Block 2025).

The result has been a departure from the traditional focus on maximizing returns, managing investment risk, and maintaining merit-based hiring practices. By advancing the view that corporations should serve as instruments of social change rather than principally as generators of shareholder value, influential market actors have provided intellectual and normative support for pension fund managers and other institutional investors to pursue an expanding range of non-financial objectives.

Proposed reforms offered by experts can further inform our case study. Norcross and Smith (2021) propose a range of reforms grounded in public choice considerations. They consider accounting, structural, and governance reforms. While they recommend transitioning from defined benefit to defined contribution plans to reduce the potential for politically motivated poor decisions,

[2] For our critique of Macey's view that ESG is libertarian, see "ESG Is Not Libertarian," which argues that ESG is driven principally by government policy, institutional-manager incentives, and regulatory standardization rather than voluntary investor choice.

[3] This argument is not completely novel (see Elhauge 2005) and builds on a long-recognized rationale for departing from strict profit maximization—namely, that owners can sometimes more effectively advance their utility by modifying corporate behavior directly rather than by maximizing profit and using after-tax income to pursue their preferred goals (Demsetz and Lehn 1985). The principal difficulty lies in determining which environmental or social objectives corporations should pursue, and whether corporate executives possess superior knowledge or legitimacy relative to elected officials or regulatory agencies in evaluating the desirability of such objectives (McLean 2023).

they also offer several concrete goals for reforming existing defined benefit plans. They see private placements or alternative investments, and the selection of a discount rate, as sources of potential mischief. Specifically, they recommend prohibiting private placements and the use of the interest rate on safe investments. To help achieve these changes, they recommend governance reforms such as strict conflict-of-interest disclosures, setting ranges for investment portfolio weights, annual fiduciary reviews, and tying any benefit increases (including cost-of-living increases) to the plan's funding level.

In a recent *Wall Street Journal* editorial, Mark Lee Greenblatt presented a straightforward argument: that America's $6.1 trillion in public pension funds require independent inspectors general to combat fraud and ensure accountability (Greenblatt). His proposal is pragmatic rather than revolutionary, extending a proven federal oversight model to state-level retirement systems. He documents genuine vulnerabilities, including allegations of fraud at the Los Angeles County Employees' Retirement Association, whistleblower disputes at Iowa's retirement system, and calls for external audits of CalPERS (Greenblatt). He draws on his experience as inspector general of the Interior Department (2019-2025) to advocate for independent watchdogs modeled after federal inspectors general, noting that these offices are "unique to the U.S." and attract international interest (Greenblatt).

The strength of this proposition lies in its specificity about implementation. Greenblatt outlines specific requirements: subpoena power, budgetary autonomy, direct legislative oversight, and protection from political interference. He correctly identifies that "smaller states and systems often lack the resources or independence to pursue mistakes and wrongdoing," making this reform most valuable where capacity is weakest (Greenblatt).

4. The Ohio Case Study

The State Teachers Retirement System (STRS) of Ohio was established in 1920 and has served Ohio's public school teachers for over a century. STRS has over 500,000 members including 158,000 current retirees and beneficiaries. The System had a net fiduciary position of $102 billion (June 30, 2025) and paid out $8.2 billion in benefits in fiscal year 2025 ("STRS Ohio at a Glance").

Several converging developments underscore the need to study Ohio's public pension systems. First, the system has recently undergone a restructuring of its board of trustees. The STRS Ohio previously had an eleven-member board, consisting of seven elected members (chosen by teachers and retirees) and four appointed members. In a provision added to the state's operating budget, the legislature changed this to an eight-member board with only three elected

members. Recall that boards with majority elected members were associated with lower funding ratios and higher borrowing costs for the state. The change in board structure is currently being litigated. In June 2024, six plaintiffs, current or retired educators, filed suit to challenge and enjoin amendments to the STRS board composition as "unconstitutional and discriminatory" (Complaint, Krause et al vs. STRS). A Franklin County Court of Common Pleas judge has issued a temporary restraining order blocking these changes, signaling that the legal resolution of these governance questions remains uncertain (Staver, "When teachers file lawsuit"; Heisig, "Ohio Teachers Pension Board Won't Immediately Change").

Second, Ohio has positioned itself at the forefront of a national movement to regulate pension investment practices through fiduciary standards legislation. In December 2024, Governor Mike DeWine signed Senate Bill 6, which codifies what proponents describe as the "gold standard" of state fiduciary rules (Meyer, "New Ohio Law Follows ALEC Model"). This legislation, modeled after the American Legislative Exchange Council's State Government Employee Retirement Protection Act, requires fiduciaries to consider only pecuniary factors—those that have a material effect on financial risk and return—when making investment decisions. Ohio joins at least eight other states (Arkansas, Florida, Kentucky, Montana, New Hampshire, South Carolina, Utah, and West Virginia) in implementing such protections, reflecting broader debates about the appropriate role of ESG considerations in public pension investment strategies.

These reforms arguably reflect dissatisfaction with the governance of the system. Republican legislators frame the governance changes as necessary to "stabilize the fund after years of controversy and leadership turnover." On the other hand, union representatives characterize them as an unconstitutional erosion of democratic representation (Staver). Similarly, supporters of Senate Bill 6 argue that it protects beneficiaries and taxpayers from politically motivated investment decisions, while critics may view such restrictions as limiting fiduciaries' ability to consider long-term systemic risks (Meyer). These competing frameworks raise fundamental questions about the optimal balance between financial performance, stakeholder voice, and broader social considerations in public pension management.

In addition, Ohio (like many states) has a second public pension system for state (including county and municipal) employees, the Ohio Public Employees Retirement System (OPERS). OPERS has its own board of trustees and governance structure but allows for a "control" in our case study, as any state-wide economic fluctuations should impact both systems. OPERS was

founded in 1935 and has $120.8 billion in investment assets (as of 12/31/24) with 1.3 million members and 221,000 retirees.[4] We consequently have a "control" system for our case study.

5. Governance and STRS Ohio Performance

The first place to look for an impact of governance is on the financial sustainability of the system. We use estimates of unfunded actuarial accrued liability (UAAL) and the funding ratio constructed based on this figure. The funding ratio for STRS stood at 80.9 percent in 2025. Since 1996, the funding ratio has ranged from a low of 56 percent in 2012 and a high of 92 percent in 2000 and has exceeded 75 percent each year since 2017.

How much of the UAAL might be due to poor governance? For insight on this we rely on an empirical study performed by the Center for Retirement Research at Boston College in 2022, "Legacy Pension Debt Report: Ohio School Employees Retirement System." While this report examines SERS rather than STRS directly, both systems operate under comparable Ohio statutory frameworks and faced identical macroeconomic conditions; the structural drivers of legacy debt identified therein—pre-1968 actuarial deficits, inadequate contribution rates, and post-2001 investment shortfalls—are broadly applicable to Ohio's public pension landscape and inform our understanding of STRS's underfunding. The report provides a comprehensive analysis of the historical origins of the unfunded liabilities, including the role of investment performance, and actuarial and policy decisions.

Historically STRS's funding ratio lagged the national average, but the implementation of benefit reductions following the Global Financial Crisis significantly improved the system's funded status, which now surpasses the national mean (Center for Retirement Research, 1–3). The report estimates that a surprising portion of the current UAAL constitutes legacy debt (Center for Retirement Research, 1–3). Legacy debt remains a central driver, accounting for about $9.4 billion, or 42 percent of total UAAL (Center for Retirement Research, 3). Inadequate contributions since 1968, arising either from payments below statutory requirements or incomplete funding, added approximately $20.6 billion to liabilities (Center for Retirement Research, 4–5). Investment performance has played a more complex role: although returns exceeded assumptions prior to 2000, post-2001 shortfalls contributed to unfunded liabilities; the net effect from 1968 onward, however, reduced the UAAL by an estimated $6.7 billion (Center for

[4] Figures reflect the most recently available data at the time of writing. STRS's net fiduciary position is reported as of June 30, 2025; OPERS's investment assets are reported as of December 31, 2024. The slight difference in reference dates does not affect the substantive analysis, which draws exclusively on audited annual figures from the 2003-2022 study period.

Retirement Research, 5). Changes in actuarial assumptions and experience, including deviations between expected and actual demographic or economic trends, also affected liabilities, though post-Global Financial Crisis (GFC) benefit reductions partially offset these increases. Benefit expansions before the GFC increased obligations, whereas subsequent reductions decreased liabilities by around $21.1 billion (Center for Retirement Research, *Legacy Pension Debt Report*, 5–6). Statutorily set contribution rates, adjusted only periodically, have sometimes proved insufficient to halt UAAL growth (Center for Retirement Research, *Legacy Pension Debt Report*, 5). Similarly, changes in investment assumptions, including a gradual decline in the assumed rate of return after the 1980s, added approximately $1.2 billion to reported liabilities since 1969 (Center for Retirement Research, *Legacy Pension Debt Report*, 5). Taken together, these factors suggest that STRS's unfunded liabilities reflect structural and macroeconomic forces largely beyond the control of the system's trustees and managers.

Overall, we see no clear signs of governance problems compromising the financial health of STRS. The funding ratio is not out of line with other public pensions. The factors identified by the Center for Retirement Research—legacy debt, the 1990s stock market boom, low interest rates since the Great Recession, and statutory benefit reductions—are beyond the control of the System's trustees and managers. Comparison with OPERS strengthens this conclusion. The OPERS had a funding ratio of 82.8 percent in 2024. Our investigation identified a systemic divergence between audited and reported investment returns for STRS from 2003 to 2022.

Audited investment returns are derived from STRS's net fiduciary position as reported in its Comprehensive Annual Financial Reports (CAFRs) and examined by independent certified public accountants (CPAs). These audited figures are subject to professional standards, reputational constraints, and legal liability. Errors or misstatements can expose auditors to litigation and regulatory sanction, creating strong incentives for conservative and accurate reporting.

By contrast, STRS's reported investment returns are not subject to CPA examination. These figures, therefore, operate outside the formal enforcement mechanisms that discipline audited financial reporting. And importantly, the reported investment returns are used for evaluating performance and determining bonus compensation. From a principal-agent perspective, this distinction is critical: tying compensation and reputational benefits to unaudited metrics invites opportunistic behavior.

To highlight the role of governance in STRS's divergence of reported and audited returns, we turn to a comparison with OPERS. OPERS also includes reported and audited annual investment returns in its CAFRs. This comparison is designed to test whether the pattern of

discrepancy differs across institutions with different compensation structures, and the evidence presented is consistent with incentive misalignment as the driving mechanism; however, the comparative design does not permit definitive causal identification, as differences in portfolio composition, reporting methodology, or institutional context between STRS and OPERS could contribute independently to the observed divergence.

The audited return figures used here are calculated from changes in the net fiduciary position, a market-value measure based on audited beginning- and end-of-year asset values. This approach reflects the fund's actual economic performance and constitutes the closest available approximation to objective financial reality.

STRS also reports annual investment returns in its CAFRs. Although the auditor's opinion letter, which appears in the CAFRs, covers the net fiduciary position, it does not extend to the reported rate-of-return figures. Nevertheless, both appear in the same official document, creating informational ambiguity for non-expert readers. This institutional design exacerbates classic principal–agent problems: beneficiaries and taxpayers (principals) must rely on information produced by system administrators (agents), who possess superior technical knowledge and face incentives that may not align with beneficiary welfare. In such settings—characterized by rational ignorance among principals and concentrated benefits for agents—systematic bias in reporting is likely to persist rather than self-correct.

Table 1 presents a comparison of audited and reported investment returns for STRS and OPERS for each fiscal year between 2003 and 2022. The first column reports the fiscal year and columns two through five returns for STRS with OPERS' returns in columns six through eight. For each system, the "Audited" column reports investment returns derived from changes in net fiduciary position, as reflected in actuarial and financial statements examined by independent certified public accountants. These figures represent historic market-value investment returns calculated from two audited inputs: the market value of assets at the beginning of the fiscal year and at year's end. The net fiduciary position thus provides an objective, audit-verified measure of actual fund performance.

The "Reported" column is the annual investment returns disclosed by STRS or OPERS in their Comprehensive Annual Financial Reports, which are not subject to the CPA examination. The column "Difference" reports the arithmetic difference between the reported and audited returns for each fiscal year, with a positive value reflecting that the self-report exceeded the audited return. Column five, labeled "Dollar Difference," is the amount of the misreported returns for STRS, calculated as the difference in the returns (column 4) multiplied by the end of year audited net fiduciary position.

Table 1. Audited and reported investment returns 2003-2022

Fiscal Year	STRS				OPERS		
	Audited Rate of Return	Reported Rate of Return	Difference	Dollar Difference (millions)	Audited Rate if Return	Reported Rate of Return	Difference
2003	1.80	2.32	+0.52	+$248	24.79	25.39	+0.60
2004	17.20	17.70	+0.50	+$273	12.19	12.50	+0.31
2005	11.90	12.25	+0.35	+$209	9.05	9.00	-0.05
2006	13.50	13.73	+0.23	+$152	14.82	14.66	-0.16
2007	20.60	20.73	+0.13	+$100	8.75	8.52	-0.23
2008	-5.60	-5.44	+0.16	+$113	-27.87	-26.92	+0.95
2009	-22.00	-21.66	+0.34	+$180	20.11	20.06	-0.05
2010	13.50	13.54	+0.04	+$23	13.44	13.90	+0.46
2011	22.50	22.59	+0.09	+$60	0.36	0.20	-0.16
2012	1.70	2.34	+0.64	+$412	13.73	14.40	+0.67
2013	13.50	13.66	+0.16	+$109	14.11	14.00	-0.11
2014	16.50	16.83	+0.33	+$249	6.83	6.70	-0.13
2015	5.20	5.45	+0.25	+$187	0.31	-0.03	-0.34
2016	0.40	0.92	+0.52	+$366	8.22	8.23	+0.01
2017	14.10	14.29	+0.19	+$143	16.71	16.62	-0.09
2018	9.50	9.57	+0.07	+$55	-2.97	-3.38	-0.41
2019	6.60	7.13	+0.53	+$422	17.08	17.59	+0.51
2020	3.60	3.14	-0.46	-$361	11.60	11.95	+0.35
2021	29.00	29.28	+0.28	+$271	15.46	15.20	-0.26
2022	-5.40	-3.61	+1.79	+$1,568	-12.31	-12.49	-0.18

Sources: STRS, OPERS annual reports; authors' calculations of the differences.

All rates of return are in percentages and are annual returns. The dollar difference is in millions of dollars.

The evidence indicates a substantial divergence between the two pension systems. For STRS, reported returns exceeded audited returns in 19 of 20 years analyzed, with an average annual overstatement of 0.33 percentage points. In contrast, OPERS shows considerably less

divergence: reported returns surpassed audited returns in only eight years, and the average discrepancy was a modest 0.08 percentage points. Before interpreting the STRS-OPERS divergence as evidence of incentive-driven reporting bias, it is necessary to consider whether methodological differences between the two systems could mechanically produce a persistent directional discrepancy independent of any opportunistic behavior.

The most significant methodological alternative concerns the distinction between time-weighted and money-weighted returns. Time-weighted returns neutralize the effect of external cash flows—contributions and benefit payments—and are the standard recommended by the CFA Institute's Global Investment Performance Standards (GIPS) for comparing investment manager performance across institutions. Money-weighted returns, by contrast, reflect the timing and magnitude of cash flows and can diverge substantially from time-weighted returns in periods of large or asymmetrically timed contributions and withdrawals. If STRS and OPERS employ different return calculation methodologies, or if their cash flow profiles differ substantially, a portion of the observed discrepancy between reported and audited returns at each system could reflect methodology rather than behavior. The audited returns used in this analysis are calculated from changes in net fiduciary position (a market-value measure that captures the fund's actual economic performance but does not adjust for the timing of cash flows in the manner that time-weighted return calculations would). To the extent that STRS's reported returns employ a time-weighted methodology while the audited figures used here are effectively money-weighted, a persistent gap could emerge mechanically, particularly in years with large net outflows such as the benefit payments that characterized the post-2008 period.

A second methodological consideration involves the valuation of alternative assets. Public equity and fixed income holdings are marked to market daily, producing audited valuations that reflect current prices at fiscal year end. Alternative assets (including private equity, real estate, infrastructure, and hedge funds) are valued using appraisal-based methods that typically lag market movements by one to two quarters. In periods of sharp market decline, such as fiscal year 2022, audited net fiduciary positions incorporating mark-to-market public asset valuations may fall more rapidly than reported returns, which can reflect smoothed or lagged alternative asset valuations. If STRS maintained a higher concentration of alternative assets than OPERS during the study period, this valuation asymmetry could contribute independently to a larger and more persistent reported-vs-audited gap at STRS without implying any intentional inflation of reported figures. The anomalously large 2022 discrepancy—1.79 percentage points, compared to an average of 0.33 percentage points across the full study period—is consistent with this dynamic,

as that fiscal year saw severe simultaneous declines across public equity and fixed income markets while alternative asset valuations adjusted more slowly.

These methodological considerations are genuine and cannot be fully resolved with the data available in publicly reported CAFRs alone. A definitive causal analysis would require access to the internal return calculation methodologies of both systems, their asset allocation histories at a granular level, and documentation of any changes in reporting conventions over the study period. We do not claim to possess that level of detail, and we acknowledge that methodological differences between STRS and OPERS could account for some portion of the observed divergence.

Nevertheless, several features of the data are difficult to explain on purely methodological grounds. First, the directional consistency of STRS's discrepancy (reported returns exceeded audited returns in 19 of 20 years) is highly unlikely to arise from random methodological variation. If the gap reflected neutral measurement differences, overstatement and understatement should occur with roughly equal frequency, as they do at OPERS. Second, the institutional difference between the two systems—STRS tied performance bonuses to reported returns while OPERS tied bonuses to audited returns—maps precisely onto the observed difference in discrepancy patterns. This alignment between incentive structure and reporting behavior is consistent with the principal-agent framework developed in Part 3 and would not be predicted by a purely methodological explanation. Third, the fact that OPERS, operating in the same macroeconomic environment and subject to the same Ohio statutory framework, exhibits a bidirectional and statistically random pattern of discrepancy suggests that the persistent unidirectional pattern at STRS reflects something specific to STRS rather than a systemic feature of Ohio pension accounting.

Taken together, the evidence is most consistent with incentive misalignment as the primary driver of the STRS reporting gap, while acknowledging that methodological factors (particularly alternative asset valuation lags) may have amplified the discrepancy in specific years, most notably 2022. Future research with access to internal return calculation documentation would be well positioned to disentangle these contributions more precisely.

The distribution of annual discrepancies is not uniform across the study period. Fiscal year 2022 represents a notable outlier: the gap between reported and audited returns reached 1.79 percentage points, producing a single-year dollar discrepancy of approximately $1.57 billion, roughly three times the next-largest annual figure and more than five times the twenty-year average gap. This single year accounts for a disproportionate share of both the $4.8 billion simple total and the $9.3 billion compounded overstatement.

Several non-behavioral factors may have contributed to the magnitude of the 2022 discrepancy. Fiscal year 2022 was marked by sharp and broadly synchronized declines across public equity markets, significant dislocation in fixed income, and heightened valuation uncertainty in private equity and alternative assets. Because alternative asset valuations rely on appraisal-based rather than mark-to-market methods, they tend to lag market movements (meaning audited net fiduciary positions may reflect losses more quickly than internally reported returns, which can incorporate smoothed or lagged valuations for illiquid holdings). If STRS held a higher concentration of alternative assets than OPERS during this period, this methodological asymmetry could mechanically amplify the reported-vs-audited gap in a down-market year without necessarily reflecting intentional inflation.

Even accounting for these possibilities, however, the 2022 discrepancy is directionally consistent with the pattern observed across all other years in the dataset: reported returns exceeded audited returns. And the overall pattern of 19 overreports in 20 years remains statistically robust regardless of whether 2022 is included or excluded from the analysis. Removing 2022 from the dataset reduces the simple dollar total to approximately $3.2 billion and the average annual gap to approximately 0.24 percentage points but does not alter the fundamental inference that STRS's reporting pattern diverges systematically from what would be expected under random measurement error.

If reported investment returns were an unbiased estimate of the audited (and presumably accurate) returns, overestimation in a given year should be as likely as underestimation. Assuming the probability of overreporting if unbiased is 0.5, the 19 overreports for STRS would occur with a probability of less than .0001 by chance. By contrast, OPERS's 8 overreports would have a 0.12 probability of occurring by chance. The system that ties performance bonuses to audited returns expected a pattern of mis-statement consistent with random error. The system tying bonuses to reported returns observed consistent overreporting of returns.

The magnitude of STRS's overreporting of returns, over twenty years, is substantial. Column 5 of Table 1 reports the dollar amount of the over (or, in 2020, under) report of returns, in millions of dollars. The total of these annual differences is $4.8 billion, or 5.5 percent of the audited net fiduciary position at the end of fiscal year 2022. The analysis then compounds these annual differences over time rather than simply adding them together. Each year's excess reported gain increases the apparent asset base used in subsequent years, because higher reported performance makes the fund appear larger going forward. As a result, the methodology captures a chain of cumulative effects in which every annual overstatement carries forward and affects future valuations. Mathematically, this functions as a sequence of small annual growth

adjustments applied recursively to an evolving asset base. In simplified form, the excess amount in year *t* equals the prior year's assets multiplied by that year's return difference, while the next year's reported asset level incorporates actual gains, contributions, benefit payments, and the additional "phantom" amount created by the reporting discrepancy. The reported cumulative total of approximately $9.3 billion therefore represents the compounded sum of all annual excess amounts over the twenty-year period. It bears emphasis that this $9.3 billion figure represents the cumulative scale of the reporting discrepancy—i.e., the magnitude by which STRS's reported asset growth exceeded its audited asset growth over the 20-year period—and should not be understood as the sum of excess bonus compensation paid to administrators. The actual bonuses tied to overstated returns is not a precise amount documented here.

The analytical significance of the $9.3 billion lies elsewhere: it measures the extent to which beneficiaries, legislators, and taxpayers were presented with a systematically inflated picture of the fund's investment performance. When principals make decisions—about benefit levels, contribution rates, or the adequacy of oversight—based on reported rather than audited returns, the $9.3 billion represents the cumulative gap between the performance picture they were given and the one the audited record supports. In this sense, the figure captures the scale of the information asymmetry rather than the direct fiscal transfer to administrators. The governance concern is not merely that bonuses were overstated but that the entire institutional environment within which stakeholders assessed fund health was shaped by unaudited metrics that consistently overstated performance.

Note, too, that the audited returns in Table 1 provide no evidence that any opportunism on the part of STRS executives to collect bonuses based on overstatement of unaudited returns reduced annual investment returns. The average audited rate of return over these twenty years was 8.40 percent for STRS versus 8.22 percent for OPERS. The average return may obviously differ based on investment portfolio differences, but these averages show no evidence that opportunism was weakening STRS's financial position over time.

6. Governance, Trust, and Institutional Reform

The divergence between audited and reported returns has direct distributional consequences insofar as performance bonuses are calculated using the higher, unaudited reported returns. This approach creates a misalignment in which administrators can capture concentrated benefits through bonus compensation while the costs of overstated performance—underfunded benefits and increased fiscal pressure—are dispersed across teachers, taxpayers, and future cohorts.

Such arrangements are seemingly fertile ground for rent extraction. The use of unaudited performance metrics creates a form of fiscal illusion: reported investment success gives the appearance of strong fund performance even as the underlying audited financial position fails to deliver commensurate improvements in beneficiary outcomes. Teachers may hear that returns are robust, yet experience stagnant or declining real benefits, particularly when adjusted for inflation.

Although annual discrepancies appear modest in percentage terms, their cumulative effect is substantial. When translated into dollar values, the overstatement of STRS's reported returns between 2003 and 2022 totals approximately $9.3 billion. To the extent that bonuses were calculated using overstated reported returns, administrators received compensation tied at least in part to investment gains that do not appear in the audited financial record, though the precise dollar value of such excess compensation is not documented here. From a public choice perspective, this outcome is unsurprising. When institutional rules permit agents to be rewarded based on unaudited metrics, rational agents will respond accordingly. The problem is not individual malfeasance but systemic misalignment of incentives.

The Ohio Auditor of State's recent special audit of STRS appropriately highlighted concerns regarding the system's bonus structure, though it did not directly examine the divergence between audited and reported returns. The next appropriate response is not merely enhanced disclosure but institutional reform that realigns incentives.

One plausible reform would be to tie performance bonuses exclusively to CPA-audited investment returns derived from net fiduciary position. Doing so would reduce information asymmetry, limit rent-seeking opportunities, and restore a clearer connection between compensation and verifiable financial performance. More broadly, eliminating the coexistence of audited and unaudited performance metrics would strengthen trust in the system by reducing the perception—and risk—of self-dealing.

At present, STRS effectively operates with two sets of performance records: one governed by external audit and legal accountability, and another used for internal evaluation and compensation without comparable oversight. Public choice economics predicts that such an arrangement will erode institutional credibility over time. The persistence of this structure thus represents not merely a technical accounting issue but a deeper governance failure rooted in misaligned incentives and weak constraints. The reporting of unaudited returns that systematically deviated from the audited numbers is consistent with what Twight (1988) describes as political transaction cost augmentation—efforts to increase the cost to principals of monitoring agent behavior—though establishing this characterization definitively would require evidence beyond

the comparative return data presented here. The “second set of books” for STRS makes efforts by members, legislators, and other stakeholders to hold system managers accountable more difficult.

The evidence from both Ohio’s experience and national trends underscores a fundamental tension in public pension finance. The gap between promised benefits and available resources continues to widen despite periodic reform efforts, while the costs of addressing this imbalance increasingly constrain governments’ ability to fund other public priorities. As unfunded liabilities compound and absorb larger shares of state revenues, policymakers face difficult choices about intergenerational equity, the allocation of fiscal resources, and the structural reforms needed to restore long-term sustainability. Whether by disaggregating legacy debt, adjusting contribution rates, or revising benefit structures, states must confront the reality that deferring these decisions only magnifies the burden passed to future taxpayers and beneficiaries.

7. State-Based (Decentralized) Oversight

What, then, are the possible solutions? At bottom, the most essential principle is transparency. In Ohio’s case, the State Auditor underscored this point following an extensive investigation into STRS. As his office explained, “STRS, the Ohio Retirement Study Council (ORSC), and state lawmakers should review pension system policies and related laws and consider changes to improve the overall management of pension funds” (Auditor of State 2022). Moreover, he maintained, “That includes potentially implementing more effective safeguards to ensure required actuarial reviews and fiduciary audits are conducted in a timely manner, rethinking how or whether bonus payments are offered to investment staff, and removing trade secret provisions that shield investment decisions from further scrutiny” (Auditor of State 2022).

Fortunately, meaningful reform in Ohio need not take the form of wholesale restructuring of pension governance or the creation of entirely new oversight institutions. While broader reforms may be warranted in some jurisdictions, the concerns identified in the STRS case point to a more modest and readily implementable adjustment: aligning performance-based compensation with CPA-audited investment returns derived from net fiduciary position. Such a reform would directly address the incentive misalignment at the core of the reporting discrepancy without altering board composition, benefit formulas, or contribution requirements. By tying bonuses to audited, legally accountable performance measures, Ohio could reduce information asymmetry, constrain opportunistic behavior, and enhance transparency at relatively low administrative cost. In this sense, the path to improved accountability is incremental rather than radical, relying less on

institutional overhaul than on recalibrating incentives to ensure that compensation reflects verifiable financial reality rather than unaudited performance metrics.

8. Conclusion

Managing public pension systems involves complex challenges: maintaining financial stability, responding to citizens' needs, and ensuring fairness across generations. Pension governance is complicated, with members, legislators, and taxpayers all having a stake in performance. As research in corporate governance demonstrates, the performance of governance mechanisms depends on details which are difficult to include in quantitative analysis. We offered as a complement a case study on STRS Ohio, selected based on recent governance reforms imposed by legislators and suggesting past mismanagement. Our examination revealed one form of shirking, a systematic overreporting of investment returns relative to audited returns, with performance bonuses based on these reported returns. By contrast, Ohio's other public sector pension system, OPERS, ties management bonuses to audited returns and exhibited a pattern of deviation of reported returns versus audited returns consistent with random error.

The governance failure we document—a systematic divergence between audited and reported investment returns, sustained by compensation structures that reward unaudited performance metrics—is not unique to Ohio in its underlying logic, even if the STRS evidence is the basis for our analysis. Other public pension systems that tie performance bonuses to unaudited returns face analogous incentive misalignments, and the comparative evidence from OPERS suggests that institutional design choices meaningfully shape reporting behavior. Whether similar discrepancies exist elsewhere is an empirical question we do not answer but that future research should examine.

Addressing the specific governance failure identified here does not require wholesale institutional restructuring. Fortunately, the opportunism identified in our case study has a relatively straightforward remedy: ensure that performance bonuses are based on audited returns. Pension systems could also reevaluate the need for unaudited statements about performance at all, which seemingly can only exacerbate monitoring challenges for the numerous stakeholders. Tying performance-based compensation exclusively to CPA-audited returns derived from net fiduciary position is a modest, technically feasible reform that directly addresses the incentive misalignment at the core of the reporting discrepancy we documented. It would reduce information asymmetry, constrain opportunistic reporting, and strengthen the connection between compensation and verifiable financial performance without altering board composition, benefit formulas, or

contribution requirements. We do not claim that this reform alone would resolve pension underfunding broadly, restore public trust comprehensively, or eliminate the fiscal pressures facing state pension systems nationally. What we do establish is that a specific and correctable governance problem exists in the design of performance reporting and compensation at STRS, and that a proportionate institutional remedy is available.

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