Do Pay-to-Play Rules Protect Public Pension Funds?

Evidence from Private Equity

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Main finding

Contribution restrictions reduce politically linked access to public pension capital.

Why this question matters

POLICY SETTING

The SEC proposed rescinding Rule 206(4)-5 in September 2026. The proposal renews the question of whether contribution restrictions protect pension beneficiaries beyond general antifraud and fiduciary rules.

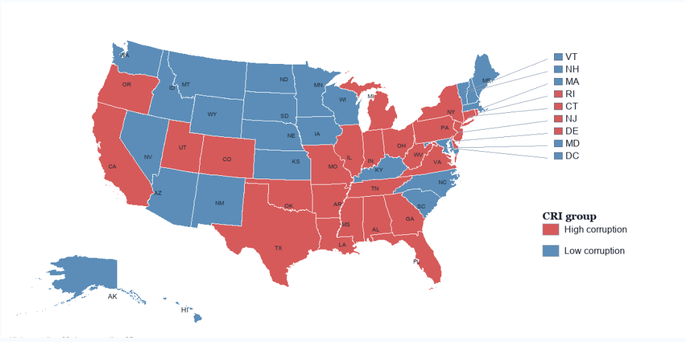
160 plans
47 states, 2000–2022

2.25M
GP-state-year observations

MATCHED SAMPLE

Hand-collected pension external managers are matched to Preqin GPs and DIME contributions. GP-level propensity-score matching retains 2,698 firms, followed over their full state-year histories.

POLITICAL AND REGULATORY VARIATION



High- versus low-corruption states define the triple-differences comparison.

EMPIRICAL DESIGN

Baseline linear probability models include GP fixed effects and state-by-year fixed effects. Regulatory tests use the SEC rule and staggered adoption of state and local pay-to-play laws.

Political giving and manager selection

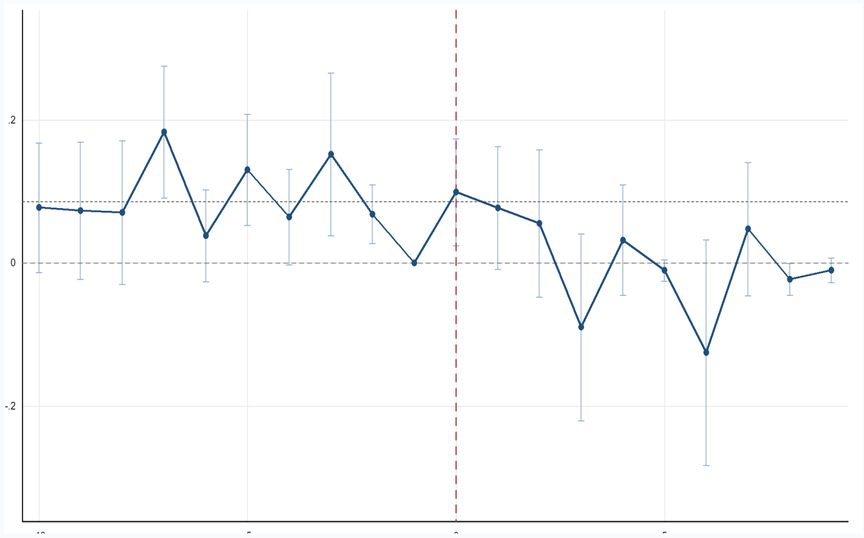
+3.3 pp
Baseline probability: 0.6%

higher probability of managing public pension assets in the state next year
Table IV, preferred specification

RECIPIENT PATTERN

State and local giving predicts mandates. Federal giving does not. The pattern concentrates among officials with influence over pension investment decisions.

SEC RULE 206(4)-5



DDD event study: high- versus low-corruption states

≈80%
Gap falls from about 8.4 to 1.4 percentage points.

narrowing in the high-minus-low-corruption contribution–mandate gap after the SEC rule

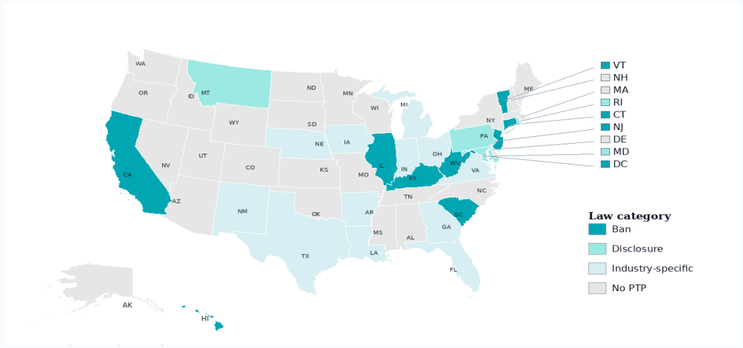
Governance and state-law evidence

BOARD GOVERNANCE

–5.65 pp
Investment-board interaction with one-year-lagged donations

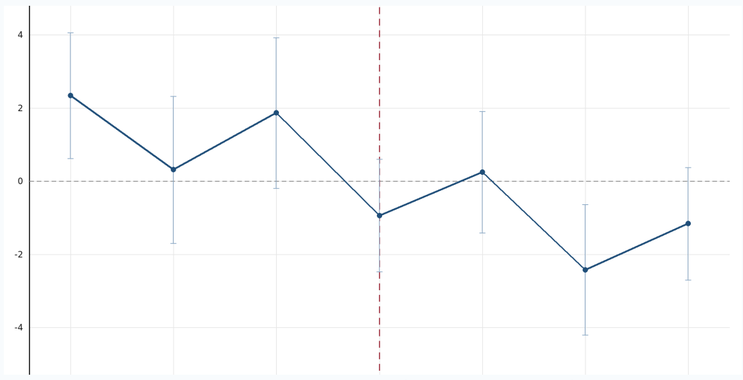
The contribution–mandate relation weakens or disappears when a pension has a separate investment board.

STATE AND LOCAL PAY-TO-PLAY LAWS



–84%
reported PE contributions after contribution-ban laws

+2.98 pp
pension return estimate after ban-law adoption



Ban-law event study for pension-level PE donations

No statistically detectable change in the share of pension assets delegated to PE managers. Few jurisdictions adopt these laws, so the return evidence warrants caution.

Source: Tu, Wang, and Wen (2026), full_paper_202610. Estimates from Tables IV, VII, VIII, XIII, and XVII; figures from the paper's 202610 figure set.

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