

State Pension Fund Investment in Cryptocurrency: A Risky Gamble with Public Retirement Security

Brady Williams | *Legal Counsel*

August 4, 2025

Summary

In recent years, a growing number of U.S. states have introduced legislation or pursued policies that permit the investment of state-controlled funds — including pension funds — into cryptocurrencies and related digital assets. While some argue that these investments offer the potential for higher returns and innovation, the volatility, regulatory ambiguity, and structural risks inherent to digital assets pose significant threats to the financial security of public retirees and the viability of public pensions. This report details the emerging trend of crypto investment by state pension funds, the pressures driving this shift, the fiduciary concerns it raises, and why such investments are ill-suited for the long-term obligations of public retirement systems.

Four Key Points

1. The Emerging Trend: Crypto in Public Pensions

State pension funds are increasingly gaining exposure to cryptocurrency assets, either directly through digital tokens such as Bitcoin or indirectly via exchange-traded products (ETPs)¹ and equity stakes in crypto companies like Coinbase. To date, several dozen states have allowed or proposed allowing such investments — typically capping them between 5% and 10% of the total portfolio.

In 2024 and 2025 alone, over 20 states have introduced legislation enabling state treasurers, pension boards, or other fiduciaries to invest public dollars into digital assets.² In some instances, these bills only apply to state reserve funds, which are “rainy day funds” that allow states to set

¹ We note that cryptocurrency offerings in any wrapper, such as an ETP, still presents the same fundamental risks. See Better Markets Supplemental Comment Letter to SEC Spot Bitcoin ETP Trading (Sept. 13, 2024), <https://bettermarkets.org/impact/better-markets-urges-sec-to-reject-listing-and-trading-of-options-on-a-spot-bitcoin-etp/>.

² Scott Sowers, *States loosen restrictions on pension funds and crypto*, THE BOND BUYER (Apr. 01, 2025), <https://www.bondbuyer.com/news/states-loosen-restrictions-on-pension-funds-and-crypto>.

aside surplus revenue for use in managing unexpected deficits.³ Other bills explicitly authorize investment by public retirement systems. Proposed forms of investment vary but commonly include:

- Direct ownership of cryptocurrencies (e.g., Bitcoin), often limited to cryptocurrencies that reach certain market capitalization thresholds (e.g., \$500 billion or \$750 billion in minimum cap);⁴
- Stablecoins, falsely touted as low-volatility alternatives;
- Exchange-traded products or funds with crypto exposure.

A minority of states have rejected such legislation, often due to fiscal prudence, concerns over constraints imposed by the fiduciary duty, or public skepticism of the crypto industry.⁵

2. Drivers Behind the Crypto Push

Several structural and political factors are fueling the rise of crypto investments in state-managed funds:⁶

- **Unfunded Pension Liabilities and Demographic Pressures:** Chronic underfunding of state pension systems,⁷ which has worsened since 2000, has left policymakers desperate for higher returns. As Baby Boomers retire in large numbers, crypto's promise of outsized gains has been increasingly viewed as a way to eliminate or reduce these shortfalls, but this is a desperation play at best.

³ See, e.g., *Texas House Approves SB 21, Paving Way for State-Run Bitcoin Reserve*, TEXAS POLICY RESEARCH (May 22, 2025), <https://www.texaspolicyresearch.com/texas-house-approves-sb-21-paving-way-for-state-run-bitcoin-reserve/>.

⁴ These thresholds are typically only met by Bitcoin and sometimes Ethereum.

⁵ See, e.g., Helen Partz, *Connecticut lawmakers vote to prohibit crypto use in government*, COIN TELEGRAPH (June 11, 2025), <https://cointelegraph.com/news/connecticut-crypto-investment-ban-state-politicians>. Although Arizona's state legislature approved a Bitcoin Reserve bill, Arizona Governor Katie Hobbs vetoed the bill. PYMNTS, *Arizona Governor Shoots Down Plans for State Bitcoin Reserve* (May 4, 2025), <https://www.pymnts.com/cryptocurrency/2025/arizona-governor-shoots-down-plans-for-state-bitcoin-reserve/>. For a survey of state proposals establishing state crypto reserves, see Prashant Jha, *Race to Bitcoin Reserves: New Hampshire and Arizona Lead, Texas Close to Full Approval*, CCN (May 22, 2025), <https://www.ccn.com/news/crypto/us-states-strategic-bitcoin-reserve-2025/>.

⁶ Todd D. Kanaster & Geoffrey E. Buswick, *Cryptocurrency Is Growing Within U.S. State Reserves and Statewide Pension Plans*, S&P GLOBAL (Mar. 27, 2025), <https://www.spglobal.com/ratings/en/research/articles/250327-cryptocurrency-is-growing-within-u-s-state-reserves-and-statewide-pension-plans-13455336>.

⁷ Joanna Biernacka-Lievstro, Ph.D. & Joe Fleming, *States' Unfunded Pension Liabilities Persist as Major Long-Term Challenge*, PEW TRUSTS (July 7, 2022), <https://www.pewtrusts.org/en/research-and-analysis/articles/2022/07/07/states-unfunded-pension-liabilities-persist-as-major-long-term-challenge>; <https://www.federalreserve.gov/releases/z1/dataviz/pension/>.

- **Political Encouragement:** The SEC’s approval of crypto-based ETPs, followed by the Trump Administration’s wholehearted support for crypto,⁸ has cast crypto as a legitimate asset class and created a false sense of stability in the sector.⁹
- **Financial Innovation Narratives:** Crypto firms and lobbying groups have intensified their efforts to access trillions of dollars in public investment funds, often marketing themselves as the future of finance and offering tokenized investment products.¹⁰
- **Macroeconomic Uncertainty:** As inflation concerns, decreased growth, and market volatility all loom over the economy, digital assets are sometimes framed as hedges — though their performance has been anything but consistent.¹¹

3. Fiduciary Duties and Legal Guardrails

Unlike private retirement plans governed by the Employee Retirement Income Security Act (ERISA), public pension plans are exempt under 29 U.S.C. § 1003. This means they are not backed by the Pension Benefit Guaranty Corporation (PBGC), a government agency that insures private defined benefit pension plans, and protections vary by state.

Each state defines its fiduciary standards for pension trustees. For instance, Maryland applies a fiduciary duty of care and loyalty to trustees — principles that are generally accepted across many states. Under these standards, trustees must invest prudently, diversify holdings, and act solely in the interest of plan beneficiaries.

Crypto’s extreme volatility, susceptibility to fraud, and regulatory uncertainties raise significant fiduciary red flags. Even the U.S. Department of Labor has issued guidance urging “extreme caution” when it comes to digital asset investments in retirement plans — underscoring the risk that trustees may violate their obligations if they pursue crypto exposure without rigorous due

⁸ See, e.g., Executive Order, Strengthening American Leadership In Digital Financial Technology (Jan. 23, 2025), <https://www.whitehouse.gov/presidential-actions/2025/01/strengthening-american-leadership-in-digital-financial-technology/>.

⁹ After the SEC’s approval of spot bitcoin ETPs and spot ether ETPs, several pension funds started to invest in the exchange-traded products, including Wisconsin and Michigan. See Roger Huang, *As Pension Funds Buy Bitcoin, A New Path In Its History Is Traced*, FORBES (June 12, 2025), <https://www.forbes.com/sites/digital-assets/2025/06/12/as-pension-funds-buy-bitcoin-a-new-path-in-its-history-is-traced/>; Kathie O’Donnell, *In surprise pivot, SEC approves applications to list spot ether ETFs*, PENSIONS & INVESTMENTS (May 23, 2025), <https://archive.ph/0bXWh>. Wisconsin subsequently divested its entire \$350 million spot bitcoin ETP position in May, 2025. Francisco Rodrigues, *Wisconsin Sells Entire \$350M Spot Bitcoin ETF Stake*, COINDESK (May 16, 2025), <https://www.coindesk.com/markets/2025/05/16/wisconsin-sells-entire-350m-spot-bitcoin-etf-stake>.

¹⁰ Courtney Degen, *Inside the patchwork quilt of state-sponsored crypto legislation*, PENSIONS & INVESTMENTS (Feb. 27, 2025), <https://www.pionline.com/cryptocurrency/inside-patchwork-quilt-state-sponsored-crypto-legislation>.

¹¹ Tanaya Macheel, *Bitcoin is just another tech stock, not a market hedge, study shows*, CNBC (Mar. 25, 2025), <https://tinyurl.com/25kybyva>.

diligence.¹² While the DOL recently rescinded that guidance without any explanation for how the underlying risks have changed,¹³ “extreme caution” is still warranted under the fiduciary standard, whether based on federal or state law. The point is reinforced by the concerns of many beneficiaries, who fear the extreme volatility that typically comes with crypto investments.¹⁴

4. Why Crypto Has No Place in Public Pension Portfolios

Despite industry hype and the recent development of regulated crypto ETFs, there are compelling reasons to exclude cryptocurrencies from public pension investments.

A. Unmanageable Risk

Crypto prices remain highly volatile, with Bitcoin alone having experienced multiple price drops exceeding 50% in recent years.¹⁵ The extreme volatility, lack of intrinsic value, speculative nature of trading, and frequent security breaches (e.g., exchange hacks)¹⁶ make crypto-based investments fundamentally incompatible with the long-term, risk-averse orientation of pension funds.

B. Regulatory Ambiguity

Crypto markets are still subject to shifting regulatory regimes in the U.S. and globally. Whether tokens are securities, commodities, or something else remains a subject of litigation, agency dispute, and controversy on the Hill. Crypto companies such as exchanges also have been frequently targeted for violations of anti-money laundering laws.¹⁷ This uncertainty creates compliance risks that public entities are ill-equipped to manage.

C. Lack of Transparency and Oversight

Even regulated crypto exchanges and ETF products suffer from opaque pricing mechanisms, operational vulnerabilities, and limited investor protections. Pension trustees cannot rely on these

¹² Department of Labor, *Compliance Assistance Release No. 2022-01: 401(k) Plan Investments in “Cryptocurrencies”* (Mar. 10, 2022), <https://www.dol.gov/agencies/ebsa/employers-and-advisers/plan-administration-and-compliance/compliance-assistance-releases/2022-01>.

¹³ Press Release, U.S. Department of Labor, *US Department of Labor Rescinds 2022 Guidance on Cryptocurrency in 401(k) Plans* (May 28, 2025), <https://www.dol.gov/newsroom/releases/ebsa/ebsa20250528>.

¹⁴ Will Doran, *NC lawmakers pump the brakes on investing state pensions into Bitcoin*, WRAL NEWS (Apr. 16, 2025), <https://www.wral.com/story/nc-lawmakers-pump-the-brakes-on-investing-state-pensions-into-bitcoin/21962766/>.

¹⁵ John Edwards, *Bitcoin’s Price History*, INVESTOPEDIA (May 22, 2025), <https://www.investopedia.com/articles/forex/121815/bitcoins-price-history.asp>.

¹⁶ *Category deep-dive: \$2.2 billion was stolen in crypto-related hacks in 2024*, TRM LABS (Mar. 18, 2025), <https://tinyurl.com/2avnoth9>.

¹⁷ See, e.g., Press Release, U.S. Department of Justice, *Binance and CEO Plead Guilty to Federal Charges in \$4B Resolution* (Nov. 21, 2023), <https://www.justice.gov/archives/opa/pr/binance-and-ceo-plead-guilty-federal-charges-4b-resolution>.



platforms with the same confidence afforded to traditional financial institutions.

Conclusion

State governments must reject the lure of cryptocurrency in public pension investment strategies. The potential rewards are dwarfed by the systemic risks, legal ambiguities, and fiduciary concerns. Rather than embracing crypto, states should:

- Enact statutory prohibitions on crypto investment within pension plans;
- Require full public disclosure of any digital asset exposure;
- Support investor and fiduciary education on the risks of emerging financial instruments;
- Strengthen funding policies through responsible budgeting and realistic return assumptions.

Public workers and retirees depend on the stability and solvency of state pension systems. Gambling with their futures in the hopes of speculative windfalls is a violation of public trust. Crypto is no place for pension dollars.



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