Retirement News Highlights

Tuesday, February 14, 2023

Indiana PRS would lose $6.7 billion over 10 years if ESG funds banned – report

By Christine Williamson
Pensions & Investments
February 14, 2023

Indiana Public Retirement System, Indianapolis, will be prohibited from investing with money managers that utilize non-financial ESG factors in their funds if a bill passed Feb. 2 by a committee of the Indiana House of Representatives if it becomes law. However, a report estimated that such a law would result in billions of dollars in lost investment returns.

House Bill 1008 "provides that a fiduciary, in making and supervising investments of a reserve fund of the public pension system, shall discharge the fiduciary's duties solely in the financial interest of the participants and beneficiaries of the public pension system," according to a description of the bill.

A committee of the Indiana Senate passed a similar bill — Senate Bill 292 — on Jan. 25.

The House bill would require INPRS to divest from money managers or funds in which the retirement system invests that incorporate environmental, social and governance factors, but also from money managers that "pursue or market ESG investments for other clients," according to a fiscal impact statement about the bill prepared by Indiana's Legislative Services Agency Office of Fiscal Management and Analysis.

The report said an estimate of the impact of the bill by the staff of the $43.7 billion INPRS "could result in reduced aggregated investment returns for the system's defined benefit and defined contribution funds managed by INPRS by a total of $6.7 billion over the next 10 years, with the DB plan down by $6.4 billion and $300 million for the defined contribution plan."

Such a decrease would reduce the estimated annual return to 5.05% from 6.25%, the report said, noting "this likely would result in increased expenditures for state employers for pension contributions."

The report also noted that "under the bill, governmental entities would be required to ensure that their employees, investment managers and advisors make investments and carry out their duties in the financial interest of the participants and beneficiaries of the funds and not to further the following political, social or ideological interests: reduction of greenhouse gas emissions; institute or address corporate board, employment, composition or disclosure criteria based on protected classes under Indiana civil rights statutes."

INPRS declined to comment on the House and Senate ESG bills.

As of Oct. 31, INPRS had a total of $43.7 billion in assets, of which $37.3 billion was in the state's defined benefit plan and $5.9 billion was in the defined contribution plan, INPRS most recent investment report showed. The balance of INPRS' assets are in other funds.

Back to top