Study: Md. Pension Fund Is Losing Money By Holding on to Fossil Fuel Investments

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At hearings this week, lawmakers are set to consider bills that would encourage the state’s pension fund to consider climate change impacts of all investments. But it stops short of being a full divestment bill, which advocates are pressing for. Photo by Skórzewiak/stock.adobe.com.

Just days before two legislative committees are set to hear a bill that would require the Maryland pension system to consider climate change as a financial factor when making investment decisions, environmental groups have released a study showing that the state has sacrificed millions of dollars in potential returns by investing in fossil fuel companies responsible for the climate crisis.

The timing of the report’s release is not coincidental: It’s designed to pressure lawmakers to strengthen the bill currently before them, and to divest all state pension fund investments in fossil fuel companies.

The legislation, sponsored by the chairs of the General Assembly’s Joint Committee on Pensions, Sen. Sarah K. Elfreth (D-Anne Arundel) and Del. Brooke E. Lierman (D-Baltimore City), would require the Maryland State Retirement and Pensions System to identify climate risks, determine investment opportunities in emerging technologies, wean the state off of fossil fuel investments, and establish policies to implement and report on these practices.

“The time for action is now,” Lierman said when she and Elfreth introduced the bill earlier this month. “We need to ensure that our retirees know that their pension dollars are safe and secure — and that means ensuring that we are taking climate change into account in our investment decisions.”

The bill is due to be heard in the House Appropriations Committee on Tuesday and in the Senate Budget and Taxation Committee, where Elfreth serves, on Thursday.

But two Maryland-based environmental groups, Chesapeake Climate Action Network (CCAN) and 350 Montgomery County, maintain that the bill does not go far enough because it does not immediately end pension fund investments in fossil fuel companies and doesn’t provide a clear road map for eventual divestment. And they’re now armed with a study showing that the State Retirement and Pensions System has sacrificed significant returns in investment since 2010 by buying and holding “dirty energy stocks.”

“We’re going to aggressively push to strengthen the legislation,” said Mike Tidwell, CCAN’s executive director.
The study, conducted by a New York-based research and advisory firm called FFI Solutions, examined Maryland pension fund investments in companies on the Carbon Underground 200, a list compiled by the firm that identifies the top 100 coal and the top 100 oil and gas publicly-traded reserve holders globally, ranked by the potential carbon emissions of their reported reserves. The report found that as of last September, the pension fund had holdings in 162 of these companies totaling over $620 billion in securities. The largest investments in the portfolio were with ExxonMobil and Chevron.

According to FFI, if the state had divested from these 162 companies beginning in 2010, the pension system portfolio would have seen gains of 143.77% instead of the growth it did experience with the fossil fuel investments, which was 128.58%. For every $1,000 invested by the pension fund in 2010, the returns would be $150 greater today had the portfolio divested from the Carbon Underground 200 companies, the report calculated.

In June 2021, the Maine legislature became the first to vote to divest its pension fund from fossil fuel companies. The bill was later signed into law by the Democratic governor.

In December 2020, New York state Comptroller Thomas DiNapoli (D), who controls the state government’s pension investments, announced the Empire State would drop many of its fossil fuel stocks over a five-year period and sell its shares in other companies that contribute to climate change by 2040. New York City, San Francisco and Washington, D.C., have also moved to completely divest their pension funds of fossil fuel stocks.

“We’re one of the most vulnerable states in the country to climate change,” Tidwell said. “We should be leading on this, not following.”

Leaders of CCAN and 350 Montgomery County are hoping that state government employees and educators, who depend on state investments for their retirement nest eggs, will urge the legislature to strengthen the bill by expediting fossil fuel divestment. A Montgomery County high school English as a Second Language teacher, Chris Wilhelm, is prepared to make that case.

“Thousands of educators in Maryland, myself included, are relying on the pension system to be strong for the decades to come,” he said. “It’s clear now that divesting from fossil fuels is the best path forward for the [pension fund] to protect the system from delivering subpar financial returns.”

Lierman is a candidate for comptroller this year, and the comptroller sits on the Board of Trustees of the Maryland State Retirement and Pension System. On her campaign website, Lierman signaled that she’s keen on divesting from fossil fuels.

“The fossil fuel industry has been one of the worst-performing sectors of the American economy and it is time for all pension funds, including Maryland’s, to stand up and commit its funds elsewhere,” she says on the website.

Whether that translates into a stronger bill this year is an open question.