# Retirement News Highlights

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## Anti-ESG Politicians Cost Their States and Cities Billions

Analysis by Brian Frosh and Nancy Kopp | Bloomberg
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In the face of fires, record heat, floods and other extreme weather events across the country, House Republicans are using much of July to oppose financial transparency related to climate risks and to attack investor freedoms. Their reckless course endangers not just the planet but also the financial stability of Americans' retirement savings and pensions. One Republican went so far as to say consideration of climate risk by asset managers is "Satan's plan."

On July 12, leaders of the House Financial Services Committee launched hearings to attack environmental, social and governmental (ESG) practices by financial firms. They are also crafting legislation that would outlaw long-standing risk assessment practices. Just as dangerously, House Republicans intend to restrict shareholders' ability to hold corporate executives accountable by restricting rights to vote proxies and curbing shareholder resolutions related to corporate governance.

It's hardly surprising that oil companies and other fossil fuel businesses have poured tens of millions of dollars into the campaign coffers of committee members and other anti-ESG politicians across the country.

Money managers use highly disciplined processes to analyze risks and opportunities facing their portfolios. Yet some politicians want to bar them from assessing dangers related to climate change. Hurricanes, tornadoes, floods, droughts and fires pose huge risks to people, infrastructure and businesses. According to the National Oceanic and Atmospheric Administration, climate-driven disasters cost the US economy $165 billion in damage last year.

It is crucial for those managing other peoples' money, including public pension plans, to factor in climate change. Yet across the country, politicians are putting their conservative views above the common good; as a result, states and municipalities are paying higher interest rates on bonds and getting poorer returns on investments.

In Texas, anti-free market legislation could cost taxpayers up to $532 million in higher interest costs within a year. In Indiana, a bill to limit ESG investing could cut state pension returns by $6.7 billion over the next 10 years. The Arkansas Public Employees Retirement System estimated that it could lose $30 million to $40 million a year in potential investment returns due to a similar law.

Analysis by the economics consultant firm ESI for the Sunrise Project, an advocacy group, found that taxpayers in six states — Kentucky, Florida, Louisiana, Oklahoma, West Virginia and Missouri — could be on the hook for up to $700 million in excess interest payments if restrictions on sustainable investing are implemented.

The irony is that politicians who typically champion the free market have enacted laws that prohibit investment managers from taking into account major risks to their portfolios. State officials have threatened legal action against asset managers who factor basic investment risk into the management of pensions for millions of Americans.

Florida recently passed one of the most restrictive investment bills in the country. According to The Hill, it "obligates state-registered banks to make loans to several industries — including fossil fuels, private prisons or the manufacture and sale of firearms." It is just one of the many efforts by state and local politicians to put their thumbs on the scale for their contributors and political allies.

Obstruction of responsible investment is starting to bite. A Texas school district was forced to repurchase bonds at a higher interest rate due to the state's financial institutions blacklist. Florida pensioners — first responders, firefighters and teachers — face potential losses of as much as $10 billion in returns. Oklahoma, which banned state investment funds from working with companies that use ESG policies, lost its bid to land a major Volkswagen battery factory. The automaker is instead building in Canada, which has strong sustainability practices. Stillwater, Oklahoma, is grappling with a $1.2 million interest hike for a loan to upgrade the city's infrastructure.

Asset managers have a fiduciary duty to their clients. It is irresponsible and dangerous for public officials to dictate which investments they must favor. Financial professionals must be able to factor in the huge risks of extreme weather events, and ordinary Americans cannot afford to have climate deniers gamble with their life savings.

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