Retirement News Highlights

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DOL Finalizes Rule to Reduce 'Chilling Effect' On ESG

The measure is in direct response to rules put in place by the Trump administration in 2020 and comes amid an ESG backlash from officials in conservative-leaning states.

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The U.S. Department of Labor finalized a rule Tuesday that will make it easier for corporate pensions to consider climate change and other environmental, social and governance factors when making investment decisions, as well as to engage in proxy voting on those issues.

The new regulation, proposed last year, is in response to rules set by the administration of former President Donald Trump that had “inadvertently created more confusion than clarity” for stakeholders, said Assistant Secretary of Labor Lisa Gomez on a call announcing the new rule.

“These stakeholders stated emphatically that the 2020 rules have chilling effects contrary to the interests of participants and beneficiaries,” she said. “Specifically, the 2020 rules were discouraging the use of ESG factors even in cases where it is in the plan’s economic interest to use those factors.”

In 2021, current President Joe Biden released a sweeping executive order compelling key regulators to assess risks posed to the U.S. financial system by climate change, and it included a directive to the DOL to reevaluate these rules.

The new rule will go into effect 60 days after its publication, the Labor Department said in a press release, except some parts affecting proxy voting, which will take effect one year after publication so that fiduciaries and investment managers will have time to prepare.

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