SRPS

Retirement News Highlights

Friday, March 31, 2023

Vermont Senate advances fossil fuel divestment bill despite pension officials' opposition

By Margarida Correia
Pensions & Investments
March 31, 2023

Hope that the Vermont Pension Investment Commission would be able to compromise with Vermont legislators on a bill requiring VPIC to divest the three pension funds it oversees from fossil fuels was dashed Thursday when state senators voted in favor of an amended bill that left out key provisions VPIC was seeking.

VPIC had pleaded with lawmakers to exempt index funds and private equity from having to divest from carbon-intensive companies, but the amended bill excluded only private equity, and only temporarily. To VPIC's disappointment, the amended bill would require VPIC to divest its private equity investments from fossil fuels by Dec. 31, 2040.

"If the 2040 date holds, we would begin to unwind our private market programs at the end of next year. Doing so would have a material and immediate impact on state and municipality budgets," Thomas Golonka, VPIC's chairman, wrote in a memo to Sen. Ruth Hardy, chair of the Vermont Senate Committee on Government Operations.

The bill, which passed 22 to 8 and has the support of Vermont Treasurer Mike Pieciak, will now move to the House.

Under the S.42 legislation, VPIC will be required to divest almost all holdings — apart from private equity — from fossil fuel companies by Dec. 31, 2030, and will have to come up with a divestment plan by Sept. 1, 2024.

In addition to the temporary exception for private equity, VPIC will be allowed to have a 2% "de minimis" exposure to fossil fuel holdings across its entire portfolio through Dec. 31, 2040.

The legislation also requires VPIC to complete a review of the carbon footprint of the three pension funds that make up the $5.4 billion Vermont State Retirement Systems — the Vermont State Employees' Retirement System, the Vermont State Teachers' Retirement System and the Vermont Employees' Retirement System — by Dec. 15, 2023.

In his memo, Mr. Golonka exhorted lawmakers to allow VPIC to complete the required study before "setting the goal of divesting of anything."

"In VPIC's view, S.42 puts the cart before the horse and presupposes that divesting of fossil fuel companies is the best way to reduce our portfolio's carbon footprint," he wrote.

Mr. Golonka urged lawmakers to give VPIC the opportunity to complete the study and set "thoughtful, meaningful and measurable goals" by Jan. 15, 2024, for consideration in the next legislative session.

Senate lawmakers portrayed the bill as balancing the need to address climate change while doing no harm to the state's pension funds for teachers, municipal workers and state employees.

"The bill strikes a livable balance between our goal to reduce fossil fuel investments and the way we can practically implement these goals without harming the pension funds we have worked so hard to shore up," said Democratic state Sen. Alison Clarkson, one of the co-sponsors of the bill, on the senate floor.

VPIC's Mr. Golonka repeatedly told lawmakers during his public testimony in February and March that not excluding index funds and private equity investments from the divesting requirement would hurt the sustainability of state's three largest pension funds.

Mr. Golonka explained that carbon-free index funds are "twice the price" of traditional, broad-based index funds and that private equity investments are key to hitting VPIC's assumed rate of return.

If VPIC was forced to lower the rate of return to 6.5%, for example, from the current 7%, it would lead to a $50 million increase in the actuarially determined employer contribution, the amount the state would have to put into the retirement system annually.

Mr. Golonka and other VPIC members also forcefully argued that working with companies to enhance their environmental, social and governance practices through proxy resolutions was a more effective way to "decarbonize" the investment portfolios of Vermont's pension system.

The bill attempts to appease VPIC's concerns by saying that the commission is required to divest only if doing so is financially prudent and consistent with sound fiduciary practice.

VPIC brushed off the concession, saying that it didn't provide the commission with any protection against potential future legal challenges, such as, for example, a decision not to sell the stock of a fossil fuel company like Exxon Mobil.

A future lawsuit could claim that VPIC breached its fiduciary duty for not having sold the stock, said Eric Henry, VPIC's chief investment officer, during a VPIC meeting Tuesday.

"Even with this fiduciary exemption, I'm concerned that we all could be challenged at some point in the future," he said.

Back to top