N.Y. to Safeguard Pension Fund From Climate Change (2)

By Keshia Clukey | April 16, 2019 7:45PM ET

New York state is creating an action plan to mitigate the effects of climate change on its $207.4 billion pension fund, state Comptroller Thomas DiNapoli (D) announced April 16.

The plan will be based on recommendations from the state's Decarbonization Advisory Panel, which include ways to align with the international Paris climate change pact. That includes transitioning investments to 100 percent sustainable assets that are consistent with limiting temperature rise to 2 degrees Celsius (3.6 degrees Fahrenheit) above pre-industrial levels by 2030.

The panel on April 16 also recommended increasing the fund's investments that have a proactive approach to climate risk and opportunity, but advised against divesting from specific stocks.

DiNapoli, the sole trustee of the New York State Common Retirement Fund, said the state may choose to sell out of certain holdings after careful analysis. But he said he prefers to use shareholder power to press fossil fuel companies for change.

Divesting in Fossil Fuels

With more than 1 million state and local government employees, retirees, and their beneficiaries, New York's retirement fund is the third-largest public pension fund in the nation behind California's two plans. The audited value for New York's fund as of March 31, 2018, was $207.4 billion.

DiNapoli said he expects the fund to be above that amount when updated information is available sometime in May.

Though the discussion on divesting from fossil fuel companies has extended to other states, including California, DiNapoli said he believes New York is the first state to create a panel to assess how its pension fund is affected by climate change.

The six-member advisory panel, which DiNapoli and Gov. Andrew Cuomo (D) formed in 2018, consists of financial, environmental, energy, and legal experts.

The panel's report comes two weeks before lawmakers plan to hold a public hearing discussing the issue of divesting the state's retirement fund from fossil fuels. The April 30 hearing will focus on the proposed Fossil Fuel Divestment Act (S.2126/A.1536).

The bill proposes divesting from all holdings in the 200 largest publicly traded fossil fuel companies, as defined by carbon content in the companies' proven oil, gas, and coal reserves. Divestment from coal would be completed in one year, and divestment from other fossil fuel companies would be completed in five years, according to the bill.

Investment Strategies, Mixed Reviews

DiNapoli's office is in the process of reviewing the panel's recommendations, and pension investment staff will finalize a climate action plan in the coming weeks. They will identify what can be accomplished in the short term and what resources and further analysis will be required for more complicated endeavors, he said.

The panel's recommendations also included creating a climate solutions investment program; establishing minimum standards to measure the readiness of investments for climate change and the transition to a low-carbon economy; and using those standards to guide decisions on what securities to sell, or to avoid in new investments.

"I think it's absolutely the right direction," said Kirsten Spalding, senior director of the investor network in the California office of CERES, a nonprofit focused on sustainable investment. "On the opportunity side, what we're hearing, not just from New York, but from lots of our members is that sustainable companies, specifically low-carbon and clean energy, are the real wave of the future."

Companies that are resilient to climate change offer more opportunity for return on investment, Spalding said in an interview. It makes sense for New York to look to integrate environmental, social and governmental (ESG) factors in their investment strategy rather than simply divesting, she said.

While the National Association of State Retirement Administrators doesn't have an opinion about the ESG investing approach, the group believes decisions should be made "solely in the interest of plan participants," Keith Brainard, the association's research director, said. "[Fiduciaries] have a legal and moral obligation to maximize the investment return within an appropriate level of risk."

Environmental advocacy groups still are pushing for the state to divest.

"There's no room for fossil fuel investments in a Green New Deal. Call it divestment, call it decarbonization, call it Minimum Standards — this report urges what New Yorkers have been demanding since Superstorm Sandy," Cata Romo, an organizer with 350.org, said in a statement. "Comptroller DiNapoli must divest from toxic fossil fuel companies knowingly perpetuating climate chaos. The litmus test is if Exxon and Peabody Coal are in the portfolio at the end of the day."

Matt Dempsey, a spokesman for Divestment Facts, a project of the Independent Petroleum Association of America, took the opposite view.

"Comptroller DiNapoli has repeatedly rejected empty calls to divest, placing his fiduciary duty to New York's retirees over a costly, ineffective political gesture," Dempsey said in a statement. "Recent academic reports find divestment would impose losses on the fund ranging from $136 million to $198 million per year—the equivalent to eliminating the average annual benefit of over 8,500 retirees—while doing nothing to support the environment. Next steps for New York remain to be seen, but today's report is another clear indicator that blanket divestment is not a solution."

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