Calif. Lawmakers Target Pension Investments In Fossil Fuels

By Emmy Freedman

Law360 (April 19, 2023, 3:48 PM EDT) -- A California legislative committee advanced a bill that would divest about $15 billion from oil and gas companies from the nation's two largest state-sponsored pension funds, despite the administrators of those plans speaking out against the legislation.

On Tuesday, the California Senate Judiciary Committee voted 8-2 in favor of moving forward S.B. 252, which would prohibit the California Public Employees' Retirement System, or CalPERS, and the California State Teachers' Retirement System, or CalSTRS, from making any new investments or renewing existing ones in the top 200 fossil fuel companies.

S.B. 252 will now go before the Senate Appropriations Committee before heading to the full Senate for a vote.

"Union members, workers, retirees and pension members have made it clear: we want out of fossil fuel investments, and we want out yesterday," Miriam Eide, a spokesperson for Fossil Free California, said in a statement. "Fossil fuels are toxic, not only to the financial future of pensions, but to the health of our communities. This vote is a massive testament to the power of unions and the power of Californians when we come together across our differences to unite for our collective future."

But both CalPERS, which has about $469 billion in assets, and CalSTRS, which has about $327 billion, have spoken out against the bill. CalPERS' board of administrators voted 7-1 to oppose the bill, saying in a statement that the board is bound by law to put its members' retirement benefits before any other obligations. The board said that while it recognizes the threat of climate change, divestment has little impact on a company's operations and every missing dollar of investment returns must be offset by employer and employee contributions.

"The companies in question can easily replace CalPERS with new investors, ones who are unlikely to speak up as loudly or as consistently as we have about the urgent need to move toward a low-carbon economy," Marcie Frost, CalPERS' chief executive officer, said in a statement this month.

Current law prohibits the boards of the two pension plans from making new investments or renewing existing investments in thermal coal companies. State Sen. Lena Gonzalez, who introduced S.B. 252 in January, seeks to take that divestment one step further. If the bill is enacted, the two pension plans will be required to liquidate investments in fossil fuel companies by July 1, 2030.

Gonzalez said CalPERS estimates that it's currently investing $7.4 billion in fossil fuel companies, and CalSTRS is investing in 174 fossil fuel companies with a combined market value of $4.1 billion. About 1,500 institutions with over $39 trillion in assets have already committed to divesting in fossil fuel producers — such as the University of California, the Vatican and New York City — and S.B. 252 will build on this global momentum, Gonzalez said.

In 2022, Gonzalez introduced S.B. 1173, which closely mirrored S.B. 252 and also passed the California Senate Judiciary Committee. However, it died in the state Assembly after Assemblymember Jim Cooper, D-Elk Grove, then the chair of the Public Employment and Retirement Committee, refused to take up the bill. Cooper is no longer in office.

Representatives of CalSTRS, CalPERS, the California Labor Federation, the California Teachers Association and Gonzalez did not immediately respond to requests for comment Wednesday.