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Few State Employees, Retirees Opt for Carbon-Free Investments

By John Herrick

Less than 1 percent of Vermont's state and municipal employees have chosen to invest their retirement savings in a fossil-fuel free mutual fund, according to an April report by the state treasurer's office.

The report says 171 state employees have invested in the optional retirement savings program, totaling about $517,636 in assets, since it was created in 2008. There are about 48,000 active and retired members of the retirement system.

The fund was created in 2008, but Vermont first offered it to state employees in 2014.

The program gives employees the option to invest in energy companies that do not extract, refine or sell fossil fuels. Over the past five years, the funds have earned returns below the benchmark of similar investment accounts that include fossil fuel companies.

There is a campaign underway to divest all of the state's retirement holdings from the largest fossil fuel companies. Divestment proponents want Vermont to pull its investments from fossil fuel companies in an effort to put pressure on those companies. They hope it will raise awareness for climate change policy initiatives such as a carbon tax. Others want the companies to go out of business.

State Treasurer Beth Pearce said the fund would cost about $10 million per year in lost returns, citing a November 2014 report by the Treasurer's Office. As an investor, she also says the state can change companies' business practices through "stakeholder activism," which includes signing petitions and resolutions.

Pearce recently released a sustainability report that pointed to ways the state has leveraged its role as an investor to commit companies to changing business practices. Last year, Krispy Kreme Doughnuts, Inc., committed to purchasing from only certified sustainable palm oil distributors that do not cause deforestation at the request of Pearce and other stakeholders.

Divestment proponents say fossil fuels companies are different. Asking them to change their business model of extracting, refining and distributing coals, oil and gas is like asking them to go out of business.

"It would be akin to asking Krispy Kreme to stop making doughnuts and to start selling some kind of health food. ExxonMobil is not going to become a clean energy company," said Eric Becker, chief investment officer of Norwich-based Clean Yield Asset Management.

Pearce believes divesting is not the best way to pressure companies to change.

“I think that walking away from the table is the worse thing we can do because then you’ve given up your shareholder rights and then someone else buys that stock and they may not care about the environment,” she said Monday.

BP, the company responsible for the 2010 Deepwater Horizon disaster on the Gulf Coast, has promised to be more open about the company’s impact on climate change following a resolution backed by 98 percent of shareholders. BP did not set targeted greenhouse gas emission reductions. For this reason, proponents of divesting the state’s pension holdings from fossil fuel companies were not satisfied. They say there is still no evidence fossil fuel companies are changing their business model.

Pearce and a coalition of 47 other global investors requested that ExxonMobil adopt measurable goals for reducing greenhouse gas emissions. Pearce will speak at an ExxonMobil annual meeting May 27 where she says she will ask the world’s largest publicly traded oil and gas company to adopt emission reduction targets.

The Vermont Pension Investment Committee (VPIC) invests more than $4 billion with more than $100 million invested in oil, gas and coal companies.

Divestment proponents fundamentally disagree with the Pearce on climate change investment strategies. But they are pleased Pearce is responding to their concerns. They also commend Pearce for several other steps the state has taken to address the issue through investments.

The state is also asking its investment managers to include in their examination of companies an analysis of the potential financial impact of climate change. The urged the SEC to require better disclosure of climate change risks in companies’ annual financial filings

Institutions, most recently the Church of England, and many local governments have pledged to divest more than $50 billion in assets from fossil fuel companies as of September, according to a recent study. No states have divested from fossil fuels yet, but there are active bills in Maine, Massachusetts and California, according to Maeve McBride, 350 Vermont coordinator.

The Senate Government Operations Committee is drafting a bill, S.28, that would require the state’s pension managers to divest retirement holdings from the world’s 200 largest publicly traded fossil fuel companies by 2020. There is a similar bill in the House, in addition to a resolution.

McBride said divestment is more than symbolic. She said divestment can avoid a climate change catastrophe. She said 80 percent of proven fossil fuel reserved must remain in the ground in order maintain no more than a 2-degree Celsius global temperature rise, at which point scientists still predict global sea-level rise and extreme weather.

The state employees union has adopted a resolution that opposes the Legislature’s involvement in the state’s retirement savings.