***Will California’s largest pensions, CalPERS and CalSTRS, divest from fossil fuels?***

**BY**[**GRACE GEDYE**](https://calmatters.org/author/grace-gedye/)**JUNE 29, 2023**


*Oil pumps in the Kern River Oil Field near Bakersfield on July 6, 2022. Photo by Larry Valenzuela, CalMatters/CatchLight Local*

**IN SUMMARY**

Climate activists and some lawmakers want two of California’s pension funds to shed about $15 billion of fossil fuel holdings. They say the move would reduce oil and gas companies’ political power, but opponents say it would be a bad move financially.

Climate activists and retirees have pushed retirement funds in [Maine](https://www.governing.com/finance/maine-takes-on-fossil-fuel-divestment-how-will-it-happen) and [New York](https://www.nytimes.com/2020/12/09/nyregion/new-york-pension-fossil-fuels.html) to sell their stocks in fossil fuel companies. The push is called “divestment”, and it’s a move that the [University of California](https://www.latimes.com/california/story/2020-05-19/uc-fossil-fuel-divest-climate-change) has embraced as well.

Now, divestment may be coming to more pensions near you.

The California Legislature is [considering a bill](https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=202320240SB252) that would require the pension funds for state workers and teachers to sell holdings in the 200 largest publicly traded fossil fuel companies by July 2031. The bill would also stop the funds from making new investments in those companies starting in 2024.

These pension funds aren’t simple bank accounts, they’re big-time institutional investors. The [California Public Employees’ Retirement System](https://www.calpers.ca.gov/) has about $459 billion in assets, making it the largest public pension fund in the nation and one of the largest private equity investors in the world according to [the agency’s website](https://www.calpers.ca.gov/page/investments/about-investment-office#:~:text=CalPERS%20is%20the%20nation's%20largest,both%20domestic%20and%20international%20markets.). When it changes tack, the world of finance takes note.

The California State Teachers’ Retirement System is the [second largest public pension fund](https://www.calstrs.com/about-calstrs) in the U.S. Together, the two pension funds cover more than 3 million Californians and their families.

Proponents of the bill say it’s important that California put its money where its mouth is, so to speak, on climate policy. Foes of the move say anything that might hurt investment returns should be off the table.


*Marcie Frost, CEO of CalPERS, at the regional office in Sacramento on June 26, 2023. Photo by Rahul Lal for CalMatters*

“We’re not saying the intentions around this are not good,” said Marcie Frost, CEO of CalPERS, in an interview with CalMatters. “But they’re not coming through an investor lens. It feels like they’re coming through a morality lens. And we can’t use our own personal values, or our personal morals, to be able to decide how we invest the assets of this portfolio.”

Both pensions are underfunded; if either had to immediately pay out all the benefits they owe, they wouldn’t have enough money.

If CalPERS and CalSTRS shed their investments in the largest oil and gas companies, what would it mean for the teachers and state workers counting on their retirement checks?

**Why climate activists are pushing for divestment**

For some, it would be a relief.

“When I was younger, I was told by the adults around me that I should work toward obtaining a career with the state of California,” said Francis Macias, a state parks employee who called into a pension fund board meeting in March. A member of the advocacy group Fossil Free California, she said those same adults had told her such a job would come with perks like stable hours — and a nice pension.

But now, Macias said, “I feel like I’m living in a nightmare. Every day, I experience great anxiety knowing my hard-earned pension is funding climate collapse.”

The state worker pension fund has an estimated $9.4 billion in energy company investments it would have to divest under the proposed bill, about 2% of the fund. On the list are companies you’ve probably heard of, including Exxon Mobil and Shell, and ones you probably haven’t, such as Ovintiv Inc. and Cenovus Energy. The teachers’ pension fund would have to divest an estimated $5.4 billion, or about 1.7% of its assets.

The bill’s backers include many environmental and climate groups, as well as some unions representing workers who receive pensions, such as the California Faculty Association and the California Nurses Association. But there are other unions, like the California Professional Firefighters and the State Building and Construction Trades Council, that oppose the effort, along with California State Retirees, an organization for retired state workers, and the leadership of the pension funds themselves.

The goal of divestment pushes, climate advocates say, isn’t to directly reduce emissions.

“It’s about calling (fossil fuel companies) out on their immoral activities, and the political consequences of that, which is weakening them politically, so that politicians stop taking their money and politicians stop doing their bidding,” said Carlos Davidson, a retired faculty member of San Francisco State University who receives a pension. He worked on a divestment campaign at the university, and has been involved in the push to divest the state workers’ pension for nearly a decade.

“It is true that divestment does not have direct financial impacts on companies,” Davidson said.  “It’s the political effects that really matter. And that is a harder, longer-term, more fuzzy process.”

Davidson lives in Pacifica, off of a combination of his pension and social security benefits.

“I could not have retired and I could not pay my bills right now if I didn’t have my [state] pension,” he said.

**What are the costs of divestment?**

There’s also a camp that thinks divestment would be a bad move financially. That camp includes the leadership of both pension funds.

At the state worker pension fund, the investment and actuarial teams estimated that if the fund sold off its fossil fuel holdings it would get lower returns on its investments, translating to an extra $327.6 million in costs per year for 20 years for employers, like schools, and state and local governments, to meet obligations to retirees.

The state worker pension fund has divested before — from Iran, Sudan, thermal coal, and more. In 2001, the fund divested its tobacco company holdings, worth about $525 million according to news reports at the time. In the more than 20 years since, that move has translated to about $4.3 billion in lost investment profits, according to a [2022 report](https://www.calpers.ca.gov/docs/board-agendas/202211/invest/item06b-01_a.pdf) from Wilshire Advisors. But some divestments, like those from thermal coal, and Iran, have translated to small gains.

When economists from the University of Groningen in the Netherlands and the University of St. Andrews in Scotland compared the financial performance of investment portfolios with and without fossil fuel company stocks from 1927-2016, [they found](https://www.fir-pri-awards.org/wp-content/uploads/Article_Trinks-Scholtens-Mulder-Dam.pdf) that divested portfolios “would not have significantly underperformed” during that period.

“It’s not just the oil and gas industry,” said pension fund CEO Frost. “What’s next? Divestment from the airline industry, who uses a lot of oil and gas?” she said. “Pretty soon you get to the point that (the pension) has nothing to invest in” and there’s no way to hit the high investment returns the pension fund is tasked with hitting, she said.

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CARLOS DAVIDSON, RETIRED FACULTY MEMBER OF SAN FRANCISCO STATE UNIVERSITY WHO RECEIVES A PENSION

This isn’t the first legislative push for fossil fuel divestment. Last year a [similar bill](https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=202120220SB1173) was passed by the Senate, and then died in the Assembly’s committee on public employment and retirement. It might have a better shot this time, thanks to some political musical chairs. Previously, the Assembly’s public employment committee was led by Jim Cooper, an Elk Grove Democrat who was opposed to the Legislature directing state pension funds on how to invest, Frost said. Now he’s left the Assembly, and the committee has a new chairperson, Tina McKinnor, a Democrat from Inglewood.

A complicating factor is that the pension funds have a “fiduciary duty” under California’s constitution. That means that the people overseeing the funds are legally required to invest prudently, and act exclusively to benefit the fund’s members.

Some of the bill’s opponents say that requiring the funds to divest from fossil fuels would conflict with their fiduciary duty to their members, including the California Professional Firefighters, a union.

“Forcing any California pension system to make investment decisions that may harm the fund in an attempt, in this case, to affect global climate policy, violates their fiduciary mandate and puts the retirements of hard-working Californians at risk,” wrote president Brian Rice in a statement.

Already, the concept of fiduciary responsibility is causing legal headaches for divestment efforts. Three New York City pension funds [are being sued for allegedly violating their fiduciary duties](https://www.bloomberg.com/news/articles/2023-05-12/nyc-pension-funds-are-sued-for-cutting-fossil-fuel-stake) after they divested $4 billion in fossil fuel holdings.

Ultimately, it’s up to the pension funds themselves to determine whether divesting would conflict with their mandate.

The state worker pension fund hasn’t done a full analysis yet, but, said Frost, “my impression on this is that it would violate the board’s fiduciary duty to do this.”

The bill has an escape clause of sorts, making it clear that the pension funds don’t have to sell off their investments if doing so would conflict with their fiduciary duties. That means there’s a scenario in which the Legislature passes the bill and then the funds say that divesting goes against their responsibilities to the beneficiaries, and nothing changes in practice.

Davidson, the retiree pushing for divestment, says that’s not the outcome he’s expecting.

But it wouldn’t be all bad, he said.  What really matters is the politics, and “the vote of the California Legislature to divest is really powerful, and that’s going to get press coverage around the world,” Davidson said. “That is part of the outcome that we want.”