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# A BILL FOR AN ACT

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. The employees' retirement system currently  
2 invests public funds in fossil fuel companies that are  
3 contributing to rising costs to taxpayers and losses to Hawaii's  
4 largest public-sector pension plan.

5           Fossil fuel investments are already a liability. Over the  
6 past five years, the Dow Jones Energy Sector of the S&P 500 has  
7 underperformed the broader market by more than thirteen per  
8 cent, providing a return of -3.41 per cent versus the broader  
9 market, which provided a return of +10.07 per cent. The energy  
10 sector also underperformed the broader market at every milestone  
11 including ten years, five years, three years, and one year.

12           Furthermore, investments in the fossil fuel coal sector  
13 have already collapsed over the course of just a few years. A  
14 \$1,000 investment in the nation's three largest coal companies  
15 in 2011 was worth less than \$3 in 2015.

16           Studies by MSCI, Fossil Free Indexes, Aperio Group, Advisor  
17 Partners, and Impax all demonstrate that fossil fuel divestment



1 is not risky; does not weaken returns on investments; and can,  
2 in fact, protect investments and increase returns. In addition,  
3 Citigroup, AXA Investment Managers, Goldman Sachs, Standard and  
4 Poor's, and HSBC have all warned of the carbon bubble and  
5 ensuing stranded assets.

6 Paul Fisher of the Bank of England has stated that "As the  
7 world increasingly limits carbon emissions, and moves to  
8 alternative energy sources, investments in fossil fuels -- a  
9 growing financial market in recent decades -- may take a huge  
10 hit." Former United States Treasury Secretary Hank Paulson has  
11 observed that "We're staring down a climate bubble that poses  
12 enormous risks to both our environment and economy". Former  
13 Securities and Exchange Commissioner Bevis Longstreth has  
14 commented that "The risks [to portfolios] are many and growing"  
15 and "Fiduciaries have a compelling reason, on financial grounds  
16 alone, to divest these holdings before the inevitable correction  
17 occurs". Mark Carney, Governor of the Bank of England, has  
18 warned investors of "potentially huge" losses and the danger of  
19 the assets of fossil fuel companies being left "stranded" by  
20 tougher rules to curb climate change. The former chairman of  
21 Royal Dutch Shell remarked that selling oil stocks is a rational



1 response to the failure of the oil industry and stated that  
2 "Divestment is an entirely rational market approach if you think  
3 that there are better uses for your funds."

4 Over five hundred institutions have or are divesting their  
5 funds, notably the Norwegian Sovereign Wealth Fund  
6 (\$900,000,000,000); the Rockefeller Brothers Fund  
7 (\$860,000,000,000); the Dutch Pensions Fund; CalPERS and  
8 CalSTRS, the two largest state pension funds in the United  
9 States; major cities, such as San Francisco, Cambridge, Seattle,  
10 Portland, Boulder, Santa Fe, Madison, Oxford, Palo Alto, and  
11 Melbourne. The University of Hawaii board of regents voted  
12 unanimously in 2014 to divest, as have dozens of other  
13 universities and faith-based institutions, such as the United  
14 Church of Christ, totaling \$3,400,000,000,000 already divested  
15 from investments in fossil fuels.

16 The legislature finds that it is the mission of the  
17 employees' retirement system to support its beneficiaries  
18 without harming taxpayers. However, the employees' retirement  
19 system currently invests public funds in fossil fuel companies  
20 that are contributing to rising costs to the public. Fossil  
21 fuel companies are a significant source of greenhouse gases that



1 accelerate climate change, which is eroding beaches, diminishing  
2 freshwater supplies, and already costing taxpayers millions of  
3 dollars annually to mitigate its effects.

4 Carbon regulations continue to grow globally. The world  
5 now has over eight hundred laws regarding climate change, a near  
6 doubling since 2009. China, the world's biggest greenhouse gas  
7 emitter, plans to cap coal consumption in 2020 and allow carbon  
8 dioxide emissions to peak by 2030. By 2030, President Barack  
9 Obama's administration's Clean Power Plan will reduce power  
10 plant emissions by thirty-two per cent from 2005 levels. Within  
11 a decade, automobiles sold in the United States must achieve an  
12 average of 54.5 miles per gallon, nearly double current  
13 standards. Automobiles consume over sixty per cent of the oil  
14 used in the United States. These legislative and regulatory  
15 restrictions on fossil fuels will inevitably and greatly  
16 increase after the international agreement reached at the  
17 December 2015 United Nations Climate Change Conference in Paris.  
18 Further evidence of this growing regulatory regime, which will  
19 continue to undermine the value of fossil fuel stocks, is shown  
20 by President Obama's recent moratorium on new leases for coal  
21 mines on federal land, the source of forty per cent of U.S.



1 coal. Overall, the majority of the \$48,000,000,000,000 needed  
2 to meet global power demand over the next twenty years will come  
3 from renewable sources, not fossil fuels.

4 Hawaii's one hundred per cent renewable portfolio standards  
5 goal pursuant to section 269-92, Hawaii Revised Statutes,  
6 creates the opportunity for Hawaii to lead the nation in the  
7 shift to renewable fuels and to create a new economic sector of  
8 well-paying jobs. As Hawaii's largest public-sector pension  
9 plan, the employees' retirement system has already adopted  
10 socially responsible investing as a goal. These socially  
11 responsible investing rules give the employees' retirement  
12 system a duty to invest in ways that support the State's energy  
13 priorities,

14 The legislature finds that it is in the public interest to  
15 examine the feasibility of the divestment of the employees'  
16 retirement system from fossil fuel investments and assess the  
17 financial risk of delaying divestment from fossil fuels.

18 SECTION 2. Chapter 88, Hawaii Revised Statutes, is amended  
19 by adding a new section to be appropriately designated and to  
20 read as follows:



1           "§88-       Prohibited investments. Notwithstanding section  
2 88-119, investments shall not be made in the corporate  
3 obligations, preferred and common stocks, or other securities  
4 and futures contracts of any coal company."

5           SECTION 3. (a) The board of trustees of the employees'  
6 retirement system shall, working in conjunction with a reputable  
7 firm of investment consultants with experience in managing  
8 fossil fuel-free portfolios, prepare and submit a report to the  
9 legislature prior to the convening of the regular session of  
10 2017.

11           (b) The report shall:

12           (1) Assess the impact on the employees' retirement  
13           system's portfolio of investments in scrutinized  
14           companies over the past one, three, and five years and  
15           quantify the losses or gains incurred by such  
16           investments, compared to the portfolio rebalanced with  
17           those investments distributed in other sectors; and

18           (2) Assess the future of fossil fuel investments on the  
19           basis of analyses by reputable investment advisors and  
20           assess the potential range of effects of fossil fuel



1 divestment on the employees' retirement system over  
2 the next five years.

3 (c) As used in this section, "scrutinized companies" means  
4 a company identified by a Global Industry Classification  
5 Standard code in one of the following sectors:

- 6 (1) Coal and consumable fuels;
- 7 (2) Integrated oil and gas; or
- 8 (3) Oil and gas exploration and production.

9 (d) The report shall be submitted to the legislature no  
10 later than December 1, 2016.

11 SECTION 4. There is appropriated out of the general  
12 revenues of the State of Hawaii the sum of \$ or so much  
13 thereof as may be necessary for fiscal year 2016-2017 for the  
14 report required by section 3 of this Act.

15 The sum appropriated shall be expended by the employees'  
16 retirement system for the purposes of this Act.

17 SECTION 5. This Act shall take effect on July 1, 2016.



**Report Title:**

Employees' Retirement System; Investments; Coal; Study

**Description:**

Prohibits the ERS from investing in coal companies. Requires the ERS to prepare and submit a report to the Legislature regarding divestment from fossil fuel investments. (HB1511 HD1)

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