Divestment Hurts Pensioners, not Fossil Fuel Companies

This week, members of the San Francisco Employees’ Retirement System (SFERS) Board of Directors will be faced with the decision on whether to uphold their fiduciary obligation to the city employees or to succumb to the ill-advised divestment rhetoric being pushed by biased politicians and fringe groups.

Last year, the San Francisco Board of Supervisors unanimously adopted a resolution urging the SFERS to divest its holdings of publicly traded energy companies. So far, the SFERS Board has considered divestiture proposals on six separate occasions and have ultimately decided to delay action on the issue. That is until December, when the board issued a special notice indicating—yet again—that they will consider and potentially vote on divestment at their upcoming meeting.

Environmentalists in San Francisco and anti-energy activists across the country are pressuring officials to divest their pension funds of fossil fuel assets for purely political reasons. The funds at risk of divestment make up about 2.7 percent of SFERS $20 billion fund, which serves roughly 68,000 people in the city and County of San Francisco. Board members are being told that this is a necessary step in bankrupting fossil fuel companies and saving San Francisco (and the world) from greenhouse gasses. However, that is not how equity investing works and not what civil servants who have paid into their pensions for decades expect.

In reality, divestment from fossil fuels would have zero impact on a company’s ability to produce and distribute energy. The simple logic here is that these companies yield high returns for their investors and if SFERS were to divest then another investor would pick up their holdings within seconds – thereby negating the purpose of selling the stock for nothing more than a symbolic gesture. This point was proven by CalPERS’ decision to divest from coal companies, which actually caused pensioners to lose on returns. Board members must act pragmatically and solely in the interest of public employees and the taxpayers – instead of the ideological or social policy being driven by special interests.

According to recent reports, divestment causes significant losses to pension investment returns and creates budget liabilities. A recent analysis of the largest pension funds in the US found that divesting would cost SFERS $11.5 million annually and up to $150 billion over 50 years. These losses would come at a time when the San Francisco pension fund is already struggling to maintain solvency. According to a report by Bloomberg, San Francisco is facing a $5.5 billion pension liability, and contributions will increase 36 percent by 2022. This is largely due to lagging investment returns and an update to assumptions, including longer lifespans for retirees. Fund managers should focus on the issues that are affecting the account, not the feel-good policy that would only weaken the already struggling fund.

Managers of the system should answer to the people that they serve, not activists, special interests, or even politicians. As a beneficiary who is dependent upon the solvency of the fund for my livelihood, I wholeheartedly encourage SFERS board members to oppose divestment. At a recent California State Assembly Joint Hearing on divestiture, California State Teachers Retirement System (CALSTRs) staff maintained that they consider divestment a measure of “last resort” with little impact on the companies targeted, and highlighted the importance of direct engagement with fossil fuels companies rather than cutting ties completely. If SFERS were to divest, they would lose their leveraging power over companies and a seat at the negotiating table. City officials should focus on tangible policies that can curb climate change without endangering pension returns and their ability to influence companies.

The San Francisco Board of Supervisors divestment resolution essentially asks the SFERS board to ignore their fiduciary duty to those who pay into the fund while only benefitting the social cause of environmental activist pushing for divestiture. It is a misguided attempt to curb climate change that would weaken the city’s economy by placing the burden of pension losses on taxpayers. However, the biggest loser of this feel-good policy are the city employees who have dedicated their lives to building and bettering our communities.

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