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**SB-964 Public Employees' Retirement Fund and Teachers' Retirement Fund: investments: climate-related financial risk.** (2017-2018)

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**Senate Bill No. 964**

**CHAPTER 731**

An act to add and repeal Section 7510.5 of the Government Code, relating to public retirement systems.

[ Approved by Governor September 23, 2018. Filed with Secretary of State September 23, 2018. ]

**LEGISLATIVE COUNSEL'S DIGEST**

SB 964, Allen. Public Employees' Retirement Fund and Teachers' Retirement Fund: investments: climate-related financial risk.

The California Constitution requires members of the retirement board of a public pension or retirement system to discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. Existing statutory law establishes various public employee retirement systems and provides for the administration of the State Teachers' Retirement System by the Teachers' Retirement Board and for the administration of the Public Employees' Retirement System, among other public employee retirement systems, by the Board of Administration of the Public Employees' Retirement System.

This bill would, until January 31, 2035, require climate-related financial risk, as defined, to be analyzed to the extent the boards identify the risk as a material risk to the Public Employees' Retirement Fund or the Teachers' Retirement Fund. The bill, by January 1, 2020, and every 3 years thereafter, would require each board to publicly report on the climate-related financial risk of its public market portfolio, including alignment of the Public Employees' Retirement Fund and the Teachers' Retirement Fund with a specified climate agreement and California climate policy goals and the exposure of the fund to long-term risks, as specified. The bill would provide that it does not require either board to take action unless the board determines in good faith that the action is consistent with its fiduciary responsibilities. The bill would make related legislative findings and declarations.

Vote: majority Appropriation: no Fiscal Committee: yes Local Program: no

**THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:**

**SECTION 1.** The Legislature finds and declares as follows:

- (a) Climate change is a long-term problem that will affect our environment, health, and economy for decades to come.
- (b) Effects of global climate change that scientists predicted in the past are already occurring—sea ice has been lost, sea levels are rising at accelerated rates, and longer, more intense heat waves and extreme weather events are occurring.
- (c) As global temperatures continue to rise, these effects will likely accelerate. Heat waves, droughts, and hurricanes are all projected to grow in both frequency and intensity as climate change progresses.

(d) The financial sector is not insulated from the adverse effects of climate change.

(e) California is a global leader in addressing climate change and has consistently striven to protect the physical, social, and economic resources of all Californians, as most recently exemplified by the passage of Senate Bills 32 and 350 of the 2015–16 Regular Session.

(f) Climate change presents an array of material financial risks, including transition risk, physical risk, and litigation risk, that reasonable investors must take into account when making investment decisions. Failure to acknowledge and address these risks will result in exposure to subsequent liabilities and financial risk.

(g) If global temperature rise is to be limited to no more than 2 degrees Celsius, or the aspirational target of 1.5 degrees proposed in the COP 21 agreement now in effect, governments must act to limit warming and hasten the transition to a low-carbon economy by halting the extraction and development of carbon reserves. This regulatory risk will affect major sectors of the global economy.

(h) In the retirement system context, these risks are especially salient. Retirement boards have the fiduciary duty to administer retirement funds solely in the interest of system participants and their beneficiaries. In order to meet this requirement and ensure sufficient funding of both current and future retirees' financial benefits, retirement boards must consider both short-term and long-term effects and risks of retirement fund investments.

(i) If climate change and carbon emissions continue on their current trajectories, both acute and chronic weather-related activity will greatly compromise the ability of businesses that do not account for these changes to reliably generate returns. Pension funds' influence in the markets can induce firms to accurately report their carbon risk to the public.

(j) Given the potentially catastrophic consequences of climate change, the documented social and economic cost of carbon, and the emerging body of literature on the material financial risks of climate change, retirement boards simply cannot disregard financial climate risks.

(k) Governance directives of California's largest pension funds, the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS), advise the funds' boards to take climate risk, among other risks, into account when making investment decisions. These directives include CalPERS Investment Belief 9 and CalSTRS "Environmental" Risk Factor.

(l) This bill would ensure that the public is informed whether future boards will continue to consider climate-related financial risk in investment decisions.

**SEC. 2.** Section 7510.5 is added to the Government Code, to read:

**7510.5.** (a) For purposes of this section, the following definitions apply:

(1) "Board" means the Board of Administration of the Public Employees' Retirement System or the Teachers' Retirement Board.

(2) "Climate-related financial risk" means risk that may include material financial risk posed to the fund by the effects of the changing climate, such as intense storms, rising sea levels, higher global temperatures, economic damages from carbon emissions, and other financial and transition risks due to public policies to address climate change, shifting consumer attitudes, changing economics of traditional carbon-intense industries.

(3) "Fund" means the Public Employees' Retirement Fund described in Section 20062 or the Teachers' Retirement Fund described in Section 22167 of the Education Code.

(b) To the extent the board identifies climate-related financial risk as a material risk to the fund, that risk shall be analyzed.

(c) By January 1, 2020, and every three years thereafter, the board shall publicly report on its analysis of the climate-related financial risk of its public market portfolio, including the alignment of the fund with the Paris climate agreement and California climate policy goals and the exposure of the fund to long-term risks.

(d) The board shall include in the reports pursuant to subdivision (c) the methods and results of the board's engagement related to climate-related financial risk with publicly traded companies that are the most carbon intense, such as utilities, oil, and gas producers, within the fund. This component of the reports shall include both of the following:

(1) A summary of climate-related financial risk-related engagement activities undertaken.

(2) A description of additional action taken, or planned to be taken, by the board to address climate-related financial risk, including a list of proxy votes and shareholder proposals initiated by the board.

(e) Nothing in this section shall require the board to take action as described in this section unless the board determines in good faith that the action described in this section is consistent with the fiduciary responsibilities of the board as described in Section 17 of Article XVI of the California Constitution.

(f) This section shall remain in effect only until January 31, 2035, and as of that date is repealed.