MainePERS
PUBLIC EMPLOYEES RETIREMENT SYSTEM

EXECUTIVE DIRECTOR
Sandra J. Matheson

DATE: February 10, 2021

TO: Senator Joseph Rafferty, Chair
Representative Mike Sylvester, Chair
Members, Joint Standing Committee on Labor and Housing

FROM: Sandy Matheson, Executive Director

SUBJECT: Testimony on L.D. 99 – An Act to Require the State to Divest Itself of Assets Invested in the Fossil Fuel Industry

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Good morning, Senator Rafferty, Representative Sylvester, and members of the Joint Standing Committee on Labor and Housing. My name is Sandy Matheson, and I am the Executive Director for the Maine Public Employees Retirement System.

Thank you and Representative O'Neil for the opportunity to talk about climate change, fossil fuels and public pensions. Climate action is one of the most critical topics of our time. I want to first assure Committee members and everyone passionate about this issue that we too care deeply about the climate and the impact on our lives.

Today, I would like to share why MainePERS does not and cannot divest as this well-intended bill requests, equally important why divestment does not further climate action, and the positive side of what we can and are doing about the climate as a natural part of our investment process.

MainePERS manages a $16.7 billion single purpose pension trust. Each month, nearly $60 million in employer and employee pension contributions are placed into trust and nearly $90 million is paid out in pension checks to retirees. Employer contributions come not just from the State of Maine, but also from schools, municipalities, counties, and other local districts. Once money is placed into trust, the Maine Constitution, the highest law in Maine, prohibits the investment of this money by MainePERS or the Legislature for any purpose other than to pay member pensions. Simply put, MainePERS is entrusted and restricted by law to make investment decisions which are in the best financial interest and only the best financial interest of paying pensions.

This is called the "exclusive benefit" rule, and is the reason US pension funds do not invest, or divest, for any purpose other than to earn money for current and future retirees. The exclusive benefit rule prevents pension funds from being used to further causes other than retirement, no matter how meritorious.

It is a good and necessary rule.

Divestment does not change the climate. It is simply the sale of stock to another buyer who hopes to make a profit from dividends or reselling it to yet another buyer. The company itself is not affected. Divestment therefore is a statement of principle. The only real impact making a statement of principle might have is to create a newspaper headline which in turn might further elevate the discussion around climate change. Using the trust fund to make a headline for a cause, however, violates both our fiduciary duty and the Constitution, and for sound reasons.

Let's move to the positives of what we can and are doing about the climate. We are honored to serve our members and retirees with a responsible and sound investment program. When it comes to owning stocks, we don't pick and choose which stocks we own because we have found you can be wrong as often as you are right. Instead we "index", meaning we own all 3,000 companies in our index in proportion to their value. This means that true climate change forces such as consumer demand, regulatory pressure and access to financing which do impact a company's value have a big voice in what stocks we own.

This is a win-win. Market pressures create real climate action, at the same time providing us with a strong portfolio for our members and retirees. As stock owners we can use our voice to further advocate for corporate transparency and responsibility on climate and other issues to help make the company stronger and more profitable over the long term. This type of advocacy, called engagement, is in the best interest of everyone, including our members and retirees. We have provided you with our most recent Environmental, Social and Governance Report, which is also on our website, to share all that we are doing. We would welcome the opportunity to provide you with a briefing about our investment program at some point.

There are some misunderstandings in LD 99 about our structure which we can provide information on for you separately. It is important to note that our trust fund covers more than State of Maine retirement plans. It also includes over 300 schools, municipalities, counties, and other local districts covered by our Participating Local District Consolidated Retirement Plan who would be affected by but have been given no voice in this bill.

We oppose LD 99 and divestment because it is inconsistent with our duty to members and retirees and does not comply with the Maine Constitution.