DAVID Y. IGE
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EXECUTIVE DIRECTOR

KANOE MARGOL
DEPUTY EXECUTIVE DIRECTOR

STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM

TESTIMONY BY THOMAS WILLIAMS
EXECUTIVE DIRECTOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII

TO THE HOUSE COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT
ON

HOUSE RESOLUTION 120
AND
HOUSE CONCURRENT RESOLUTION 170

MARCH 22, 2016, 10:30 A.M.

URGING THE EMPLOYEES' RETIREMENT SYSTEM AND EMPLOYER-UNION HEALTH BENEFITS TRUST FUND TO DIVEST FROM FOSSIL FUEL INVESTMENTS.

Chair Nakashima, Vice Chair Keohokalole and Members of the Committee,

H.R. 120 and H.C.R. 170 urge the Employees' Retirement System (ERS) to completely divest its investment portfolio of all holdings in companies and stocks with a majority interest in fossil fuels by 2021.

The ERS Board of Trustees opposes these resolutions. Forced divestment from fossil fuels will increase the risk in our portfolio, negatively impact our returns and jeopardize the sustainability of our pension fund.

The ERS supports the general effort of the Legislature to make Hawaii less dependent on unsustainable energy sources and supports community and legislative safeguards for the natural resources and the environment of Hawaii and the globe. The Board acknowledges and supports the State's goal of achieving its renewable energy standards by 2045.

Full divestment introduces added risk into our portfolio by excluding a large sector of the market from consideration. Our investible universe, or opportunity set, will be much smaller than that of many of our peers.

Irrespective of the merits either for or against divestment, there is a significant disconnect between the resolutions' proponents and the State's timeframe for achievement of its renewable energy standards. The former urge divestment by no later than the year 2021, while the State targets 2045. There is a high probability and corresponding risk that renewables won't be sufficiently available in the near term, or perhaps longer-term, to substitute entirely for fossil fuels. We don't know whether technological advances will make the burning of fossil fuels cleaner and thus competitive with renewables. It can be extremely damaging to our returns and our economy if we get that call wrong.

While we acknowledge the passion and focus of those opposed to fossil fuel investments on social and environmental grounds, we concurrently acknowledge our focus and fiduciary responsibility on providing the best risk adjusted return we can achieve in order to meet our commitment to our members and their beneficiaries. We don't ignore other factors in their entirety, but sustainability of our plan within reasonable risk parameters is our focus.

Those who assert that "fossil fuel divestment is not risky; does not weaken returns on investments" are in the first instance wrong and, the second, unproven. Research clearly demonstrates that mandates which reduce the universe of investible securities introduce greater risks into the portfolio to which such mandates are applied.

We wish to avoid increased risk at a time during which we are restructuring our portfolio with the express purpose of reducing risk. This restructure, which the board has approved and involves several billion dollars of our assets, is underway and is expected be completed over the next 12 to 18 months. Any fossil fuel divestment mandated by these resolutions, will inevitably require the attention of our board, management team, and investment staff. Attention diverted away from this priority to restructure will negatively impact its timing, implementation, and even perhaps, its success.

The ERS is governed by a strong and effective Board of Trustees with independent advice provided by professional consultants chosen through a competitive bid process every three to five years and supplemented by a seasoned group of in-house investment professionals lead by our Chief Investment Officer. Our team is respected across the nation for its innovative and disciplined approach toward portfolio risk reduction.

Our consultants advise many of the largest public pension funds in the U.S. and across the globe. This includes a number of the funds referred to in opening statements of the resolutions. We've discussed the issue of fossil fuel divestment with our consultants and we have not been advised to divest from the same. Rather, the risk associated with our doing so has been highlighted.

The ERS investment team and board routinely discuss with our consultants and investment managers our overall exposure not only to fossil fuel companies but to companies that are engaged in renewable and sustainable energy initiatives. We have substantial investment in renewables, solar and wind energy companies and will add more as opportunities present themselves.

ERS believes strongly that important decisions such as divestment from fossil fuels should only be made following a complete understanding and examination of its impacts and alternatives.

When proponents cite the seemingly endless and growing list of cities, colleges, endowments and pension funds that have chosen to divest, there is no mention of any organizations that have studied the issue and elected not to. This movement is presented as a tide which we shouldn't, and inevitably won't, be able to resist. It is not.

A 2015 study which reviewed the possible cost to Harvard, Yale, Columbia, MIT and NYU should they divest all of their investments in fossil fuels, found that in the aggregate, the colleges would be forecast to lose $195M per year due to fossil fuel divestment. The report dispels the view that divestment is being universally embraced as a tool to address climate change or that it is without risk or cost to the institution. Many who have elected not to divest see constructive engagement as a means to alter corporate behavior.

When proponents of divestment recite the list of those who have affirmatively elected to act there is little if any mention of the many and diverse ways in which organizations have responded.

For example, the California Public Employees' Retirement System (CalPERS), cited as having divested, is known to have divested only from coal. It is widely accepted that the burning of coal for electricity generation is the largest source of greenhouse gas emissions. Some studies suggest as much as 80%.

It is important to note that ERS has no coal investment in its portfolio, putting it on a footing similar to CalPERS, but having done so without mandated divestment.

We know of no large state-wide public pension fund that has elected to divest from all fossil fuel related investments to date.

Loose factual recitation of the pace and breadth of divestment initiatives serve neither to convey the complexity of the issue nor the diversity of responses. The importance of the divestment issue and its potential impact on our returns should not be underestimated. As noted, there neither has been, nor is there likely to be, a uniform response to calls for divestment as the funding level, risk tolerance, priority of SRI and other risk factors have to be weighed in the context of each individual plan and its investments.

The costs to be incurred for compliance with the resolutions' mandate are not insubstantial. Transaction costs associated with divestment and reinvestment in alternative securities is estimated at $1.4 million annually. Opportunity costs are incalculable.

ERS' current funding level stands at 62.2% and its unfunded liability at $8.8 billion dollars. Benefit formulas, contribution patterns, investment returns and demographic shifts have all contributed to this result. ERS' board has addressed each of these issues head on. The issues surrounding fossil fuel investments are neither unique nor to be dealt with in an alternative manner. The unintended consequence of doing so represents an unreasonable risk to the System's funding, sustainability and governance.

We strongly believe that we should be allowed to utilize our documented, systematic and disciplined investment policies and processes to determine either inclusion or exclusion of specific securities in the context of our portfolio. Other approaches, no matter how well intentioned, pose unnecessary and unknowable risks to the achievement of our objectives.

Our board respectfully asks that you let it, our staff, professional consultants and managers make the complicated decisions surrounding our investments, fossil fuels included. We have the fiduciary responsibility, accountability, skills and independent professional resources to do so.

On the factual basis outlined above we oppose this proposed legislation.

On behalf of the Board of Trustees and staff of ERS we wish to thank you for the opportunity to testify on H.R. 120 and H.C.R. 170.

From:	mailinglist@capitol.hawaii.gov
Sent:	Monday, March 21, 2016 9:51 AM
To:	LABtestimony
Cc:	victor.ramos@mpd.net
Subject:	*Submitted testimony for HCR170 on Mar 22, 2016 10:30AM*

HCR170
Submitted on: 3/21/2016
Testimony for LAB on Mar 22, 2016 10:30AM in Conference Room 309

Submitted By	Organization	Testifier Position	Present at Hearing
Victor K. Ramos	Individual	Oppose	No

Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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LATE

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TESTIMONY BY DEREK MIZUNO
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DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON LABOR & PUBLIC EMPLOYMENT
ON
HOUSE RESOLUTION 120
AND
HOUSE CONCURRENT RESOLUTION 170

March 22, 2016, 10:30 a.m.

RELATING TO THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND

Chair Nakashima, Vice Keohokalole, and Members of the Committee:

The EUTF Board of Trustees opposes H.R. 120 and H.C.R. 170 that urge the EUTF to divest all holdings in companies and stocks with a majority interest in fossil fuels no later than the year 2021.

The EUTF currently has approximately $1 billion in assets that are held in trust to pay the State and counties other post-employment benefits (OPEB Trust). The OPEB Trust is primarily invested in passive index funds of U.S. and international equities, U.S. core fixed income and U.S. real estate investment trust funds. As of July 1, 2015, the State's share of the OPEB Trust assets was $221.2 million to fund an actuarial accrued liability of $9.3 billion, resulting in a funded ratio of 2.4% and an unfunded actuarial accrued liability of $9.1 billion.

With the passage of Act 268, SLH 2013 that requires pre-funding of the OPEB Trust by the State and counties, the State's share of the OPEB Trust is projected to increase to $4.8 billion within the next 10 years. To accomplish this, the OPEB Trust will need to earn a return of 7% annually. The EUTF is taking a number of steps to meet the 7% return such as amending its governing statute, 87A-24, to expand its permissible investments (S.B. 2838 S.D. 1), recruiting an investment officer to assist in managing the investments, and reducing investment management and custodial fees through selection of new investment funds and a new custodian. H.R. 120 and/or H.C.R. 170 are contrary to EUTF's goal, contained in S.B. 2838 S.D. 1, to expand the permissible investments of the OPEB Trust. The EUTF believes that expanding, and not reducing, the types of investments will assist it in attaining the 7% investment return while minimizing risk in the portfolio.

The EUTF asks that you allow its Board, staff, professional consultants and investments managers the opportunity the meet its obligations to the State, counties and retirees to prudently manage and maximize returns of the OPEB Trust within prudent levels of risk.

Thank you for the opportunity to testify.

LATE

The House Committee on Labor & Public Employment
Tuesday, March 22, 2016
10:30 a.m., Room 309

RE: Urging The Employees' Retirement System and Employer–Union Health Benefits Trust Fund (EUTF) to Divest from Fossil Fuel Investments

Attention: Chair Mark Nakashima, Vice Chair Jarrett Keohokalole and Members of the Committee

The University of Hawaii Professional Assembly (UHPA) supports the intent of these resolutions, which are urging the Employees' Retirement System (ERS) and EUTF to divest the majority interest of their respective fossil fuel investments by 2021.

Both the ERS and EUTF have governing Boards of Trustees that have the jurisdiction in this matter. Passage of these measures will identify divestment of fossil fuel investments as a fiscal concern that needs to be considered.

We thank you for the opportunity to support the intent of these measures.

Respectfully submitted,

Kristeen Hanselman

Kristeen Hanselman
Executive Director

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HAWAII GOVERNMENT EMPLOYEES ASSOCIATION
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AFSCME
LOCAL 152, AFL-CIO

LATE

The Twenty-Eighth Legislature, State of Hawaii
House of Representatives
Committee on Labor and Public Employment

Testimony by
Hawaii Government Employees Association

March 22, 2016

H.C. R. 170/H.R. 120 – URGING THE EMPLOYEES' RETIREMENT SYSTEM AND EMPLOYER-UNION HEALTH BENEFITS TRUST FUND TO DIVEST FROM FOSSIL FUEL INVESTMENTS

The Hawaii Government Employees Association, AFSCME Local 152, AFL-CIO opposes the purpose and intent of H.C.R. 170 and H.R. 120, both of which urge the Employees' Retirement System and the Employer-Union Health Benefits Trust Fund to divest its investments in fossil fuels within five years.

While we appreciate the efforts of the Legislature to reduce Hawaii's dependence on non-renewable energy sources by 2045, we again respectfully argue that both the ERS and the EUTF Board of Trustees' fiduciary duty, in concert with each system's particular investment strategies, should focus on maximizing investment returns and reducing the funds' combined $20 billion unfunded liability. In order to capitalize on its investments, the Boards need the flexibility and autonomy to pursue a wide-range of investment options. Mandating adherence to a rigid and arguably aggressive five year divestiture schedule introduces unnecessary risk to investments and will not yield the best performing portfolio for beneficiaries.

In the pursuit of robust and solvent trust funds for our retirees and beneficiaries, we respectfully request these measures be deferred. Thank you for the opportunity to testify in opposition to H.C.R. 170 and H.R. 120.

Respectfully submitted,

for Randy Perreira
Executive Director

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