

# Request for Information on Possible Agency Actions to Protect Life Savings and Pensions from Threats of Climate-Related Financial Risk

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Thank you for requesting input from the public. This is vital because Congressional representatives represent the special interests of their districts, instead of the interests of all US citizens. I have retired and receive benefits from my pension (UC). Fortunately, my plan has divested from fossil fuel companies for purely financial reasons. They offer a broadly diversified fossil-free SP index fund. These two actions should be considered by all pension plans.

To protect pensions and beneficiaries, EBSA should adopt the following measures. An assessment of climate finance risks of each security in their current portfolio and their list of potential acquisitions should be conducted. Securities with the highest climate finance risks should be divested and other securities with this level of risk should not be purchased.

Physical risks include damages to company assets related to weather extremes. Risks include harms to human resources, medical health of staff and their family, and consequently productivity inflicted by the ravages of climate extremes. Severe smog, signaled by air pollution alerts issued by local government agencies, may preclude some staff from being able to go to work or perform their job. These risks apply to all private and public employers.

Stranded assets include fossil fuel inventories and unextracted deposits as well as infrastructure and equipment used to produce, refine, and transport these fuels. The fossil fuel sector has many \$trillions of stranded assets. Companies who provide goods or services to fossil fuel firms have higher risks than those who do not. Examples are chemicals used to extract and manufacture products, accounting, public relations, legal services, lending, insurance, lobbying, and security.

Transition risks include litigation, legislation, regulation, divestment, international energy treaties and availability of financing and insurance. Consumer preferences have shifted from dirty to clean energy. Each of these is already occurring for fossil fuel firms and may affect other carbon-intensive industries (e.g., biofuels and biomass electricity, livestock, jet engine manufacture, synthetic fertilizers, and even public utilities that generate and procure electricity using fossil fuels and biomass). Competition from the clean energy sector is jeopardizing the sustainability of the fossil energy sector. The price of clean energy is lower than the price of

fossil energy in over 85% of the world. Prices for clean energy and storage are projected to plummet significantly for the next few decades.

[How Putin's War Marks the End of the Fossil Fuel Era](#)

EBSA should gather information about climate risks of securities and industries, including the aforementioned factors. Instead of re-inventing the wheel, EBSA should maintain web pages containing a clearinghouse of links to websites that provide such information.

<https://www.greenclimate.fund/>

<https://www.climatepolicyinitiative.org/>

<https://blacktogreen.com/2017/06/climate-finance-main-players/>

<https://rmi.org/our-work/climate-finance/>

<https://www.wri.org/initiatives/international-climate-finance>

<https://thegiin.org/climate-finance>

<https://www.globalcovenantofmayors.org/city-climate-finance/>

<https://www.fsb-tcf.org/>

<https://climatefinance.org/>

<https://www.mainstreamingclimate.org/>

<https://fossilfreefunds.org/>

<https://www.nytimes.com/2021/10/13/climate/private-equity-funds-oil-gas-fossil-fuels.html>

<https://divestmentdatabase.org/>

<https://etfdb.com/screener/#tab=esg>

Use of Form 5500 would be convenient for fund managers as well as beneficiaries. Climate risks of a pension portfolio should be updated at least annually and presented on the pension fund website. Climate finance risks are one of the largest risk factors affecting securities. This will increase as climate change accelerates and will become more costly to manage if there are continuing delays in governments addressing it. The form should include the items you mention, for each security, as well as a) carbon intensity (CO<sub>2</sub>e emissions per \$1million in revenue), b) sum of CO<sub>2</sub>e emissions from Scopes 1, 2, and 3 for each of the most recent 3 years; c) effects of engagement via shareholder proxy voting on emissions, d) percent of capital expenditures on clean technologies and on dirty technologies. Company and pension fund proclamations about long-term climate pledges should not be included, because these are misleading in many ways and delay de-risking of portfolios. The guidelines provided by TCFD (see link above) are probably the industry standard. Disclosure of pension plan risks should be mandatory for pension funds of all sizes and all levels of government. Disclosure should be recommended for private pensions, e.g., corporate, by 2023 and mandatory by 2024.

A one-page, plain English synopsis of the above risks should include a link to Form 5500 and be posted on the pension website. Links to websites and articles about climate finance risks should be included at the end of the synopsis. The public, not just beneficiaries, should have access to the site.

The links above reveal a heterogeneity of perspectives on risks. These are complementary. There is no universal consensus on disclosure parameters. However, TCFD is the closest paradigm to a finance industry standard. Government agencies should encourage industry to provide more standardized guidelines.

I have perused many guaranteed lifetime income securities for retirement plans, but have not found any that are low-risk. As long as the portfolio of the annuity includes securities with

elevated climate finance risks, this will jeopardize both the annuity provider and beneficiaries. All forms of pension plans should include a low-emissions option that is broadly diversified. Cash equivalent securities minimize climate risks, but their returns do not match inflation and therefore have a negative real return. To provide equity-level returns and finance clean-energy solutions, portfolio managers need to invest more in efficiency and other clean solutions. Currently, clean energy provides 30% of global energy. So, the immediate target of managers should be that at least 30% of their energy investments be clean.

As mentioned above, climate finance risks affect all sectors of the global economy. The ultimate measure for decreasing risk is for world governments to enact national and international policies to decelerate climate change. Unlike COP, international agreements need to be binding, i.e. in the form of a multilateral treaty.

All agencies and pension fund managers should be required to assess climate risks. Failing to account for this violates fiduciary responsibility. It is akin to evaluating a stock based on ROI or YOY change in quarterly earnings without considering debts and liabilities. Audits by agencies are required to verify the climate risks of portfolios. At least one of the auditing agencies should have the authority to peruse the securities and loans of private equity funds held by the pension plans. This would not be disclosed to the public. Instead, auditors should disclose the sum of climate finance risks of non-publicly-traded securities including off-shore banks, hedge funds, venture capital, limited partnerships, etc. without naming the entities holding these securities. (Federal agencies should make plans to require complete disclosure by these entities to the public - matching disclosure requirements of publicly-traded securities.)

There is widespread consensus that market pricing of publicly-traded securities does not reflect all climate finance risks. Prices of products entailing high GHG emissions in Scopes 1, 2, and 3 do not include externalities, e.g., the Social Cost of Carbon (SCC). Carbon taxes have failed to internalize these externalities because the price/MT of CO<sub>2</sub>e is far too low. Firms that use our atmosphere as a trash can are using and destroying an essential public resource - without paying a user fee. This elevates the cost of electricity. If firms paid the actual SCC (at a zero percent discount rate), this would significantly diminish their profits and the price of clean electricity. Probable stranded assets should be deducted from a company's market value. In practice, analysts and fund managers do not account for stranded assets. Instead, when a company declares that it is writing off (the value of) some of its stranded assets, then analysts use the decreased market value of a firm. Most high GHG-emitting companies receive generous federal subsidies. These include livestock, timber, biomass electricity, biofuels, and fossil fuels. Annually, fossil fuel companies in the US collectively receive about \$20 billion in subsidies. Reallocation of subsidies to clean solutions is imperative to tame climate chaos.

Equity funds, e.g., ETFs, with low climate finance risk exist. None represent the entire market of publicly-traded stocks. This is because many sectors and sub-sectors in our economy generate high levels of GHGs. Until we decarbonize all sectors of our economy, funds that mirror the entire market cannot be low-GHG. In practice, the best option for minimizing climate finance risk while maintaining diversification covering all major sectors, is to invest only in the cleanest sub-sectors of all of the major sectors. For transportation, invest in Tesla. For buildings, invest in efficient appliances that are powered by electricity, e.g., heat pumps and magnetic convection ranges. For electricity generation, invest in geothermal, wind, and high-efficiency solar. For agriculture, invest in organic crop farming (that does not use synthetic fertilizer). For banks and insurers, invest only in those few that have decided to halt lending to fossil fuel firms.

The best way of educating the public, including the finance industry, about climate risks is to join with other agencies to formulate policies that will expedite decarbonization of the entire economy. The most authoritative prescription for achieving this is the IPCC Sixth Assessment, released in April 2022.

[https://report.ipcc.ch/ar6wg3/pdf/IPCC\\_AR6\\_WGIII\\_FinalDraft\\_FullReport.pdf](https://report.ipcc.ch/ar6wg3/pdf/IPCC_AR6_WGIII_FinalDraft_FullReport.pdf)

ESG is growing in popularity by many measures. Fund managers, e.g. mutual fund companies, have taken note and are providing many “ESG” funds. However, though many of these have a virtuous or green name, they do not have lower emissions than non-ESG funds. Investors have been buying the sizzle hype, but not receiving the steak. Sweeping regulation is needed including uniform standards of disclosing climate finance risks of ETFs and mutual funds. Prudence and loyalty to investors - in conformity with finance policies that attenuate climate change - should be standards required of all fund-offering companies.

More research on climate finance risks would be useful. Consult with professors who are active in this field and with finance associations, e.g., American Finance Association and Western Finance Association. They hold annual conferences and may welcome your presentations about the need for such research. Consulting with the Securities and Exchange Commission about the kinds of research and regulation that are needed to maximize the benefits to investors is a savvy idea. There is a vast amount of literature and public documents about the actions taken by the fossil fuel industry to deny and delay climate mitigation measures, including climate finance. Posting a concise record of this on agency websites is an important part of consumer education for their regular and retirement accounts. Companies that offer funds often make misleading statements about the climate-resilience of their funds and lending practices. This would be educational even if the names of the firms were excluded.

One issue that warrants more research is the efficacy of divestment v engagement. The little independent research that has been published on divestment shows that it is effective. No independent research has shown that engagement is effective for curbing the emissions or cleaning up the business model of fossil fuel firms.