



## TESTIMONY ON HOUSE BILL NO. 2436

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Kansas House Committee on Financial Institutions and Pensions

Wednesday, March 8, 2023

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Chairman Hoheisel and members of the committee,

Thank you for the opportunity to testify today in support of House Bill 2436. Opportunity Solutions Project (OSP) is a non-profit, non-partisan advocacy organization that seeks to enhance individuals' paths to self-sufficiency.

The Kansas Public Employees Retirement System (KPERS) consists of about \$25 billion in assets for the state's retirement programs.<sup>1</sup> Among the retirees who have their savings invested with the state are teachers, police officers, and firefighters who, after a career of public service to Kansas's citizens, have more than earned financial security.

However, environmental, social, and governance investing, or ESG, is putting the future of these public servants in jeopardy.

We'll have heard a few different definitions of ESG today, but here's the bottom line: ESG is a practice that trades real capital for political capital at the expense of Kansans' financial security.

The bill before you today gets politics out of pensions.

### **How big of a problem is ESG?**

In the U.S., public pensions have devoted at least \$3 trillion to ESG causes—that's more than half of all public pension assets.<sup>2</sup>

While ESG assets make up a substantial portion of public retirement funds, here's the real issue: ESG is a losing investment.

ESG investing typically yields lower returns and it does not achieve its stated social goals. A recent study demonstrated that out of 20,000 mutual funds representing over \$8 trillion, regular funds outperformed ESG funds every time.<sup>3</sup> Time and again, ESG funds underperform the S&P 500. And ESG money managers typically charge 40 percent more in fees to their clients.<sup>4</sup>

Kansas cannot afford to allow its state investments to underperform the market. Kansas has a nearly \$60 billion risk-free unfunded pension liability—17<sup>th</sup> in the nation.<sup>5</sup>

### **Why Kansas should pass these reforms**

The financial futures of Kansas's teachers, firefighters, and police officers are not slush funds for political activists.

If a private investor wants to lose money by promoting a social cause they care about, that's their business. But we shouldn't ask those who teach our children, protect our streets, and save lives to gamble away their chance at prosperity to serve one side or the other of the political aisle.

You have a great opportunity here to help lead the way by banning ESG in public employee retirement funds and promoting transparency—protecting the financial future of Kansans both today and for years to come.

With that, I'm happy to answer any questions you may have.

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<sup>1</sup> "About KPERS," Kansas Public Employees Retirement System (2023), <https://www.kpers.org/about/>.

<sup>2</sup> Jean-Pierre Aubry, Anqi Chen, Patrick M. Hubbard, and Alicia H. Munnell, "ESG Investing and Public Pensions: An Update," Center for Retirement Research at Boston College (2020), <https://crr.bc.edu/wp-content/uploads/2020/10/SLP74.pdf>.

<sup>3</sup> Samuel M. Hartzmark and Abigail B. Sussman, "Do Investors Value Sustainability? A Natural Experiment Examining Ranking and Fund Flows," *The Journal of Finance* (2019), <https://onlinelibrary.wiley.com/doi/10.1111/jofi.12841>.

<sup>4</sup> Kenneth P. Pucker and Andrew King, "ESG Investing Isn't Designed to Save the Planet," *Harvard Business Review* (2022), <https://hbr.org/2022/08/esg-investing-isnt-designed-to-save-the-planet>.

<sup>5</sup> "Unaccountable and Unaffordable," American Legislative Exchange Council (2022), <https://alec.org/publication/unaccountable-and-unaffordable-6th-edition/>.