

## **The Hidden Risk in State Pensions**

### **Analyzing State Pensions' Responses to the Climate Crisis in Proxy Voting**

Dear Washington State Investment Board members,

On January 23rd Stand.Earth, Stop the Money Pipeline, and Sierra Club released a major new report: [\*The Hidden Risk in State Pensions: Analyzing State Pensions Responses to the Climate Crisis\*](#).

Public pensions control about \$4 trillion in assets and are the longest-term investors in the world. Each year during AGM Season, pensions should use that money to cast votes on climate- and fossil fuel-related shareholder resolutions and corporate director elections. Unfortunately, far too many public pensions, even in progressive cities and states, are regularly voting against climate action. This includes opposing climate action at many banks, insurance companies and asset managers.

A first-of-its-kind report, the *Hidden Risk* analyzes the proxy voting records and proxy voting guidelines of the 19 public pensions that are in states where state financial officers are members of For the Long Term, a network of state financial officers that is dedicated to using their leverage to create more “sustainable, just, and inclusive” economy.

***The analysis finds that no public pension in the country is doing enough to tackle the climate crisis and reduce the climate risk in its portfolio.***

To assess climate leadership in corporate governance, the *Hidden Risk* report analyzes pensions on three criteria:

1. **Proxy voting guidelines**: Proxy voting guidelines were evaluated for their strength on addressing climate- and environment-related financial risks. Voting guidelines signal investor priorities on corporate governance and direct how an investor votes at companies' annual meetings.
2. **Proxy voting record**: Pensions were evaluated on their voting records on a set of climate-related votes at financial institutions in 2023. These votes represent a range of climate accountability metrics at systemically important institutions.
3. **Data transparency**: Pensions were graded on how easily accessible their voting records and proxy voting guidelines are.

In the evaluation of **proxy voting guidelines** WSIB received a grade of F.

In the evaluation of **proxy voting record**, WSIB received a grade of D+.

In the final evaluation of **key systemic risk**, WSIB received a grade of D-.

The findings of this analysis are clear: far too few state pensions are taking adequate steps to address climate-related financial risks and protect their members' hard-earned savings, raising serious concerns about their execution of fiduciary duty — the obligation that financial institutions have to act in their clients' best interest.

**Our pension fund, highlighted in this report, could do more to shield their beneficiaries from growing climate and environment-related financial risks.**

WSIB should update and strengthen their proxy voting guidelines and use those guidelines to direct their voting practices in 2024 and beyond. We urge you to follow [these guidelines](#) to do the most you can for our pensions and our planet.

We are also urging you to align your votes with climate in the 2024 season even if you have not updated your proxy voting guidelines. Fiduciaries also have an obligation to act on climate to protect their members' savings from potential climate-related losses. To mitigate climate-related financial risk, public pensions must use their proxy voting power to move us toward a net-zero economy and place us on a pathway to achieving the Paris Agreement goal of limiting global warming to no more than 1.5°C above pre-industrial levels.

Our pension fund should be as transparent as possible. Pension fund members deserve to know how their money is being managed, not just in terms of where their money is being invested, but regarding how their influence is being leveraged at the companies in which they hold shares. As the money in these funds comes from the deferred wages of public employees and from state taxpayers, it stands that this information should be readily available to the public, too.

Please read the *Hidden Risk* report in depth and bring it to your next WSIB meeting on Feb. 15<sup>th</sup>. Have a real discussion around how our pension funds can do better. It is imperative that we collectively address the climate crisis and the shared financial risk head on. All the signers below look forward to hearing from the WSIB members on the specific immediate and long-term changes the board will make to proxy voting to protect Washington State pensions and to improve the scores earned before the next such report.

Respectfully,

Donna Albert, Barb Carey, Kristin Edmark, and Sally Keely  
Divest Washington (DivestWA.org)