



# CITY OF HUNTINGTON BEACH

## City Council Interoffice Communication

**To:** Honorable Mayor and City Council Members  
**From:** Mike Posey, City Council Member *MP*  
**Date:** August 28, 2019  
**Subject:** **CITY COUNCIL MEMBER ITEM FOR THE SEPTEMBER 16, 2019, CITY COUNCIL MEETING – CAL-PERS AND ESG**

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### STATEMENT OF ISSUE:

As far back as 1986, the California Public Employee Retirement System (Cal-PERS) had a policy of divesting Cal-PERS assets in certain industries and governments. This concept – investment and divestment that follows an Environmental, Social, or Governance (ESG) plan – may have limited investment returns, and contributed to some of Cal-PERS' investment shortfalls, which are then passed along to cities like Huntington Beach in terms of increased Cal-PERS contribution rates.

According to a June 16, 2019 Wall Street Journal article (*Calpers' Dilemma: Save the World or Make Money?*):

- A November 2016 study by the Boston College Center for Retirement Research found average annual returns in states with divestment requirements were 0.40 percentage point lower than plans in states without such requirements.
- In December 2016 .... (Cal-PERS) retirement-system officials recommended the (Cal-PERS) board drop its tobacco ban, citing the potential money lost. Staying out of the investments for 16 years had cost the fund more than \$3.5 billion, a fund consultant calculated.
- Calpers had \$366 billion in assets as of Thursday, June 13, 2019. The fund was \$139 billion short of what it needs to fulfill its liability as of June 30, 2017, the latest figure available.
- Calpers Chief Executive Marcie Frost (has) cautioned against new divestments during a tour of newspaper editorial boards in California. In 2018 the Calpers board resisted calls to sell more gun-company shares following a deadly high-school shooting in Parkland, Fla. "Divestment limits our investment options," Ms. Frost said. "With a targeted return of 7%, we need access to all potential investments across all asset classes. Divesting does the exact opposite—it shrinks the investment universe."

Huntington Beach's unfunded liability at Cal-PERS was estimated to be about \$463 million as of June 30, 2018 (including HB's Safety Plan and HB's Miscellaneous Plan). The overall funded status of the combined plans fell between June 30, 2017 and June 30, 2018 from being 68.2% funded to being 67.7% funded (therefore lowered by about 0.49%), meaning that the plans actually lost a little ground in FY 2017-18 when assets are compared to what's owed in benefits. A 100% funded plan would have enough assets banked to fully cover all promised benefits. Some actuaries suggest that plans be at least 80% funded, with steps considered and taken to provide a path to 100% funding eventually.

The unfunded liability is likely to have grown somewhat since the given the Cal-PERS Public Employee Retirement Fund (PERF) performance of 6.7% in FY 2018-19 (below the FY 2018-19

Discount Rate of 7.375%), but the formal 6-30-2018 data is the best data we have from Cal-PERS today.

	6/30/2017	6/30/2018	Increase (Decrease)
<b>Safety</b>			
Entry Age Normal Accrued Liability	\$ 721,352,013	\$ 768,274,145	\$ 46,922,132
Market Value of Assets	\$ 471,441,994	\$ 498,167,362	\$ 26,725,368
Unfunded Accrued Liability	\$ 249,910,019	\$ 270,106,783	\$ 20,196,764
Funded Status:	65.4%	64.8%	-0.51%
<b>Misc</b>			
Entry Age Normal Accrued Liability	\$ 546,430,784	\$ 581,854,441	\$ 35,423,657
Market Value of Assets	\$ 392,946,156	\$ 415,788,070	\$ 22,841,914
Unfunded Accrued Liability	\$ 153,484,628	\$ 166,066,371	\$ 12,581,743
Funded Status:	71.9%	71.5%	-0.45%
<b>Total</b>			
Entry Age Normal Accrued Liability	\$ 1,267,782,797	\$ 1,350,128,586	\$ 82,345,789
Market Value of Assets	\$ 864,388,150	\$ 913,955,432	\$ 49,567,282
Unfunded Accrued Liability	\$ 403,394,647	\$ 436,173,154	\$ 32,778,507
Funded Status:	68.2%	67.7%	-0.49%
	6/30/2017	6/30/2018	6/30/2019
Dow Jones Industrial Average (DJIA) as of June 30	21,349.63	24,271.41	26,599.96
DJIA Returns: Previous 12 months	19%	13.69%	9.05%
Cal-PERS PERF Returns: Previous 12 months	11.20%	8.60%	6.7% <sup>1</sup>
Cal-PERS Pub Equity Portfolio Returns: Previous 12 months	19.70%	11.50%	6.1% <sup>1</sup>

<sup>1</sup> Cal-PERS 6-30-2019 returns are preliminary

All of this begs the question: Could Cal-PERS' PERF returns have been higher if the Public Equity portion of the PERF had been invested in companies that might not comply with Cal-PERS' ESG plan? If so, what amount lost was assigned to HB's fund with Cal-PERS?

### **RECOMMENDED ACTION:**

Direct the Finance Commission to study the impact of Cal-PERS' ESG policy on Huntington Beach's unfunded pension liability, then to report back to the Council with an estimate of what amount of the City's unfunded liability is due to or was increased by Cal-PERS' ESG policies. Concurrent with that report, direct the City Attorney to report back on a legal strategy to address any losses to HB's Cal-PERS plan due to Cal-PERS' ESG policies.

xc: Dave Kiff, Interim City Manager  
 Travis Hopkins, Acting Assistant City Manager  
 Chuck Adams, Interim Finance Director  
 Robin Estanislau, City Clerk  
 Michael Gates, City Attorney