

MCREA

Montgomery County Retired Employees' Association, Inc.

P.O. Box 73 • Rockville, Maryland • 20848-0073

December 6, 2016

RE: Bill 44-16, Retirement- Fossil Fuel Investments - Restriction

Dear Montgomery County Councilmembers;

On November 21, the Montgomery County Retired Employees Association (MCREA) voted to oppose Bill 44-16, Retirement- Fossil Fuel Investments- Restriction. MCREA, began in 1977 and represents more than 6,000 retired County employees who have paid their money into these funds in the expectation that there is a County legal and moral obligation to retirees. Our mission is to provide information to and advocate for individuals currently receiving retirement benefits and/or retiree group insurance.

The MCREA Board acknowledges the seriousness of global warming. We praise the County Council's leadership in actions to reduce the consumption of fossil fuels, such as Green Building standards. We encourage your continued support for county-wide measures.

After listening to and discussing both sides of the divestment issue, MCREA believes Bill 44-16 seriously threatens and impacts the funding for both the retirement plan trust fund and the retiree health care trust fund. We also believe that divestment offers symbolic rather than genuine impact on climate change given the complexity of fossil fuel investments. Our members are already concerned about both the funding and politicizing of trust funds. Thus, MCREA strongly opposes Bill 44-16 and believes it is not amenable to technical corrections.

This Bill will not have the desired effect and will have real and potentially negative impacts to pension structure and funding.

Except for Initial Public Offerings, corporation stock sales do not affect corporation funding. Divestment will result in the transfer of ownership away from those who care about fossil fuels, thus diminishing shareholders voices advocating for progressive environmental, social and governance factors.

The Employees' Retirement System's investment returns are among the highest in the country, due to the Board's asset allocation decisions and the quality of outside fund managers hired. Bill 44-16 threatens to decrease the quality of investment managers, increase fees, and restrict the investable universe. As cited in the Board of Investment Trust memorandum, Wilshire Consultants estimates the potential cost impact to be (between -0.1 percent and -1.0 percent for a per annum) a loss of \$2.7 million to \$26.8 million annually. Even taking their lowest estimate, that would result in an estimated \$27 million loss over a ten-year period. Whatever the loss, it will need to be made up plus any additional funding short falls.

Under County Code (Section 33-61C and 33-163), the pension and health care funds carry fiduciary responsibilities to act only in the best interest of fund participants and their beneficiaries. Investment standards mean maximizing investment returns in relationship to appropriate risk. Any increased expenses and decrease in returns on investments, means a real impact on the funds. We must stay aware that the Health Benefits Trust is currently just 21% funded. These factors affect County budgetary choices and could result in higher contributions from employees and retirees.

MCREA believes fossil fuel issues should be restricted to policies on environmental, social and governance factors and not violate fiduciary responsibilities and impact investor standards. In addition, we note that the organizations with the greatest investments in alternative fuels are often fossil fuel providers.

MCREA thanks the Council for considering the concerns of our 6,000 plus members. MCREA looks forward to being part of Council committee meetings and discussions.

Cordially,

A handwritten signature in cursive script that reads "Rob Klein". The signature is written in black ink and is positioned below the word "Cordially,".

Rob Klein, President