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Senate Finance Committee
SB 6 Opposition Opponent Testimony
By Melissa Cropper, Secretary-Treasurer of the AFL-CIO
And President of the Ohio Federation of Teachers
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Chair Dolan, Vice- Chair Cirino, ranking member Sykes and members of the Senate Finance Committee, I am Melissa Cropper, Secretary-Treasurer of the Ohio AFL-CIO and President of the Ohio Federation of Teachers. I'm here today to testify in opposition to Senate Bill 6.

SB 6 prohibits the state retirement system boards, Administrator of Workers' Compensation, and boards of trustees of state institutions of higher education from making an investment decision with the primary purpose of influencing any social or environmental policy or the governance of any corporation (ESG).

We respect the sponsors' objective to strengthen Ohio's public pension systems; however, we oppose this bill because it is unnecessary and could have a negative impact on the systems. The systems to which this bill would apply already have a fiduciary responsibility to act solely in the interests of the participants and beneficiaries by maximizing returns and minimizing losses. We disagree that factors other than maximizing returns should be banned from consideration though. Current law even states that "in exercising its fiduciary responsibility in respect to the investment of the funds, it shall be the intent of the board to give consideration to investments that enhance the general welfare of the state and its citizens where the investments offer quality, return, and safety comparable other investments currently available to the board."

Environment, social, and governance (ESG) investment policy has been around for 30 years, not just in the United States but globally, and have produced positive returns. ESG investing and analysis looks at finding value in companies—not just at supporting a set of values. Investments that take into consideration ESG policies are often the best investments not only because of their comparable returns but also because of the added benefit of enhancing the general welfare of the state and its citizens. At issue is language in Senate Bill 6 that leaves open to interpretation the intent of the investment. Who determines the "primary purpose" of an investment? If a retirement system makes an investment in a successful firm that also has an ESG policy, will they immediately be accused of doing so to influence policy? Changes in Senate Bill 6 could actually prevent funds from making the best possible investments for the participants and beneficiaries.

A responsible investment strategy measures risk and the maximum rate of return with a goal of having the maximum return with the least amount of risk. Unfortunately, only being driven by maximum return has led to significant losses in our public pension system as evidenced by the coingate scandal in 2006 and the collapse of the Lehman Brothers during the 2008 mortgage crisis.

Rate of returns is one factor of investing, while minimizing risk and safeguarding our communities are others. For example, during the height of the opioid crisis, there was a stockholder movement to make an Ohio-based company take responsibility for their over-distribution of opioids and to push that company toward safer practices even though it could reduce profits. It is unclear under SB 6 whether actions like this could still occur. The action of stockholders saved the lives of Ohioans and people living in other states. Unfortunately, history is full of harm done by corporations or CEOs blindly focusing on profits.

Additionally, we know that the legislature understands that investments can fuel dangerous activities which is why it has urged funds to divest in Russian investments and in stocks doing business in Iran and Iraq.

A recent survey from Penn State's Center for the Business of Sustainability and the communications firm ROKK Solutions shows that 63% of voters surveyed said the government should not limit ESG investments. This was a bipartisan consensus. Survey respondents on the left believe that ESG investments contribute to a social good, and respondents on the right are opposed to legislative interference with free markets.

The survey found that “neither Republican nor Democratic voters support policymakers' potential legislative efforts to curb ESG initiatives," according to researchers. "The consensus among voters surveyed was that companies should be able to exercise discretion to invest in ESG initiatives that benefit society without government interference."

In summary, limiting the types of funds that public pension trustees can invest in will reduce their flexibility in managing the pension funds. Again, trustees already have the fiduciary responsibility to maximize returns for their beneficiaries and this legislation could unfortunately, have negative consequences for the financial health of our pension funds. We have found no example of Ohio’s pension systems making investment decisions with the primary purpose of influencing any social or environmental policy or the governance of any corporation. This bill is truly a solution in search of a problem.

Chair Dolan, members of the Senate Finance committee, I implore you to delay today’s vote on Senate Bill 6 until a fuller accounting of possible negative consequences of its passage can be explored. This concludes my opposition testimony and I welcome any questions you may have.