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Submitter Information

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General Comment

Re: RIN 1210-AC03
Department of Labor – Employee Benefits Security Administration
29 CFR Part 2550
Prudence and Loyalty in Selecting Plan Investments and Exercising Shareholder Rights

December 13, 2021

I am submitting this letter to address the proposal from the U.S. Department of Labor (DOL) on removing barriers put in place by the prior administration that would have limited plan fiduciaries' ability to consider climate change and other environmental, social and governance (ESG) issues as risk factors affecting workers' financial security when fiduciaries select retirement plan investments and exercise shareholder proxy voting rights.

As a parent of a young child, I consider climate change and corporate governance concerns to be significant threats to my child's future, and thus to my retirement savings. I have been investing in employer-based 401(k)s since I entered the workforce in 2004, and have never had the opportunity to make contributions that are in service of my child's future. Nearly 20 years later, this regulation is an opportunity for that trend to change.

As a native Californian, I have seen wildfires and drought increase exponentially over the years. When I was a child, wildfires were uncommon and largely manageable; I can count on one hand the number of fires I remember from growing up. Today, every summer I have to keep a constant check on air quality levels to see if it is safe to take my 18-month-old daughter out for a walk. In 2020 alone, the cost of wildfires in California was $148.5B. I don’t want my retirement savings to fund a world in which my child has to stay inside for a significant portion of her childhood, or where she may not be able to enjoy the beauty of our forests in this state or the rest of the country, or the coastlines and islands that I've been lucky enough to enjoy while traveling outside the U.S. As my child grows up and enters the workforce, I also want her to have access to workplace options that respect worker rights and safety, consider all stakeholders as inputs to their business strategies, and offer ESG options in their own 401(k)s - all corporate governance issues that will be driven by market pressures such as the investor choice that would be enabled by this regulation.

ESG Investments are a Large and Growing Asset Class

According to Bloomberg, ESG investments are forecast to be a third of global assets under management by 2025. In the U.S., we are already there. According the US SIF Foundation, as of year-end 2019, one out of every three dollars under professional management in the U.S—$17.1 trillion—was managed according to sustainable investing strategies. And this category is growing: ESG funds got $51.1 billion of net new money from investors in 2020, a record and more than double the prior year, according to Morningstar.

ESG Funds did Better in the Pandemic

Since fiduciaries need to consider financial performance of fund options in 401k plans they manage, it’s clear that ESG factors are no longer optional. An article by Institutional Investor notes:

In the first year of the pandemic, large funds with environmental, social, and governance criteria outperformed the broader market, according to a report published this week by S&P Global. It’s the latest of such analyses to suggest that ESG risks matter for investment performance, at least during a pandemic.

S&P's analysis included 26 ESG exchange-traded funds and mutual funds with more than $250 million in assets under management. From March 5, 2020 to March 5, 2021, 19 of the funds grew between 27.3 percent and 55 percent, outpacing the S&P 500 index's 27.1 percent rise, according to S&P.

To me, this is evidence that fiduciaries should be required to consider ESG factors in fund selection, rather than seeing ESG as optional.

ESG Funds Should Be Among the Default Choices for 401(k) Plans

For all the above reasons, I support using ESG funds as Qualified Default Investment Alternatives (QDIAs) – i.e. the "default options" to pick from in a 401k in automatic enrollment 401(k)-type defined contribution plans.

Climate change and other ESG factors are financially material, and, when they are, considering them will inevitably lead to better long-term risk-adjusted returns, protecting the retirement savings of America's workers.

Thank you.