

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

96TH GENERAL ASSEMBLY

BILL NO: SB 1734

March 9, 2009

SPONSOR (S): Schoenberg

SYSTEM(S): SERS, SURS, GARS, JRS, TRS

FISCAL IMPACT: On January 12th, 2009, the Commission on Government Forecasting and Accountability voted unanimously to issue a Request for Proposal for a consultant to study the Treasurer's ILPERS pension investment consolidation proposal. The Commission also voted to grant Commission staff the authority to rank bids submitted by vendors and to select a vendor with the approval of the Commission co-chairmen. On February 25th, 2009, the full Commission selected AON Investment Consulting to undertake the study of the Treasurer's ILPERS investment consolidation proposal. The study should be completed by mid-April, 2009.

SUBJECT MATTER: SB 1734 creates the Illinois Public Employees Retirement System, a consolidated pension investment system that will invest and manage all assets of the five State-funded retirement systems. The provisions of the bill are summarized in the Comments section below.

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COMMENTS:

Creation of Illinois Public Employees' Retirement System

SB 1734 creates the Illinois Public Employees' Retirement System (hereinafter referred to ILPERS), a consolidated pension investment system created to invest and manage all assets of TRS, SURS, SERS, GARS, and JRS. The purpose of ILPERS is to provide a consolidated investment function for the aforementioned systems in order to maximize efficiencies and promote ethics and transparency of investments.

ILPERS Board of Trustees

SB 1734 provides that the ILPERS Board of Trustees shall consist of 13 members, as follows: the State Treasurer, the State Comptroller, the Chairman of the General Assembly Retirement System, the Chairman of the Judges' Retirement System, the Chairman of the State Employees' Retirement

System, the President of the Board of the Teachers' Retirement System, the President of the Board of the State Universities Retirement System, four members appointed by the Executive Ethics Commission with the advice and consent of the Senate, who shall serve a term of 4 years, and two members of the ILPERS Oversight Board, who shall serve for a term of 2 years, but these members shall not serve consecutive terms. The bill provides that all appointed members of the ILPERS board must have a minimum of 5 years of experience in the direct management, analysis, supervision, or investment of assets; experience in government oversight; or experience acting in a fiduciary capacity.

ILPERS Oversight Board

SB 1734 creates an ILPERS oversight board to provide advice, consultation, and expertise to the ILPERS Board. The oversight board will consist of 13 members: the ILPERS chairman; 6 elected retirement system participants or annuitants, at least one each from GARS, JRS, SERS, SURS, and TRS; 6 members appointed by the Executive Ethics Commission who must be confirmed by the Senate and must include 3 investment professionals, 2 members of organized labor, and one taxpayer advocate. Members of the oversight board will serve 4-year terms. SB 1734 also provides that every 2 years beginning on the effective date of this Amendatory Act, the Oversight Board will have the power to appoint 3 Oversight Board members to sit on the ILPERS Board. Oversight Board appointees shall not serve 2 consecutive terms on the ILPERS Board. The bill provides that all members of the Oversight Board must have a minimum of 5 years of experience in the direct management, supervision, analysis, or investment of assets, or experience acting in a fiduciary capacity.

Transfer of Investment Assets to ILPERS

SB 1734 provides that upon notification from the ILPERS board, the trustees of SURS, TRS, and the Illinois State Board of Investment shall transfer to ILPERS for management and investment all of their securities for which commitments have been made and all funds, assets, or moneys representing permanent or temporary investments or cash reserves maintained for the purpose of obtaining investment income. The bill also provides that the boards of the three current state pension fund investment entities shall affect such transfer of assets after completion of an audit as authorized by ILPERS and the Auditor General, the expenses of which shall be assumed by the current state pension investment entities. Upon the transfer of assets, the authority of ILPERS to invest and otherwise handle the investments of the three existing investment entities shall be effective. Additionally, the bill provides that no later than one year following the establishment of ILPERS, all employees performing investment functions for the three current state pension fund investment entities shall be transferred to ILPERS.

Cooperation with the Commission on Government Forecasting and Accountability

Current law requires the Illinois State Board of Investment and all pension funds and retirement systems subject to the Pension Code to cooperate with the Commission on Government Forecasting and Accountability and to provide the Commission with such information and other assistance as the commission may find necessary and useful for the performance of its duties. SB 1734 extends this requirement to ILPERS.

Compliance with the Business Enterprise for Minorities, Females, and Persons with Disabilities Act

SB 1734 requires the ILPERS board of trustees to comply with the Business Enterprise for Minorities, Females, and Persons with Disabilities Act. The bill requires the board to post upon its website the percentage of its contracts awarded in the previous five years to minority owned businesses, female owned businesses, and businesses owned by a person with a disability. The bill

specifies that ILPERS shall award to such businesses not less than 12% of the total dollar amount of all contracts awarded.

Prohibition on Monetary Gains on Investments

SB 1734 provides that no member or employee of the ILPERS Board or ILPERS Oversight Board nor the spouse of any such member shall have any direct interest in the income, gains, or profits of any investment made on behalf of ILPERS. No member or employee of the Board or oversight Board of ILPERS shall become an endorser or surety or in any manner an obligor for money loaned or borrowed from ILPERS. Violators of the foregoing provisions will be guilty of a Class 3 felony.

Anti-Fraud Provision

SB 1734 provides that any person who knowingly makes any false statement or falsifies or permits to be falsified any records of ILPERS in an attempt to defraud ILPERS shall be guilty of a Class 3 felony.

Prohibition on Gifts

SB 1734 provides that no board member or employee of ILPERS shall solicit or accept any gift from a prohibited source or from an officer, agent, or employee of a prohibited source. (“Prohibited source” is defined as a person or entity who is seeking official action by the board or by an employee of the board, or someone who does business with or seeks to do business with the board, or with a board member, among other things).

Contingent Fees/Placement Agents

SB 1734 provides that no person shall retain a solicitor or placement agent to attempt to influence the outcome of an investment decision or the procurement of investment advice or services by the Board or Oversight Board of ILPERS, unless that person is in compliance with certain provisions of the Federal Investment Advisors Act of 1949, or is registered as a broker or dealer pursuant to the Federal Securities and Exchange Act of 1934, or the Illinois Securities Law of 1953. Violators of the foregoing provision will be guilty of a business offense and shall be fined not more than \$10,000. Persons convicted of a violation of the foregoing provisions will be prohibited from conducting such activities for three years.

Optional Participation in ILPERS by Other Illinois Public Pension Funds

SB 1734 provides the ILPERS Board with the authority to manage the investments of any pension fund, retirement system, or education fund under the Pension Code that wishes to voluntarily transfer its assets to ILPERS for management. The bill states that the board of trustees of any pension fund that elects to come under ILPERS authority shall effect a transfer of securities and other assets not later than the first day of the 4th month next following the date of such election after completion of an audit by a certified public accountant of such securities and other assets as authorized by ILPERS and approved by the Auditor General.

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