

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

97TH GENERAL ASSEMBLY

BILL NO: **SB 0032**

February 7, 2011

SPONSOR(S): Lauzen

SYSTEM(S): General Provisions, Downstate Police, Downstate Fire

FISCAL IMPACT: There is no discernable fiscal impact associated with SB 0032.

SUBJECT MATTER: SB 0032 amends the Illinois Pension Code to stipulate that Downstate Police and Downstate Fire pension funds may invest in debt obligations of corporations, subject to certain limitations as outlined below in the Comments Section.

FISCAL IMPACT: There is no discernable fiscal impact associated with SB 0032.

COMMENT: Currently, the board of trustees of a Downstate Police or Downstate Fire pension fund must draw pension funds from the treasurer of the municipality and invest it in the name of the board. Interest and any other income that may come from the investments are credited to the pension fund. SB 0032 provides that no more than 30% of the pension fund's assets may be invested in debt obligations of corporations subject to the following conditions:

1. Corporate debt maturity is limited to a maximum of 30 years from the date of new issuance or remaining life of the security,
2. No greater than 3% of the pension fund's allowable allocation to corporate debt securities can be invested in a single corporate issuer,
3. No greater than 15% of the fund's allowable allocation to corporate debt securities can be invested into any one of the 10 Global Industry Classification Standards classified sectors,
4. Deferrable interest debt obligations are prohibited,
5. A maximum of 25% in callable corporate debt obligations are permitted,
6. No debt leverage is permitted within any bond mutual fund, ETF, or individual corporate debt portfolio to enhance yield, and
7. If the investment grade rating by one or more of 2 standard credit rating services falls below investment grade for any issuer, then the debt obligation must be sold if it is still rated below investment grade by at least 2 credit rating services after a period of 12 months of the downgrade.

SB 0032 amends the State Mandates Act to require implementation without reimbursement.

MDM:dkb

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