COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

101ST GENERAL ASSEMBLY

BILL NO: HB 1576

February 8, 2019

SPONSOR (S): Spain – Reick, et al.

SYSTEM(S): Downstate Police and Firefighters

FISCAL IMPACT: HB 1576 would create two separate and distinct investment entities for consolidation of Downstate police and fire pension funds: the Downstate Police Pension Investment Board and the Downstate Firefighter Pension Investment Board. An in-depth study by an independent investment consultant would be required to ascertain the full fiscal impact of HB 1576.

<u>SUBJECT MATTER</u>: HB 1576 amends the Illinois Pension Code by shifting the investment power from Downstate Police and Firefighter local pension boards to respective Downstate Police/Firefighter Investment Boards (established under this bill). The shift in authority would begin 18 months after the effective date of the bill. Under HB 1576, the fiscal years for pension boards are normalized, annual compliance fees are doubled, and the Director of Insurance is given the authority to issue fees regarding non-compliance in the administration of local pension funds.

COMMENT:

Downstate Police and Firefighter Investment Boards

- Downstate Police and Downstate Firefighter pension funds will each have a Downstate Investment Board that funds will be transferring their investment authority to respectively.
- Boards are made up of 8 members:
 - Two trustees who are active members, elected by active participants of their respective funds
 - Two trustees who are beneficiaries, elected by beneficiaries of their respective funds
 - Four trustees who are mayors or presidents of boards of trustees of municipalities.
 - Actives can only vote for actives, beneficiaries for beneficiaries, and mayors or presidents for mayors or presidents.

- Executive Committee
 - The board shall elect biennially a chairperson, vice chairperson, a recording secretary, and one other member to maintain an Executive Committee
 - This Committee shall operate all the business of the board in between regular meetings and shall report their conduct at the next meeting of the board for ratification.
- The positions on the Downstate Investment Boards are unpaid, except for travel expenses.
- The Boards shall appoint Directors and investment officers.
 - The Director shall maintain personnel as needed to administer the Investment Board.
- Investment restrictions still apply, however the Boards may enter into agreements with national or state banks or trust companies authorized to conduct business in Illinois.
 - The Board may also commingle all or part of invested assets of one or more pension funds under its authority.

Shifting Investment Authority

- Eligible Pensions
 - In order to transfer investment authority from the pension fund to the respective Downstate Investment Boards, a pension fund must reach a "threshold amount" of net assets equal to 3 months of current liabilities.
 - Once a fund has reached the threshold amount, future depreciations do not affect the fund's status in regards to transferring investment authority.
 - Prior to fund transfers, the local board must complete an audit of investment assets.
- Within 18 months of the effective date of this bill, the Department of Insurance shall audit the investment assets of each eligible pension fund and deliver to those funds a certified investment asset list.
 - Once delivered a certified investment asset list, funds must stop investing activity and begin the transfer of assets.
- Eligible funds shall transfer available investments with 30 days of the end of each fiscal year quarter and send written notices to respective Downstate Investment Boards as transfers are made.
 - The bill mandates a full audit within 6 months of the completion of the transfer of assets, completed by the Auditor General's designated public accountant. The audit includes:
 - i. full description of investments acquired and their average costs;
 - ii. full description of the securities sold or exchanged, showing average proceeds or other conditions of an exchange;
 - iii. gains or losses during the transfer;
 - iv. investment income;

- v. administrative expenses of the board;
- vi. and the proportion of administrative expenses allocable to each pension fund.

Local Boards

- Local Pension Boards are not removed under HB 1576.
- HB 1576 mandates that respective Downstate Investment Boards make annual reports to local boards, and that local boards can request reports throughout the year.
 - Respective Downstate Investment Boards shall provide a full receipt to the local board once the transfer of all assets, securities, and other pension investments to respective Downstate Investment Boards is completed.
- The respective Downstate Investment Boards also make deposits into local pension funds, from which benefits are paid.
 - Municipalities with transferred pension funds are required to maintain reserves equal to 3 months' current liabilities.
- Respective Downstate Investment Boards shall provide an annual report to each pension fund concerning investments held, amounts allocable to each fund, comments, and a review of policies, among other financial data.
- Any disputes between local boards and the IMRF shall be resolved by the Director of the Department of Insurance.

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