

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

101ST GENERAL ASSEMBLY

BILL NO: **HB 3635**

February 26, 2019

SPONSOR (S): Davis

SYSTEM(S): Downstate Fire

FISCAL IMPACT: HB 3635 proposes to remove the limitations on how much and in what way Downstate Fire pension funds can invest assets. The bill replaces the investment limitations with the prudent person rule, which dictates that boards shall invest funds with the care, skill, prudence, and diligence that a prudent person acting in like capacity and familiar with such matters would use in a similar situation. An in-depth analysis by an independent investment consultant would be necessary to properly determine the effect of this change.

SUBJECT MATTER: HB 3635 removes investment limitations for Downstate Fire pension funds. In place of the current investment limitations (as delineated below), the bill grants all Downstate Fire pension funds the ability to invest under the prudent person rule.

COMMENT: HB 3635 would allow Downstate Fire pension funds to invest more freely than current statute allows. This bill removes total asset requirements that currently inhibit smaller funds from investing more heavily in equities and allows all funds to invest their assets under the auspices of the prudent person rule.

HB 3635 removes limitations associated with the four brackets established under current statute. The lowest bracket is funds with under \$2.5 million in assets, which currently can only invest 10% of their assets in equities and the rest in fixed income and money market instruments. Funds with assets totaling between \$2.5 and \$5 million may invest 45% of their assets in selected equities (with the exception of common and preferred stock). Funds with assets totaling between \$5 and \$10 million may invest 45% in qualified equities, mutual funds, and maintain separate accounts with insurance companies. Finally, funds over \$10 million may, as of 2012, invest up to 65% of assets in qualified assets.

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