

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

102nd GENERAL ASSEMBLY

BILL NO: **HB 1293, as amended by HA 5**

April 1, 2022

SPONSOR (S): LaPointe – Ramirez, et al

SYSTEM(S): General Provisions Article

FISCAL IMPACT: Both TRS and the Illinois State Board of Investment (ISBI) were unable to provide a readily quantifiable dollar amount invested in Russian/Belarusian entities that would be subject to divestiture under this bill. TRS says that it has prepared for divestment by holding preliminary conversations with managers for investments in Russia and Belarus, but no action has been taken as of this writing. ISBI says it's Russian/Belarusian holdings are "negligible." SURS says that Russian holdings comprise less than 0.1% of their total portfolio, and that the system has begun taking steps toward divestiture.

SUBJECT MATTER: HB 1293, as amended by HA 5, amends the General Provisions Article of the Pension Code. The bill adds to the list of prohibited transactions for the State retirement systems any companies domiciled in or that have their principal place of business in Russia or Belarus and companies subject to federal sanctions resulting from the Russian attack on Ukraine. New investments in Russian and Belarusian instruments will be prohibited as of the effective date of the bill, and complete divestiture of existing Russian and Belarusian assets must occur within 12 months of the effective date.

COMMENT: Currently, the General Provisions Article of the Pension Code outlines several prohibited investment transactions, such as companies that boycott Israel, Iran-restricted companies, and Sudan-restricted companies, among others. The duty to identify restricted companies and entities falls under the jurisdiction of the Illinois Investment Policy Board, which was created pursuant to P.A. 99-0128. The dictates of the Investment Policy Board apply only to the five State-funded systems.

State Retirement Systems' Russia/Belarus Divestiture Mandate

HB 1293, as amended by HA 5, prohibits each of the 5 State retirement system from investing or depositing moneys in any of the following instruments as of the effective date of the bill:

- Russian or Belarusian sovereign debt;
- Russian or Belarusian government-backed securities;

- investment instruments issued by an entity that is domiciled or has its principal place of business in Russia or Belarus;
- investment instruments issued by a company that is subject to federal sanctions and is included in the Illinois Investment Policy Board's list of restricted companies;
- any bank that is domiciled or has its principal place of business in Russia or Belarus;
- any other financial institution that is domiciled or has its principal place of business in Russia or Belarus or that is subject to federal sanctions and is included in the Illinois Investment Policy Board's list of restricted companies.

HB 1293, as amended by HA 5, also directs each retirement system to instruct its investors to sell, redeem, divest or withdraw any holdings, investments, or deposits associated with the aforementioned entities "in an orderly and responsible manner as soon as practicable." HB 1293, as amended by HA 5, provides that the State systems may cease divestment if the value of investments described above becomes equal to or less than 0.05% of the market value of all assets managed by the retirement system, provided the system give written notice of reasons and justification for its decision to cease divestment to the Illinois Investment Policy Board prior to cessation of divestment. The divestiture requirement does not apply to the retirement system's indirect holdings or private market funds.

Illinois Investment Policy Board Prohibited List re: Russia and Belarus

HB 1293, as amended by HA 5, directs the Illinois Investment Policy Board to make its best effort to identify all companies domiciled in or that have their principal place of business in Russia or Belarus and companies subject to federal sanctions in response to the Russian attack on Ukraine, and add these companies to the list of restricted companies. The aforementioned list must be prepared no later than 6 months after the effective date of this amendatory Act.

Current law dictates that once the list of prohibited companies is forwarded by the Illinois Investment Policy Board to the five State-funded systems, the affected system shall instruct its investment advisors to sell, redeem, divest or withdraw from all direct holdings of restricted companies within 12 months after the company's most recent appearance on the list of restricted companies.

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