



Commission on Government Forecasting and Accountability

PENSION IMPACT NOTE *103RD General Assembly*

BILL NO: SB 2152, as amended by SA 003 April 18, 2023

SPONSOR (S): Cunningham – Hunter, et al. (Kifowit – Evans, Jr., et al.)

SYSTEM: SURS, TRS, and the State Board of Investment

FISCAL IMPACT

SB 2152, as amended by SA 003, would have no actuarially discernible fiscal impact as the language added is administrative in nature. To the extent that the State-funded retirement systems would no longer have to hire outside companies to execute proxy voting should they elect to assign proxy voting duties to the Office of the State Treasurer, there would be a slight savings as the State Treasurer would assume these duties.

SUBJECT MATTER: SB 2152, as amended by SA 003, amends the State Universities, Downstate Teachers, and State Board of Investment Articles of the Illinois Pension Code to establish proxy voting and reporting requirements for the Boards of each Fund, which will be conducted under the auspices of the Office of the State Treasurer, but only upon an affirmative vote from the pertinent System.

COMMENT: Current law does not require the five State-funded retirement systems to follow a uniform protocol for domestic or international proxy voting. SB 2152, as amended by SA 003, establishes the State Treasurer as the responsible party for managing the systems' proxy voting activities, but only if directed to undertake those duties at the behest of the pertinent System with an affirmative vote of at least three-fifths of the members of the pertinent board. If asked to undertake the proxy voting duties, the bill requires quarterly proxy voting reports from the Treasurer to the pertinent board or upon request of the pertinent board.

On or before September 1, 2023, and annually thereafter, SB 2152, as amended by SA 003, requires each System involved to publish its guidelines for voting proxy ballots. The bill also requires each respective Board to annually publish a report on its website detailing how that

Board is considering sustainability factors as defined in the Illinois Sustainable Investing Act. Examples of these factors include:

- 1) Corporate governance and leadership factors such as the independence of boards and auditors, the expertise and competence of corporate boards and executives and systematic management practices;
- 2) Environmental factors that may have an adverse or positive financial impact on investment performance such as greenhouse gas emissions and water and wastewater management; and
- 3) Human capital factors that recognize that the workforce is an important asset to delivering long-term value such as labor practices, employee health and safety, and diversity and inclusion.

CGFA staff has consulted with SURS on this bill. The system notes that the SURS Board of Trustees adopts a proxy voting policy in accordance with its fiduciary responsibilities and hires a company (Glass Lewis) to vote its proxies in accordance with that policy. Reports of proxy votes are provided to the SURS Board of Trustees on a quarterly basis and are available on SURS' website.

IMPACT OF SA 003: The underlying bill required the State Treasurer to unilaterally assume the duties of proxy voting for the five State-funded Systems. SA 003 amends SB 2152 by providing the pertinent State system with the discretion to allow the State Treasurer to manage proxy voting upon the affirmative vote of at least three-fifths of the members of the pertinent board of trustees.

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