



## Commission on Government Forecasting and Accountability

### PENSION IMPACT NOTE *103<sup>RD</sup> General Assembly*

BILL NO: SB 3717

February 20, 2024

SPONSOR: Johnson

SYSTEM: General Provisions Article (All Systems)

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#### FISCAL IMPACT

According to SURS, the energy sector represents over 5% of the global equity market and was the best performing sector of the market in 2022. The system maintains that removing these assets from the investment portfolio will result in a lower funded status and require increased contributions from the State to reach the statutorily-required 90% funding by 2045. The system has stressed that this divestment requirement limits the index funds that pension funds and retirement systems would be allowed to invest in, resulting in increased fees to find index funds that comply with this bill. The Illinois State Board of Investment expects a negative fiscal impact if this bill were to become law as this bill targets an entire industry rather than individual entities.

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SUBJECT MATTER: SB 3717 amends the General Provisions Article of the Pension Code to require all systems governed under the Pension Code to divest from fossil fuel companies by January 1, 2029. Pension systems must also publish various reports pertaining to their environmental, social, and governance (ESG) investment policies as well as various environmental metrics. Please see the Comment section for more information.

COMMENT: Under current law, pension funds and retirement systems governed under the Illinois Pension Code are prohibited from investing in various entities, including the Republic of Sudan, the Government of Iran, companies that boycott Israel, companies that contract to shelter migrant children, and companies located in Russia or Belarus, among other prohibitions.

SB 3717 would prohibit Illinois public pension funds and retirement systems from investing in “fossil fuel companies”, which include the following companies: 1) the 200 publicly traded

companies with the largest fossil fuel reserves in the world; 2) the 30 largest public company owners of coal-fired power plants; 3) companies whose core business is the construction or operation of fossil fuel infrastructure; 4) companies with its core business in exploration, extraction, refining, processing, or distributing fossil fuels, and 5) companies that receive more than 20% of their gross revenue from companies that meet the definitions of items 1 through 4 above.

SB 3717 would require each pension system's board of trustees to adopt an updated investment policy and file an updated copy of the policy with the Department of Insurance within 30 days of adoption. Each pension system's board of trustees would also be required to review its investments on an annual basis to ensure compliance with this bill. Starting January 1, 2025, SB 3717 requires each pension system to issue an annual report reviewing its environmental, social, and governance investment policy, disclosing environmental performance metrics pertaining to the environmental effects of the pension system's investments.

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