



Commission on Government Forecasting and Accountability

PENSION IMPACT NOTE *104th General Assembly*

BILL NO: HB 3961, as amended by HA 1 April 8, 2026

SPONSOR (S): Guzzardi - Lilly, et al.

SYSTEM: General Assembly Retirement System (GARS), State Employees' Retirement System (SERS), State Universities Retirement System (SURS), Teachers' Retirement System (TRS), Judges Retirement System (JRS), General Provisions Article, and State Board of Investment Article

FISCAL IMPACT

HB 3961, as amended by HA 1, would have a meaningful, yet hard to predict fiscal impact on the affected funds. According to the Illinois State Board of Investment (ISBI), which manages assets of GARS, SERS, and JRS, most divestment legislation is specific and narrow in scope, while HB 3961, as amended by HA 1, seeks to divest from an entire industry and adjacent companies. Creating custom investment vehicles that target certain industries but exclude others can be costly, both in terms of transaction costs and the loss of opportunities. Compared to the underlying bill, while HB 3961, as amended by HA 1, eliminates divestment from a pension fund's private market funds and narrows the scope and targets the top 100 in both oil & gas companies as well as the top 100 coal companies, the divestment remains broad.

SUBJECT MATTER: HB 3961, as amended by HA 1, amends the General Provisions article of the Illinois Pension Code to require divestment from and prohibit future investment by the State retirement systems (and ISBI) into fossil fuel companies and associated companies.

COMMENT: Under current law, the Boards of the five State Systems are able to invest in the stocks, securities and other obligations of fossil fuel companies, as well as companies associated with fossil fuels.

Beginning on the effective date of the legislation, HB 3961, as amended by HA 1, would prohibit further investment of pension assets in the stocks, securities, or other obligations of any “fossil fuel company”. HB 3961, as amended by HA 1, defines a “fossil fuel company” as any company or corporation that is among the top 100 publicly traded oil & gas companies with the largest proven carbon reserves globally and the top 100 coal companies with the largest proven carbon reserves globally.

In addition, each Board shall also ensure the System does not make further indirect investments, unless satisfied that the investment vehicle is unlikely to have more than a de minimis exposure of 0.05% or less, averaged annually, of its assets directly or indirectly invested in fossil fuel companies.

HA 1 also provides that, by January 1, 2027, the Illinois Investment Policy Board (IIPB) shall identify fossil fuel companies and compile a list of restricted companies to be distributed to each System. IIPB was established by P.A. 99-0128, effective July 23, 2015, and its authority applies to the five State-funded systems (and ISBI, which manages investment assets for SERS, GARS, and JRS). The IIPB researches and assembles a list of restricted companies for investment purposes and distributes the list to each System. (The underlying bill did not reference the IIPB list and instead required each System to separately identify relevant holdings.)

Based on the IIPB’s list of restricted companies, within 5 years after the effective date of HB 3961, as amended by HA 1, affected pension funds shall divest holdings in fossil fuel companies. Nothing in HB 3961, as amended by HA 1, precludes a de minimis exposure of 0.05% or less of the retirement systems’ assets to any indirect holdings acquired as a good faith investment. HB 3961, as amended by HA 1, does not require divestment of the pension funds’ private market funds.

ZH:bs

LRB104 12439 RPS 35658 a