



## Commission on Government Forecasting and Accountability

### PENSION IMPACT NOTE *104<sup>th</sup> General Assembly*

BILL NO: **HB 3961**

March 17, 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

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#### FISCAL IMPACT

**HB 3961 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 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.**

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SUBJECT MATTER: HB 3961 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 would prohibit further investment of pension assets in the stocks, securities, or other obligations of any fossil fuel company or any subsidiary, affiliate, or parent of any fossil fuel company. 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 2% of its assets invested in fossil fuel companies.

Within 90 days of the effective date of the legislation, HB 3961 directs the trustees of the affected Systems to identify the System's holdings, whether directly or indirectly invested, including private investments, and report to the General Assembly within 180 days of the effective date. The report shall distinguish between direct and indirect investments, and will include the following data points:

- For direct investments;
  - Name and subject of investment;
  - Asset class;
  - Acquisition dates; and
  - Current value
- For indirect investments;
  - Name and subject of investment;
  - Name of the General Partner;
  - Investment vehicle;
  - Initial date and amount invested;
  - Fee structure;
  - Liquidity restrictions; and
  - Actual or anticipated exit date

By January 1, 2030, each of the affected systems is to be divested of any fossil fuel holdings. Any funds held in investment vehicles that impose liquidity restrictions shall be divested as soon as fiscally responsible, but no later than January 1, 2035.

HB 3961 requires each System to disclose the analytic methods used (if any) to determine the climate-related financial risks posed by its fossil fuel investments and the results, as well as climate-related shareholder engagement activities and their results.

HB 3961 also requires each System to report by January 1, 2026 (annually thereafter) the System's environmental, social, and governance investment policy. The report must disclose commonly available environmental performance metrics on the environmental effects of the System's investments.

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