

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

97TH GENERAL ASSEMBLY

BILL NO: **HB 0145**

March 14, 2011

SPONSOR(S): Franks - Mathias

SYSTEM(S): General Provisions Article

FISCAL IMPACT: HB 0145 may have a fiscal impact, but the impact cannot be determined. If Illinois State retirement systems have to divest certain assets and reinvest the proceeds in other assets, there may be a fiscal impact due to a change in asset allocation. Asset allocation affects a retirement system's long-term investment returns. If asset allocation must change significantly, the impact of HB 0145 may be significant.

SUBJECT MATTER: HB 0145 amends the General Provisions Article of the Pension Code to add certain prohibited transactions relating to the investment in entities having equity ties with the government of Iran in specific business activities. These changes affect only the Teachers' Retirement System, State Employees' Retirement System, State Universities Retirement System, Judges' Retirement System and General Assembly Retirement System.

FISCAL IMPACT: HB 0145 may have a fiscal impact, but the impact cannot be determined. If Illinois State retirement systems have to divest certain assets and reinvest the proceeds in other assets, there may be a fiscal impact due to a change in asset allocation. Asset allocation affects a retirement system's long-term investment returns. If asset allocation must change significantly, the impact of HB 0145 may be significant.

COMMENT: The General Provisions Article of the Pension Code contains a list of prohibited transactions for the Boards of Trustees of each Illinois State retirement system. Most of these prohibited transactions are aimed at preventing Board members from misusing the assets of the fund or system.

HB 0145 inserts a section into the General Provisions Article to add certain prohibited transactions. Effectively, the bill provides that Illinois State retirement systems may not invest funds in any foreign company that has an equity tie to the government of Iran or its instrumentalities and is engaged in business operations with entities in the

defense, nuclear, natural gas or petroleum sectors of Iran. This prohibition will not apply to the activities of any foreign company providing humanitarian aid to the Iranian people through any type organization.

HB 0145 requires each retirement system to engage the services of an independent research firm, selected by the State Treasurer that specializes in analysis of global security risk. The retirement system will analyze the resultant findings and take the required actions to sell, redeem, divest or withdraw investments held in violation of HB 0145 restrictions. All financial transactions necessary to eliminate these violations will be completed within 3 years of HB 0145's effective date.

Every retirement system must submit a complete list of investments violating HB 0145 restrictions to the General Assembly and Public Pension Division of the Department of Insurance within 60 days of the effective date. Every year thereafter, each retirement system shall similarly report on all investments sold, redeemed, divested or withdrawn in order to eliminate these violations.

HB 0145 will have no effect if: (1) The Congress or President of the United States declares that Iran has ceased trying to acquire or develop weapons of mass destruction and to support international terrorism, or (2) The United States has revoked all sanctions imposed against the government of Iran.

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