COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

95TH GENERAL ASSEMBLY

BILL NO: **SB 1166, as amended by SA 001** March 14, 2007

SPONSOR (S): Raoul

SYSTEM(S): Downstate Police Pension and Downstate Firefighters Pension Funds

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FISCAL IMPACT: SB 1166, as amended by Senate Amendment 001, may have a fiscal impact, but the impact cannot be determined. If Illinois public pension funds and retirement systems are free to use additional amounts of higher return investments, there may be a fiscal impact due to a change in asset allocation. Asset allocation affects a system's or fund's long-term investment returns. If the systems and funds are allowed greater freedom in asset allocation, the impact of SB 1166, as amended by SA 001, may be significant.

SUBJECT MATTER: SB 1166, as amended by SA 001, amends the Downstate Police (non-Chicago) Pension Fund and Downstate Firefighters (non-Chicago) Pension Fund Articles of the Illinois Pension Code to increase the percentage of retirement fund total assets which may be invested in higher return (and higher risk) investment types.

FISCAL IMPACT: Amendment 001, may have a fiscal impact, but the impact cannot be determined. If Illinois public pension funds and retirement systems are free to use additional amounts of higher return investments, there may be a fiscal impact due to a change in asset allocation. Asset allocation affects a system's or fund's long-term investment returns. If the systems and funds are allowed greater freedom in asset allocation, the impact of SB 1166, as amended by SA 001, may be significant.

COMMENTS: The Illinois Pension Code contains the following limits on investments for Downstate Police (non-Chicago) and Downstate Firefighters (non-Chicago) pension funds: (1) Pension funds with net assets less than $2,500,000 may not invest more than 10% of their net assets in mutual funds and accounts managed by insurance companies, (2) Pension funds with net assets greater than $2,500,000 may not invest more than 35% of their net assets in mutual funds and accounts managed by insurance companies, and (3) Pension funds with net assets greater than $5,000,000 may not invest more than 35% of their net assets in qualified common stocks. All of the pension funds under these Articles are required to file an annual financial and investment report with the Illinois Department of Insurance.

SB 1166, as amended by SA 001, changes the above limits as follows: (1) Pension funds with net assets less than $2,500,000 may not invest more than 15% of their net assets in mutual funds and accounts managed by insurance companies, (2) Pension funds with net assets greater than $2,500,000 may not invest more than 40% of their net assets in mutual funds and accounts managed by insurance companies, and (3) Pension funds with net assets greater than $5,000,000 may not invest more than 40% of their net assets in qualified common stocks. All of the pension funds under these Articles would be required to file an annual financial and investment report with the Public Pension Division of the Department of Financial and Professional Regulation. Violation of the above investment limits, or failure to file a timely annual report will result in the Illinois State Board of Investments receiving authority and responsibility for managing the assets of the offending pension fund.

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