

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

101ST GENERAL ASSEMBLY

BILL NO: **HB 3641**

March 5, 2019

SPONSOR (S): Mayfield

SYSTEM(S): Downstate Fire

FISCAL IMPACT: HB 3641 proposes to remove the limitations on how much and in what way Downstate Fire pension funds can invest. The bill would require that investments by these funds be made under the auspices of the Prudent Investor Rule. An in-depth analysis by an independent investment consultant is necessary to properly determine the fiscal impact of this change.

SUBJECT MATTER: HB 3641 removes investment limitations for Downstate Fire pension funds. The bill stipulates that the board shall invest funds with the care, skill, prudence, and diligence that a prudent person with familiarity in investment matters would employ. This is known as the “Prudent Investor Rule.”

COMMENT: HB 3641 would allow Downstate Fire pension funds to invest more freely than current statute allows. This bill removes total asset requirements barring smaller funds from investing in equities and allows all funds to invest their assets under the auspices of the Prudent Investor Rule.

HB 3641 removes limitations associated with the four brackets established under current statute. The lowest bracket is funds with under \$2.5 million in assets, which currently can only invest 10% of their assets in equities and the rest in fixed income and money market instruments. Funds with assets totaling between \$2.5 and \$5 million may invest 45% of their assets in selected equities (with the exception of common and preferred stock). Funds with assets totaling between \$5 and \$10 million may invest 45% in qualified equities, mutual funds, and maintain separate accounts with insurance companies. Finally, funds over \$10 million may, as of 2012, invest up to 65% of assets in qualified assets.

EM:bj

LRB101 10784 RPS 55906 b