

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

101ST GENERAL ASSEMBLY

BILL NO: **SB 1111**

February 8, 2019

SPONSOR (S): Landek

SYSTEM(S): Downstate Police and Firefighters

FISCAL IMPACT: SB 1111 would allow for the transfer of investment authority of Downstate police and fire pension funds to IMRF pending the approval of the governing body of the pertinent municipality. The bill also requires COGFA to perform a comprehensive study on various enumerated aspects of the consolidation. In order to fulfill this requirement, COGFA would need to retain the services of an independent investment consultant. A supplemental appropriation would be required to pay for consulting fees related to this study.

Note – the Commission seeks clarification on the meaning of the requirement that COGFA shall determine when pension funds are not in compliance with fiduciary requirements. If this requirement is in the nature of an actuarial audit, then a separate examination would be required in addition to the investment consolidation study enumerated in this bill, and an actuarial firm would need to be retained for such services. A supplemental appropriation separate and apart from the aforementioned supplemental for the consolidation study would be required.

SUBJECT MATTER: SB 1111 amends the Illinois Pension Code by shifting the investment power from Downstate Police and Firefighter local pension boards to the Board of Trustees of the Illinois Municipal Retirement Fund (IMRF). The shift in investment authority could begin as early as January 1, 2020, pending approval of the municipal governing body. Under SB 1111, the Commission on Government Forecasting and Accountability shall conduct an analysis of all Downstate Police and Fire pensions (contents of which enumerated below) before December 31, 2020.

COMMENT:

Shifting Investment Authority

- Eligible Pensions

- In order to transfer investment authority from the pension fund to the IMRF, the pension must reach a “threshold amount” of net assets equal to 3 months of current liabilities.
 - Once a fund has reached the threshold amount, future depreciations do not affect the fund’s status in regards to transferring investment authority.
- A municipality must both be eligible and vote on a resolution to transfer authority before the fund becomes eligible.
- Eligible funds shall transfer available investments within 30 days of the end of each fiscal year quarter and send written notices to IMRF as transfers are made.
 - The bill mandates a full audit within 6 months of the completion of the transfer of assets, completed by the Auditor General’s designated public accountant. The audit includes:
 - i. full description of investments acquired and their average costs;
 - ii. full description of the securities sold or exchanged, showing average proceeds or other conditions of an exchange;
 - iii. gains or losses during the transfer;
 - iv. investment income;
 - v. administrative expenses of the board;
 - vi. and the proportion of administrative expenses allocable to each pension fund.
- SB 1111 necessitates no administrative or fiscal changes for IMRF; the bill only transfers investment assets and authority.

Local Boards

- SB 1111 requires a municipality to pass a resolution in order to transfer investment authority, in tandem with the threshold requirement.
- Local Pension Boards are not removed under SB 1111.
- SB 1111 mandates that IMRF make annual reports to local boards, and that local boards can request reports throughout the year.
 - IMRF shall provide a full receipt to the local board once the transfer of all assets, securities, and other pension investments to IMRF is completed.
- The IMRF also makes deposits into local pension funds, from which benefits are paid.
 - Municipalities with transferred pension funds are required to maintain reserves equal to 3 months’ current liabilities.
- Any disputes between local boards and the IMRF shall be resolved by the Director of the Department of Insurance.

Commission on Government Forecasting and Accountability

- By December 31st, 2020, the Commission shall complete an analysis of the feasibility and merits of transferring investment authority of all Downstate Police and Fire pension funds. The report shall include:
 - Cost or cost savings associated with establishing administrative systems and transferring assets for investment management under IMRF;
 - The impact on the investment pool;

- Evaluate the future performance of the IMRF under the prudent person rule;
- Include future expenses associated with the transfer;
- Determine the time period in which the transition should reasonably occur, while maintaining present statutory funding requirements for police and fire funds of 90% by 2040.
- The Commission shall also identify:
 - Which pensions receive contributions under home rule or non-home rule units of government;
 - Pension funds with funded ratio below 20%, 20% to 30%, 30% to 40%, 40% to 50%, and over 50%;
 - Which funds were most recently examined by the Public Pension Division of the Department of Insurance;
 - Which pensions are not in compliance with Illinois Pension Code fiduciary requirements.

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