104TH GENERAL ASSEMBLY

State of Illinois

2025 and 2026

HB3961

Introduced 2/25/2025, by Rep. Will Guzzardi - Camille Y. Lilly

SYNOPSIS AS INTRODUCED:

40 ILCS 5/1-110.18 new

Amends the General Provisions Article of the Illinois Pension Code. Provides that the amendatory Act may be referred to as the Fossil Fuel Divestment Act. With regard to the retirement systems established under the General Assembly, State Employees, State Universities, Downstate Teachers, or Judges Article of the Code and the Illinois State Board of Investment, prohibits direct investment of any additional pension assets in the stocks, securities, or other obligations of any fossil fuel company or any subsidiary, affiliate, or parent of a fossil fuel company. Provides that each board of trustees of a pension system shall ensure the pension system does not make further indirect investments unless, upon exercising due diligence, the board of trustees is satisfied that the investment vehicle is unlikely to have more than 2% of its assets invested in fossil fuel companies. Requires pension system trustees to identify the pension system's holdings, whether directly or indirectly invested, including private investments. Requires pension system trustees to identify holdings that are invested in the stocks, securities, equities, fixed income, corporate bonds, prime commercial paper, or other obligations of fossil fuel companies. Requires pension systems to, in accordance with sound investment criteria and consistent with fiduciary obligations, divest any fossil fuel holdings, which must be completed by January 1, 2030. Requires pension systems to adopt an update to their written investment policies if necessary. Requires each pension system to disclose the analytic methods used, if any, in determining the climate-related financial risks posed by its fossil fuel investments (both publicly traded and private investments) and the results of the analysis. Sets forth provisions concerning definitions, de minimis exposure to fossil fuel securities, and annual reporting. Effective immediately.

LRB104 12439 RPS 22758 b

A BILL FOR

AN ACT concerning public employee benefits.

Be it enacted by the People of the State of Illinois, represented in the General Assembly:

Section 1. This Act may be referred to as the Fossil Fuel Divestment Act.

Section 5. Findings. The General Assembly finds that:

(1) Climate change is a real and serious threat to the health, welfare, and prosperity of all Illinoisans, now and in the future. Scientific evidence indicates that maintaining the status quo of fossil fuel energy production will lead to catastrophic results.

(2) Continued investment in the fossil fuel industry is counterproductive to the goals set forth in the Energy Transition Act. That Act, passed by the Illinois General Assembly and signed into law in 2021, commits the State to phasing out carbon emissions from the energy and transport sectors and requires Illinois to be 100% reliant on renewable energy by 2050.

(3) The threats posed by climate change, and the necessary transformation of the global energy system to mitigate it, will have a serious negative impact on investors whose assets are not aligned with the goal of keeping the global average temperature increase below 1.5

degrees Celsius.

(4) Continued investment in fossil fuel-related industries poses unacceptable risk to the long-term sustainability of State and local pension funds that are under the State Treasurer's control; to the long-term sustainability of $26,000,000,000 of the State's investments, $17,000,000,000 in the programs established pursuant to Section 529 of the Internal Revenue Code, $12,000,000,000 of the Illinois Funds, $80,000,000 of the Secure Choice Retirement Savings Programs, and $30,000,000 in the ABLE Account Program; and to the sustainability of other Illinois municipal and county funds.

(5) Because the continued investment in fossil fuel-related industries poses unacceptable risk to these pension systems and State investments, those who hold investment authority over these systems should divest from fossil fuel companies and fossil fuel infrastructure. Such entities are encouraged to invest in climate change solutions where consistent with acceptable financial risk.

Section 10. The Illinois Pension Code is amended by adding Section 1-110.18 as follows:

(40 ILCS 5/1-110.18 new)

Sec. 1-110.18. Fossil fuel investment prohibited.

(a) In this Section:

"Fossil fuel" means coal, petroleum, natural gas, or any derivative of coal, petroleum, or natural gas that is used for fuel.

"Fossil fuel company" means any company, including any subsidiary, affiliate, or parent of a company, that: (1) is among the 200 publicly traded companies with the largest fossil fuel reserves in the world; (2) is among the 30 largest public company owners in the world of coal-fired power plants; (3) has as its core business the construction or operation of fossil fuel infrastructure; (4) has as its core business the exploration, extraction, refining, processing, or distribution of fossil fuels; or (5) receives more than 2% of its gross revenue from companies that meet the definition under item (1), (2), (3), or (4) of this definition.

"Fossil fuel infrastructure" means oil or gas wells; oil or gas pipelines and refineries; oil, coal, or gas-fired power plants; oil and gas storage tanks; fossil fuel export terminals; and any other infrastructure used exclusively for fossil fuels.

"Indirect investment" means a holding in an investment vehicle, whether publicly or privately traded, that directly or indirectly owns more than a 1% interest in one or more individual fossil fuel companies.

"Pension system" means a pension fund or retirement system established under Article 2, 14, 15, 16, or 18 or the Illinois State Board of Investment.

(b) Beginning on the effective date of this amendatory Act of the 104th General Assembly, in accordance with sound investment criteria and consistent with fiduciary obligations, a pension system shall not directly invest any additional 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 of trustees of a pension system shall ensure the pension system does not make further indirect investments unless, upon exercising due diligence, the board of trustees is satisfied that the investment vehicle is unlikely to have more than 2% of its assets invested in fossil fuel companies. The board of trustees of a pension system shall not invest in any prime commercial paper or corporate bonds issued by a fossil fuel company.

(c) Within 90 days after the effective date of this amendatory Act of the 104th General Assembly, pension system trustees shall identify the pension system's holdings, whether directly or indirectly invested, including private investments. The report shall identify holdings that are invested in the stocks, securities, equities, fixed income, corporate bonds, prime commercial paper, or other obligations of fossil fuel companies. For directly invested assets, the name and subject of the investment, the asset class, acquisition dates, and its current value shall be identified. For indirectly invested assets, including private investments, the name and subject of the investment, the name of the General Partner, the investment vehicle, the initial date and amount invested, the fee structure, liquidity restrictions, if any, and the actual or anticipated exit date shall be disclosed. Such information shall be submitted as a report to the General Assembly and posted on each pension system's publicly accessible website within 180 days after the effective date of this amendatory Act of the 104th General Assembly. Such reports shall be updated and posted quarterly thereafter.

(d)(1) The board of trustees of a pension system shall, in accordance with sound investment criteria and consistent with fiduciary obligations, divest any fossil fuel holdings. Divestment pursuant to this subsection must be completed by January 1, 2030. Nothing in this subsection precludes de minimis exposure of any funds held by the board to the stocks, securities, or other obligations of any fossil fuel company or any subsidiary, affiliate, or parent of any fossil fuel company.

(2) Except as otherwise provided, trustees of the pension systems shall, in accordance with sound investment criteria and consistent with fiduciary obligations, divest any indirectly held investments no later than January 1, 2030. Funds held in any investment vehicle that imposes liquidity restrictions shall be divested as soon as fiscally responsible but no later than January 1, 2035. Nothing in this subsection precludes de minimis exposure

of any funds held by a pension system in the assets or obligations described in this Section.

(3) In the period before divestment pursuant to paragraphs (1) and (2), the pension system may sign engagement letters or participate in shareholder resolutions seeking an agreed-upon divestment of fossil fuels from the pension system's holdings.

(4) Nothing in this Section precludes or limits the exercise of shareholder engagement or proxy voting rights as guaranteed by a pension system's de minimis holdings following the pension system's divestment obligations pursuant to this Section.

(e) Each board of trustees of a pension system that has adopted a written investment policy under Section 1-113.6 shall adopt an update of its written investment policy, if necessary, to meet the requirements of this Section. A copy of the updated policy shall be filed with the Department of Insurance within 30 days after its adoption.

(f)(1) Each pension system shall disclose the analytic methods used, if any, in determining the climate-related financial risks posed by its fossil fuel investments (both publicly traded and private investments) and the results of such analysis, including the alignment of each pension system with the Paris Climate Agreement and the climate policy goals that are included in the Energy Transition Act.

(2) Each pension system shall report its

climate-related shareholder engagement activities and outcomes. For publicly traded investments, the report must also include a description of additional action taken, or to be taken, by the board to address climate-related financial risk. The pension system's proxy voting guidelines and climate-related voting record for the year must also be included in the report. For private investments, fund managers must identify all efforts undertaken to decarbonize an existing investment and must further identify all efforts that will be taken to prevent fossil fuel exposure through future private investments.

(3) Beginning January 1, 2026 and annually thereafter, each pension system shall issue a report reviewing its environmental, social, and governance investment policy. The report must disclose commonly available environmental performance metrics on the environmental effects of the pension system's investments.

Section 99. Effective date. This Act takes effect upon becoming law.