LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 6994
BILL NUMBER: HB 1008

NOTE PREPARED: Apr 25, 2023
BILL AMENDED: Apr 11, 2023

SUBJECT: Pension Investments.

FIRST AUTHOR: Rep. Manning
FIRST SPONSOR: Sen. Holdman

BILL STATUS: Enrolled

FUNDS AFFECTED: **X** **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State

Summary of Legislation: The bill specifies certain entities, actions taken, or factors considered to which the ESG commitment provisions do not apply. The bill provides that if the Treasurer of State concludes that the service provider has made an ESG commitment, the Treasurer of State shall provide the name of the service provider and research supporting the conclusion to the Board of Trustees of the Indiana Public Retirement System (board).

The bill prohibits the board from making an investment decision with the purpose of influencing any social or environmental policy or attempting to influence the governance of any corporation for nonfinancial purposes. It prohibits the Indiana Public Retirement System (INPRS) from making an ESG commitment with respect to system assets. It provides that in making and supervising investments of the system, the board shall discharge its duties solely in the financial interest of the participants and beneficiaries of the system for the exclusive purposes of providing financial benefits to participants and beneficiaries and defraying reasonable expenses of administering the system.

The bill also provides that the board, in accordance with certain fiduciary duties, shall make investment decisions with the primary purpose of maximizing the target rate of return on the board's investments. It prohibits the board from entering a contract or modifying, amending, or continuing a contract with a service provider that has made an ESG commitment unless taking the action violates the board's fiduciary duty to the system's participants and beneficiaries. It requires the board to continue contracting with a service provider that has made an ESG commitment if the board determines that there is not a comparable service provider to replace the service provider.

The bill requires the board to, at least annually, tabulate and report all proxy votes made by a service provider that is not a private market fund in relation to the administration of the system.

It specifies certain persons and entities that are immune from civil liability and entitled to indemnification.

The bill requires the board to: (1) ensure that reasonable efforts are made during the due diligence process before an investment is made and in monitoring investments in the Public Employees' Defined Contribution Plan, an annuity savings account for the Public Employees' Retirement Fund or the Indiana State Teachers' Retirement Fund, the Teachers' Defined Contribution Plan, the Legislators' Defined Contribution Plan, and a private market fund to determine whether any investments would violate the requirement that the board discharge its duties solely in the financial interest of the participants and beneficiaries of the system; and (2) take appropriate action, if necessary, consistent with the board's fiduciary duties. It also defines terms and makes conforming amendments.

Effective Date: July 1, 2023.

Explanation of State Expenditures: *Treasurer of State:* The Treasurer of State's office is required to research and determine if any investment managers or proxy advisors working with INPRS assets are violating provisions of the bill due to an ESG commitment. The Treasurer of State's office should be able to implement the requirements of the bill with no additional appropriations, assuming near customary agency staffing and resource levels.

INPRS: Managing investment decisions to maximize the target rate of return on the system's investments is within INPRS's routine administrative functions. The administrative costs of managing investments are paid from the respective pension funds.

The bill will increase administrative workload for the INPRS staff and the board. INPRS may have increased trading costs and workload to change an investment manager or proxy advisor who violates the provisions of the bill due to an ESG commitment. Increased costs could be made up by lower fees or a higher rate of return by switching to a different manager. Under the bill, the board would not make a change that would violate the board's fiduciary duty to the system's participants and beneficiaries.

INPRS will have additional administrative workload to tabulate and report proxy votes.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Treasurer of State, Indiana Public Retirement System.

Local Agencies Affected:

Information Sources: Tony Green, INPRS, Agreen@inprs.in.gov;Treasurer of State's office.

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