SF 2271 – IPERS, Chinese Investments (LSB5472XS)
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Fiscal Note Version – New

Description

Senate File 2271 relates to investments of certain public funds in companies that are owned or controlled by Chinese military or government services. The Bill requires a public fund to identify all direct and indirect holdings of all prohibited companies within 180 days of the effective date of the Bill. The Bill authorizes the Iowa Public Employees’ Retirement System (IPERS) to develop and issue a request for proposals for third-party services to identify prohibited companies and to compile a prohibited companies list. Within 180 days of identifying prohibited companies, the public funds are required to sell, redeem, divest, or withdraw all direct holdings in publicly traded securities of a prohibited company.

The Bill also requires each public fund to file an annual report with the General Assembly and make the report available to the public beginning October 1, 2023, and each October 1 thereafter. The report will include a list of prohibited companies as of the end of the fiscal year; a summary of all written notices; all direct holding investments sold, redeemed, divested, or withdrawn; and a list of indirect holdings of the public fund in publicly traded securities of prohibited companies and the percentage of the total portfolio the indirect holdings represent. The Bill defines “public fund” as the Treasurer of State, the Board of Regents, the IPERS, the Department of Public Safety Peace Officers’ Retirement System (PORS), the Municipal Fire and Police Retirement System (411 System), and the Judicial Retirement System.

Background

As of December 31, 2021, IPERS had 542 direct holdings and 704 indirect holdings in Chinese companies, totaling approximately $854.5 million. The IPERS Trust Fund had a balance of $45.205 billion on December 31, 2021. At this time, the other public funds impacted by this Bill do not know the extent of their holdings.

The retirement systems currently use a third-party service provider for divestment services. The IPERS maintains the contract, which covers Iowa Code chapters 12F, 12H, and 12J. The contract was renewed effective January 1, 2022, for six years.

Assumptions

- The IPERS will secure a third-party vendor to identify and vet a list of directly held companies that meet the definition of a prohibited company under the Bill.
- Any divested funds will be reinvested in different funds in the IPERS investment portfolio.
- It is assumed there will be additional costs to IPERS related to securing a third-party vendor to review the current list of direct and indirect holdings. The vendor will determine which direct holdings meet the description of a prohibited company that must be divested under the Bill.
- The IPERS Trust Fund will absorb any staff and third-party vendor costs, including the following:
  - Costs to coordinate divestment with external money managers.
  - Costs to amend contracts with external money managers to comply with the Bill.
- Staff costs to manage the reporting and divestment program.
- Costs for a third-party vendor to review IPERS’ list of Chinese holdings ongoing.
- The Treasurer of State’s Office invests the PORS funds and Judicial Retirement System funds. Any costs associated with implementation will be paid by the PORS and the Judicial Retirement System, respectively.
- Estimated costs to the 411 System for third-party vendor screening and internal administrative costs range from $15,000 to $30,000 annually.
- The Board of Regents costs are approximately $25,000 annually for divestment services. Adding a fourth group will increase the cost for the service, but that figure is unknown at this time.

**Fiscal Impact**

The fiscal impact of SF 2271 on the Treasurer of State, Board of Regents, IPERS, PORS, 411 System, and Judicial Retirement System cannot be determined until the list of companies and the amount to be divested can be determined. Any divested funds will be reinvested within the respective public funds’ investment portfolios. There will be no State General Fund impact. Any additional administrative and third-party vendor screening costs will be paid from the respective trust funds of the retirement systems and are anticipated to be minimal.

**Sources**

Iowa Public Employees’ Retirement System (IPERS)
Treasurer of State
Municipal Fire and Police Retirement System (411 System)
Board of Regents
Department of Public Safety
Judicial Branch

/s/ Holly M. Lyons
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The fiscal note for this Bill was prepared pursuant to Joint Rule 17 and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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