

Department of Legislative Services
Maryland General Assembly
2026 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1455
Appropriations

(Delegate Young, *et al.*)

State Retirement and Pension System - Divestment From Israel

This bill requires the Board of Trustees of the State Retirement and Pension System (SRPS) to (1) review its investment holdings in specified accounts to determine the extent to which those funds are invested in specified Israel-restricted investments and (2) take divestment action with respect to investments in Israel, subject to specified conditions and exceptions. By April 1 and October 1 of each year, the SRPS board must report to specified committees of the General Assembly on its divestment actions and related topics. **The bill takes effect July 1, 2026.**

Fiscal Summary

State Effect: Potential significant increase in State pension unfunded liabilities and contribution rates to the extent that divestment from Israel-restricted investments results in meaningful investment losses, as discussed below. Any costs are assumed to be allocated 84% general funds, 8% special funds, and 8% federal funds. No effect on revenues.

Local Effect: County and municipal pools for participating governmental units (PGUs) likely experience comparable potential significant increases in unfunded pension liabilities and contribution rates to the extent that divestment from Israel-restricted investments results in meaningful investment losses. No effect on revenues.

Small Business Effect: None.

Analysis

Bill Summary:

Definitions

“Israel” means the government of Israel, including all agencies, institutions, instrumentalities, and political subdivisions of Israel.

“Actively managed separate accounts” means accounts that are actively managed at the direction of the SRPS board and held in separate accounts. It does not include index funds or other commingled or passively managed funds. “Eligible accounts” means actively managed separate accounts.

“Israel-restricted investment” means an investment in (1) the Development Corporation for Israel; (2) any security or asset held in or associated with the government of Israel; or (3) any bond or sovereign debt issued by the government of Israel.

State Retirement and Pension System Board Responsibilities

The bill generally applies only to eligible accounts. The SRPS board must review its investment holdings in those accounts to determine the extent to which they are invested in Israel-restricted investments. It must take divestment action with regard to any current investments in Israel-restricted investments or Israeli securities. It may not make any new investments in an Israel-restricted investment. The SRPS board may exclude divestment actions that cannot be executed for at least fair market value.

Fiduciary Duties and Protections

The SRPS board must act in good faith to implement the bill in compliance with all applicable State, federal, and international human rights law. The bill does not require the SRPS board to take action unless the board determines in good faith that the action is consistent with its fiduciary responsibilities. The SRPS board or any other fiduciary may not be held liable for any actions taken or decisions made in good faith to comply with the bill.

Current Law:

Fiduciary Duties

A fiduciary of the SRPS system is defined as (1) a member of the Board of Trustees; (2) a member of the Investment Committee or other specified committees; or (3) an employee of the State Retirement Agency (SRA) who exercises any discretionary authority or control over the management of the system or its assets.

A fiduciary must discharge his or her duties solely in the interest of the participants and:

- for the exclusive purposes of providing benefits to the participants and for reasonable expenses;

- with the care, skill, prudence, and diligence under circumstances, then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use;
- by diversifying investments so as to minimize the risk of large losses, unless it is clearly prudent not to do so; and
- in accordance with the laws, documents, and instruments governing the system.

Foreign Divestment Actions

Chapter 342 of 2008 requires the SRPS board to notify any company whose shares are held in an actively traded separate account in its portfolio that is doing business in either Iran or Sudan that the board will divest all holdings in the company unless the company releases a plan to cease its business with Iran or Sudan within one year. Chapter 342 exempts from the divestment requirement any company that is excluded from U.S. government sanctions against Iran or Sudan and whose divestment cannot be executed for fair market value or greater. It requires the board to act in good faith and in a manner consistent with its fiduciary responsibilities in carrying out the divestment requirement.

Chapter 343 of 2022 requires the SRPS board to review its investment holdings to determine the extent to which SRPS funds are invested in Russian businesses and take divestment action with respect to investments in specified Russian businesses. The requirement to divest from specified holdings does not apply to a company (1) that the U.S. government affirmatively declares to be excluded from federal sanctions and (2) whose divestment cannot be executed for at least fair market value. The board must act in good faith and in a manner consistent with its fiduciary responsibilities in carrying out the divestment requirement. The Act does not apply if the U.S. government declares an end to financial sanctions against the Russian federation related to its invasion of and violation of the sovereignty of Ukraine. Within six months after the end of U.S. sanctions, the SRPS board must recommend appropriate legislation to the Joint Committee on Pensions.

Office of Foreign Assets Control

The Office of Foreign Assets Control (OFAC) of the U.S. Department of the Treasury administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign countries and regimes, terrorists, international narcotics traffickers, those engaged in activities related to the proliferation of weapons of mass destruction, and other threats to the national security, foreign policy, or economy of the United States. OFAC acts under Presidential national emergency powers, as well as authority granted by specific legislation, to impose controls on transactions and freeze assets under U.S. jurisdiction. Many of the sanctions are based on United Nations and other international mandates, are multilateral in scope, and involve close cooperation with allied governments.

State Fiscal Effect: SRA has determined that as of March 5, 2026, SRPS has more than \$1.8 billion in exposure to securities that would be subject to divestment under the bill, including \$12.5 million in Israeli bonds. Although the bill does not specify companies that are associated with the government of Israel, SRA used a widely publicized “Boycott Israel” list to determine that the bill would likely require divestment from four of SRPS’ five largest stock and bond holdings.

SRA also estimates that, over the past five years, if the State had not been invested in the companies subject to divestment under the bill, SRPS would have lost, or failed to realize, more than \$3 billion in investment gains. The combination of potentially having to sell existing holdings at a loss and forgoing future investment returns from companies subject to divestment under the bill could yield similar losses and/or foregone investment gains for SRPS going forward. A reliable estimate of any such losses is not feasible without knowing the performance of future investments made in securities that are not Israel-restricted, but they may be significant. Investment losses reduce the system’s assets available to pay benefits and cause unfunded liabilities to increase, necessitating larger State contributions to the pension fund to pay for future benefits. To the extent that alternative investments generate similar or greater returns, or that the board’s fiduciary duties limit the extent of divestment actions, these effects are mitigated.

Any investment losses resulting from the bill would first be recognized in the actuarial valuation conducted June 30, 2027, affecting State contribution rates for fiscal 2029.

Local Fiscal Effect: As part of SRPS, municipal pools for PGUs have the same investment portfolio as pension plans for State employees. Accordingly, any investment losses as a result of divestment under the bill increase unfunded liabilities and contribution rates for local governments.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): Maryland State Treasurer’s Office; State Retirement Agency; Department of Legislative Services

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