# MEMO

To: Jessica Trujillo, NJLA President
From: Ken Kaufman, NJLA Investment Subcommittee Chair
Date: 2/16/2023
Re: Recommended Proposal for Mini-Grant Portion of Dag Bulman Bequest

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The Investment Subcommittee discussed proposals made by NJLA's investment advisor, Indya Kellman, on investing the $75,000 portion from the Dag Bulman Bequest for the 10 year plus mini grant program. After weighing issues of returns, liquidity, and simplicity of use, we recommend her suggestion that we set up a specific mini-grant account that contains the following investments:

- $22,500 invested in Fidelity Investments Money Market Government Portfolio (Institutional Class), which is a liquid and available to cover any potential mini-grant awards for the next three years (including a maximum of $7,500 per year). This fund is currently yielding over 4.4%, but subject to change depending on market rates.

- $52,500 invested in a 3-year guaranteed annuity, issued by Fidelity & Guaranty Life Insurance Company with the intention of leaving the full amount invested until maturity. The current fixed rate is 4.5%, which would earn approximately $7,087 in interest at the end of the 3-year period (if there are no withdraws). Near the end of year three, there will be a 30-day window in which it can be renewed or withdrawn without penalty. If no action is taken, it automatically renews. If this investment remains a satisfactory option at the end of three years, we will want to renew it less the amount needed to fund mini grants for the next investment period. Whatever our needs are at that time, the 30-day window gives us the flexibility to make any adjustments.

A caveat for investing in the fixed annuity involves withdrawal restrictions. First, there are penalties (i.e. surrender charges) for withdrawing more than 10% of the total account value. From the company summary, the surrender charges for this investment would be 9% in year one, 8% in year two, and 7% in year three for any amount withdrawn over the 10% threshold. However, there should not be a need to withdraw from the annuity, since we already have access to any mini-grant funding from the money market account. Second, a withdrawal could be subject to a 10% IRS tax penalty if the account is not set up properly. Because of this, Lakeland requires a living singer (i.e. not an organization even though NJLA is the owner), and it would be necessary for at least one signer to be age 59 ½ or older to avoid the tax penalty. This precaution should be taken even with the unlikely chance that an annuity withdrawal will be necessary.

This investment arrangement is a great fit for funding and modestly growing the mini-grant program. It allows us to lock in at a competitive rate of return, while ensuring there are funds available to serve our intended purpose even at the most successful level. Additionally, the account structure provides flexibility and simplicity during 10 years plus period, allowing future NJLA leadership to keep the mini-grant program funded as originally intended. For these reasons, the Investment Subcommittee recommends moving forward with this investment option.