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Massachusetts investigating sales of target date funds to retail investors after word of surprise tax bills

By [Janice Kirkel](#) January 25, 2022, 7:38 p.m. EST 2 Min Read



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Secretary of the Commonwealth William Galvin, who announced this week that he will seek an eighth straight term in office, said the investigation comes after his office learned of potential tax disclosure issues with the funds, resulting in retail investors who hold the funds in taxable accounts being slapped with tax liability.

Galvin's office said he is concerned by "reports of inadequately disclosed fund changes" that shifted the tax burden to smaller investors.

"Financial institutions can't be permitted to protect one class of investors at the expense of another," said Galvin, who has earned a reputation as one of the country's most aggressive regulators. "Investors need to be made aware of the risks involved and the tax liabilities they could face in certain circumstances, and I want to make sure institutions are being upfront about these risks."

In December 2020, Vanguard lowered the minimum investment for its institutional target date funds to \$5 million from \$100 million.

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"The change to the investment minimums caused a shift in assets which caused the richest accounts to move to the lower cost institutional offerings, so lower dollar accounts were left to foot the tax bill at the end of the year," said Debra O'Malley, a spokesperson for the secretary's office.

Galvin's office is seeking information from not only Vanguard, but also Fidelity, T. Rowe Price, BlackRock, and American Funds, about client accounts in Massachusetts, target-date funds offered

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“The institutions will likely take the position that lowering the minimum investment requirement for target date institutional funds is not necessarily favoring one class of investors over another,” said Marcia Wagner, founder of the Wagner Law Group in Boston, “and that the tax disclosure was not required to indicate the magnitude of capital gains transactions in the event of certain actions by the financial institutions.”

Looking at it from the investor’s point of view, Jason Kephart, a strategist at Morningstar, said even with more disclosure about potential tax implications from such a change, would investors have acted differently?

“What are your options?” he asked. “If you sold out, you would have to pay tax on the overall gains in the account. Vanguard could probably have been more proactive here, but the alternative is selling out of your position and triggering a higher capital gains bill.”

Janice Kirkel Senior Reporter, Financial Planning



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