Bank of America-nemesis lawyer files class action -- again -- over Vanguard $100 'junk fee;' but Bogle-founded company claims fee is legal and vows to defend low-cost reputation

Ken Grunfeld voluntarily dismissed a state-filed class action, but quickly launched a 'copy-and-paste' do-over in federal court that is far from 'altruistic,' leading industry lawyer says.

Author Oisin Breen March 21, 2025 at 9:09 PM

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Kenneth Grunfeld: Slammed Vanguard's $100 exit fee for 'compelling' investors to stay 'locked in,' or get 'punished.'

Vanguard Group again finds itself ironically fighting in favor of a “nuisance,” $100 exit fee – the kind it spent its first 50 years cultivating a reputation for fighting against.

The $10 trillion, Malvern, Pa., manager is promising to vigorously defend itself against a fiery class action, claiming it unlawfully, fraudulently, and unfairly lured consumers with a promise of low fees before introducing closure fees, says Ken Grunfeld of Ft. Lauderdale, Fla., firm KO Lawyers.

“For years, Vanguard lured consumers into a brokerage contract with the promise of low fees ... [but last year it] unilaterally modified its account agreement … to impose a new, mandatory $100 [closure] fee ... a classic ‘junk fee’ designed to penalize all but the highest-earning,” writes Grunfeld who filed the suit.

The fee took effect on July 1, the week before Salim Ramji's ascent to the CEO seat. It was enacted his predecessor, Tim Buckley. See: During CEO Tim Buckley's waning months, Vanguard is imposing fees that may affect its older investors

“It is designed to recoup extra profit, and an unenforceable penalty devised to compel average consumers to stay locked into the[ir] contract, or otherwise to punish them ... [and it is] deceptive, unfair, and in bad faith,” states Grunfeld listed by his firm as a "prolific" class action lawyer.

Ari Sonneberg: This lawyer is trying to paint the motivation for this simply put, as money.

The lawyer won a $410 million class settlement from Bank of America in 2023, and an undated $100 million settlement in a payment protection class action.

Merit questioned

Grunfeld did not respond to two requests for comment.

A Vanguard spokesman countered that the charges are groundless.

“We look forward to vigorously defending against this meritless claim," he adds, in an email exchange.

Vanguard insists its exit fees “offset” costs, although it waives them for investors with more than $5 million invested through its brokerage. It does not specify how much it costs to close a brokerage account.

Vanguard's mantra is to service its clients as owners or shareholders, hence low fees. Yet clients who depart are not shareholders, hence no direct conflict.

Still, it doesn't all add up, says Jeff DeMaso the Brooklyn, NY-based publisher of The Independent Vanguard Adviser newsletter.

"If I'm keeping my account(s) at Vanguard, then Vanguard ‘generating some revenue’ from people leaving is a positive.

“But I don't think that's the whole story. For example, if I see the exit fee as a positive (for owners), then Vanguard should apply it to all accounts that leave—no exceptions for large ($5 million+) owners. For that matter, why not charge large clients more when they leave? Can't they afford it?”

DeMaso adds: “Also, to fully round out the picture, some brokerage firms will reimburse you for any fees incurred when leaving your old firm. Frankly, I don't know if Vanguard does that. If so, then you'd have to net that against the exit fees it collects.”

Vanguard is right on the law, says Ari Sonneberg, partner at Wagner Law Group, a Boston firm.

"Exit fees are legal, regardless of whether there is, in fact, a processing cost that the investment firm incurs upon the closing of an account,” he says.

“The fact that Vanguard has a reputation of providing low-fee products – and even that it touts that reputation – has no bearing on this case… [nor does] the allegation that the fee has an impact on low-to-middle class investors, as compared to upper-class investors."

Settlement shopping

There are differences unrelated to the allegations and arguments between the first and second Vanguard suits.

Jeff DeMaso: Fees are legal if announced in advance.

The first case was filed in the state Court of Common Pleas, in Chester County, Pa., on behalf of the named plaintiff, Arthur Kelly, Jr., and a wider unnamed class.

The January suit was dismissed voluntarily earlier this year, on undisclosed grounds, according to Sonneberg.

The second was in the Federal District Court for the Eastern District of Pennsylvania, with Sean Errol Quinn as the named plaintiff.

The new suit is “a virtual copy-and-paste job,” Sonneberg says, in an email exchange.

He dismisses both suits as an attempt to put the squeeze on Vanguard to force a settlement and avoid public embarrassment.

“Rather than the altruistic picture that this lawyer is trying to paint, the motivation for bringing this case is, simply put, money," he says.

KO Lawyers likely hoped “Vanguard would prefer that this matter not go through prolonged litigation that could, even with the merits on its side, damage its reputation, and therefore [would] settle the matter,” Sonneberg continues.

It “was looking for low-hanging fruit … [and] a settlement of this suit, even for pennies on the dollar, would likely have made it more than worthwhile,” he concludes.

Improving economies

Vanguard currently claims to serve about 50 million investors – the same number reported at the end of 2023 -- but it does not break out how many of them are served directly through its brokerage accounts.

The company has pushed recently to improve its brokerage economies – even threatening to push out high-service, low-revenue brokerage clients. See: Vanguard warns phone-reliant investors of ‘termination’ without warning.

Brokerages and banks, which typically charge $50 or $75, love the fees because they are win-win. If they discourage a departure, it's a fruitful retention tactic. If the client leaves, it's a helpful revenue stream.

Advance notice

Betterment introduced $75 exit fees in 2023; Schwab ($50); e*Trade ($75); and SoFi now charges $100 to close an account and a $25 inactivity fee. See: Wealthfront pounces after Betterment jacks up prices on small investors.

Although regarded as “junk fees,” DeMaso and Sonneberg point out that the fees are perfectly legal – so long as investors get a reasonable warning. Vanguard gave a two-month advance notice, both note.

Vanguard also makes that point.

“Vanguard provided advanced notice to clients prior to establishing this conventional processing fee, which was established in accordance with all applicable rules and regulations,” the company spokesman explains.

Dublin-native and Edinburgh-based Oisín Breen has spent seven years writing about finance, including five whirlwind years diving into the advisor world for RIABiz. A widely published and well regarded poet with two full collections under his belt, Breen is also an academic in English Literature with a deep fondness for his Scottish rabbit, Hessell. @Breen

Brooke Southall and Keith Girard contributed to the editing of this article.

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