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Vanguard to Pay More Than $100M to Resolve SEC Violations

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Charges are related to target date retirement funds.

Washington D.C. — The Securities and Exchange Commission announced Jan. 17, 2025 that The Vanguard Group, Inc. will pay $106.41 million to settle charges for misleading statements related to capital gains distributions and tax consequences for retail investors who held Vanguard Investor Target Retirement Funds (Investor TRFs) in taxable accounts. The settlement amount will be distributed to harmed investors.

The SEC's order finds that, on December 11, 2020, Vanguard announced that the minimum initial investment amount of Vanguard Institutional Target Retirement Funds (Institutional TRFs) was lowered from $100 million to $5 million. In the following months, a substantial number of retirement plan investors redeemed their Investor TRFs and switched to the Institutional TRFs because the latter funds had lower expenses.

According to the order, to meet the demand for these redemptions, the Investor TRFs had to sell underlying assets with gains due to the rising financial markets that had rebounded from pandemic lows. The order finds that, as a result, retail investors of the Investor TRFs who did not switch and continued to hold their fund shares in taxable accounts faced historically larger capital gains distributions and tax liabilities and were deprived of the potential compounding growth of their investments.

The order also finds that Vanguard Investor TRFs' prospectuses, effective and distributed in 2020 and 2021, were materially misleading because they stated that the funds' distributions may be taxable as ordinary income or capital gains, and that capital gains distributions could vary considerably from year to year as a result of the funds' "normal" investment activities and cash flows.

However, the order finds the prospectuses failed to disclose the potential for increased capital gains distributions resulting from the redemptions of fund shares by newly eligible investors switching from the Investor TRFs to the Institutional TRFs. The order also finds that Vanguard failed to adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act and rules thereunder with respect to the accuracy of the funds’ disclosures.

“Materially accurate information about capital gains and tax implications is critical to investors saving for their retirements,” said Corey Schuster, Chief of the Division of Enforcement’s Asset Management Unit. “Firms must ensure that they are accurately describing to investors the potential risks and consequences associated with their investments.”

This settlement resolves the SEC’s investigation along with settlements of parallel investigations of Vanguard announced today by the Office of the New York Attorney General (NYAG), the Connecticut Department of Banking, and the New Jersey Office of the Attorney General (NJAG) on behalf of the North American Securities Administrators Association (NASAA).

The SEC’s order finds that Vanguard violated the Advisers Act and caused violations of the Securities Act and the Investment Company Act. Without admitting or denying the SEC’s findings, Vanguard agreed to be censured, cease and desist from future violations, and pay $18.2 million in disgorgement and prejudgment interest that will be deemed satisfied by the payment of $92.91 million in relief ordered by the states’ settlements and a $13.5 million civil penalty, for a total amount of $106.41 million to be distributed to affected investors through a Fair Fund.

The $106.41 million in ordered relief is in addition to $40 million that Vanguard agreed to pay to settle an investor class action captioned, In re Vanguard Chester Funds Litigation, Case No. 2:22-cv-00955-JFM, in the U.S. District Court for the Eastern District of Pennsylvania, which will be added to the Fair Fund if the settlement is terminated or rejected.

The SEC’s investigation was conducted by Mark Oh of the Home Office and Marie DeBonis of the Asset Management Unit, with assistance from Mark Dowdell and Andrea Dittert of the Division of Examinations, and supervised by Sarah Lamoree and Mr. Schuster. The SEC appreciates the assistance of the NYAG’s Investor Protection Bureau, Connecticut Department of Banking’s Securities and Business Investments Division, NJAG’s Bureau of Securities, and NASAA.