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Distant Horizon: Vanguard Fund Targets 2055 Retirees

By DAISY MAXEY

Vanguard Group is joining a small group of fund companies that offer "target date" funds geared to investors with a distant retirement horizon: those 18 to 22 years old who plan to retire around 2055.

Vanguard Target Retirement 2055 Fund (trading symbol VFFVX), launched on Wednesday, is a broadly diversified fund with an expense ratio that is lower than average for target-date funds in its peer group, according to Lipper Inc.

Bloomberg News

Bill McNabb

Vanguard decided to launch the fund now in part because of interest expressed by parents, grandparents and younger investors themselves, Vanguard's chairman and chief executive, Bill McNabb, said in an interview. It also is meant as "a little bit of a statement about starting to invest as soon as possible and doing so in a diversified manner," he said.

Target-date funds were meant to be a one-stop investment vehicle for retirement savers who don't want to research or monitor their investments. They typically invest guided by a "glide path" as they move assets to more conservative investments as an investor nears retirement.

Investment-research firm Morningstar Inc. tracks only about six distinct 2055 target-date funds, though there are quite a few 2050 target-date funds, which can be quite similar, according to Christopher Davis, a senior mutual-fund analyst at Morningstar. Among the 2055 offerings are AllianceBernstein 2055 Retirement Strategy, American Funds Target Date Retirement 2055, Principal LifeTime 2055and T. Rowe Price Retirement 2055 Fund.

More will undoubtedly be launched as these young people enter the work force.

The new Vanguard fund will initially invest 90% of its assets in stocks and 10% in bonds, reflecting that age group's ability to assume more risk because they have so much time before retirement, the company said. It will gradually move its assets to 50% stocks and 50% bonds by 2055, the retirement date. In 2062, it is expected to have 70% in bonds and 30% in stocks.

Target-date funds generally were criticized after some had large losses in the market downturn, and it became clear that some had taken on more risk than investors anticipated. The Securities and Exchange Commission is now taking comments on its proposal for additional disclosures from the funds.

Vanguard's target-date funds overall initially had a "pretty conservative glide path," but it was changed to become "a little more stock-heavy" in 2006, Mr. Davis said. While more bond-heavy asset allocations may seem conservative, they will "have a hard time beating inflation over the long haul," he said.

The new fund is the 12th in Vanguard's target-date fund series, and like the others, it will invest in Vanguard index funds. It is expected to charge an expense ratio of 0.19%. The average expense ratio for a target-date fund in its peer group was 1.17% as of July, Lipper said.

Mutual-Fund Group Assails Broker Practices

Several practices used by large broker-dealers related to the use of consolidated, or omnibus, accounts are imposing billions of dollars in hidden costs on mutual-fund investors, said an advocacy group, the Coalition of Mutual Fund Investors.

The practices are imposing costs on individual investors each year of as much as $2.2 billion in account-maintenance charges, more than $4.18 billion in shareholder-servicing payments and more than $2.09 billion in revenue sharing, the Washington group estimated. Regulatory action should be taken "to protect individual investors from these unnecessary costs," the coalition said.

The Securities Industry and Financial Markets Association, or Sifma, Wall Street's main lobbying group, had no comment. Bank of America Corp.'s Merrill Lynch, a brokerage giant, declined to comment.

Many investors purchase fund shares through financial intermediaries, and it is common practice for some brokers to aggregate these requests into a consolidated order for each fund daily. Often no information is disclosed to mutual-fund compliance personnel about the specific trading activities of each of the underlying investors at the time of a transaction in these consolidated accounts, the coalition said.

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