BUSINESS

INVESTING

Vanguard mutual fund closing in on $1 trillion

Tim Buckley, CEO of Vanguard, speaks to workers during the ribbon-cutting ceremony for its new campus. The company manages $6 trillion in assets. TYGER WILLIAMS / Staff Photographer

A trillion dollars: That's how much money was invested in Vanguard's Total Stock Market Index Fund at the end of December.

The largest mutual fund by assets is just over $60 billion shy of crossing the trillion-dollar line across all share classes, which sounds like a long way off — but it's not. The fund's year-end assets totaled $938 billion.

"Assuming investors neither add nor withdraw a penny from the fund, it would take a gain of just 9.3% to push it over the line" to $1 trillion in assets, noted Dan Wiener, editor of the Independent Adviser for Vanguard Investors newsletter.

"Investors have, over the last five years, poured a net $30 billion into

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the fund annually. If that pace keeps up, a gain of only 5.8% or so will see the fund reach $1,000,000,000,000 this year," he estimated.

Yes, that's 12 zeroes. And no, there isn't another fund that comes even close in size.

Malvern-based Vanguard currently manages $6 trillion in assets — $5.2 trillion excluding money market funds — and is just behind No. 1 BlackRock, best known for its iShares exchange-traded index funds, with $7 trillion under management. The No. 3 index fund manager, State Street Corp., manages $2.9 trillion. These three firms together hold about 80% of all indexed money, according to Bloomberg data. The combined Schwab-TD Ameritrade would have $5.1 trillion, assuming the merger goes through.

SECURE Act Updates

The SECURE Act was passed quickly in December, so let's dive into a refresher course:

No more maximum contribution age. Americans are living longer and working beyond traditional retirement age, so the SECURE Act

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eliminates the age ceiling for contributing to a traditional IRA, previously 70½. This change also aligns the rules with 401(k)s and Roth IRAs, which did not have a maximum age.

Repaying student debt. Individuals with 529 savings accounts can now take money out to pay for apprenticeships and student loans. Distributions for student loans max out at a lifetime amount of $10,000 per person.

The new rules apply to any money taken on or after Dec. 31, 2018, according to Wells Fargo and retirement expert Ed Slott. We've seen conflicting dates, but confirmed the 2018 date refers to distributions taken from the 529 plan and not the date loan funds were received, which could have been earlier. "The date of a student loan is immaterial," Slott said.

Recall that investors can also take money out of 529 accounts for K-12 education as well as college. While 529 money isn't taxable at the federal level, it may be taxed by the state in which you live, said Eric Bronnenkant, head of tax for Betterment. Check with your accountant and the state, he said.

Is student debt taxable if discharged for fraud? Not anymore. The IRS and Department of the Treasury on Jan. 15 determined that student debt discharged by a lender will not be treated as taxable income.

"When the government discharges a federal loan because a student was defrauded, it is common sense that the student should not be taxed on the relief," said Aaron Ament, president of the nonprofit Student Defense.

Previously, the treasury and the IRS made exceptions in only two cases — for Corinthian Colleges and American Career Institute borrowers — but did not address all debt discharges. Now grads are no longer vulnerable to large tax bills based on their school's misconduct.

Annuities. Under the SECURE Act, employers can offer lifetime income annuities within retirement plans. Also, these can be directly transferred to another retirement plan, avoiding potential surrender charges and fees.

"It will be significant. The annuity companies will want to get products out there, we just don't know when," said Michael Repak, senior estate planner at Janney Montgomery Scott in Yardley.

Medical expenses. Individual taxpayers with high medical bills can deduct unreimbursed expenses that exceed 7.5% (in 2019 and 2020) of adjusted gross income, according to Isdaner's Mitchell Gerstein, senior tax adviser at the Bala Cynwyd firm.

In addition, taxpayers can withdraw money from qualified retirement plans and IRAs penalty-free to cover expenses that exceed the medical expense threshold (although regular income taxes apply). The threshold returns to 10% in 2021, according to Isdaner.

Overall, was the SECURE Act helpful, or did it just make life more complex?

"The SECURE Act isn't great, but it's better than nothing," said Paul Tully, founder of Eagle Wealth Strategies in West Deptford.

"The insurance companies love the new law, and I do think this may result in more life insurance sold, because if someone was hoping their IRA would help fund their children's or grandchildren's retirement, that's a little less likely now."

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