IRA Insights

Do contribution deadlines lead to poor investment decisions?

The percentage of IRA contributions allocated to money market funds increases between January and April.

During “tax season,” investors are under time constraints to make their IRA contribution for the prior year. Although they know they need to make the contribution, they haven’t necessarily made their investment choice. As a result of decoupling the contribution and investment decision, many investors in this situation choose a money market fund as a “parking lot.”

More than two-thirds of last-minute contributions made to money market funds remained in money markets four months later.

But what seems like a prudent temporary decision can become an ill-advised longer-term investment choice.

IRA investors could benefit from mirroring the plan sponsor trend toward increasingly making target-date funds their default option for participants.

Balanced funds, such as target-date funds, offer many advantages. They are low-cost, diversified, professionally managed funds that provide a convenient way to save for retirement. The asset allocation management embedded within balanced funds can also help investors avoid behavioral challenges such as inertia, market timing, portfolio concentration, and failure to rebalance.
Investments in Target Retirement Funds are subject to the risks of their underlying funds. The year in the Fund name refers to the approximate year (the target date) when an investor in the Fund would retire and leave the work force. The Fund will gradually shift its emphasis from more aggressive investments to more conservative ones based on its target date. An investment in the Target Retirement Fund is not guaranteed at any time, including on or after the target date.

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of your investment at $1 per share, it is possible to lose money by investing in such a fund.

For more information about Vanguard funds, visit vanguard.com, or call 800-662-2739, to obtain a prospectus. Investment objectives, risks, charges, expenses, and other important information about a fund are contained in the prospectus; read and consider it carefully before investing.