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RETIREMENTSOLUTIONS

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COLLECTIVE TRUSTS OPEN DOORS

The dramatic rise of collective trusts may provide competitive advantages to some 401(k) plan advisors.

The growth of collective investment trusts (CITs) as plan investment options is responsive to major changes in the 401(k) market, and could benefit plan advisors with access to them. What's driving the rise of CITs and how can plan advisors leverage them?

Growing Momentum for CITs

CITs are not new. Launched in 1927, their popularity rebounded in 2000 when the National Securities Clearing Corporation (NSCC) added them to its trading platform. Increased transparency and reporting by firms like Morningstar also have supported their growth. As noted in a previous insight, Collective Investment Trusts: What You Need to Know, CIT asset growth has outpaced the overall retirement market with a seven-year compound annual growth rate of 14.4% compared to less than 9% for all retirement assets.[1] Since 2012, CIT use has grown by 35% within defined contribution plans while the use of mutual funds has decreased[2]—a trend that we expect to continue.

Although not available to 403(b) plans, IRA investors, foundations or endowments, CITs have seen brisk adoption by 401(k) plans. In 2016, CIT assets reached $2.8 trillion, representing an 11.6% annual increase according to global research and consulting firm Cerulli Associates. Traditionally limited to use by larger 401(k) plans, CITs are migrating down to smaller plans. While costs limit the smaller plans' direct access to CITs, advisor groups serving them can offer CITs to these plans by leveraging their entire client base and book of business.

Advantages: Transparency, Low Fees and Scale

One of the market forces behind the growth of CITs is fee transparency, driven in part by the Department of Labor fiduciary rule but also due to lawsuits and a general fiduciary concern about fully understanding the fees being paid with respect to plan investments.

[1]Erach Desai and Jason Dauwen. DST Systems and ALPS. *Collective Investment Trusts—A Perfect Storm*, March 2017.

[2]Callan 2017 DC Trends Survey.

For portfolios that are not at scale, the cost of a CIT may be lower than the costs of mutual funds in part because CITs are overseen by the Office of the Comptroller of the Currency or local state bank regulators, which impose less burdensome compliance and legal regulations and fees than the Securities and Exchange Commission, which governs funds.

Another factor that makes CITs attractive is that most of them charge fewer 12(b)(1) and sub-transfer agency fees than mutual funds. Most have no such fees at all.

But perhaps the biggest driver of CIT growth among plan advisors is the ability to scale. Many larger advisory practices have begun to create proprietary asset allocation vehicles, like target-date funds, which they offer to all of their clients. Because CITs can be used within target-date funds, these advisory practices are able to negotiate more institutional-type fees for CITs; they can use the buying power of the advisor group to pass along the savings to all of their clients, even the smallest ones.

This can sound very appealing to plan advisors, who are facing a difficult business environment given plan sponsors' demands for additional services and the rapid decline of advisory fees. Similar to passive investments, CITs, which may offer more institutional-type pricing than mutual funds, can enable advisors to maintain or lower overall plan pricing while limiting investment expenses.

Moreover, CITs can provide other competitive advantages. Not only can they offer customized strategies, like target date investments with three types of risk profiles for each five-year period, but they also enable advisors to offer the same strategies offered by mutual fund providers at a reduced cost.

More Growth Ahead

With 401(k) sponsors' extreme fee sensitivity and legal pressure to offer 401(k) investors the best price available, as well as declining advisory fees, it is no wonder that many advisors and advisor groups are moving clients to CITs and fueling their dramatic growth. It's a trend that serious plan advisors cannot afford to ignore.

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Fred Barstein is founder and CEO of The Retirement Advisor University (TRAU), a collaboration with UCLA Anderson School of Management Executive Education and The Plan Sponsor University (TPSU). Founded in 2010, TRAU has quickly become the industry's leading training and designation program for focused Defined Contribution (DC) advisors and professionals dedicated to helping them build a sound and sustainable practice while improving plan outcomes for clients. TPSU trains and certifies employers managing their retirement plans, leveraging a standardized curriculum and highly qualified local advisors to deliver on-site programs. In addition, Fred is the founder and Editor in Chief of NAPA Net, the daily newsletter and NAPA Net Magazine, all part of the National Association of Plan Advisors (NAPA), where he served on the initial force and founding Leadership Committee and currently serves as Industry Ambassador. He is founder and Editor in Chief of 401kTV.

Prior to founding TRAU, Fred was president, chief executive officer and founder of 401kExchange before he left in 2010. Founded in 1996, 401kExchange was a leading business development and market intelligence provider for the 401(k) and retirement industry. His previous experience includes publisher of Bancroft-Whitney, California's official legal publisher, a division of Thomson/West, and Barclays Law Publishers, where, as editor in chief, he led the company to *Inc.* magazine's list of 500 fastest-growing private companies before it was sold to Thomson/West.

Fred received his BA degree from Boston College and his law degree from Cardozo School of Law, Yeshiva University. He is the NAPA Net Liaison to NAPA's Leadership Council, and a member of the NAPA Net and Membership Committees. He was a member of the New York Bar, held Series 6, 26, 28 and 63 licenses and was named 28th "Most Influential Person in the 401(k) Industry" in 2012 by the 401kWire. He has been ranked in the top 50 since the inception of the list in 2007. Fred is a regular speaker before various retirement industry and conferences around the country and internationally.

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