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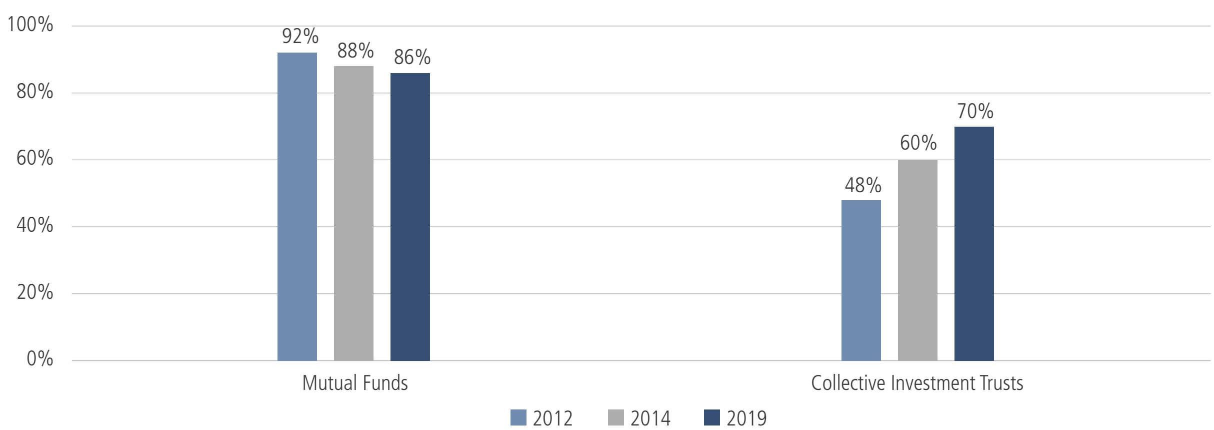
Collective Investment Trusts: Flexibility in Focus

The long-standing investment vehicles continue to evolve, broadening their appeal to DC plan sponsors.

Collective investment trusts (CITs) have been around since the 1920s, but it wasn't until the new millennium that they started to gain real traction, converting from manual processing and infrequent valuation to more automated processing and daily valuation similar to mutual funds. With the increased focus on lower fees in DC plans, CITs have seen an increase in popularity since, in some cases, the administrative costs may be less than mutual funds and there can be more pricing flexibility.

GROWTH OF CIT USAGE IN DC PLANS (REFLECTS PERCENTAGE OF DC PLANS WITH MUTUAL FUNDS OR CITS)



Source: Callan 2017 and 2020 DC Trends surveys. Multiple responses were allowed.

What's the Draw?

The ongoing appeal of CITs comes down to a few key factors, among them:

Fees. CITs generally have lower fees than mutual funds, while fees and investment minimums may be negotiable, allowing for more flexibility in pricing.

Ease of use. Plan sponsors can use CITs in combination with a variety of investment vehicles, including mutual funds and separate accounts, often in one plan or asset allocation vehicle. They can also be used across multiple plans within one organization—e.g., a defined benefit plan and a defined contribution plan.

Transparency. CITs typically offer daily valuation and standardized/automated daily processing, as well as fact sheets and increased data reporting. Most are covered by widely available research organizations, including Morningstar™.

Investment choice. Today, CITs are broadly available across asset classes and investment disciplines and can be actively or passively managed.

Limitations, Details

Despite these characteristics, CITs do have some limitations worth understanding. The most basic is that, due to regulatory constraints, the use of CITs is limited to certain types of investors, including 401(k) and qualified pension plans, but not available to IRAs or certain 403(b) plans, among others (see display). Some legislators have sought to expand their reach, but with limited progress so far. On the bright side, given that CITs are generally exempt from the Investment Company Act of 1940 the administrative requirements on CITs are generally lighter than for mutual funds, which tends to reduce the cost structure of CITs. Bank trustees of CITs are subject to fiduciary standards of care as well as review and oversight (depending on the entity) by the Office of the Comptroller of the Currency or state banking authorities.

Permitted Investors	Ineligible Investors
Qualified 401(k) Plans	Health and Welfare Plans (VEBAs)
Qualified Profit Sharing Plans	IRAs**
Qualified Stock Bonus Plans	Certain Section 403(b) Plans
Certain Taft-Hartley Plans	Non-Qualified Deferred Compensation Plans
Qualified Pension Plans	Individual Investors
Certain Government Plans*	Foundations
Certain Master Trusts of Qualified or Government Plans	Endowments
Certain Insurance Separate Accounts	

*Those that are within the meaning of IRC Section 414(d) or an eligible governmental plan trust or custodial account under IRC Section 457(b) that is exempt under IRC Section 457(g).
**Usually ineligible due to securities law reasons.

Widening Access

CITs have historically been a practical alternative only for mid-size or larger plans able to meet CIT investment minimums of $10 million or more. However, the landscape is changing, with innovations that open up the use of the investment vehicles to a broader range of plans. For example, platforms have been developed in partnership with multiple asset managers that allow plan advisors to seamlessly onboard multiple plan clients. Such arrangements not only reduce the minimums for individual plans but enable the advisors to access their preferred investment managers and thus reinforce consistency and quality of their offerings.

As plans, advisors and financial providers continue to experiment with ways to deliver CITs, we expect them to continue to gain traction, not only in familiar territory of larger plans, but across a wider range of plans, seeking to deliver a broad spectrum of investment options at a lower cost.

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