CITs: The Rising Star in the Retirement Investment Landscape

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Key Takeaways

- ✓ CITs offer lower fees than mutual funds, thanks to reduced operating and regulatory costs.
- ✓ They are built for institutional investors, focusing on long-term performance and strategic investment approaches.
- ✓ Plan sponsors have more flexibility, allowing them to customize investment options and negotiate fees.
- ✓ Regulatory trends and industry shifts are pushing more DC plans toward CIT adoption.
- ✓ While transparency and availability are considerations, the advantages of CITs far outweigh the drawbacks for retirement plans.

If you're tuned into the world of retirement investing, you've probably noticed that Collective Investment Trusts (CITs) are gaining traction. While mutual funds have long been the go-to investment vehicle for 401(k) plans and other defined contribution (DC) plans, CITs are emerging as a compelling alternative.

But why are CITs making waves, and what makes them so appealing? Let's break it down.

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1. The Cost Advantage: CITs Keep More Money in Participants' Pockets

One of the biggest reasons for CITs' growing popularity is their low-cost structure compared to mutual funds. Here's why:

- *Lower Administrative & Regulatory Costs* – CITs operate under bank regulations rather than SEC regulations, which reduces compliance and marketing expenses.
- *No Marketing or Distribution Fees* – Unlike mutual funds, which spend money on marketing and shareholder servicing, CITs focus purely on investment management.
- *Lower Expense Ratios* – On average, CITs have lower expense ratios than mutual funds, which means less money is lost to fees over time.

Even small reductions in fees can lead to significant long-term savings. For example, a 0.50% difference in annual expenses might not seem like much, but over 30+ years of compounding, it could add tens of thousands of dollars to a participant's retirement account.

2. Institutional Investment Approach: Built for the Big Picture

Unlike retail mutual funds, CITs are designed specifically for institutional investors. This gives them unique advantages:

- *Managed by Top-Tier Asset Managers* – CITs often have the same institutional managers as mutual funds but with added flexibility.
- *Long-Term Investment Focus* – Without the pressure of retail investor behavior, CITs can take a more strategic, long-term approach.
- *Economies of Scale* – Large institutional investors benefit from bulk pricing and access to sophisticated strategies.

Because CITs are exclusive to tax-advantaged retirement plans, they don't face the same retail-driven market pressures as mutual funds. This can create a more stable, performance-oriented investment experience.

3. Flexibility and Customization: Tailored for Plan Sponsors

Another reason plan sponsors are shifting to CITs is their flexibility.

- *Customization* – Unlike mutual funds, which are bound by regulatory structures, CITs allow plan sponsors to tailor investment strategies.
- *Ability to Negotiate Fees* – Large plans can negotiate even lower fees based on their assets under management (AUM).
- *Access to Alternative Investments* – Some CITs can include exposure to asset classes like private equity, real estate, or infrastructure, which are not always available in mutual funds.

This customization gives employers and plan fiduciaries more control over how they construct their retirement plan lineups, optimizing them for their employees' needs.

4. Performance Potential: A Competitive Edge

With lower fees and an institutional approach, CITs have the potential to outperform mutual funds over time.

- *Cost Savings Drive Better Returns* – Because expenses eat into investment returns, lower-cost CITs have a natural edge over higher-cost mutual funds.

- *Tax Advantages* – CITs are not subject to capital gain taxes at the trust level, unlike mutual funds. This allows investment managers the flexibility to make decisions without tax constraints.
- *Less "Hot Money" Risk* – Mutual funds often face large inflows and outflows from retail investors reacting to short-term market trends. CITs, being institutional, experience less volatility due to investor behavior.

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5. Regulatory & Industry Trends: The Shift Toward CITs

Several industry trends and regulatory shifts are favoring the adoption of CITs in defined contribution plans:

- *DOL Fiduciary Rule & Fee Transparency* – With increasing scrutiny on retirement plan fees, fiduciaries are seeking the lowest-cost investment options. CITs often meet this requirement.
- *SECURE Act & Evolving DC Plan Landscape* – The retirement industry is shifting toward lower-cost, institutionally managed solutions, further supporting the rise of CITs.
- *Growing Plan Sponsor Adoption* – More 401(k) and DC plan sponsors are replacing mutual funds with CITs in their investment lineups to reduce costs and enhance performance.

As fee compression continues to be a focus in the industry, we’re likely to see even greater adoption of CITs in the coming years.

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6. What’s the Catch? Considerations for CITs

While CITs offer many advantages, they do have some limitations:

- *Limited Availability* – CITs are not available to individual investors; they are exclusive to retirement plans, which may limit accessibility.
- *Less Transparency Than Mutual Funds* – CITs do not have to report holdings as frequently as mutual funds, which may concern some investors who value disclosure.
- *Plan-Specific Differences* – Since CITs are customizable, two plans using the "same" CIT may have different fee structures or investment strategies, making comparisons more difficult.

However, for institutional investors and plan sponsors, the benefits far outweigh these concerns—hence their increasing use in DC plans.

Final Take: CITs Are Poised for Continued Growth

CITs are no longer an afterthought in the retirement investment space. With their cost efficiency, flexibility, and institutional focus, they are increasingly seen as a superior alternative to traditional mutual funds in 401(k) and other defined contribution plans.

As plan sponsors continue to seek ways to reduce fees, improve performance, and customize investment strategies, expect CITs to play an even bigger role in the future of workplace retirement savings.

The trend is clear: CITs are here to stay, and their influence is only growing.

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