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Consider How CITs Can Fit Into Your Practice

Collective investment trusts (CITs) can help clients address fee pressures, support an increased focus on fiduciary obligations, provide a means to build white-labeled investments and more.

The COVID-19 pandemic has taken a tremendous economic toll on businesses and individuals, forcing people to evaluate critical issues, including how well their retirement plan can weather this storm—and potential future shocks. Though a busy and challenging time, this is an opportune moment for plan advisers to ensure that their plan sponsors and participants have access to low-cost, flexible investment vehicles.

Collective investment trusts (CITs) are an option deserving of a fresh look from advisers for use in defined contribution (DC) and defined benefit (DB) plans. Once the industry's best-kept secret, CIT assets totaled more than $3 trillion in 2018, up 64% from 2011, according to data from Cerulli Associates. CITs have been seizing greater market share of late, in part because of the fee advantages they can present relative to mutual funds.

For those advisers not in the know, CITs offer several key features for consideration.

They can help address industry-wide fee pressures. There is a marked focus on reducing fees, in general, for plan participants. Compared to mutual funds, CITs generally have lower administrative, marketing and distribution costs. Overall, CITs have simpler disclosure statements and do not require an investor prospectus. Finally, a trustee can create separate share classes with advisers for use by plan sponsors that can result in even lower fees. Ultimately, it is the plan participant that will see the savings.

CITs can support an increased focus on fiduciary obligations. The CIT trustee will always be an Employee Retirement Income Security Act (ERISA) Section 3(38) fiduciary, which may provide the plan sponsor with additional protection. Section 402(c)(3) of ERISA allows plan sponsors to delegate responsibility for selecting, monitoring and replacing plan assets to an investment manager that meets the requirements of Section 3(38). Also, the CIT trustee is a regulated financial institution responsible for managing and monitoring the CIT's advisers and managers, approving and monitoring compliance with the investment policy and making sure the investments meet the CIT guidelines.

CITs can provide lower-cost active management options. Although plan participants may be reluctant to look at active management options because they are often associated with higher fees, CITs can help advisers shift the dialogue to active management and bring relatively low-cost alpha to investors.

They create the potential to develop white-labeled products. Some advisers have been using CITs as building blocks in creating their own products. This enables advisers and

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plan sponsors to change sub-advisers and underlying investments without the need to distribute Sarbanes-Oxley blackout notices, which can slow down the process and increase costs for participants.

Working on CITs can reinforce relationships with fund managers. CIT providers can offer lower fee classes to plan sponsor clients of advisers that hold broader relationships with the CIT fund manager. With a continued focus on demonstrating their value to clients, access to these kinds of relationships can be important.

The CIT market is becoming even more transparent. Because of the ongoing work of entities such as the Nasdaq Fund Network, there are now hundreds of searchable CIT tickers available to the general public.

Even with the growth of CITs, much work remains to be done to encourage their use in retirement plans. For example, federal law prohibits almost all 403(b) plans from accessing CITs, although legislation has recently been introduced to ease such prohibitions. This is particularly difficult because 403(b) plan participants are typically the people most in need of innovative retirement strategies.

Industry stakeholders should continue encouraging educational efforts around CITs to help plan sponsors gain greater awareness and consideration for this investment vehicle in their portfolios. The impact of COVID-19 has reminded us all that the retirement space must continue to innovate. CITs can be a reduced-cost option for all working Americans during this economic crisis and into the future. ■

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