DEBUNKING COMMON MISCONCEPTIONS ABOUT CITS

Collective Investment Trusts (CITs) have officially outpaced mutual funds as the most popular target-date vehicle.[1] As of June 2024, CITs captured 50.5% of target-date assets, equating to a difference of $1.9 trillion in assets over mutual funds. CITs are gaining market share because general awareness is increasing, myths are being dispelled and knowledge of the potential benefits is proliferating.

MISCONCEPTION: CITs lack fee transparency.

REALITY: Since 2010, the Department of Labor has mandated that certain plan administrators provide uniform performance, fee and other disclosures to plan participants regarding all investment options offered in 401(k) retirement plans. This mandate promoted greater transparency about CITs, and in turn, many CITs issue quarterly fact sheets and fund data is readily available. CITs also have tickers listed on the NASDAQ Fund Network (NFN) to facilitate trading and investment reporting.

MISCONCEPTION: CITs are not regulated.

REALITY: CITs are regulated by State or Federal Banking Laws, the Internal Revenue Service's laws and regulations, and the Department of Labor's Employee Retirement Income Security Act of 1974 (ERISA). Each of these regulatory bodies help ensure that CITs are being governed by well-designed policies and procedures, and that the CIT trustee acts in the best interest of the plan participants.

MISCONCEPTION: CITs are only for big plans.

REALITY: Due to aggregation and distribution innovations that have resulted in lower, or the removal of, investment minimums, small and medium plans can now access CITs more easily than before. As plan advisors increasingly recognize the advantages of CITs, they are becoming more prevalent across various segments of the DC market, regardless of plan size.

MISCONCEPTION: It's justifiable to pay more for a mutual fund.

REALITY: While not always the case, CITs typically have lower management fees when compared to a similar mutual fund because they are not subject to the cost associated with regulatory requirements imposed on mutual funds by the SEC. Also, CIT management fees can differ among fee classes within the CIT so they tend to be lower, while mutual funds' management fees are prohibited from having such flexibility.

Great Gray Trust Company is poised to offer a range of CIT options so you can select the CIT to complement your retirement plan's investment lineup.

Contact our team today

[1] https://www.morningstar.com/funds/cits-dethrone-mutual-funds-most-popular-target-date-vehicle

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