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The cost case for CITs

How collective investment trusts have become a leading vehicle in defined contribution plans and what it means for investment advisors and fiduciaries managing plan investment lineups

01 **OPENING**

There are now two investment lineup decisions, not just one.

Collective investment trusts and mutual funds are the two most popular investment products offered to retirement plan participants. In general, they both often hold identical portfolios, invest in the same securities, are managed by the same asset managers, and follow the same investment strategies. They both publish daily net asset values, settle through the National Securities Clearing Corporation (NSCC), and slot into recordkeeping platforms the same way.

Where they differ is in their regulatory requirements and distribution structures, both of which impact their resulting fee profiles.

A mutual fund is registered with the SEC under the requirements of the Investment Company Act of 1940. It is designed to be offered to the all retail and institutional investors. Its strict regulatory oversight, required disclosures, and associated cost structure are built for that broad market, not specifically for retirement plan participants.

A CIT is an unregistered pooled investment trust sponsored and maintained by a bank or trust company. These trusts can only be offered to eligible tax-qualified employer retirement plans. Because these investments are not registered with the SEC and are restricted to only eligible institutional investors the retail-facing cost structure is generally not present, which, over time, may result in more favorable participant retirement outcomes.

The following pages explore the structural reasons CITs cost less and run the numbers on potential participant impact, **to give** plan investment fiduciaries **more confidence in their decision-making processes**.

02 **THE BPS ADVANTAGE**

Follow the numbers.

Across a broad spectrum of investment strategies, CITs often offer a meaningful cost advantage versus their mutual fund equivalents. One clear illustration of this advantage is in the active fund category. According to the most recent Morningstar and Cerulli data, **the average actively managed mutual fund is three times more expensive than the average actively managed CIT.[1]**

38.5 bps

Asset-weighted average expense ratio gap, active mutual funds versus active CITs.[1]

Average actively managed mutual fund	Average actively managed CIT
57 bps	18.5 bps*

Source: 2026 Retirement Landscape Report (Morningstar, March 2026) and Cerulli Associates U.S. Retirement Markets reports. Active-category comparison; passive categories show a narrower but still material gap (4.4x per Morningstar). Plan-level pricing for an individual strategy will vary.

*Average bps may be higher for more complex active management strategies and investment structures (e.g. - strategic allocations that include private securities, use of derivatives/futures, co-manufactured funds, life-time income feature, etc.).

03 THE MECHANICS

The cost difference, explained

A CIT and a mutual fund can hold identical portfolios. The cost difference between them comes from the regulatory and distribution apparatus wrapped around each one.

REGULATORY STRUCTURE

1. No '40 Act registration overhead

CITs are exempt from registration under the Investment Company Act of 1940 and the Securities Act of 1933. They are maintained by fiduciary trustees , supervised primarily by the Office of the Comptroller of the Currency or state banking regulators, and also subject to ERISA, tax law, and the anti-fraud provisions of the federal securities laws. The fiduciary oversight is rigorous, but the registered-fund cost layer is not present. There is no registration statement to file with the SEC, no registration fees to pay, and no requirement to prepare and distribute a prospectus to investors. For a registered mutual fund, those obligations generate ongoing legal, compliance, printing, and distribution costs that are ultimately borne by shareholders. CITs avoid that cost structure entirely because they serve only qualified retirement plans, not the general public. [2]

DISTRIBUTION

2. Built for the retirement market, not the retail market.

Mutual funds are offered directly to the entire universe of public investors, including individual retail investors, and their regulations and disclosures are designed accordingly. CITs exclusively serve tax-qualified, institutional benefit plans. Their narrower regulatory framework drives much of the cost difference.[1,3]

INSTITUTIONAL ACCESS

3. Institutional-grade access for plans of all sizes.

CITs were originally a vehicle for large defined benefit funds. The modern marketplace has extended that institutional cost structure, making it available to defined contribution plans of all sizes, including the mid-market segment that represents the fastest-growing area for CIT adoption.[3,4]

TAX EFFICIENCY

4. Tax-exempt at the trust level.

To maintain tax-exempt status, CITs must satisfy group trust tax law requirements under Rev. Ruling. 81-100[EZ1.1][JE1.2]. Assets of each fund are held in trust, segregated, for the exclusive financial benefit of plan participants and beneficiaries. This tax-exempt structure means CITs do not carry the embedded costs registered funds do, to manage distributions for taxable shareholders.[2,5]

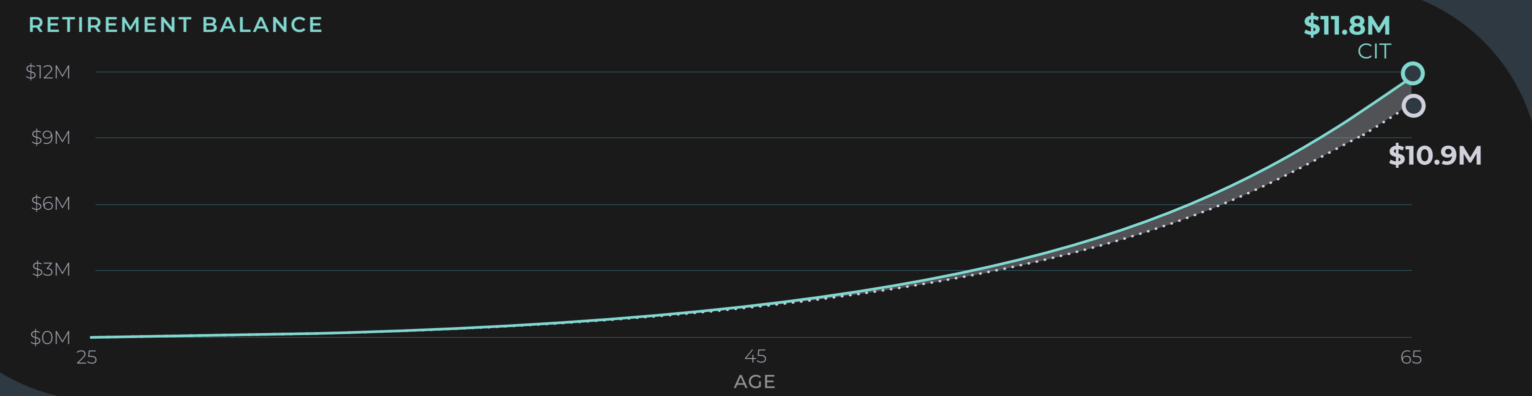
What 38.5 basis points can mean for savings across a career

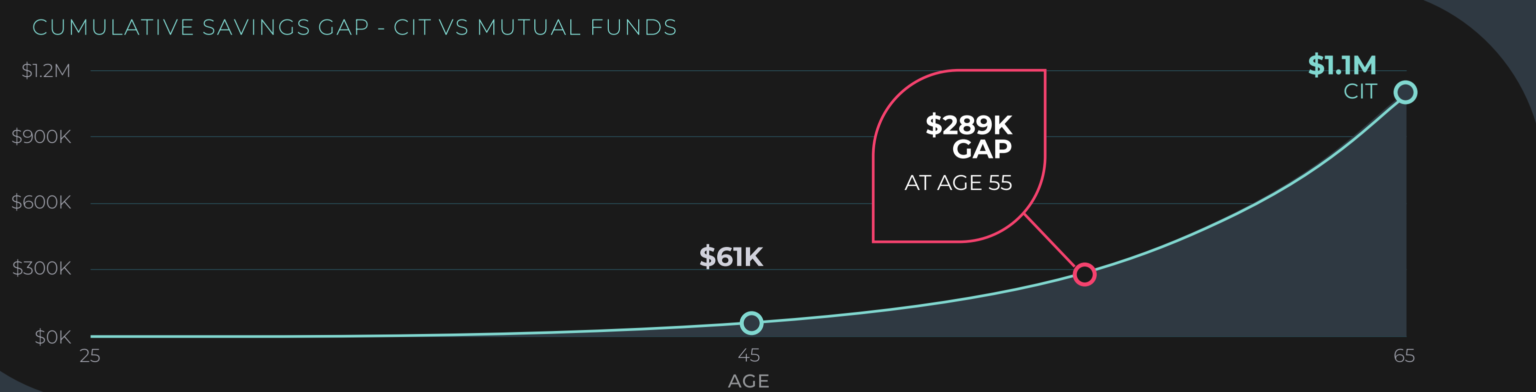
“Thirty-eight and a half basis points” may sound like a rounding error. But compounded across a forty-year contribution period for a high-income, high-savings-rate participant, it becomes more than a million dollars in additional retirement balance, a difference of greater than 10%.

Active CIT vs. Active Mutual Fund

Two views of the same forty years

Participants aged 25 $125K • $125K Starting Salary • 15% Combined Contribution • 10% Gross Return





	ACTIVE MUTUAL FUND	ACTIVE CIT	*DIFFERENCE*
Expense Ratio	57 bps	**18.5 bps**	***-38.5 bps***
Net Annualized Return	9.43%	**9.815%**	***+38.5%***
Balance at age 65	$10.69M	**$11.80M**	***$+1.11M***

Illustrative only. Assumes 10% gross return, 3% salary growth, no withdrawals during accumulation. Actual returns will vary. See note 6 for full methodology.

An Advantage at Any Salary Level

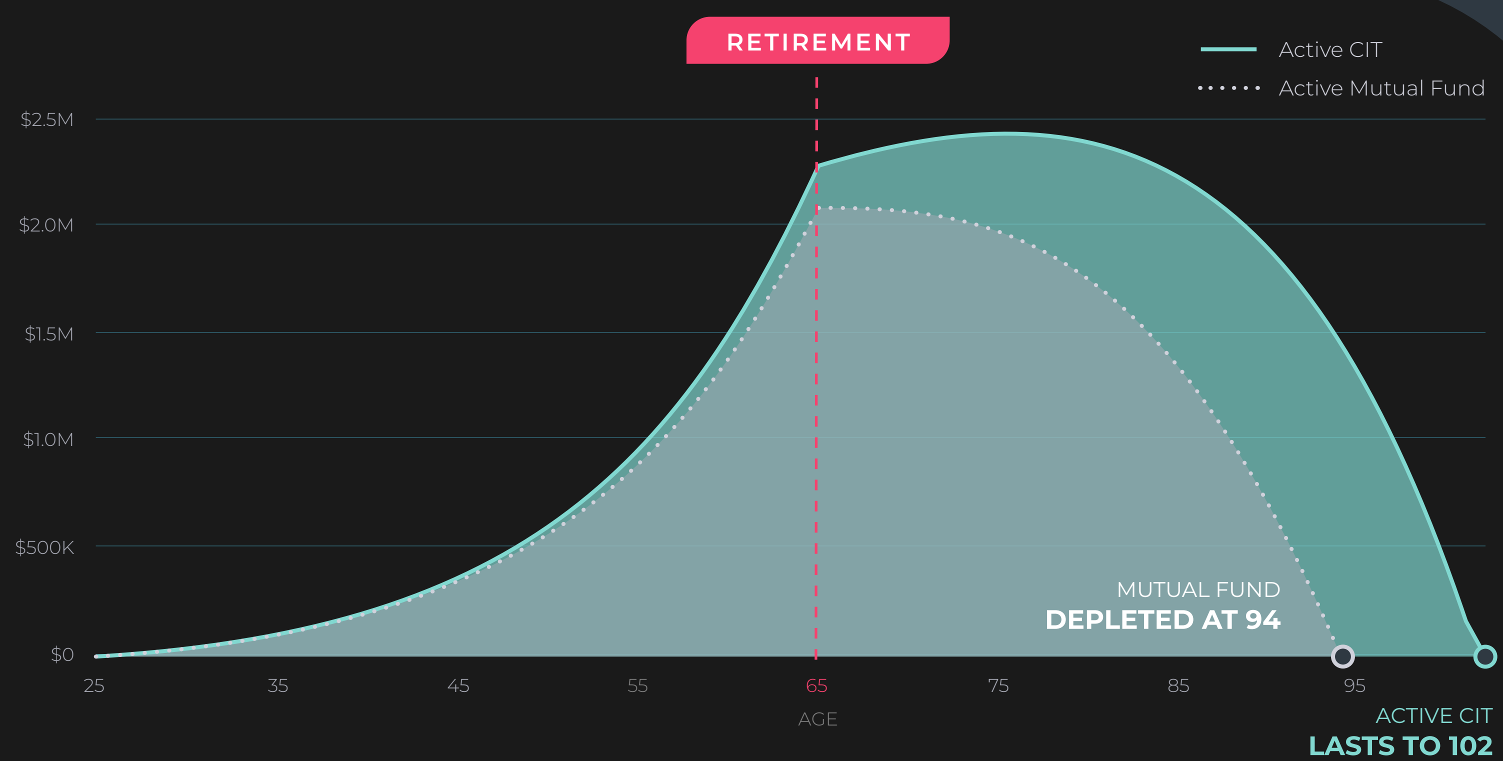
The CIT cost advantage can benefit participants at any salary level. Given the same assumptions outlined above, **the same 10%+ end-of-career balance differential would apply to those at any starting salary.** Across industries, roles, and career stages, CITs can drive meaningful savings differences for any plan participant.

Looking past age 65

The advantage compounds during the working years and continues during retirement. For a median-income participant retiring with similar habits, **the lower-cost vehicle can extend income from the account by roughly eight years before depletion.** This can mean the difference between depleting one's savings while still alive and leaving behind a lasting legacy for family, philanthropies, and others.

Accumilation, then drawdown - Active CIT vrs. Active Mutual Fund

Participant Aged 25 At Start · $60K Starting Salery · 10% Combined Contribution · 8% Gross Return Through Age 65 · 6% gross return therafter · 5% initial withdrawal rate · 2.5% annual withdrawal growth



+8 years

Of additional retirement spending before the CIT account is depleted, at the same widthdrawal rate.

Age 94 vs. 102

Depletion ages for the mutual fund and CIT participants in this scenario.

Illustrative only. Median-income scenario distinct from the page-5 illustration. Social Security and other retirement income not modeled. Actual returns will vary materially. See note 6 for full methodology.

Similar managers and underlying securities Different attributes.

For a retail investor, the mutual fund can be an appropriate vehicle. Inside a qualified retirement plan, however, the structural advantages of a CIT can favor the participant.

ATTRIBUTE	COLLECTIVE INVESTMENT TRUST	MUTUAL FUND
Regulations	· Primarily regulated by Office of the Comptroller of the Currency · Federal or state banking regulators · ERISA fiduciary obligations apply	SEC under the Investment Company Act of 1940
Who can invest	Participants in tax-qualified retirement plans and similar tax-exempt investors	Open to the public, including retail investors
Retail distribution costs	✓ None – tailored to the institutional plan market	✗ Designed for broad retail distribution
Plan-size access	✓ Institutional pricing structures available across plan sizes	✗ Fixed by published share class
Daily NAV and NSCC trading	✓ Yes	✓ Yes
Tax treatment at the fund level	✓ Tax-exempt under IRC §501(a)	✗ Registered fund subject to distribution requirements for taxable shareholders
Available to IRAs / 403(b) plans	· IRAs: no · 403(b) not currently: pending federal legislation to permit[7]	✓ Yes
Available within PEPs	✓ Yes	✓ Yes

CITs are exempt from registration under the Investment Company Act of 1940 and the Securities Act of 1933. They are maintained by fiduciary trustees, supervised primarily by the Office of the Comptroller of the Currency or state banking regulators, and also subject to ERISA, tax law, and the anti-fraud provisions of the federal securities laws. The fiduciary oversight is rigorous, but the registered-fund cost layer is not present. There is no registration statement to file with the SEC, no registration fees to pay, and no requirement to prepare and distribute a prospectus to investors. For a registered mutual fund, those obligations generate ongoing legal, compliance, printing, and distribution costs that are ultimately borne by shareholders. CITs avoid that cost structure entirely because they serve only qualified retirement plans, not the general public.

Large DB plans were first investors.

Now DB/DC plans of all sizes invest

CITs are not new. They were first introduced in 1927. What is new is the accelerated pace at which plan sponsors and their advisors have moved assets into them, most visibly inside the target date category, the single largest allocation in the average plan.

CIT industry assets under management

2014	2019	2024	2029E
$2.4T	$3.8T	$6.3T	$9.2T

Source: Cerulli Associates · ISS Market Intelligence · Sway Research[4]

54%

of all target date assets now sit in CITs, surpassing mutual fund assets

Share of plans including one or more CITs in their plan lineup[8]

MEGA PLANS	LARGE PLANS	MID-MARKET PLANS
$1B+	$250M–$1B	$50M–$250M
87%	73%	42% Adoption is rising fastest here. The cost gap can be most impactful for these plans, as they typically start from higher cost bases.

Cost is the headline, but not the whole picture.

The tax consideration some sponsors overlook

Mutual funds are open to all types of retail and institutional investors. To preserve their pass-through tax status, they must distribute realized capital gains to shareholders. Most of those distributions do not affect a tax-deferred plan participant directly, but the operational machinery built to track and manage them is part of the higher cost of administering a mutual fund.

A CIT, by contrast, is structured as a tax-exempt trust. Any earnings experienced by the trust are passed through on a tax-deferred basis to each underlying retirement plan participant. In general, this tax structure reduces administrative complexities that reduce associated costs.

Built for today's plan designs

The default features inside a defined contribution plan are among the most consequential elements of modern plan design:(1) Automatic enrollment (2) Automatic escalation (3) Qualified default investment alternatives. The Pension Protection Act of 2006, and subsequent legislation made these and other plan provisions key to the architecture of the contemporary plan.[9]

CITs sit naturally inside that architecture. Target date CITs are now the most common QDIA in defined contribution plans, holding the assets of millions of participants who never make an active investment selection. Lower costs in the default option can compound across every participant who is auto-enrolled, -escalated, and -invested over a career. That population is the one the Pension Protection Act was designed to serve.[8,9]

A prudent fiduciary should be able to support **why** a higher-cost vehicle was selected when an lower-cost investment-equivalent was available.

ERISA §404(a) requires advisors and sponsors to act with the care, skill, prudence, and diligence of a prudent expert. Tibble v. Edison (2015) reinforced the idea that fiduciary duties under ERISA are not limited to the initial selection of investments but include ongoing monitoring, especially **when a CIT version of the same mutual fund strategy is available at materially lower cost.**[10]

Addressing outdated preconceptions

Plan fiduciaries and investment advisors unfamiliar with CITs will have questions about them. Here are 3 common misconceptions regarding CITs.

01

"There is no ticker. Participants and recordkeepers can't track them."

CITs carry CUSIPs, publish daily NAVs through the NSCC, and trade alongside mutual funds on every major recordkeeping platform. Performance, holdings, fees, and fact sheets are readily available. A retail ticker is not present, but participants in qualified plans have other readily accessible ways to research and track CIT data (e.g., through their plan recordkeeper's portal, website, or app).

02

"CITs are less transparent than mutual funds."

CITs do not file a public prospectus because they are not registered investments. But if an ERISA plan invests in a CIT, **the trustee is subject to the full array of ERISA fiduciary obligations, described by appellate courts as "the highest known to the law."** Plan sponsors receive required disclosures under DOL Reg. 2550.404a-5, along with fund fact sheets, holdings disclosures, and audited financial statements, as available.
Most modern CITs publish quarterly commentary at the same depth as their mutual fund counterparts.

03

"My plan is too small. CITs are for large retirement plans."

This was the reality a decade ago, but not anymore. **The modern CIT marketplace includes thousands of strategies available to retirement plans that were historically unable to access institutional cost structures.**
CIT adoption is expanding down-market. Plans in the $100M to $500M range are approaching 25% CIT allocation, and sub-$50M plan adoption has grown from approximately 6-7% to 9.1%.
Key barriers remain minimums and awareness. (Source: Morningstar 2026 Retirement Plan Landscape Report)

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10 NOTES & DISCLOSURES

1. Active-category expense ratios sourced from the 2026 Retirement Landscape Report (Morningstar, March 2026) and Cerulli Associates U.S. Retirement Markets reports. The "three times more expensive" framing is per Morningstar. The 18.5 bps active-CIT and 57 bps active-mutual-fund asset-weighted averages reflect the most recently published data. Passive categories show a narrower but still material gap (4.4x per Morningstar). Plan-level pricing for an individual strategy will vary.
2. Regulatory references. CITs are exempt from registration under the Investment Company Act of 1940 and the Securities Act of 1933. CIT units are subject to the anti-fraud provisions of the Securities Exchange Act of 1934. CITs are re primarily regulated by Office of the Comptroller of the Currency or state banking regulators. overseen by federal or state banking regulators depending on the trustee's charter. Great Gray Trust Company is a Delaware-chartered non-depository trust company. CITs are subject to ERISA fiduciary obligations, tax law (Rev. Proc. 81-100, IRC §501(a)), and trust and fiduciary common law. See Great Gray Trust Company, DOL Comment Letter re: RIN 1210-AC38 (June 1, 2026).
3. Distribution and access references. See Great Gray Trust Company, DOL Comment Letter re: RIN 1210-AC38 (June 1, 2026), discussing tailored regulation for the institutional plan market vs. retail distribution. Great Gray, "Why CITs Are Becoming the Primary Investment Vehicle for Target Date Funds," greatgray.com.
4. CIT industry asset figures sourced from Cerulli Associates U.S. Retirement Markets, ISS Market Intelligence, and Sway Research. 2029 projection reflects Cerulli's published forward outlook. Figures are rounded for presentation.
5. Tax efficiency references. Rev. Proc. 81-100 (group trust tax law requirements); IRC §501(a). Great Gray Trust Company, "The Tax Advantages of Collective Investment Trusts: A Fiduciary Resource for Plan Sponsors," greatgray.com.
6. Hypothetical participant savings growth based on average basis point spread. The page-5 (accumulation) illustration assumes participant age 25, starting salary $125,000, 3% annual salary growth, 15% combined employee + employer contribution rate, 10% gross annual return, 57 bps total expense for the mutual fund case, 18.5 bps total expense for the CIT case (a 38.5 bps spread, matching note 1), no withdrawals, 40-year accumulation. The page-6 (decumulation) illustration assumes a median-income participant: age 25, starting salary $60,000, 3% annual salary growth, 10% combined contribution rate, 8% gross return through age 65, 6% gross return through retirement, 5% initial withdrawal rate of the mutual fund ending balance, 2.5% annual withdrawal growth. Both are for illustration only and do not reflect any specific product. Social Security and other retirement income are not modeled. Actual investment returns will fluctuate and may differ materially.
7. CITs are not currently permitted as investment options in 403(b) plans or IRAs. Legislation to permit 403(b) access has been introduced in successive sessions of Congress and remains pending as of the publication date of this primer.
8. Target date fund vehicle share data from Sway Research's annual State of the Target-Date Market report. CITs surpassed mutual funds in TDF assets in 2023. Plan-size adoption figures reflect the Callan DC Trends Survey and PLANSPONSOR DC Survey.
9. Plan design references. Pension Protection Act of 2006, Pub. L. No. 109-280, establishing the QDIA safe harbor and the framework for automatic enrollment and escalation. Department of Labor QDIA regulations, 29 CFR §2550.404c-5. Great Gray Trust Company, "The Power of Auto Features and CITs in Retirement Plan Design," greatgray.com.
10. Fiduciary references. ERISA §404(a)(1)(B) sets out the prudent expert standard. Tibble v. Edison Int'l, 575 U.S. 523 (2015), establishes a fiduciary's ongoing duty to monitor plan investments.

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Key Comparisons between CITs and Mutual Funds. CITs are tax-qualified investments primarily restricted to the retirement market so investors tend to have a longer-term horizon, and the trustee can make investment decisions without tax considerations. Mutual funds are not subject to these investor limits or investment horizons and must distribute substantially all of their taxable net gains and income to investors. CIT expense structures can be customized to investor channels. Mutual funds generally have less fee flexibility. CITs tend to have lower administrative, marketing and distribution costs than mutual funds due to the differences in how they can be sold and to whom. CITs are maintained by a bank as trustee and are subject to federal or state banking regulation and ERISA fiduciary standards. Mutual funds are managed by registered investment advisers and are subject to extensive SEC regulation and public disclosure and reporting requirements. Both CITs and mutual funds are generally priced and traded daily, subject to annual financial audits, and benefit from their pooled structure that aggregates investor funds and can provide greater diversification than individual accounts.