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Are collective investment trusts the right choice for your DC plan?

Collective investment trusts (CITs) offer many benefits to defined contribution plan sponsors — and, ultimately, to plan participants — but misconceptions about them persist.

These days, CITs are the cool kids on the defined contribution investment block. According to Callan's 2022 DC Trends Survey, 78% of plan sponsors included CITs in their investment menu in 2021, up from 44% a decade ago. Meanwhile, mutual funds — though still widely used — are declining in popularity.

Below, we clarify some common myths about CITs.

Myth	Fact
CITs are subject to less regulatory oversight than mutual funds.	Although CITs don't have to register with the Securities and Exchange Commission, they are subject to numerous laws and regulations, imposed by state and federal bank regulators, the Department of Labor, the IRS and, in some cases, FINRA. The CIT trustee serves as an ERISA fiduciary to plan assets invested in the CIT and must act solely in the best interests of participants and their beneficiaries. CITs are audited annually by an independent auditor.
Fee transparency is a challenge for CITs.	CIT providers prepare 408(b)(2) disclosures, which outline the services performed and compensation paid (both indirect and direct). Most CIT providers also furnish recordkeepers with 404(a)(5) disclosures to distribute to participants.
CITs don't offer the same level of plan reporting as mutual funds.	Most CIT providers supply reporting similar to that of mutual funds, including a daily net asset value (NAV) file, monthly net/gross performance, monthly or quarterly holdings, and CIT fact sheets.
Third-party data providers can't monitor or evaluate CITs.	Many providers, including Morningstar and NASDAQ, offer CIT databases by subscription. Plan consultants also create and maintain extensive databases to help fiduciaries monitor and assess CITs.
Many DC plans need fee flexibility (such as revenue sharing), which is only available in mutual funds.	Many CIT providers now offer a variety of fee structures included in the NAV of each share. Arrangements can vary from zero revenue sharing to a set amount of revenue sharing to custom revenue sharing. This allows plan sponsors to customize the payment of fees based on their plans' specific needs. And certain share classes may have negotiable management fees.
CITs don't offer marketing or educational materials to help participants make informed investment decisions.	CITs have a Declaration of Trust, the governing document that establishes the CIT's terms and conditions such as investor eligibility, valuation method, and how to invest in and redeem from it. Most CITs also publish a disclosure that contains detailed information about the investment objective and strategy, policies, fees or expenses, and risk characteristics. This document is similar to a mutual fund prospectus.

Misconceptions about CITs linger. However, we think these investment vehicles will grow even more popular as plan sponsors better understand them and the numerous bene its they offer.

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Why are so many plan sponsors adding CITs to their plans?

Cost consciousness

Most plan sponsors are searching for ways to offer cost savings in their retirement plans, often conducting fee reviews and studies. CIT fees are, on average, lower than mutual fund fees due to the trust structure's lower overhead. These savings can then be passed along to plan participants.

Flexibility

DC plans can offer multiple CITs in their investment menus, and many CITs are available in a variety of share classes. CITs also offer access to asset classes that are typically off limits within a mutual fund (such as commodities, hedge funds and private equity). In some cases, plan sponsors can even collaborate with investment managers to offer participants customized CIT products.

Easy implementation

The process of setting up a CIT is comparable to that of a mutual fund. Most CITs can be traded via the National Securities Clearing Corporation (NSCC), which gives them the same operational efficiency as mutual funds.

Important information

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A collective fund is not a mutual fund; the collective investment trust fund is managed by Voya Investment Trust Co. As with any portfolio, you could lose money on an investment in a collective investment trust. There is no guarantee that any investment option will achieve its stated objective. Principal value fluctuates and there is no guarantee of value at any time. Refer to the Declaration of Trust for more information about the specific risks of investing in the particular asset classes included in the Voya collective investment trusts.

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