

Inside the Wrapper:

What Plan Fiduciaries Should Know About Collective Investment Trusts

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For most of their hundred-year history, collective investment trusts sat quietly in the background of institutional investing. That is no longer the case. CITs now hold roughly 42 percent of all defined contribution plan assets, up from about 23 percent a decade earlier, according to Morningstar's 2026 Retirement Plan Landscape report. In the target-date category specifically, they overtook mutual funds as the largest vehicle in 2024 and reached about 54 percent of target-date assets by the end of 2025, per Morningstar's 2026 Target-Date Fund Landscape.

That shift means the choice of investment vehicle, not only the strategy or the manager, has become a mainstream fiduciary decision. A plan fiduciary weighing a mutual fund against a CIT version of the same strategy is making a real decision, with consequences for cost, governance, and oversight. It deserves to be made deliberately and documented, rather than defaulted into because one vehicle is cheaper or more familiar. This note sets out how CITs are actually built, who is responsible for what, how they are regulated, and the questions a fiduciary should ask before selecting one.

What a CIT is

A collective investment trust is a pooled investment vehicle organized as a trust and maintained by a bank or trust company. Like a mutual fund, it combines assets from multiple investors into a single portfolio managed to a stated strategy. Unlike a mutual fund, it is not offered to the public. CITs are generally available only to qualified retirement plans, including 401(k) and other plans qualified under Internal Revenue Code Section 401(a), and governmental 457(b) plans, with certain church plans and other arrangements eligible under defined conditions. Individuals cannot buy a CIT directly; they reach it only through an eligible plan. As of June 2026, federal legislation is pending that would permit certain 403(b) plans to use CITs; readers should confirm current law before relying on this discussion.

The category contains two broad types. A1 funds, or common trust funds, pool assets a bank holds in a fiduciary capacity. A2 funds, the vehicles most people mean when they say "CIT," are the collective investment trusts used by retirement plans. The labels come from the sections of the Office of the Comptroller of the Currency regulations that established each type.

How a CIT is constituted

A CIT is not launched by an asset manager acting alone. It is established and maintained by a bank or trust company under a set of governing documents, and understanding those documents is the first step in understanding the vehicle.

The Declaration of Trust is the master document. It creates the trust and sets the legal and operational terms: eligibility, subscriptions, redemptions, valuation, and the trustee's powers and duties. Beneath it, each individual fund has its own document, variously called a statement of characteristics, fund description, or investment guidelines, which sets out that fund's objective, strategy, fees, and the identity of any sub-adviser. A plan joins through a participation or adoption agreement, in which the plan's fiduciary makes representations about eligibility and accepts the fund's terms.

One feature tends to surprise fiduciaries new to the structure: these terms are generally not negotiable for a participating plan, much as the terms of a mutual fund prospectus are not. If individual plans could rewrite the terms under which a CIT operates, the trustee could not administer the fund consistently for all investors. Plans that need bespoke terms are usually better served by a separate account. The fixed terms are the price of pooling, since one common rulebook is what lets the trustee run the fund the same way for everyone in it.

Who is the fiduciary

Here CITs depart from mutual funds in a way that is widely misunderstood.

The trustee of a CIT, the bank or trust company, serves as an ERISA fiduciary with respect to ERISA plan assets invested in the fund. It is required to act solely in the interest of plan participants and their beneficiaries and to avoid conflicts of interest. Where the trustee engages a sub-adviser to manage the portfolio, that sub-adviser assists under the same fiduciary standard. In a mutual fund, by contrast, the fund itself is a registered investment company overseen by a board of directors under the Investment Company Act of 1940, and there is no ERISA fiduciary at the fund level. The protections a mutual fund offers come from a different body of law.

For a plan fiduciary, the practical implication is that selecting a CIT pulls the trustee into the fiduciary chain in a way a mutual fund does not. That is worth weighing alongside cost.

Regulated, but on a different model

A recurring criticism, voiced in recent legal scholarship and financial journalism, is that CITs have grown into a multi-trillion-dollar corner of the retirement system while attracting comparatively little public scrutiny, and that they are less transparent than the mutual funds they are replacing. The question deserves a straight answer. CITs are regulated, but under a different model than mutual funds, and the differences are worth understanding.

CITs are not registered with the Securities and Exchange Commission and are exempt from the Investment Company Act of 1940. Their primary regulator is instead a banking regulator. The OCC's collective investment fund rules, codified at 12 CFR 9.18, govern CITs sponsored by national banks and trust companies, and many states apply comparable standards to state-chartered institutions. Depending on the fund, the Department of Labor under ERISA, the IRS, the SEC, FINRA, and the Commodity Futures Trading Commission may also have a role.

The real differences are these. A CIT does not publish a prospectus, and its data is not as freely public as a mutual fund's. It is not governed by the 1940 Act's independent-board requirements. And because ERISA does not apply to governmental plans, the ERISA fiduciary protection described above does not reach every investor in every CIT.

Those differences are not the whole story. CITs operate under the banking fiduciary regime, including the trustee's duties, reportable-event and risk-management requirements, and OCC or state examination. They are valued daily and audited every year. In response to the demands of the defined contribution market, many now publish fact sheets and offering documents that did not exist a couple of decades ago. Where ERISA assets are present, the trustee operates under ERISA standards.

So the criticism is half right. CITs are less publicly transparent than mutual funds, and the governmental-plan gap is real. "Less regulated," though, is the wrong word for a vehicle a bank examiner reviews and an annual audit covers. The accurate word is "different," and a fiduciary should weigh that oversight on its own terms.

CIT versus mutual fund: the practical comparison

For a fiduciary comparing the same strategy in two wrappers, the differences that tend to matter are:

- Eligibility. Mutual funds are open to all investors; CITs are limited to eligible retirement plans.
- Governing document. A mutual fund has a prospectus; a CIT has a Declaration of Trust and fund-level guidelines.
- Regulator. The SEC for mutual funds; primarily the OCC or state banking authorities for CITs.
- Fiduciary status. A CIT trustee is an ERISA fiduciary for ERISA assets; a mutual fund has no fiduciary at the fund level.
- Disclosure. A public prospectus and broad data availability for mutual funds; fund fact sheets and offering documents, with narrower public data, for CITs.
- Pricing. Mutual fund share classes carry set expense ratios; CITs can offer multiple classes and, for larger plans, negotiated pricing.

On cost, the generalization that CITs are cheaper holds often but not universally. Lower costs are common because CITs avoid SEC registration and typically carry lower distribution and marketing expenses, and because pricing can be tiered or negotiated. The size of any advantage depends on the specific funds compared, and a fiduciary should compare actual fee schedules rather than rely on the category's reputation. Like mutual funds, CITs are not FDIC insured and carry investment risk with no bank guarantee.

What a fiduciary should diligence

Selecting a vehicle is a process decision. A prudent, well-documented process helps a fiduciary show that a choice was made through a sound governance process. Useful questions include:

- Is this vehicle appropriate for the plan's size, structure, and participant base?
- Is the cost reasonable for the services provided, and is there room to negotiate pricing at the plan's asset level?
- How experienced is the manager or sub-adviser, and what is its standing?
- What reporting and data will the plan receive, and is it sufficient for ongoing monitoring?
- Are there liquidity, trading, or operational considerations, including daily valuation and NSCC trading?
- Taking everything together, is this vehicle in the best interest of participants and beneficiaries relative to the alternatives?

None of these has a one-size answer. The facts of a given plan drive the result, which is why the choice belongs in a documented process.

The Takeaway

CITs have moved from the margins to the center of defined contribution investing. A CIT is its own kind of vehicle, with a governing structure, a fiduciary chain, and an oversight regime that differ from a mutual fund's. Treating it as a discount mutual fund, or as a lightly regulated workaround, gets it wrong in both directions. A sponsor who understands how the structure actually works can decide accordingly.

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