A Brief History of Collective Investment Funds

Collective Investment Funds ("CIFs") have been available for decades and were first offered in 1927, predating the first public offering of a mutual fund by a year or more. CIFs were a preferred investment option for many defined benefit plans when Congress amended the Internal Revenue Code in 1936 which provided tax-exempt status to certain bank CIFs. Then, in 1955, the Federal Reserve authorized banks to pool funds from pension, profit sharing, and stock bonus plans, and the IRS subsequently ruled that such funds could be tax-exempt. As a result, CIFs became popular for use in employer-sponsored defined benefit plans, the dominant retirement vehicle at the time and in the decades that followed.

When 401(k) plans were developed in the 1980s, CIFs remained an option for many plans. However, the early versions of CIFs provided investors little access to underlying holdings data and were valued infrequently, typically only once per quarter. As a result, CIFs were quickly overshadowed by mutual funds, which offered more transparency, a wider array of investment objectives, were traded and valued daily, and easily followed in the media. In 2000, an important development for CIFs occurred. The National Securities Clearing Corporation ("NSCC") added CIFs to its mutual fund trading platform—Fund/SERV®—which allowed CIFs to trade daily and as proficiently as mutual funds.

Many employers have frozen their defined benefit plans in recent years as 401(k) and other defined contribution plans have grown to become the primary retirement savings vehicles. Because of their popularity in the retirement marketplace, the structure and cost of 401(k) plans has come under greater scrutiny. As a result, many plan sponsors are once again considering CIFs as investment alternatives.

What is a Collective Investment Fund?

A collective investment fund is:

- An investment product available only to qualified retirement plans.
- A tax-exempt, pooled investment vehicle ("PIV").
- A simpler structure than a mutual fund and (unlike mutual funds) is exempted from the Investment Company Act of 1940.
- Regulated by the Office of Comptroller of the Currency ("OCC") and overseen by the Department of Labor ("DOL") and Internal Revenue Service ("IRS").
- Administered by banks or trust companies.
- Subject to the same risk of loss as other PIVs and is not insured by the Federal Deposit Insurance Corporation ("FDIC").

Who can Invest in Collective Investment Funds?

Collective Investment Funds are available to investors in qualified retirement plans. The plans included would consist of all employee benefit plans (as defined by section 401(a) of the Internal Revenue Code) as well as certain 403(b) plans, certain governmental plans and certain insurance separate accounts. This would include the following plans:

**Eligible Plans:**
- 401(k) Plans
- Profit Sharing Plans
- Stock Bonus Plans
- Money Purchase Plans
- Target Benefit Plans
- Taft Hartley Plans
- Pension Plans
- 457(b) Governmental Plans
- 403(b)(9) Plans
- Cash Balance Plans
- Section 401(a)(24) Governmental Plans
- Only Master Trusts of Eligible Participating Plans
- Only Certain Insurance Contracts for Eligible Plans
- Certain Keoghs and Plans with Self-Employed Investors with Rule 180 Disclosure

**Ineligible Plans:**
- Health and Welfare Plans
- Endowment Plans
- Foundation Plans

Collective Investment Funds are a widespread retirement vehicle at the time and in the decades that followed. When 401(k) plans were developed in the 1980s, CIFs remained an option for many plans. However, the early versions of CIFs provided investors little access to underlying holdings data and were valued infrequently, typically only once per quarter. As a result, CIFs were quickly overshadowed by mutual funds, which offered more transparency, a wider array of investment objectives, were traded and valued daily, and easily followed in the media. In 2000, an important development for CIFs occurred. The National Securities Clearing Corporation ("NSCC") added CIFs to its mutual fund trading platform—Fund/SERV®—which allowed CIFs to trade daily and as proficiently as mutual funds.

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