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Fairness in investment choices

Modernize rules to allow collective investment trusts in 403(b) plans

Mutual funds and collective investment trusts (CITs) can both be excellent, low-cost options in retirement plans. And while the decision about which option—mutual funds or CITs—is better will depend on each plan's priorities for its participants, a fundamental point of fairness must be addressed.

Because of quirks in tax and securities laws, most 403(b) plans—the typical retirement savings vehicle for workers in public education institutions (K-12 and post-secondary) as well as many private nonprofit hospitals, universities, and other charitable and educational organizations—cannot offer CITs. As a result, workers who save for retirement through 403(b) plans unfairly have no access to these low-cost products. By contrast, many 401(k) plans—a common savings vehicle for the private sector—can offer both CITs and mutual funds.

CITs at Vanguard on average have expense ratios that are 50% lower than those of our mutual funds. In Vanguard's case, the average expense ratio for CITs is 5 basis points versus 10 basis points for mutual funds, and the average difference is even higher industrywide.[1] Allowing 403(b) plans to offer CITs would level the playing field and could allow these plans to return hundreds of millions of dollars to participants in the form of lower fees. With roughly $500 billion of 403(b) assets locked out of CITs, Vanguard estimates that the cost savings to participants in plans that offer CITs could amount to as much as $250 million per year.[2] Over time, this means billions of dollars would go back to participants, helping them to achieve even greater security in retirement.

To be sure, not all CITs have lower expense ratios than mutual funds, and retirement plan sponsors should carefully consider the relative advantages of each option. For example, more public information is generally available for mutual funds, resulting in greater clarity for mutual fund investors.

The point is not to recommend one approach over the other but to highlight a basic unfairness in the system. The vast majority of workers in the nonprofit sector don't have access to CITs, and there is simply no reason for this. To address this inequity, legislation is required. (See the next page for information about legislation Vanguard supports.)

Public educational and nonprofit employees cannot access all of the same investment options as private-company employees

Private-company plans have access to both CITs and mutual funds and have a **wider array of choices to pick the best options** for their participants.

	Investment vehicle	Average costs for Vanguard investors[3]
PRIVATE EMPLOYEES (with access to CITs)	401(k)	0.05%
NONPROFIT EMPLOYEES (without access to CITs) e.g., schools, hospitals, universities, etc.	403(b)	0.10%

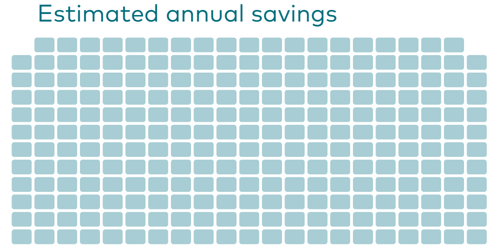
Workers in the nonprofit sector generally don't have access to CITs, which can mean **higher fees in their 403(b) retirement plans**.

But if those nonprofit workers were able to invest their roughly $500 billion of 403(b) assets in CITs, the **savings could be substantial**.

■ = $1 million in annual savings

$250 MILLION

Estimated annual savings



1 See *https://seekingalpha.com/article/4269231-up-close-look-target-date-fund-fees-in-collective-investment-trusts* and *https://www.planadviser.com/collective-investment-trusts-versus-mutual-funds*.

2 Assumes half of the $500 billion in nonprofit retirement assets are transferred from mutual funds to CITs, and the average cost of these assets falls 5 basis points.

3 The 0.05% figure is the average expense ratio for Vanguard participants who use CITs in 401(k) plans, and the 0.10% figure is the average expense ratio for Vanguard participants in 403(b) plans who do not have access to CITs.

Vanguard urges support for bipartisan efforts in both the House and the Senate to modernize these unfair rules. We applaud the inclusion of this provision in the Retirement Security and Savings Act (S. 1770), sponsored by Senators Cardin (D-MD) and Portman (R-OH) and the Securing a Strong Retirement Act (H.R. 2954), sponsored by Representatives Neal (D-MA) and Brady (R-TX). We also urge House cosponsorship of the Public Service Retirement Fairness Act (H.R. 2741), led by Representatives Panetta (D-CA), Estes (R-KS), Boyle (D-PA), LaHood (R-IL), Dean (D-PA), and Barr (R-KY).

If 403(b) plans have the same opportunity to offer CITs as 401(k) plans, retirement plans in the nonprofit sector will have more investment choices to help meet the diverse needs of their participants, ultimately helping to improve the chances of a secure retirement for these workers.

About Vanguard

At Vanguard, we take pride in the role we've played to democratize investing and empower people financially. Since our introduction of the first index mutual fund in 1976, we've touted the benefits of low costs, diversification, maintaining balance in one's investments, and sticking with a sound plan for the long haul.

As one of the world's leading asset managers, Vanguard is committed to ensuring that financial products—and the regulations governing them—work in the best interest of investors everywhere, regardless of their level of investable assets.

We summarize this commitment in Vanguard's core purpose: To take a stand for all investors, to treat them fairly, and to give them the best chance for investment success.

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