NAGDCA supports expanding the funding vehicle options in Internal Revenue Code Section 403(b) to include collective investment trusts (CITs) and individual (separate) accounts.

Currently, IRC Section 403(b)* limits the funding arrangements to the following options:

1. Annuity contracts issued by an insurance company
2. Custodial accounts invested solely in mutual funds
3. Retirement Income Accounts (only applicable to church plans)

The most recent update to the investment vehicles in Section 403(b) was made in 1974 when mutual funds held in custodial bank accounts were added.

Both collective investment trusts and separate accounts are a common investment choice in defined contributions plans – however, due to the statutory limitations described above, participants in 403(b) plans are not able to take advantage of these options, potentially costing them thousands of dollars in retirement as a result of higher investment expenses. Plan sponsors would also benefit from the use of collective investment trusts and separate accounts by having increased flexibility to build more robust investment lineups, at lower costs, with improved speed to market. In addition, unlike target-date mutual funds, collective investment trusts and separate accounts permit customizable asset allocations and glidepaths for the plan sponsor. Finally, an improved 403(b) plan is an important employment benefit that enables plan sponsors to better recruit and retain top talent.

Expanding IRC Section 403(b) to include these additional investment vehicles has the potential to reduce costs, increase retirement security and improve the overall experience of plan members and sponsors.

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*IRC 403(b)(1), IRC 403(b)(7), IRC 403(b)(9)(B)