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Mutual Funds

GM woes can't touch its 401(k) plan

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The money you put into your 401(k) is yours, no matter what happens to your employer. That's particularly good news for GM workers, because their plan remains one of the best.

By Timothy Middleton

As **General Motors** (GM, news, msgs) spins its wheels trying to avoid bankruptcy court, many of its employees fear their 401(k) plans are threatened because the plan includes mutual fund-like portfolios run by a GM subsidiary.

That fear, while understandable, is also unfounded. The funds "are not owned by General Motors; they are not even owned by the funds themselves. Your shares are owned by you," says Rich Buck, managing editor of FundAdvice.com, an advisory firm.

With many of the United States' signature industries, including airlines and automakers, threatened with bankruptcy, workers are increasingly concerned that their pensions as well as their jobs are at risk. But 401(k) plans -- as bad as they can often be from a cost and performance perspective -- at least offer protection from problems at the companies that sponsor them.

Last year, I said General Motors had the "Cadillac" of 401(k) plans, partly because of the low-cost, top-performing Promark family of funds it offers, among others funds. The Promark funds are managed by General Motors Asset Management, which also manages the automaker's traditional pension plan and 401(k) plan.

I think it would be a mistake for GM employees -- and workers at companies like Xerox (XRX, news, msgs), whose plans are also run by this GM money-management arm -- to sell the Promark portfolios and lose their advantages. Likewise, it would be a bad move for employees of other companies threatened with bankruptcy to lose sleep over the fates of their 401(k) plans.

Better portfolios

Concerns about a possible GM bankruptcy were so great in November that the company sent a letter to employees stating the company had “no plan, strategy or intention” to file for bankruptcy. The letter followed by one month the decision of Delphi (DPHIQ, news, msgs), the big auto-parts maker that GM spun off in 1999, to file for Chapter 11 protection from creditors.

A software engineer at Delphi told me confidentially in an e-mail that after a November meeting intended to reassure employees that GM was not about to go bankrupt, he was concerned that his investments in Promark funds might become enmeshed in GM’s troubles. "I was spooked," he said. So he moved his money into funds run by Fidelity, among others, offered within his 401(k) plan.

As I told him, I think that was a mistake. Although Fidelity offers some of the best, and most economical, mutual funds available, they are often inferior to privately managed portfolios such those offered by Promark.

401(k)s safer than pensions

Traditional pensions can be a problem when employers stumble because a plan depends on regular contributions from the employer. Moreover, the employer -- not the recipients -- owns the assets. So, if a company gets into trouble, its pension plans may get into trouble, too. In recent years, the federal Pension Benefits Guarantee Corp. has had to bail out a number of corporate pensions, including US Airways and United Airlines. Those retirement plans are entirely funded by companies such as GM and represent liabilities to the company.

But 401(k) plans, created by the Employee Retirement Income Security Act of 1974, are different. Their assets are the personal property of the individual employee who has contributed to them or who has received company contributions to them -- or both. Company contributions can come from profit-sharing or a match to individual contributions.

Outside help

GM Asset Management, a separate legal entity from its parent, has about $165 billion under its control, including assets in the GM 401(k) plan. The company manages about 15% of the total assets. The balance is managed by outside firms acting as what are called sub-advisers. These include such well-known companies as **T. Rowe Price** (TROW, news, msgs) Pacific Investment Management Co. (PIMCO) and Fidelity itself.

The Promark funds include more than a dozen portfolios, ranging from such basics as large-company stocks and stable income to such diversifiers as high-yield bonds and emerging-markets stock. Their costs are low and their performance numbers shine.

The Promark Emerging Markets Equity fund, for example, has an expense ratio of 0.48%, compared with the 1.23% charge of **Fidelity Emerging Markets Fund** (FEMKX), which is also available in GM's 401(k). In the three years ended Dec. 31, 2004, it beat the 19.5% annualized return of the Fidelity fund by 3.5 percentage points, according to David Kudla, chief executive of Mainstay Capital Management, an advisory firm in Grand Blanc, Mich.

Equal protection

In addition to managing its own plan and Delphi's, GM Asset Management also handles 401(k) plans for a number of outside customers, including Xerox, **DIRECTV Group** (DTV, news, msgs) and the Philadelphia local of the Teamsters Union.

And many other corporations, including relatively small ones like **Dow Jones & Co.** (DJ, news, msgs), also have separately managed or commingled portfolios in their 401(k) plans that are not public mutual funds. As with Promark funds, getting information about these private portfolios can be difficult, since they aren't tracked by Morningstar and other fund-data companies.

But they enjoy the same kind of absolute protection from corporate malfeasance or misfortune as mutual funds. Though subject to different federal laws, each class of investment is the property of its shareholders, not its managers.

I've been writing extensively about 401(k) plans in the last year and have often been critical of them. But in the case of bankruptcy or other corporate misfortune, these plans are superior to the traditional pensions they increasingly supplant.

At the time of publication Timothy Middleton didn't own any securities mentioned in this article.