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Delphi workers' 401(k)s take hit

Plans loaded with company's stock shrink

Don Keen, 54, had heard the traditional advice that people shouldn't keep too much of their company stock in their 401(k) plans.

But he felt good buying Delphi Corp. stock over the years anyway.

"You come in and you're working for yourself along with the company," said Keen, a UAW worker at Delphi's plant in Coopersville, near Grand Rapids.

Then, Delphi's losses mounted. The company was accused of an accounting scandal and filed for Chapter 11 bankruptcy protection Oct. 8.

And now Keen's stuck looking at $7,000 - instead of the $150,000 that he invested over the years in the Delphi Common Stock Fund, which holds Delphi stock. And he's angry.

"It was most of my 401(k)," he said. "It wasn't all of it."

Fund's fiduciary duties

Keen and other Delphi workers are particularly upset lately that the investment manager for the 401(k), State Street Bank and Trust Co., sold off their Delphi shares in the fund after the stock's price had plunged.

"If it's down to 40 cents a share, why even bother with it?" Keen told me Tuesday.

Keen, a toolmaker, said he would have preferred to take the gamble to see if the stock would go higher as the company moved out of bankruptcy.

I've heard reports that many workers don't understand how anyone had the right to sell their Delphi stock without their OK.

But David Wray, a 401(k) expert, said what was done with the Delphi stock in the 401(k) recently isn't out of line. The actions, he said, were part of State Street's fiduciary duties.

Wray, president of the Profit Sharing/ 401(k) Council of America in Chicago, said the sell-off of company stock in a 401(k) plan is typical strategy when a company files for bankruptcy and the stock can't be expected to be worth much in the future.

"They churned some marginal value into cash," Wray said.

Delphi sent several notices to employees to explain the action. It included a question-and-answer letter.

The letters said State Street began selling Delphi stock in the fund on Oct. 5, before the bankruptcy filing. The stock closed at $2.50 a share on Oct. 5. Bankruptcy rumors were hot.

Delphi stock had been battered badly. It was trading around $8.50 a share in December 2004 and by June, it had fallen to around $5.

State Street was required to halt the selling after the bankruptcy was filed. And then, after certain measures were met, State Street was allowed to resume selling Delphi shares in the fund on Oct. 17. The Delphi Common Stock Fund was discontinued Nov. 9.

The money was transferred from the Delphi stock fund to the Promark Income Fund, a conservative option.

Investors can move that money into other mutual funds or investments in the 401(k) plan. And financial experts say that Delphi workers should still diversify and not have all their money in one fund, either. The Delphi 401(k) has more than 60 options.

Ways to avoid disaster

We all should learn a few lessons from this mess.

No. 1: Even if you respect the company, and some Delphi workers once did, you do not want to stuff your 401(k) full of company stock. You never, ever know what can happen to your firm.

Many workers at Delphi understood the need to be diversified - and everyone did not bet it all on Delphi.

About 7% of all assets in the Delphi hourly and salaried 401(k) plans were in the Delphi Stock Fund, according to Delphi.

David Kudla, CEO for **Mainstay Capital Management** in Grand Blanc, said that as a general rule, no single stock should make up more than 10% of an investor's portfolio. And if a stock looks more risky, you do not want to own that much.

Kudla recalled one Delphi employee who became a client about a year ago and had $400,000 in the 401(k). Almost all of it was in Delphi stock. By diversifying, he said the client avoided a potentially significant loss.

The reality is Delphi workers are getting smacked at every turn. As part of the bankruptcy, they're dealing with the threats of job cuts o r drastic reductions in wages and benefits.

If they had a bunch of money in Delphi stock, they're getting hurt even further.

No. 2: The Delphi common stock in the 401(k) was clearly sold at a loss. But Delphi employees cannot take a capital loss on their income taxes for the money they lost on the Delphi stock in the 401(k).

And this is another reason that you don't want to load up on big bets inside a 401(k).

And No. 3: Investors must remember that people who own stock in companies that file for bankruptcy essentially end up with nothing, or close to it. We're talking about a high level of speculation here.

Stockholders got wiped out when the old Kmart Corp. canceled its shares when it emerged from Chapter 11 in May 2003.

So while nobody likes to dump a money-losing stock, it's better to unload some trouble long before a company marches into bankruptcy court. Selling at $5 a share, as bad as that sounds, is far better than 50 cents.

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