

GM, Delphi to prune 401(k) funds

By Todd Seibt

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General Motors and Delphi Corp. will greatly reduce the fund choices in their 401(k) plans for hourly and salaried employees later this summer, according to a local firm that advises workers on the plans and other financial issues.

Wednesday, a top GM official confirmed the plan, which is being rolled out to employees now. A Delphi spokesman declined to comment.

Essentially, both plans are significantly trimming the number of funds offered.

"What we are doing is restructuring the fund lineup," said Preston Crabill, GM's director of pensions and savings.

"We started a study of our fund lineup structure about 15 months ago. We hired Morningstar to look for gaps, and opportunities where there might be funds missing from our fund lineup," he said.

David Kudla, chief executive and investment strategist for Mainstay Capital Management in Grand Blanc, said the moves will slice choices for hourly and salaried worker alike from about 70 funds to less than 40 funds.

Only 16 of the original funds offered will remain in the plans, Kudla said.

Some 401(k) experts and studies say too many fund choices can actually be detrimental, causing investors to become too conservative, or freezing them in indecision, Crabill said.

In addition, the national average for fund choices is about 16 funds, so GM will remain well above that benchmark, Crabill said.

But Kudla said more choices are better.

"I don't agree with that (argument about too many choices.) I think that is a short-sided view of a 401(k) plan. I always look at fewer options as worse," he said.

Kudla's firm makes its money managing more than \$500 million in assets for a wide array of GM, Delphi, Ford, Visteon, DaimlerChrysler and other investors. He's seen this kind of "rationalization," or pruning of fund choices, before. In 2002, Ford culled its plan from 61 to 36 funds, Kudla said.

In GM and Delphi's case, on or after June 29, employees will have their funds funneled out of current, closing funds, and into new and different funds, both Kudla and Crabill said. (The exact dates for may differ because of short-term trading rules specific to individual funds.)

Either way, that could severely impact future returns for plan participants, Kudla said. And employees can't stop the looming changes, he added.

"(At Ford) what they took out were a lot of funds that would have been nice to have in the last few years," Kudla said, noting they had good returns, or invested in desirable areas.

In GM and Delphi's case, funds are going away that offered savvy investors strong returns in highly targeted areas, or strong funds that covered broad market segments, Kudla said.

Kudla said plan participants need to start mulling over the new funds as soon as possible.

That won't be yet, since GM and Delphi have not officially announced the changes. Even so, Kudla said his analysts are already poring over the new funds that will be available.

Crabill said a brochure and a prospectus on the new funds is going out now, and should reach employees sometime next week. It will lay out the new choices, and how current fund choices will move into the new funds, generally similar in nature and investment strategy.

"This had nothing to do with us," Crabill said of the changes. "We were not focused at all on the cost to GM. In fact, the opposite way, we are more focused on providing lower fee and management fee arrangements to plan participants," he said, with a simplified and diversified lineup.

Kudla was not entirely critical of the changes.

"There are some things being done here that make sense," Kudla said, notably new funds that are good performers, or allow exposure in certain new areas and market segments.

But the sweeping changes will hit almost everyone, he noted, and his firm will likely be moving to shift funds before the actual deadline.

"People should be looking at it right now, or certainly engaging the services of someone who can, because this is a tremendous turnover in this plan," he said.

"I would think it would be very unlikely to find someone (in the plans) that was unaffected," he said.