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## Banking turmoil hurts 401(k)s and pensions

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The 401(k) fund you've been dumping pretax earnings into for retirement may have shed a little heft.

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When the monthly update arrives from your brokerage, mutual fund holdings may seem like they have been on the South Beach diet.

And the pension fund maintained by your employer could end up lighter as well.

Those are ways in which the collapse of investment bank Lehman Brothers Holdings Inc. and related turmoil on [Wall Street](#) on Monday could affect average investors, experts said.

Stocks and bonds issued by Lehman, Merrill Lynch & Co. and troubled insurer American International Group are widely held by [mutual funds](#), pension funds and individual investors.

"This is an extreme sort of event, and it will take days and months to figure out the precise consequences," said Amiyatosh Purnanandam, assistant professor of finance at the University of Michigan.

But it will have an impact, he said.

Problems in the banking sector will spill into the broader economy. If you want a business loan, a car loan, a home loan, a student loan, or virtually any other kind of loan, banks are hesitant to lend, and that in turn could hurt car and home sales.

People with 401(k) retirement savings accounts may be unaware of their exposure to problems at Lehman and other firms swept up in the turmoil, especially if they are unfamiliar with the holdings of stock and bond funds in which the retirement stash

is invested, Purnanandam said.

For example, the Fidelity and Vanguard families of mutual funds, as of June 30, were two

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of the largest owners of Lehman stock, holding 6% and 3%, respectively.

Many [pension funds](#) also hold the stock.

But the State of Michigan Retirement Systems did not hold Lehman stock, said Terry Stanton, spokesman for the Michigan Department of Treasury.

He said the \$57-billion state retirement system had investments in insurer American International Group Inc. The system had 7.9 million AIG shares and is looking at a loss of about \$66 million, based on AIG shares' closing at \$3.75 on Monday.

He said it is important to note that the state retirement system has a diversified portfolio and going into Friday, AIG represented less than 2/10ths of 1% of the retirement system's assets.

He said the system continues to perform well in comparison with other public pension funds around the country. As of June 30, the one-year return was a negative 4%, slightly better than other public plans. The three- and five-year rates of return are 8.8% and 10.2% respectively.

AIG is widely held by individuals and mutual funds. The nation's largest insurer has scrambled to find new capital.

Holders of shares in Merrill Lynch, another Wall Street financial powerhouse scheduled to disappear in the current turmoil, will fare better.

Each of the firm's shares will be exchanged for 0.8595 shares of Bank of America, which is taking over Merrill.

In situations where brokerages go bankrupt, the government's Securities Investor Protection Corp. covers losses up to \$500,000 in most instances.

*Free Press personal finance columnist Susan Tompor contributed to this report from the (Toledo) Blade.*

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- Oakland
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- Driving & traffic
- School closings
- Columnists

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- Top stories
- Lotteries
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- Business

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- Lions
- Pistons
- Red Wings
- Tigers
- U-M Wolverines
- MSU Spartans
- High School
- Sports
- Scores
- Columnists
- Shock
- Outdoors
- Olympics sports
- Golf
- Auto racing
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