Graybar

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Regulatory Affairs Division, Office of General Counsel
Pension Benefit Guaranty Corporation
1200 K Street NW
Washington, DC 20005-4026

Re: Pension Benefit Guaranty Corporation
RIN 1212-AB41

Dear Sir or Madam:

I write on behalf of Graybar Electric Company, Inc., ("Graybar") to comment on the rule change proposed by the Pension Benefit Guaranty Corporation ("PBGC") – RIN 1212-AB41 *Lump Sum Payment Assumptions* (the "Proposed Rule"). We appreciate the opportunity to comment.

Graybar applauds the PBGC's efforts to update and make more efficient its regulations applicable to PBGC-trusteed pension benefit plans. The Proposed Rule, however, may precipitate unintended results and necessitate further modification to ameliorate those consequences. As opposed to a permanent, arbitrary fixed rate, Graybar, and similarly situated plan sponsors likely, would prefer the opportunity to adopt Internal Revenue Code §417(e) interest or other market based rates. Plan participants may realize significantly different benefits depending upon when the Proposed Rule may be adopted and whether or when a plan participant reacts accordingly. Plan sponsors may well suffer an exit of employees with skills and experience difficult to replace particularly in the current historically low unemployment environment. To lessen the impact of the Proposed Rule, plan sponsors such as Graybar should be afforded a transition period, including ample time within which to undertake appropriate steps as well as provide notice to affected plan participants.

Graybar and Its Plan

Graybar is a Fortune 500 company, specializing in supply chain management services, and is a leading North American distributor of high quality components, equipment, and materials. We employ approximately 8,700 employees through a network of 289 locations across the United States, Canada and Puerto Rico.

Graybar has a long history of supporting and participating in the defined benefit pension system. The Graybar Pension Plan (the "Graybar Plan") originated in 1926. Today, the Graybar Plan has nearly $600M in assets and over 8,000 participants, including 5,200 active employees who continue to earn benefits for future service. We generally pay $45-50M each year in lump sums. For many years, the Graybar Plan has offered lump sums to participants upon retirement eligibility using 120% of the PBGC rate (or the PBGC rate +1%, if smaller). The Graybar Plan document refers generally to the PBGC interest rate and no change was made to the PBGC lump sum interest rate for private sector plans since nothing suggested that plans were required to adopt this language and it would not have resulted in any change in benefits.

When Graybar had the opportunity to elect to change from PBGC-based interest rates to 30-year Treasury-based rates under IRC §417(e) as part of the Retirement Protection Act of 1994 (the "RPA"), we chose not to. We retained the assumptions the PBGC uses to calculate lump sums as a minimum lump sum conversion basis with an expectation that the PBGC would ensure those assumptions remained reasonable over time. The Pension Protection Act of 2006 ("PPA") changed the IRC §417(e) minimum lump sum conversion basis to be based on high quality corporate bond segment rates and updated mortality, with the net effect of reducing minimum required lump sum payments. We believe this change was made because corporate bond rates were viewed as the most appropriate market-based rate and were expected to avoid producing lump sums that were perceived to be windfalls. Plans that used pre-PPA §417(e) assumptions immediately prior to the PPA (Revenue Ruling 2001-62 mortality and 30-year Treasury rates) were given significant flexibility in transition. For example, those plans were permitted the opportunity to move off the pre-PPA rates gradually as the new rates phased in over five years in accordance with the PPA. This transitional relief was unavailable to Graybar since we had not elected to change after enactment of the RPA.

In 2010, in part as an effort to move to market-based lump sum benefits, Graybar amended the Graybar Plan to provide future benefits using a pension equity formula, and provided for updating past service benefits for future pay in combination with a §417(e)-based lump sum. The PBGC-based lump sum was protected in accordance with IRC §411(d)(6).

As of January 1, 2019, we estimate that approximately 3,400 active participants still have a grandfathered benefit using PBGC-based interest rates that in many cases provides the larger of the two benefits and which, at a minimum, must be calculated and confirmed as a minimum benefit. In addition, the majority of our 2,900 terminated vested participants who have not yet reached their normal retirement date will be paid using PBGC-based interest rates in the future. We expect that without changes to the PBGC interest rate basis, Graybar would continue using the PBGC interest rates for well over twenty years.

A Market-Based Rate Is Preferred Over a Permanently Fixed Rate

Like the PBGC, Graybar would like to modernize the methodology upon which its lump sum benefits are calculated. We do not believe it is appropriate to lock in a fixed rate at the average over the 10-year, low interest rate period ending in July 2019. A fixed 1.5% rate is, by definition, not a market-based rate, and will not change over a plan's lifetime with general economic changes. Setting the interest rate at the proposed ten-year average yields a rate much lower than previous periods. Indeed, PBGC rates have declined to near 0% from 4.5% at the beginning of 1994 when Graybar last had the opportunity to change the interest rate basis. If the intent of the PBGC is to adopt §417(e) rates as a reasonable market-based rate for its own purpose, then we believe private sector plans should be afforded the opportunity to do the same. Continuing to require use of such a low rate encourages employees to elect lump sums instead of annuity benefits, which we do not believe is the PBGC's intent.

If a §417(e) approach is not adopted, we believe using a floating rate that is based on a published bond index less a defined spread would be more appropriate and remain relevant longer than a fixed 1.5% rate. The PBGC rate has had a strong long-term correlation with published rates (e.g., the Moody's AA bond index or a similar bond index). Such an approach would not have an immediate impact on the lump sums provided to participants and if interest rates begin to rise, plans will not be forced to pay increasingly subsidized lump sums.

An Abrupt Rate Change May Negatively Impact Employees and Employers

The immediate interest rate PBGC has been using to pay lump sums is very low at 0.00% for October 2019 and 0.25% for November 2019. The rate used in Graybar's Plan changes monthly. Consequently, the timing of the rule change can have a significant short-term impact. If current rates persist, a switch to 1.5% will immediately reduce lump sums. Such a drastic change would likely precipitate negative workforce implications, e.g., a rush to the exit. Employees might feel obligated to retire before they otherwise would desire to do so or are even ready.

It is also possible that by the time these regulations are finalized, the interest rate may well have increased materially above 1.5%, locking in a windfall for those who have not yet taken distributions. Conversely, for those who took lump sums shortly before the change, they will likely have realized less of a benefit as compared to what they might have enjoyed had they waited.

Graybar employees are aware of PBGC interest rates and watch the monthly interest rate movements to optimize their retirement date. A substantial portion of our workforce is currently eligible to retire and elect to receive their lump sum immediately. Even a moderate difference between the rate used immediately before and after the rule change could cause a significant number of employees to retire and leave skill and responsibility gaps within our organization. Adoption of the proposed rule would likely cause Graybar and other similarly situated employers to lose significant talent in an unnecessarily precipitous way while having to search for successor employees in a very tight labor market.

Implementation of the Proposed Rule Necessitates an Appropriate Transition Period

Should the PBGC proceed with implementing the Proposed Rule, plan sponsors will be faced with performing a variety of administrative procedures. Necessary steps include updating administrative systems and participant election forms. Modeling tools available to employees to help make retirement decisions will have to be modified. Graybar and other plan sponsors may have to adjust investments and ensure liquidity of assets for higher and more short-term benefit payments than previously anticipated. Businesses will have to prepare for the loss of employees along with hiring others. And, adequate time for notifying employees and responding to their questions will have to be factored into the necessary transition time line.

If the Proposed Rule, including a 1.5% rate is adopted, then a gradual transition period similar to the five-year PPA transition period would help alleviate the many concerns expressed herein. During this period of time plan sponsors along with employees will be better able to plan their futures. We believe a phase-in approach should be available to affected plan sponsors.

Our comments are in response to PBGC's inquiry whether private-sector plans use the PBGC lump sum rates and for what purpose, and whether setting the legacy interest rates at a 120-month average would cause any undue burden. Graybar uses the PBGC lump sum rates for calculating lump sum benefits available to certain Graybar Plan participants. Setting the legacy interest rates at a 120-month average would cause an undue burden on Graybar as well as other similarly situated plan sponsors. These burdens would at least be mitigated through a transition period to a market based rate.

Thank you for this opportunity to comment on the Proposed Rule.

Sincerely,

Matthew W. Geekie