POST TO BULLETIN BOARD

Meeting No. 430

MINUTES OF MEETING

OF THE BOARD OF DIRECTORS

RETIREMENT SYSTEM OF THE TENNESSEE VALLEY AUTHORITY

(Edited to remove personal information related to individual members and retirees and proprietary information.)

December 17, 2010

The regular quarterly meeting of the Board of Directors (Board) of the TVA Retirement System (System) was held on Friday, December 17, 2010, at 11:30 a.m., CST, in the Ensemble Room, Hampton Inn and Suites, 310 4th Avenue South, Nashville, Tennessee.

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The following directors were present: Leslie P. Bays, Chairman; Janet C. Herrin, Vice Chairman; John M. Hoskins; Leonard J. Muzyn; Anthony L. Troyani; and Tammy W. Wilson. Also present were Patrick D. Brackett, Executive Secretary; Pamela K. Ramsey, Assistant Secretary; W. Colby Carter, Legal Counsel; and Eric J. Davis, Program Manager, Investment Management.

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430-1. Each director was notified in a memorandum dated December 2, 2010, of the regular quarterly meeting to be held on December 17, 2010. A copy of the notice from the Executive Secretary is filed as Exhibit 430-1.

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430-2 (A-5762). The Chairman's report included the following:

- The Chairman noted the strong investment performance of the System's pension assets overall and relative to the System's benchmark for the fiscal year 2010 which ended September 30, 2010.

- The Chairman noted that the System Board has selected outside legal counsel, Bradley Arant Boult Cummings, to represent the System in the current lawsuit against TVA and the System (see Minute Entry 430-39).

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430-3 (A-5763). The Executive Secretary's report included the following:

- The Executive Secretary informed the System Board that he would like them to evaluate the performance of the System staff in meeting established goals for fiscal year 2011 following the end of the fiscal year.

- The Executive Secretary discussed with the Board upcoming dates in January and February to meet with Hewitt Ennis Knupp to work on governance policies (see Minute Entry 430-38) and Mercer Human Resource Consulting (Mercer) to work on plan design benchmarking.

- At the request of the Chairman, the Executive Secretary read a letter from Fred Reish at Reish & Reicher, one of two outside legal counsel selected by the System Board to provide opinions on questions submitted by the System Board members related to the current lawsuit against the System (see Minute Entry 430-37).

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430-4 (A-5764). Legal Counsel provided an update on the status of the System's applications for new determination letters as to the tax-qualified status of the System and the TVA Savings and Deferral Retirement Plan (401(k) Plan) and informed the System Board that he has submitted responses to the IRS following its request for additional information with respect to the plans and the plan documents.

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430-5 (A-5765). The Board approved the minutes of Meeting No. 426 held September 17, 2010.

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430-6 (A-5766). The Board approved the minutes of special-called Meeting No. 427 held November 19, 2010.

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430-7 (A-5767). The Board approved the minutes of special-called Meeting No. 428 held November 22, 2010.

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430-8 (A-5768). The Board approved the minutes of special-called Meeting No. 429 held December 8, 2010.

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430-9 (A-5769). The Board accepted the Treasurer's Report for the quarter ending September 30, 2010. A copy of the Treasurer's Report is filed as Exhibit 430-9. This report is available for review at the Retirement Services office.

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430-10 (A-5770). The Board accepted the Investment Performance Report prepared by Wilshire Associates Incorporated (Wilshire) for the quarter ending September 30, 2010. A copy of the Investment Performance Report is filed as Exhibit 430-10. This report is available for review at the Retirement Services office.

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430-11 (A-5771). The Board accepted the report of retirements approved for the quarter ending September 30, 2010. A copy of the report is filed as Exhibit 430-11. These reports contain information on individual cases and are not available for review.

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430-12 (A-5772). The Board accepted the Investment Review for the 401(k) Plan prepared by Fidelity Investment Institutional Services Company (Fidelity) for the quarter ending September 30, 2010. A copy of the 401(k) Plan Investment Review is filed as Exhibit 430-12. This report is available for review at the Retirement Services office.

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430-13 (A-5773). The Board accepted the financial statements from the System's trustee, The Bank of New York Mellon, and investment managers for the fiscal year ended September 30, 2010. These financial statements, along with the System's annual report for fiscal year 2010, the System's actuary's report and variable annuity fund valuation, and a report of the cash and securities held by the System (summary of assets) will be provided to TVA in accordance with section 3(5) of the System Rules, which requires an annual report to the TVA Board of the System's transactions and other matters. A copy of a memorandum from the Executive Secretary to the Board dated December 8, 2010, regarding the System's receipt of these statements and information to be provided TVA as available is filed as Exhibit 430-13. This report is available for review at the Retirement Services office.

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430-14 (A-5774). The Investment Committee report consisted of the items reported below at A-5775, A-5776, A-5777, A-5778, A-5779 and A-5780, and of the following item:

- The Board was provided and took note of the quarterly report on manager compliance with investment guidelines. A copy of the report, dated September 30, 2010, is filed as Exhibit 430-14.

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430-15 (A-5775). Upon the recommendation of the Investment Committee, the Board voted to approve, and authorized the Executive Secretary to execute, a contract with Wilshire Associates Incorporated for investment consulting services for the period January 1, 2011, through December 31, 2011, with a fee level increase of 3.65% over the previous contract year. A copy of the contract is filed as Exhibit 430-15.

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430-16 (A-5776). Upon the recommendation of Wilshire, the Investment Committee and the Executive Secretary, the Board voted to adopt a Statement of Investment Policy, which defines the investment objectives and policies for the management and oversight of the System. A copy of a memorandum from Wilshire to the Executive Secretary dated December 2, 2010, and a copy of the Statement of Investment Policy are filed as Exhibit 430-16.

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430-17 (A-5777). The Board previously approved Guggenheim Partners Asset Management (Guggenheim) as an investment manager (see Minute Entry 423-18). Guggenheim agreed to manage the mortgage related assets previously held by TCW Asset Management Company for six months through the end of December 2010 for an annual fee of 2 bps. Upon the recommendation of Wilshire, the Investment Committee and the Executive Secretary, the Board voted to approve Guggenheim's continued management of this portfolio with the goal of realizing additional gains on the current portfolio for an annual fee of 30 basis points. A copy of a memorandum from the Executive Secretary and Program Manager, Investment Management, to the Board dated December 16, 2010, is filed as Exhibit 430-17.

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430-18 (A-5778). Prudential Real Estate Investors (Prudential) is a current private real estate manager of the System managing the PRISA open-end, commingled, core real estate fund managed. In order to continue to move toward the target policy allocation for core real estate, upon the recommendation of Wilshire, the Investment Committee, and the Executive Secretary, the Board voted to allocate an additional $40 million to the PRISA fund by the end of December 2010. A copy of a memorandum, dated December 6, 2010, from Wilshire to the Board with information regarding additional allocations to PRISA is filed as Exhibit 430-18.

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430-19 (A-5779). The System has a 5% asset allocation target to private real estate, of which 70% is core, 15% is value added, and 15% is opportunistic. The Board was presented and discussed a report from Wilshire on three recommended private real estate managers in the value added and opportunistic space. Upon the recommendation of Wilshire, the Investment Committee and the Executive Secretary, the Board voted to invest the following approximate amounts with the following private real estate managers: (i) $10 million to Landmark Partners Real Estate Fund VI, which will focus on private real estate secondary markets; (ii) $20 million to Franklin Templeton Real Estate Fund, L.P., which will focus on global value real estate opportunities; and (iii) $35 million to Siguler Guff Distressed Real Estate Opportunities Fund, LP, which will focus on distressed real estate opportunities. As a part of this action, the Board approved the following resolution:

> WHEREAS section 4 of the Rules and Regulations of the TVA Retirement System (System) authorizes the Board of Directors of the System to designate and select investment managers and to enter into investment management agreements subject to the approval of the Board of Directors of TVA; and
>
> WHEREAS the Investment Committee of the System, other representatives of the System, and Wilshire Associates Incorporated have reviewed the qualifications of potential investment managers who have demonstrated expertise in managing private real estate investment portfolios and partnerships and have recommended that the System Board designate and select Landmark Partners Real Estate Fund VI (Landmark Partners), Franklin

Templeton Real Estate Fund, L.P. (Franklin Templeton), and Siguler Guff Distressed Real Estate Opportunities Fund, LP (Siguler Guff), as investment managers to each manage a portion of the assets of the System's Fixed Benefit Fund;

BE IT RESOLVED, That the System Board hereby designates and selects Landmark Partners, Franklin Templeton, and Siguler Guff to each manage a portion of the assets in the System's Fixed Benefit Fund and authorizes the Executive Secretary to negotiate and sign an investment management agreement and to negotiate other related documents between the System and each of these managers;

RESOLVED further, That the System Board hereby authorizes the Executive Secretary to approve and to execute a subscription agreement, partnership agreement and other related documents necessary to effect the transition of the assets with each of Landmark Partners, Franklin Templeton, and Siguler Guff.

A copy of the report from Wilshire on the value/opportunistic private real estate manager recommendations, dated December 6, 2010, is filed as Exhibit 430-19.

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430-20 (A-5780). The System currently has a private equity investment with the Huff Alternative Fund, L.P. (Fund). The Board noted its previous notational action approving, upon the recommendation of the Investment Committee and the Executive Secretary, an amendment to the Fund's Limited Partnership Agreement extending the investment period of the Fund through the end of 2011 to allow for certain limited follow-on investments. A copy of an e-mail from the Executive Secretary dated November 4, 2010, the Fund's LPA amendment, supporting documents, and the Board members' notational votes, are filed as Exhibit 430-20.

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430-21 (A-5781). The Retirement Committee report consisted of items reported below at A-5782, A-5783, A-5784, A-5785, A-5786, A-5787, A-5788, A-5789, A-5790 and A-5791 and of the following item:

- Following a discussion on the language in the System Rules regarding the calculation of cost-of-living allowances (COLAs), the Board voted 5 to 1 to adopt the following resolution and accompanying amendments to the System Rules:

  WHEREAS the Rules and Regulations of the TVA Retirement System (System Rules) provide for cost-of-living (COLA) benefits for eligible retirees as set forth and calculated pursuant to the System Rules, and

WHEREAS the purpose of the COLA benefits is to provide increases in retirement benefits as inflation increases and is calculated based on increases in the Consumer Price Index for Urban Wage Earners (CPI-U), and

WHEREAS the average CPI-U for the 12-month period ended October 31, 2009, decreased from the average CPI-U for the 12-month period ended October 31, 2008, resulting in a 0% COLA for calendar year 2010, and

WHEREAS the calculation of the COLA benefits under the System Rules does not address the situation where there is deflation resulting in a decrease in the 12-month average CPI-U from the previous year,

THEREFORE, BE IT RESOLVED, that based on the purpose of the COLA benefit set forth above, the System Board deems that the COLA benefits as calculated under the System Rules for calendar year 2011 shall be calculated based on the increase of the average CPI-U for the 12-month period ended October 31, 2010, over the previous highest CPI mark, which is the average CPI-U for the 12-month period ended October 31, 2008, which results in a COLA benefit calculation of 1.15% for calendar year 2011, and

RESOLVED FURTHER, that this clarification in the COLA benefit calculation will be addressed on a going forward basis by amendments to sections 6I, 7L, and 18C3 of the System Rules as set forth below.

Section 6I of the Rules and Regulations of the TVA Retirement System is amended to delete the language marked through and to add the language underlined as follows:

I. Cost-of-Living Increases

The board shall increase (subject, however, to the provisions of section 11) that portion of the monthly benefit payable to each retiree, or beneficiary of a deceased member or retiree, which is derived from TVA's contributions to the System (excluding any adjustment under the level-income plan) whenever the 12-month average of the Consumer Price Index (CPI) for any year after 1966 exceeds by as much as one percent (1%) the CPI average for the <u>prior</u>~~preceding~~ year<u> for which an adjustment hereunder was made</u>. To be eligible for the increase, which shall be made beginning with the monthly payment for January following the year in which the CPI increase occurred, the retiree or beneficiary must have been entitled to a monthly benefit which begins no later than January 1 of the year following the year in which such CPI increase occurred; provided, however, that the portion of the benefit subject to adjustment hereunder of any retiree whose benefit begins after January 1, 1975, or after any subsequent January 1, shall not be less than it would have been had it begun on such January 1, but in the administration of this provision a retiree shall be deemed for the purpose of determining creditable service pursuant to section 1(8) on said January 1 to have to the retiree's credit the amount of unused sick leave credited to the retiree on the retiree's actual date of retirement rather than the amount to the retiree's credit on said January 1; provided further that no benefit granted under section 6B1(a) to begin before age 55 shall be increased hereunder until the first adjustment following the year in which the former member on whose account such benefit is payable has or would have reached attained age 55; and provided further that for members who become retired members on or after January 1, 2010, no benefit granted under sections 6B1(a) and 6J to begin before actual age 60 shall be increased hereunder until the first adjustment following the year in which the retired member on whose account such benefit is payable has or would have reached actual age 60. The rate of increase shall be the percent increase in the 12-month average of the CPI over the CPI average of the prior ~~preceding~~ year since the last adjustment; provided, however, that the increase for any year shall not exceed five percent (5%) except that the board may, in its discretion and with the approval of TVA, apply for any year a maximum different from that specified above. The above notwithstanding, (i) for calendar year 2010, the rate of increase shall be zero percent (0%); (ii) for calendar year 2011, the rate of increase shall not exceed three percent (3%); (iii) for calendar year 2012, the rate of increase shall be zero percent (0%); and (iv) for calendar year 2013, the rate of increase shall not exceed two and one-half percent (2.5%); provided, however, for calendar year 2013, the rate of increase shall be the percent increase in the 12-month average of the CPI over the CPI average of the preceding year or the prior year since the last adjustment if the CPI average decreased the preceding year. The 12-month periods used in determining the increases in CPI averages which provide the basis for increases in benefits hereunder shall conform as closely as practicable to calendar years.

Section 7L of the Rules and Regulations of the TVA Retirement System is amended to delete the language marked through and to add the language underlined as follows:

L. Cost-of-Living Increases

The board shall increase (subject, however, to the provisions of section 11) that portion of the monthly benefit payable to each retiree, or beneficiary of a deceased member or retiree, which is derived from TVA's contributions to the System (excluding any adjustment under the level-income plan) whenever the 12-month average of the Consumer Price Index (CPI) for any year exceeds by as much as one percent (1%) the CPI average for the prior~~preceding~~ year for which an adjustment hereunder was made. To be eligible for the increase, which shall be made beginning with the monthly payment for January following the year in which the CPI increase occurred, the retiree or beneficiary must have been entitled to a monthly benefit which begins no later than January 1 of the year following the year in which such CPI increase occurred; provided that no benefit granted under section 7D2 which may begin before age 55 shall be increased hereunder until the first adjustment following the year in which the former member on whose account such benefit is payable has or would have reached age 55; and provided further that for members who become retired members on or after January 1, 2010, no benefit granted under section 7D2 to begin before age 60 shall be increased hereunder until the first adjustment following the year in which the retired member on whose account such benefit is payable has or would have reached age 60. The rate of increase shall be the percent increase in the 12-month average of the CPI over the CPI average of the prior~~preceding~~ year since the last adjustment; provided, however, that the increase for any year shall not exceed five percent (5%) except that the board may, in its discretion and with the approval of TVA, apply for any year a maximum different from that specified above. The above notwithstanding, (i) for calendar year 2010, the rate of increase shall be zero percent (0%); (ii) for calendar year 2011, the rate of increase shall not exceed three percent (3%); (iii) for calendar year 2012, the rate of increase shall be zero percent (0%); and (iv) for calendar year 2013, the rate of increase shall not exceed two and one-half percent (2.5%); provided, however, for calendar year 2013, the rate of increase shall be the percent increase in the 12-month average of the CPI over the CPI average of the preceding year or the prior year since the last adjustment if the CPI average decreased the preceding year. The 12-month periods used in determining the increases in CPI averages which provide the basis for increases in benefits hereunder shall conform as closely as practicable to calendar years.

Section 18C3 of the Rules and Regulations of the TVA Retirement System is amended to delete the language marked through and to add the language underlined as follows:

C. Miscellaneous

3. The supplemental benefits payable under sections 18A or 18B, and the additional benefit payable under section 18D, shall be increased, and the schedule of benefits set forth in section 18A1, section 18B1 and section 18D shall be increased, whenever the 12-month average of the Consumer Price Index (CPI) for any year exceeds by as much as one percent (1%) the CPI average for the prior~~preceding~~ year for which an adjustment hereunder was made, by an amount equal to the percent increase in the 12-month average of the CPI over the CPI average of the prior~~preceding~~ year since the last adjustment. This increase shall be made beginning with the monthly payment for January following the year in which the CPI increase occurred. For members who are current employees as of December 31, 2009, this increase shall be made beginning January following the year in which the CPI increase occurred and the member or eligible retiree has or would have reached actual age 60. Provided, however, that (a) the increase for any year shall not exceed five percent (5%); (b) the total monthly supplemental benefit payable under section 18A above shall not exceed three hundred percent (300%) of the TVA contribution towards the cost of TVA medical coverage to which a retiree would have been entitled if the retiree had reached actual age 60 on or before December 31, 1998,

> unadjusted hereunder; and (c) the total monthly supplemental benefit payable under section 18B above shall not exceed $15 per month per year of actual service, and (d) the total monthly additional benefit payable under section 18D shall not exceed $150 per month. The above notwithstanding, (i) for calendar year 2010, the rate of increase shall be zero percent (0%); (ii) for calendar year 2011, the rate of increase shall not exceed three percent (3%); (iii) for calendar year 2012, the rate of increase shall be zero percent (0%); and (iv) for calendar year 2013, the rate of increase shall not exceed two and one-half percent (2.5%)<u>; provided, however, for calendar year 2013, the rate of increase shall be the percent increase in the 12-month average of the CPI over the CPI average of the preceding year or the prior year since the last adjustment if the CPI average decreased the preceding year</u>.

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430-22 (A-5782). The Board approved the calculation of a 6 percent annual interest rate credit to participants' accounts in the Cash Balance Benefit Structure for calendar year 2011 in accordance with the System Rules. Under section 7C3 of the System Rules, this interest rate credit is calculated as the greater of (i) the percentage change in the Consumer Price Index plus 3 percent (not to exceed 10 percent unless approved by the Retirement System Board and TVA) or (ii) 6 percent. The relevant CPI increase of 1.15 percent plus 3 percent equaled 4.15 percent. A copy of the Cash Balance annual interest rate calculation is filed as Exhibit 430-22.

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430-23 (A-5783). The Board approved by a 5 to 1 vote the calculation of a 1.15 percent cost-of-living allowance (COLA) increase in the monthly pension and the supplemental benefits payable to eligible retirees and beneficiaries. The COLAs are effective with the January 2011 payments as provided for in sections 6I, 7L and 18C3 of the System Rules. A copy of the COLA calculation is filed as Exhibit 430-23.

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430-24 (A-5784). The Chairman presented recommendations for the Board's standing and special committee members. After discussion of the recommendations, the Board approved the following standing and special committee assignments, as recommended by the Chairman:

<u>Audit Committee</u>	<u>Retirement Committee</u>
John M. Hoskins, Chair	Anthony L. Troyani, Chair
Leslie P. Bays	Janet C. Herrin
Leonard J. Muzyn	Tammy W. Wilson

Investment Committee	Election Committee
Leonard J. Muzyn, Chair	Janet C. Herrin, Chair
John M. Hoskins, Vice Chair	Leonard J. Muzyn
Leslie P. Bays	Leslie P. Bays
Janet C. Herrin	
Anthony L. Troyani	
Tammy W. Wilson	
Michael Brakebill (non-voting)	

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430-25 (A-5785). Upon the recommendation of the Retirement Committee, the Board voted to adopt amendments to Section 1(12) of the System Rules and Article 2.9A of the 401(k) Plan Provisions. These amendments allow certain lump-sum payments in lieu of base wage or salary increases for fiscal year 2011 to be included in employees' compensation for purposes of calculating pension benefits and TVA matching contributions to the 401(k) Plan. The Board took the following actions:

BE IT RESOLVED, That Section 1(12) of the Rules and Regulations of the TVA Retirement System is amended to delete the language marked through and to add the language underlined as follows:

SECTION 1

Definitions

12. "Earnable compensation" shall mean the rate of regular salary or wages which a member would earn if the member worked full time on the basis of the stated salary or wage paid the member; provided, however, that earnable compensation shall include the total of any amount deferred as a salary deferral contribution by the member pursuant to the Deferral Plan and the total of any pretax contributions by the member for employee benefits pursuant to a flexible benefit or spending arrangement established under section 125 of the Code or for qualified transportation fringe benefits under section 132 of the Code. Notwithstanding any other provision of this plan, the earnable compensation of each member taken into account under the plan for any year shall not exceed the compensation limit established under section 401(a)(17)(B) of the Code, as adjusted for cost-of-living increases in accordance with that section. For plan years beginning on or after January 1, 2002, the annual earnable compensation of each member taken into account in determining allocations for any plan year shall not exceed $200,000, as adjusted for cost-of-living increases in accordance with section 401(a)(17)(B) of the Code. Annual earnable compensation means compensation during the plan year or such other consecutive 12-month period over which compensation is otherwise determined under the Rules and Regulations (the determination period). The cost-of-living adjustment in effect

for a calendar year applies to annual earnable compensation for the determination period that begins with or within such calendar year.

Provided, however, that earnable compensation shall include lump-sum payments of up to 3 percent of regular salary or wages for Fiscal Year 1998, and lump-sum payments of up to 4 percent of regular salary or wages for Fiscal Years 1999 through ~~2010~~2011, which TVA informs the System were made available, in lieu of a base wage or salary increase, across a represented or non-represented group of employees as agreed to during annual negotiations, in the case of represented groups, or approved by TVA in connection with an annual review of management and excluded compensation. Provided further, that earnable compensation shall include (a) lump-sum payments of up to 1.7 percent of regular salary or wages, and minimum awards of $500 and prorated amounts where applicable, made in Fiscal Year 2001 for Fiscal Year 2000 performance under the TVA Performance Success Award Plan; (b) lump-sum payments of up to 3 percent of regular salary or wages (excluding any overtime pay adjustments) made in Fiscal Years 2001 through 2005 under the Memorandum of Understanding regarding Transition to Multiple Skill Classifications in TVA's River System Operations and Environment organization; and (c) lump-sum payments of up to 6.25 percent of regular salary or wages (excluding any overtime pay adjustments), as approved by TVA, under the TVA Winning Performance Team Incentive Plan.

BE IT FURTHER RESOLVED, That Article 2.9A of the Provisions of the Tennessee Valley Authority Savings and Deferral Retirement Plan is amended to delete the language marked through and to add the language underlined as follows:

2.9 Compensation.

A. Except as otherwise provided herein and unless otherwise required by the Code, compensation shall mean the annual rate of regular salary or wages which a participant would earn if the participant worked full-time on the basis of the stated salary or wages paid the participant; provided, however, that such compensation shall also include compensation which is not currently includable in the participant's gross income by reason of the application of sections 125, 132(f)(4), or 402(g)(3) of the Code. For the purpose of determining participant's compensation under Article 9.5, compensation shall include a lump-sum payment of up to 3 percent of regular salary or wages for Fiscal Year 1998, and a lump-sum payment of up to 4 percent of regular salary or wages for Fiscal Years 1999 through ~~2010~~2011, which TVA informs the Retirement System were made available, in lieu of a base wage or salary increase, across a represented or non-represented group of employees as agreed to during annual negotiations, in the case of represented groups, or as approved by TVA in connection with an annual review of management and excluded compensation. For the purposes of determining participant's

> compensation under Article 9.5, compensation shall include (a) for plan year 2001, lump-sum payments of up to 1.7 percent of regular salary or wages, and minimum awards of $500 and prorated amounts where applicable, made for Fiscal Year 2000 performance under the TVA Performance Success Award Plan; (b) for plan years 2001 through 2005, lump-sum payments of up to 3 percent of regular salary or wages (excluding any overtime pay adjustments) made under the Memorandum of Understanding regarding Transition to Multiple Skill Classifications in TVA's River System Operations and Environment organization; and (c) for plan years after 2001, lump-sum payments of up to 6.25 percent of regular salary or wages (excluding any overtime pay adjustments), as approved by TVA, under the TVA Winning Performance Team Incentive Plan. Notwithstanding any other provisions of this plan, the annual compensation of each participant taken into account under the plan for any year shall not exceed the compensation limit established under section 401(a)(17)(B) of the Code, as adjusted for cost-of-living increases in accordance with that section. For any plan year beginning after December 31, 2001, the annual compensation of each participant taken into account in determining allocations shall not exceed $200,000, as adjusted for cost-of-living increases in accordance with section 401(a)(17)(B) of the Code. Annual compensation means compensation during the plan year or such other consecutive 12-month period over which compensation is otherwise determined under the plan (the determination period). The cost-of-living adjustment in effect for a calendar year applies to annual compensation for the determination period that begins with or within such calendar year.

A copy of a memorandum from the Executive Secretary and Assistant Secretary to the Board dated December 7, 2010, is filed as Exhibit 430-25.

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430-26 (A-5786). After discussion, and upon the recommendation of the Retirement Committee and the Executive Secretary, the Board approved the outsourcing of the Cash Balance Plan recordkeeping to a third party record keeper and the selection of Hewitt Associates (Hewitt) as the record keeper effective September 1, 2011. As a part of this approval, the Board also (i) delegated to the Executive Secretary the authority to take any actions necessary to effect this approval, and (ii) approved the following amendments to the System Rules to move from bi-weekly to monthly cash balance account crediting effective September 1, 2011:

Sections 7C2 and 7C3 of the Rules and Regulations of the TVA Retirement System are amended to delete the language marked through and to add the language underlined as follows:

SECTION 7

Cash Balance Benefit Structure

C. Accounts and Credits to Accounts

2. Pay-Based Credits to Participant's Accounts

a. Beginning as of the first day of the first pay period beginning after January 1, 1996, and as of the first day of each pay period thereafter, the Account of each Cash Balance Participant~~'s account~~ shall be credited with an amount equal to 6 percent of the earnable compensation received by the Participant for the previous pay period.

b. Beginning September 1, 2011, on the last day of each month, the Account of each Cash Balance Participant shall be credited with an amount equal to 6 percent of the Participant’s earnable compensation for that month. Upon retirement or termination of employment, the Participant’s Account shall receive as a final pay-based credit an amount equal to 6 percent of the Participant’s earnable compensation for the period of time from the beginning of the month in which retirement of termination of employment occurs, to the actual date of retirement or termination.

c. If TVA elects to keep a Participant, who is on temporary leave of absence without pay, in service and continues its contributions on account of such Participant during such period, then such Participant shall continue to receive pay-based credits based on the rate of the Participant's earnable compensation in effect on the last day in pay status; provided, however, that the earnable compensation used to calculate the pay-based credits will include any subsequent adjustments resulting from normal salary or wage increases, salary or wage negotiations, or position reclassification where the Participant is on leave of absence without pay (i) to serve in a full-time position with a labor organization, (ii) to serve in the uniformed services as defined in 38 U.S.C. §4303 (USERRA), or (iii) pursuant to any other federal law or regulation that would require such adjustments for crediting purposes.

3. Interest-Based Credits to Accounts

As of the last day of each month beginning after December 31, 1995, and before the date distribution of benefits to or on behalf of a Participant or retiree commences under section 7D, the Account~~account~~ of each Cash Balance Participant shall be credited with an amount determined by multiplying the monthly interest rate by the Participant's Account~~account~~ balance as of the previous January 1 plus any pay-based credits since that time.

> The monthly interest rate shall be a percentage equal to one-twelfth of the annual cash balance interest rate. The annual cash balance interest rate shall be determined by the Board effective January 1 of each year and shall be a percentage equal to the increase of the 12-month average of the Consumer Price Index for the period ending the previous October 31 over the preceding 12-month period, plus three percent. Provided, however, that effective as of January 1, 1999, the annual interest rate shall not be less than 6 percent nor exceed 10 percent except that the Board may, with the approval of TVA, apply for any year an annual interest rate greater than 10 percent.

A copy of a memorandum from the Executive Secretary and Assistant Secretary to the Board dated December 7, 2010, is filed as Exhibit 430-26.

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430-27 (A-5787). After discussion, upon the recommendation of the Retirement Committee and the Executive Secretary, the Board voted to approve the addition of Fidelity Investments' Portfolio Advisory Service, a managed account service, to the 401(k) Plan as an option available to 401(k) Plan participants to be provided by Fidelity's registered investment advisor company, Strategic Advisers, Inc. The Board also delegated to the Executive Secretary the authority to execute an amendment to the 401(k) Plan Trust Agreement with Fidelity to add the managed account option and to take any other actions necessary to effect this approval. A copy of a memorandum from the Executive Secretary to the Board dated December 8, 2010, along with information on Fidelity Investments' Portfolio Advisory Service, are filed as Exhibit 430-27.

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430-28 (A-5788). The Board discussed a tentative schedule and locations for the Board meetings and workshops to be held in calendar year 2011.

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430-29 (A-5789). Upon the recommendation of the Executive Secretary, the Board accepted the actuarial valuation of the Variable Annuity Fund, as of March 31, 2010, by Mercer Human Resource Consulting, and its recommendation that, because the Variable Annuity Fund had a surplus as of March 31, 2009, the outstanding variable units should be decreased by 1,395 units. The change in the number of units will result in no change in the December 2010 unit value. A copy of a memorandum from the Executive Secretary to the Board, dated December 8, 2010, a copy of a letter from Réal Lamarche, Principal, Mercer Human Resource Consulting, to the Board, dated October 6, 2010, and a copy of the TVA Retirement System Variable Annuity Valuation Report as of March 31, 2010, are filed as Exhibit 430-29.

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430-30 (A-5790). After discussion, upon the recommendation of the Retirement Committee and the Executive Secretary, the Board voted to approve the selection of Small World Solutions to provide retiree death monitoring and reporting to facilitate the processing of death benefits and to delegate to the Executive Secretary the authority to take any actions necessary to effect this approval. A copy of a memorandum from the Executive Secretary and Assistant Secretary to the Board dated December 6, 2010, is filed as Exhibit 430-30.

* * *

430-31 (A-5791). After discussion, upon the recommendation of the Retirement Committee and the Executive Secretary, the Board voted to approve the selection of Advanced Medical Reviews to provide an independent medical board as required under the System Rules to process certain disability application determinations and to delegate to the Executive Secretary the authority to take any actions necessary to effect this approval. A copy of a memorandum from the Executive Secretary and Assistant Secretary to the Board dated December 16, 2010, is filed as Exhibit 430-31.

* * *

430-32 (A-5792). The Election Committee had no items to report.

* * *

430-33 (A-5793). The Audit Committee report consisted of the items reported below at A-5794, A-5795, A-5796, A-5797, A-5798 and A-5799 and of the following item:

- The Board was provided and took note of a copy of the Office of Government Ethics' synopsis of ethical conduct standards applicable to TVA personnel. The annual distribution of the TVA code of conduct by the Audit Committee is required by the System's Bylaws, Article III, Section 8(h). A copy of a memorandum from the Executive Secretary to the Board dated October 30, 2010, and a copy of the OGE synopsis are filed as Exhibit 430-33.

* * *

430-34 (A-5794). After discussion, and upon the recommendation of the Audit Committee and the Executive Secretary, the Board accepted the Report on Controls Placed in Operation and Tests of Operating Effectiveness (SAS 70 Report) for the System for the period ending July 31, 2010, prepared by E.H. Johnson & Company, P.C., the System's internal auditor. A copy of the SAS 70 Report is filed as Exhibit 430-34.

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430-35 (A-5795). Upon the recommendation of the Audit Committee, the Board voted to approve spending approximately $8,000 to produce electronic and limited hardcopies of the System's 2010 Annual Report. A copy of a memorandum from the Executive Secretary to the Board, dated December 7, 2010, regarding the projected expenses for the System's 2010 Annual Report is filed as Exhibit 430-35.

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430-36 (A-5796). Upon the recommendation of the Audit Committee, the Board voted to approve an additional $32,000 in fees under the SAS-70 contract with E.H. Johnson & Company, P.C. for fiscal year 2010 based on additional work that was required due to the implementation of FAS 157. A copy of a memorandum from the

Executive Secretary to the Board, dated December 8, 2010, regarding the additional fees is filed as Exhibit 430-36.

* * *

430-37 (A-5797). The Board noted its previous notational action by a 5 to 1 vote approving the selection of two outside law firms, Kennerly, Montgomery & Finley, P.C. and Reish & Reicher, to provide legal guidance to the Board on how to proceed with respect to the lawsuit against the System. A copy of an e-mail from the Executive Secretary to the Board, dated October 27, 2010, along with the Board members' notational votes and information on the two firms, are filed as Exhibit 430-37.

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430-38 (A-5798). The Board noted its previous notational action approving the selection of Hewitt Ennis Knupp (Ennis Knupp) to provide fiduciary and governance educational training to the Board and to delegate the authority to the Executive Secretary to take any actions necessary to effect this approval. Ennis Knupp provided this training to the Board on November 19, 2010. A copy of an e-mail from the Executive Secretary to the Board, dated November 3, 2010, along with the Board members' notational votes and a copy of the Board's contract with Hewitt Ennis Knupp, are filed as Exhibit 430-38.

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430-39 (A-5799). The Board noted its previous notational action approving the selection of outside legal counsel, Bradley Arant Boult Cummings, to represent the System in the current lawsuit against TVA and the System

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The meeting was adjourned at 1:02 p.m., CST.

Executive Secretary

Approved:

Chairman