

December 16, 2015

TVARS Directors

PROPOSED AMENDMENTS TO THE TVARS RULES AND REGULATIONS

TVA and TVARS share the goal of improving the long-term health of the pension system. Today, we are proposing changes to the TVARS rules and regulations that would put us on a path to create a stronger, better funded system over the next 20 years. Creating a healthier system is going to take efforts in both reducing the obligations of the pension system and making consistent contributions to the plan over the long-term.

The pension system has been the subject of litigation and discussion since long before my tenure at TVA. The funded status of the system has caused concern among our retiree and employee populations, the TVA Board, and senior management. One of my goals has been to work to create a healthier system for the long-term. My first priority has been to work together to put TVA in the strongest financial and operational shape possible for the long run—financial stability and strength are the most important underpinnings of our ability to pay any benefits. As we have made progress on this front, we continue to have challenges on the pension funding front.

Under the proposed amendments TVA would commit to a minimum annual contribution of \$275 million per year over the next 20 years (\$5.5 Billion) or the minimum formula, whichever is greater. The proposed amendments would result in some future benefit reductions, but I believe these are reasonable and relatively modest for retirees and the participants in the Original System. At the same time, the changes afford retirees and employees in the Original System certainty of fully-vested future cost-of-living adjustments, which TVA will be committed to funding.

Cash Balance participants that joined after January 1, 1996, would be transitioned to a 401(k) only plan. Current cash balance account accruals would remain and continue to receive interest credits. New retirement benefits going forward would be in a 401(k) only account. In exchange for this transition, TVA would provide a 6% automatic contribution and 100% match on up to an additional 6% of employee contributions. This provides a very competitive benefit match of up to 12% by TVA into the 401(k) account of these affected employees.

TVA is also proposing some governance changes to the rules including provisions to govern the seventh member selection process and steps to increase collaboration between the TVARS Board and the TVA Board.

This proposal is laid out in the attachments. We have also included the 20-year picture of the system with these proposed changes. We believe this proposal meets our shared goal of a healthy system, and I present this proposal to the TVARS Board for consideration and request that you vote on the proposal within the month of January.

Thank you for your consideration,

A handwritten signature in black ink that reads "Bill Johnson". The signature is written in a cursive style with a long, sweeping underline that extends to the right and then loops back down.

Bill Johnson



Proposed Benefit Changes

Proposed Change	Description	Impact
Cash Balance to Defined Contribution	Cash Balance (CB) participants transitioned to 401(k) with automatic 6% contribution and 100% match up to 6% (post-January 1, 1996 participants)	Future Retirees
Fixed Fund	No additional fixed fund contributions for CB participants (post-January 1, 1996 participants)	Future Retirees
Lump Sum Payout	Lump sum payout option of cash balance account value increased from \$30,000 to total account value at retirement	Future Retirees
Reduce Interest Crediting Rate	Lower minimum interest rate for Fixed Fund and Cash Balance from 6% to 4.5%, CPI + 2% instead of CPI + 3% Maximum rate of TVARS Projected Return less 0.50%	Future Retirees
COLA Salary Cap	COLA applies to pension based on earnable compensation limited to Executive Level IV (currently \$158,700)	Future Retirees
Supplemental Benefit Eligibility	Vested with 10 yrs. service and age 50, eligible to receive at age 55	Future Retirees
Raise COLA Eligibility Age	Raise age COLA begins from 60 to 65 for employees and retirees under age 50	Current & Future Retirees
Maximum COLA	Annual COLA cap lowered from 5% to 3%, floor still 0%	Current & Future Retirees
Caps on Supplemental Benefit	Cap of \$12.36 per month x yrs. Service / Cap of \$100.63 per month (current caps of \$15 and \$150)	Current & Future Retirees



Proposal Summary

Benefits/Liability	Assets	Contributions	Governance
<p>Vested COLA</p> <p>Cash Balance to Defined Contribution</p> <p>Close Fixed Fund</p> <p>Increase Lump Sum Payout Option</p> <p>Cash Balance & Fixed Annuity Interest Lower Min. to 4.5% Max. Expected Return – 0.50%</p> <p>COLA Salary Cap Executive Level IV</p> <p>COLA Eligible Age 65 < 50 Yrs. Old Future Retirees</p> <p>Cap Supplemental Benefit Eligible to Receive at Age 55</p> <p>COLA Cap Lowered to 3%</p>	<p>TVA Ability to Approve Asset Allocation Changes</p> <p>TVA Ability to Appoint Non-voting Investment Committee Member</p>	<p>Greater of Minimum Formula or \$275 Million (\$5.5 Billion) (20 Yrs. or Fully Funded)</p> <p>Cash Balance to Defined Contribution 12% Contribution to 401(k) (6% Automatic/100% Match on 6%)</p> <p>Ability to Prepay Equivalent Contribution</p> <p>TVARS Board Ability to Suspend Contribution Requirements</p>	<p>TVARS Director Term Limits (Max. 3 3Yr. Terms)</p> <p>7th Member Selection Process (Serves Until New Selection)</p> <p>Improve retiree representation on TVARS Board- 7th member or election participation</p> <p>Provide members right to seek judicial enforcement of the Rules</p> <p>Annual Report to TVA Board by TVARS Executive Secretary</p> <p>Annual Meeting with Investment Consultant and Chair of Finance Committee</p> <p>Annual Meeting between Chairs TVA Board & TVARS Board</p>



Funded Status Projections – FY16 to FY35

