Message from Bill Johnson

TVA Employees and Retirees,
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. We've made progress here; yet, we continue to have challenges on the pension funding front.

I believe we need to remove the uncertainty around retirement benefits so that our retirees and employees can make appropriate plans for themselves and their families.

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. Today, I am presenting a proposal to the TVA Retirement System (TVARS) Board that I believe will put the system on a better path going forward. These proposed changes are not made lightly. They incorporate the current demographic, economic, and funding realities, and are intended to mitigate the impact to those who have less time to incorporate them into their retirement planning. This proposal does not impact any employees hired on or after July 1, 2014.

The TVARS Board is currently reviewing the proposal. We are asking the TVARS Board to vote on the proposal within the month of January, and fund participants will be able to comment on the proposal prior to the TVARS vote. In the meantime, below is a summary of the proposed changes.

The Proposal

Cash Balance to Defined Contribution

Cash Balance participants who joined post 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. As a part of 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.

Fixed Fund

The ability to contribute after-tax dollars to the fixed fund would be suspended for employees who joined TVA after January 1, 1996. Employees currently have the ability to contribute up to $10,000 dollars of after-tax dollars to the fixed fund and earn a guaranteed rate of return. Contributions currently in the fixed fund would continue to earn a guaranteed return.

Lump Sum Payout

Cash Balance employees will be given the option to receive their entire cash balance account in cash upon retirement. The lump sum payout option is currently limited to a maximum of $30,000.

Interest Crediting Rate

The interest crediting rate on cash balance accounts and fixed fund balances will be reduced to Consumer Price Index + 2%. The minimum crediting rate will be 4.5% with a maximum crediting rate of TVARS' expected asset return less 0.50%. That level is currently 6.5%.

COLA (Cost of Living Adjustment)

A certain vested COLA would be provided to retirees. The maximum COLA on a benefit in any one year would be 3%. The minimum would remain at 0%. The calculation of the COLA amount would remain the same.

COLA Eligibility Age

For those employees and retirees under the age of 50, the eligibility for a COLA on retirement benefits would begin at age 65.

COLA Salary Cap

For Original Plan participants, the pension COLA would apply only on earnings up to Executive Level IV. That level is currently $158,700.

Supplemental Benefit

The supplemental benefit would be capped at the current highest paid rate. That rate is $12.36 per month times the number years of service plus $100.63 per month. Supplemental benefits would continue to grow until those caps are reached. The supplemental benefit would be vested with 10 years of service and the age of 50. Eligibility to receive the supplemental benefit would begin at age 55.

These changes would help to reduce cash flow pressures on the retirement system while continuing to provide competitive retirement benefits for employees and retirees. TVA would make a minimum contribution commitment of $275 million per year over the next 20 years to the system or until it is fully funded. This would represent a minimum commitment of $5.5 billion or an equivalent amount of contributions. The combination of these benefit changes in addition to contributions and investment earnings should put the retirement system on a much healthier path going forward.

If you have questions about how these proposed changes would impact you, please contact Retirement Services at 865-632-2672 or 800-824-3870.