Meeting No. 497

MINUTES OF MEETING

THE BOARD OF DIRECTORS OF

THE TENNESSEE VALLEY AUTHORITY RETIREMENT SYSTEM

November 14, 2022

A special-called meeting of the Board of Directors (Board) of the TVA Retirement System (System) was held virtually on Monday, November 14, 2022, at 1:31 p.m., EST, via WebEx videoconferencing.

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The following directors were present: Brian M. Child, Chair; Samuel J. DeLay, Vice-Chair; Michael L. Belcher; Michael A. Blakely; Marilyn G. Brown; Eric J. Davis; and Tina R. Wallace. Also present were Mark N. Meigs, Executive Secretary; William B. Jenkins, Jr., Assistant Secretary; Sally R. Weber, Manager, Retirement Operations; Brent B. Roberts, Manager, Financial Reporting; and W. Colby Carter, Managing Counsel.

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497-1. Directors Belcher, Blakely, and DeLay called this special meeting of the Board pursuant to Article IV, Section 1(c) of the System Bylaws for consideration of two proposals regarding the cost-of-living adjustment (COLA) and cash balance interest crediting rates for 2023. Each director was notified in an email by the Executive Secretary dated November 9, 2022, of the special-called meeting to be held on November 14, 2022. A copy of the notice is filed as Exhibit 497-1.

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497-2. Prior to the meeting, the Board reviewed and discussed the following two items presented by Director Belcher for the Board to consider: (i) amendments to the TVARS Rules and Regulations to provide a one-time additional ad hoc COLA to eligible retirees and beneficiaries for 2023 that when added to the regular COLA calculation capped at 6% would be equal to the full amount of the formula without the cap, and (ii) approval of a higher 2023 interest crediting rate for cash balance accounts for employees hired on or after January 1, 1996, equal to the interest crediting rate for employees hired prior to January 1, 1996. As a part of the discussion, Director Belcher presented information in support of the two proposals. A copy of Director Belcher's presentation is filed as Exhibit 497-2.

497-3. Following the discussion, the Chair called the meeting to order and recognized Director Belcher who presented the first proposal to the Board:

WHEREAS, on an annual basis at its December quarterly meeting, the TVA Retirement System Board of Directors (Board) approves the calculation of the cost-of-living adjustment (COLA) for eligible pension, supplemental, and additional benefits pursuant to Sections 6I2, 7L2, and 18C3 of the TVARS Rules and Regulations;

WHEREAS, as a result of extraordinary global, economic, and supply chain factors over the last two years, increased inflation has resulted in higher costs and expenses for TVARS retirees and beneficiaries who live on fixed incomes;

WHEREAS, as a result of this high inflation, the calculation of the change in the 12-month average of the Consumer Price Index – All Urban Consumers (CPI-U) used in the COLA calculation under the TVARS Rules will be 8.04%, which will be higher than 6% cap under the TVARS Rules; and

WHEREAS, the Board desires to provide a COLA for retirement benefits equal to the formula under the TVARS Rules and Regulations without the 6% cap in order to more fully preserve benefits for retirees and beneficiaries relative to higher inflation;

BE IT RESOLVED, that the Board hereby approves the following amendments to Sections 6I2, 7L2, and 18C3 of the TVARS Rules and Regulations to provide a one-time ad hoc COLA of 1.79% for 2023, which in addition to the 6% COLA calculated under these Sections, will provide a 7.79% total COLA for eligible retirement benefits for 2023 equal the formula under the TVARS Rules and Regulations without the 6% cap (change in the 12-month average CPI-U (8.04%) minus 0.25%).

Section 6I2 of the TVARS Rules and Regulations is amended to add the language underlined as follows:

SECTION 6

6. Benefits of the System

I. Cost-of-Living Adjustments (COLAs)

2. On or after October 1, 2016

a. The portion of the monthly benefit payable to each retiree, or beneficiary of a deceased member or retiree, which is (i) derived from TVA's contributions to the System (excluding any adjustment under the level-income plan) and (ii) based on earnable compensation up to the rate of basic pay for Executive Schedule Level IV, shall be adjusted whenever the 12-month average of the Consumer Price Index for All Urban Consumers (CPI-U) for any year exceeds by as much as one percent (1%) the CPI-U average for the prior year for which an adjustment hereunder was made. The 12-month periods used in calculating the change in CPI-U averages will be the period November 1 through October 31.

b. To be eligible for the cost-of-living adjustment (COLA) set forth in subsection 2(a) above, which shall be made beginning with the monthly payment for January following the year in which the CPI-U 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-U increase occurred; provided, however, that the portion of the benefit subject to adjustment hereunder of any retiree whose benefit begins after 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. Retirees who were participants in TVA's Supplemental Executive Retirement Plan or any similar non-qualified executive retirement plan maintained by TVA, and who had less than ten (10) years of membership service at termination of employment or retirement, shall not be eligible for COLAs hereunder.

c. No benefit granted under section 6B1(a) to begin before age 55 shall be adjusted 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. 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 adjusted 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. For members or retirees who are under age 50 as of October 1, 2016, no benefit granted under sections 6B1(a) and 6J which began or will begin before actual age 65 shall be adjusted 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 65.

d. The amount of COLA set forth in subsection 2(a) above shall be equal to the following: (i) the percentage increase in the 12-month average of the CPI-U over the CPI-U average of the prior year since the last adjustment, minus (ii) 0.25%; provided, however, that the COLA for any year shall not exceed six percent (6%).

e. For calendar year 2023, a one-time COLA of 1.79% is granted for eligible monthly benefits in addition to the COLA calculated for 2023 pursuant to this section 6I2.

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Section 7L2 of the TVARS Rules and Regulations is amended to add the language underlined as follows:

SECTION 7

7. Cash Balance Benefit Structure

L. Cost-of-Living Adjustments (COLAs)

2. On or after October 1, 2016

a. The portion of the monthly benefit payable to each retiree, or beneficiary of a deceased member or retiree, which is (i) derived from TVA's contributions to the System (excluding any adjustment under the level-income plan) and (ii) based on earnable compensation up to the rate of basic pay for Executive Schedule Level IV, shall be adjusted whenever the 12-month average of the Consumer Price Index for All Urban Consumers (CPI-U) for any year exceeds by as much as one percent (1%) the CPI-U average for the prior year for which an adjustment hereunder was made. The 12-month periods used in calculating the change in CPI-U averages will be the period November 1 through October 31.

b. To be eligible for the cost-of-living adjustment (COLA) set forth in subsection 2(a) above, which shall be made beginning with the monthly payment for January following the year in which the CPI-U 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-U increase occurred. Retirees who were participants in TVA's Supplemental Executive Retirement Plan or any similar non-qualified executive retirement plan maintained by TVA, and who had less than ten (10) years of membership service at termination of employment or retirement, shall not be eligible for COLAs hereunder.

c. No benefit granted under section 7D2 to begin before age 55 shall be adjusted 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. For members who become retired members on or after January 1, 2010, no benefit granted under sections 7D2 to begin before age 60 shall be adjusted 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. For members or retirees who are under age 50 as of October 1, 2016, no benefit granted under sections 7D2 which began or will begin before age 65 shall be adjusted 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 65.

d. The amount of COLA set forth in subsection 2(a) above shall be equal to the following: (i) the percentage increase in the 12-month average of the CPI-U over the CPI-U average of the prior year since the last adjustment, minus (ii) 0.25%; provided, however, that the COLA for any year shall not exceed six percent (6%).

e. For calendar year 2023, a one-time COLA of 1.79% is granted for eligible monthly benefits in addition to the COLA calculated for 2023 pursuant to this section 7L2.

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

SECTION 18

18. Supplemental Benefit

C. Miscellaneous

3. The supplemental benefits payable under sections 18A or 18B, and the additional benefit payable under section 18D, shall receive a cost-of-living adjustment (COLA) whenever the 12-month average of the Consumer Price Index for All Urban Consumers (CPI-U) for any year exceeds by as much as one percent (1%) the CPI-U average for the prior year for which an adjustment hereunder was made, by an amount equal to the following: (i) the percentage increase in the 12-month average of the CPI-U over the CPI-U average of the prior year since the last adjustment, minus (ii) 0.25%. This COLA shall be made beginning with the

> monthly payment for January following the year in which the CPI-U increase occurred. For members who were current employees as of December 31, 2009, this COLA shall be made beginning January following the year in which the CPI-U increase occurred and the member or eligible retiree has or would have reached actual age 60. Effective October 1, 2016, for members or retirees who are under age 50 as of October 1, 2016, this COLA shall be made beginning January following the year in the CPI-U increase occurred and the member or eligible retiree has or would have reached actual age 65. Provided, however, that (a) the increase for any year shall not exceed six percent (6%); (b) the total monthly supplemental benefit payable under section 18B above shall not exceed $12.3657 per month per year of actual service, and (c) 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%); provided, however, for calendar years 2011 and 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 of the prior year since the last adjustment if the CPI average decreased the preceding year. <u>For calendar year 2023, a one-time COLA of 1.79% is granted for eligible supplemental and additional benefits in addition to the COLA calculated for 2023 pursuant to this section 18C3.</u>

Following comments by Board members in support of and against the proposal, Director Belcher made a motion to approve the proposed resolution and amendments to the TVARS Rules and Regulations. The motion received a second from Director Blakely. During the roll call vote, Director Blakely requested a suspension in the vote in order to propose a revision to the proposed amendments, and the Board agreed to suspend the vote.

Director Blakely then made a motion to amend the proposal to change the one-time additional ad hoc COLA amount from 1.79% (for a total COLA of 7.79%) to 1% (for a total of 7%). The motion received a second from Director DeLay. Following statements by Directors Blakely and DeLay in support of the amended proposal, the Chair called for a procedural vote to bring the amended proposal to the table in place of the original proposal, which passed by a roll call vote of 4 to 3. Directors Belcher, Blakely, Child, and DeLay voted for the amended proposal to take the place of the original proposal, and Directors Brown, Davis, and Wallace voted against this.

Following this procedural vote, the Chair then called for a vote on the amended proposal, and the amended proposal failed to pass by a roll call vote of 4 to 3. Directors Brown, Child, Davis, and Wallace voted against the proposed resolution and amendments, and Directors Belcher, Blakely, and DeLay voted for the proposal.

* * *

497-4. Following the vote on the first proposal, the Chair recognized Director Belcher who presented the second proposal to the Board:

> WHEREAS, on an annual basis at its December quarterly meeting, the TVA Retirement System Board of Directors (Board) approves the calculation of the interest crediting rates for TVARS members with cash balance accounts for the upcoming calendar year pursuant to Sections 7C3(a) and 7C3(b) of the TVARS Rules and Regulations;
>
> WHEREAS, as a result of high inflation over the last two years, the calculation of the change in the 12-month average of the Consumer Price Index – All Urban Consumers (CPI-U) used in the calculation of the cash balance interest crediting rates under the TVARS Rules will be 8.04%;
>
> WHEREAS, the interest crediting rate formula for cash balance participants first hired prior to January 1, 1996, under Section 7C3(a) of the TVARS Rules is equal to the change in the CPI-U plus 3% with a floor of 6% and a ceiling of 10%;
>
> WHEREAS, the interest crediting rate formula for cash balance participants first hired on or after January 1, 1996, under Section 7C3(b) of the TVARS Rules is equal to the change in the CPI-U plus 2% with a current floor of 4.75% and a current ceiling of 6.25%;
>
> WHEREAS, given the 8.04% change in the CPI-U, the calculation of the CPI-U + 2% interest crediting rate for post-96 cash balance participants will be capped at 6.25% while the CPI-U + 3% interest crediting rate for pre-96 cash balance participants will be up to 10%, resulting in a large gap between the two rates; and
>
> WHEREAS, the Board desires to provide a more equitable interest crediting rate for pre- and post-96 cash balance participants in response to higher inflation by applying a cap of 10% instead of 6.25% for the interest crediting rate for post-96 cash balance participants in the

2023 calculation under 7C3(b) of the Rules, which is the same 10% cap for pre-96 cash balance participants; and

WHEREAS, Section 7C3(b) of the TVARS Rules allows the Board to apply an annual cash balance interest crediting rate greater than the maximum for any year with the approval of TVA;

BE IT RESOLVED, that the Board hereby approves an interest crediting rate of 10% (equal to the change in the CPI-U (8.04%) + 2% with a cap of 10%) for post-96 cash balance participants for calendar year 2023 pursuant to Section 7C3(b) of the TVARS Rules, subject to approval by TVA.

Director Belcher made a motion to approve the proposed resolution approving a higher interest crediting rate for pre-96 cash balance participants. The motion received a second from Director DeLay. The Chair then called for a vote on the second proposal, and the proposal failed to pass by a roll call vote of 4 to 3. Directors Brown, Child, Davis, and Wallace voted against the proposed resolution, and Directors Belcher, Blakely, and DeLay voted for the proposal.

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The meeting was adjourned at 1:47 p.m., EST.

Executive Secretary

Brian M. Child

Chair