TVA Retirement System Board Announces Counterproposal

Earlier today, the TVARS board approved the terms of a counterproposal to TVA in response to its pension proposal. The TVARS board understands the reasons for TVA's original proposal and shares the same goal and commitment to improving the long-term health of the System and the ability of the System to provide benefits to TVA employees, retirees and beneficiaries. The benefits and contributions provided for under the TVARS rules and 401(k) plan can only be changed with the approval of both the TVARS board and TVA working together.

TVA's CEO Bill Johnson and the TVA Board have both made it clear that a plan of only increased contributions by TVA to the System is neither feasible nor acceptable and that some action must be taken with respect to the benefits provided under the plans.

Accordingly, the majority of directors of the TVARS board believe that (i) minimal changes to future benefits shared across all participant groups, coupled with increased funding from TVA, are in the best interest of the System and its members and retirees, and (ii) failure to act by the TVARS board on future benefits could result in unilateral action by the TVA Board, which could include termination of the System.

The TVARS board appreciates TVA making its proposal public so that we could receive input from TVA employees and retirees. As a board, we have spent many days over the last two months discussing this feedback and reviewing with the System's actuary various benefits and funding options and their impact on the level of retirement benefits for employees and retirees, the liabilities of the System, and the goal of reaching a fully-funded status over a 20-year period. The feedback from employees and retirees has been mixed. Many comments said to reject TVA's proposal while others offered some level of support for TVA's proposal. The TVARS board also received a lot of feedback that supported offering something a little better or different, and the changes in the counterproposal do just that.

The counterproposal to TVA first takes into account the fact that retirees and longer-tenured employees have a shorter time horizon to adjust for changes in retirement benefits. The proposal provides retirees protection on higher levels of inflation with a vested COLA benefit, and for longer-tenured employees, the proposal preserves the benefit structures with only minor changes to certain future benefits. Mid-career employees who are currently in the cash balance structure and have more time to adjust will have a choice between two generous retirement benefit structures, and newer employees in the cash balance structure with less than ten years of service will have one of the industry's best 401(k) benefits.

TVA, under its proposal, offered to increase the amount of the annual minimum contribution to the System. Under the counterproposal, the TVARS board is asking TVA for additional funding each year in exchange for the benefits changes being made by employees and retirees. Finally, the counterproposal will vest the COLA benefits and provide for guaranteed funding of those benefits by TVA. The TVARS rules currently treat the COLA as a "pay as you go" benefit, and in the event TVA were to terminate the System, and there were not enough assets to pay COLAs, then COLAs would only be paid if TVA determined that it is feasible to make additional contributions to pay COLAs. These changes approved today under this counterproposal will vest the COLAs, require prefunding of COLA benefits, and guarantee payment of them.

The reduction in the System's liabilities as a result of these proposed benefits changes, coupled with the increased contributions by TVA to the System, will put the System on a path to achieving our shared goal of a fully-funded System and secure payment of all benefits over the next 20 years. The majority of the TVARS board believes the changes contained in this counterproposal are a reasonable compromise among TVA, TVARS and TVA employees and retirees based on mutual sacrifice and look forward to TVA's response to the counterproposal.

The benefits and funding-related terms of the counterproposal to TVA are summarized below. If accepted by TVA and the TVA Board, the changes will be effective October 1, 2016:

Cash Balance with less than 10 years of service moves to Defined Contribution

Cash Balance participants who were first hired on or after January 1, 1996, and who have less than 10 years of TVARS service, will be transitioned to a 401(k) only plan. Cash balance account accruals through October 1, 2016, would remain and continue to receive interest credits. TVA would provide a 6% automatic contribution and 100% match on up to an additional 6% of employee contributions to participants' 401(k) accounts for a total potential 401(k) contribution of up to 12%.

Cash Balance with 10 years or more of service shifts some benefit to Defined Contribution

Cash Balance participants who were first hired on or after January 1, 1996, and who have 10 years or more of TVARS service, will receive 3% pay credits on future earnings to their cash balance accounts instead of the current 6%. However, these participants will begin to receive a 3% automatic contribution to their 401(k) accounts in addition to receiving their current 75% match on up to an additional 6% of employee contributions for a total potential 401(k) contribution of up to 7.5%

Cash Balance hired prior to January 1, 1996

No change in cash balance benefits

Lump Sum Payouts

Cash Balance participants will be given the option to receive their entire cash balance account in a lump sum payment upon termination of employment or retirement. The lump sum payout option is currently limited to a maximum of $30,000. Additionally, if eligible, employees could elect to receive a lump-sum payout equal to the value of their supplemental benefit if they elect to receive their entire cash balance account in a lump sum.

Cash Balance Election Option to Switch to Defined Contribution

The TVARS Board will adopt additional amendments to the TVARS Rules and Regulations and 401(k) plan that will offer employees remaining in the cash balance structure the option to voluntarily switch their future participation to the 401(k) only plan with 6% automatic contributions from TVA and 100% match on up to an additional 6% of employee contributions. This voluntarily election may also include the additional option to allow all cash balance participants regardless of years of service to transfer their existing cash balance accounts to the 401(k) plan. This election option and implementing amendments would be subject to IRS review and approval pursuant to an IRS private letter ruling submitted by TVARS and may take 1-2 years.

Interest Crediting Rate

Fixed Fund - Lower minimum interest rate for Fixed Fund from 6% to 4.5%, Consumer Price Index (CPI) + 2% with a maximum crediting rate of TVARS projected rate of return less 0.5%.

Cash Balance Interest Credits – For post January 1, 1996 participants, the cash balance account value as of October 1, 2016 will continue to receive 6% interest credits. Future pay credits in the cash balance accounts will receive 4.5%, CPI + 2% with a maximum crediting rate of TVARS projected rate of return less 0.5%.

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 with less than 10 years of service or any employee electing to forego future cash balance pay credits by switching to the 401(k) only plan. 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 as explained above.

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 CPI less 0.25% with a cap of 6%. 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 $160,300.

Supplemental Benefit

The current supplemental benefit eligibility criteria would remain unchanged at age 55 with 10 years of service. However, the supplemental benefit caps would be changed. The current rate is $12.36 per month times the number years of service plus $100.62 per month. The new cap would be $12.36 per month times the number of years of service however the additional benefit which is currently $100.62 will continue to grow until the cap of $140 per month is met.

TVA Contributions

The TVARS Board is requesting an annual contribution equal to the greater of $300 million per year or the required minimum contribution as calculated under the rules over the next 20 years or until fully funded if earlier. If funding status is less than 80% under the actuarial funding rules applicable to TVARS (ASC 960), any lump-sum cashouts will be paid by TVA instead of utilizing TVARS assets. Any such payments by TVA are in addition to the annual contribution amount. TVA will have the ability to prepay equivalent contributions. TVARS Board will have the ability to suspend contribution requirements upon super-majority approval of the TVARS Board.

Other Governance Items

Assets - Changes to the TVARS asset allocation policy will require a super-majority approval of the TVARS Board.

Other

- Provide members right to seek judicial enforcement of TVARS Rules and Regulations.
- Amend TVARS Rules and Regulations to provide that, pursuant to TVARS Board policies, the TVARS Board may initiate disciplinary actions toward a director for violation of Board policies up to and including removal of the director from his/her position on the TVARS Board. Removal would require super-majority approval of the TVARS Board.
- Improve retiree representation on TVARS Board (7th director must be TVA retiree).
- Require a super-majority approval of TVARS Board to change 401(k) plan contribution amounts.