



Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902-1401

January 19, 2016

TVA Retirees:

In December, TVA made a proposal to the Retirement System Board to address the long-term health of the pension fund. 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 throughout our retiree population and I've spoken to a number of you about these worries. I believe we need to act now to address these concerns.

My first priority has been to put TVA in the strongest financial and operational shape we collectively can for the long run—financial stability and strength are the most important underpinnings of our ability to pay any benefits. TVA must continue to provide competitive rates to those we serve.

Let me be specific about the challenges we face. The pension liability exceeds the pension assets by almost \$6 billion. The options to close this gap are limited. One is to put the funding requirement on our customers—our only source of revenues—who are already putting hundreds of millions of dollars into the fund today. This would require huge rate increases at a time when there is no growth in sales and the competitive landscape for TVA is getting tougher. This approach, at least in my view, also conflicts with our obligation to serve the people with electricity at the lowest feasible rates.

The other option is for all of us to participate in the health and sustainability of the pension system. The TVA proposal provides a specific 20-year plan. In addition, the proposal impacts retirees the least. It was designed to minimize impacts to those who have the least amount of time to adjust, including retirees. 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.

Here is what the proposal means to, and asks of, you as a retiree: **This proposal does not affect the monthly pension check you currently receive**, but one impact is to the amount of potential increases in that monthly check, also known as cost of living adjustments (COLAs). Under this proposal, TVA would support an amendment to the pension rules to clearly provide a COLA with a specific COLA formula. The maximum potential COLA on a benefit in any one year would be 3 percent (this is a reduction from the current 5 percent cap). The minimum would remain at 0 percent. The calculation of the COLA amount would also remain the same. The proposal would also make the COLA a vested benefit.

The other impact to retirees would be to the supplemental benefit. The supplemental benefit would be capped at the current highest paid rate for those of you that retired after January 1, 1999. 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. For those of you

who retired prior to January 1, 1999, the amount you are currently receiving would remain the same.

Under this proposal, TVA would make contributions of at least \$5.5 billion over the next 20 years to the pension system. There are other parts of the proposal that affect non-retirees and the entire proposal can be reviewed here: <http://www.tvvars.com/proposal.htm>

The pressures on the Retirement System have developed over time. I believe it is important to act now rather than push the issues to the future. The cash flow requirements of the Retirement System have grown and continue to grow significantly. In FY 2000, the Retirement System paid out \$289 million in benefits. In FY 2015, that amount had grown to \$690 million. We expect that annual benefit payments will continue to grow to almost \$800 million under current circumstances. The Retirement System liability as measured by TVA in FY 2000 was \$5.5 billion; by 2015 that number had grown to \$12.8 billion. Continuing on our current path is not going to improve the sustainability of the Retirement System.

The minor reductions in COLA increases, the vesting of the COLA, and TVA's commitment to contributing at least \$5.5 billion into the system over the next 20 years—these changes meet our desire to create a specific 20-year plan for improved funding. It brings certainty to both retirees and TVA and, most important, it demonstrates to our retirees and employees our dedication to the system.

There is a lot of rhetoric going around on this topic, some of which is information and much of which is disinformation. For example, I have heard references to the idea that we intend to turn the pension system over to an insurance company. I have never had any discussions on this topic, have never heard anyone discuss this topic, and have no knowledge of, information on, or intent to do any such thing. Another point of misinformation is the claim that TVA collects money from the ratepayers for the pension but does not contribute it to the pension fund. That is not the case. In TVA's financial filings, there is a line for pension expense which does not reflect our budget or monies we collect from ratepayers. The pension reporting is a way for investors to track our pension cost and liabilities over time. There is also an assertion that TVA has not contributed to the pension fund, which is also false.

For example, in fiscal year 2015 the system's minimum formula was \$215M and TVA chose to contribute \$275M. There are also people asserting that the COLA is already a vested benefit. This is an issue in the ongoing litigation and is not settled. The system rules have not been amended to vest the COLAs.

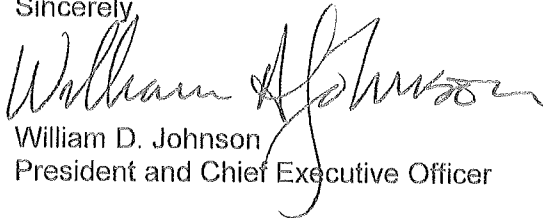
In my view, doing nothing is not an option. The proposal is needed to improve the long-term sustainability and health of the Retirement System, but it is not just about a sustainable Retirement System. It is also about the long-term competitiveness and sustainability of TVA. TVA still has one of the highest operating and maintenance expenses among utility peers. TVA's customers have the right to choose other suppliers, and the competitive environment for TVA is much different today than in the past. Revenue growth is more a function of rate increases, not growth in sales. TVA must adjust to these market changes or risk becoming less

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competitive in the future. A sustainable Retirement System and more competitive TVA are positive for employees, retirees, residents, and the businesses we serve that depend on TVA for their quality of life.

If you have questions about how these proposed changes would impact you individually, please reach out to Retirement Services at 865-632-2672 or 800-824-3780. Thank you for your consideration and for your service to TVA.

Sincerely,

A handwritten signature in black ink that reads "William D. Johnson". The signature is written in a cursive style with a large, prominent initial "W".

William D. Johnson
President and Chief Executive Officer