NRLN NATIONAL RETIREE LEGISLATIVE NETWORK

TVA Retirees Chapter

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February 29, 2016

Dear Member of Congress

The National Retiree Legislative Network (NRLN) and its 2,000,000 retirees from 160 U.S companies is respectfully asking you and other members of Congress to take action to protect Tennessee Valley Authority (TVA) pension plan participants from potential economic disaster due to the dangerous underfunding of the TVA pension plan. Specifically, we ask that the TVA be encouraged to make adequate funding contributions to the plan, possible through a variety of funding mechanisms including suggestions described below. Just as importantly, we respectfully ask Congress to re-designate the TVA pension plan so that its participants can be placed under the protection of ERISA as the status of the TVA as a company has changed substantially since its inception.

We are joined in our concerns about the funding status of the plan by the NRLN Tennessee Valley Authority Retirees Coalition (TVARC) and echo TVA retiree chapters, as well as union and non-union pension plan participants who object to a December 2015 proposal by TVA to reduce pension plan benefits and to slow-pay plan funding obligations.

As you know, Congress formed the TVA in 1933 as a federal public works project entity to help the country survive the Great Depression, raise employment levels in the Tennessee Valley and simultaneously harness energy from Valley Rivers and also to manage and preserve Valley natural resources. TVA workers had secure jobs but no pension plan until one was negotiated in 1939.

The TVA pension plan was exempted from protections afforded by the Civil Service Retirement System (CSRS) and later the Federal Employee Retirement System (FERS) and instead is governed by rules set forth in the Tennessee Valley Authority Retirement System (TVARS) and its board, acting as an independent entity charged to represent plan participants as their Trustee and Fiduciary. In 1974, when ERISA was enacted, Congress exempted the TVA pension plan on the basis that TVA was a public agency, despite the fact that plan participants were in a single-employer defined benefit plan.

The TVA ACT of 1933 established TVA's business activities, assigned congressional oversight to the House Transportation and Infrastructure Committee, Senate Environment and Public Works Committee and the TVA Congressional Caucus. TVA's budgets are included in federal government financials and are subject to audit. TVA is subject to a $30.0 billion statutory debt limit.

From 1972 through 1995, TVA was able to absorb actuarial funding obligations and recovered these costs though rate structure pricing. From 1996 through 2003, funding behavior changed as plan assets swelled from unprecedented increases in equity values. The plan was funded at over 100% and management ignored the discipline of funding on an actuarial basis until the “chickens came to roost” in 2002-2003, when funding fell to 85%. This failure to remain true to actuarial requirements did not deter management from following the same path in succeeding years. Further, over 40% of TVA pension plan trust assets are still allocated to equities.

In 2004, Congress passed legislation that gave TVA a new direction, converting the full-time 3 member TVA board to a part-time 9 member board and mandating the hiring of a CEO to create a governance structure more like other large corporations. This led to an increased focus on corporate net income, excessive bonuses, a Supplemental Executive Retirement Plan (SERP) plan that is fully funded, and the CEO who is one of the highest paid federal employees, reported to have received a $6 million a year compensation package. TVA files SEC 10-Ks and acts like other U.S. corporations except they do not have to answer to shareholders.

It is clear that TVA’s quasi-governmental distinction serves merely as a technicality rather than one rooted in reality. TVA no longer operates like a federal agency. Today it is viewed in the marketplace as a public company in the electric energy wholesaling business competing for customers in the seven (7) state TVA geographic market. Competitors’ defined benefit pension plans are protected by ERISA and all but one are funded above 80% and have been for some time **(see bottom Chart below**). At 53%, the TVA plan is $6.0 billion underfunded largely because of TVA's failure to provide adequate funding that would otherwise been required under ERISA rules. Further, TVA has extraordinary authority to avoid protecting plan participants through its veto power over TVARS rule changes and ability to choose to make contributions that do not actuarially fund all benefits, in addition to its sole authority to terminate the pension plan if it chooses to stop contributions entirely.

From 2004 through 2009, payments to retirees continued to outpace TVA contributions and a 2009 $1.0 billion contribution by TVA to the plan was not enough to fill the underfunding hole it dug prior to 2009. Management called the $1.0 billion infusion a good faith effort to fund future years but it appears they did it to fill that hole they dug in prior years. Despite the $1.0 billion infusion, in 2009, payments to retirees exceeded TVA contributions by $1.4 billion. The plan ended 2009 funded at 72% (down from 85% in 2003).

Things got even worse from 2010-2015 when payments to retirees were $3.776 billion and TVA contributed assets of $832 million (creating a funding gap during those years of $2.944 billion) and a new low of 53% funding. During this period underfunding appears to have driven TVA Regulatory Asset accruals significantly higher than those booked by TVA’s competitors. To view the yearly payments and contributions from 2001-2015 **see top chart below**.

At the end of FY 2015, the TVA SEC 10-K reflected pension obligations of $12.8 billion and assets of $6.8 billion, a hole that is now $6.0 billion deep. TVA’s response has been to propose benefit cuts, to increase the matching percent for 401k plan contributory participants and to fund obligations at $275 million a year for 20 years. The NRLN speculates from this data that participants will not see improvement in the funded level any time soon, which will leave the pension at risk and unprotected for many years. TVARS actuaries will make a more accurate and rationale judgment but it appears it will take more than 20 years and a lot of luck for this plan to work.

TVA's 2015 10-K includes forecasted pension payments of $7.655 billion over the next ten years and at $275 million a year contributions would be $2.750 billion by 2025, digging the hole deeper by $4.905 billion. It would take a plan return on $6.8 billion assets of 8% or higher just to offset the initial 2015 $6.0 billion deficit. Based upon the 2015 investment loss of over $400 million and poor equity market performance so far in 2016, it will take a lot of hope and prayer to offset the added burden of $4.9 billion over the full 20 year period.

Management's 2015 10-K reflects a savings $1.082 billion in capital expenditures over the 2016-2018 period. In addition, TVA has the ability to borrow $4.971 billion and still remain under the Statutory Debt Limit of $30 billion. TVA has also lowered its cost and expense out-lays. It seem highly probable that TVA management could use these cash resources to pay back more of the underfunding TVA owes Valley pension plan participants than proposed in their plan and yet hold customer rates in line.

The NRLN proposes that TVA management fix the underfunding problem for retiree stake-holders in ways available to TVA as mentioned above. We also respectfully ask that Con-gress hold hearings and take the steps to convert the TVA plan to an ERISA protected plan. We look forward to hearing from you on what you will do to support the 35,000 TVA active employee and retiree plan participants and the 7,500 other NRLN valley retirees, most of whom enjoy ERISA protection.

Thank you very much for attention to this matter of great importance and please know that we stand ready to assist you in any way necessary to protect our nation's retirees.

Sincerely yours,

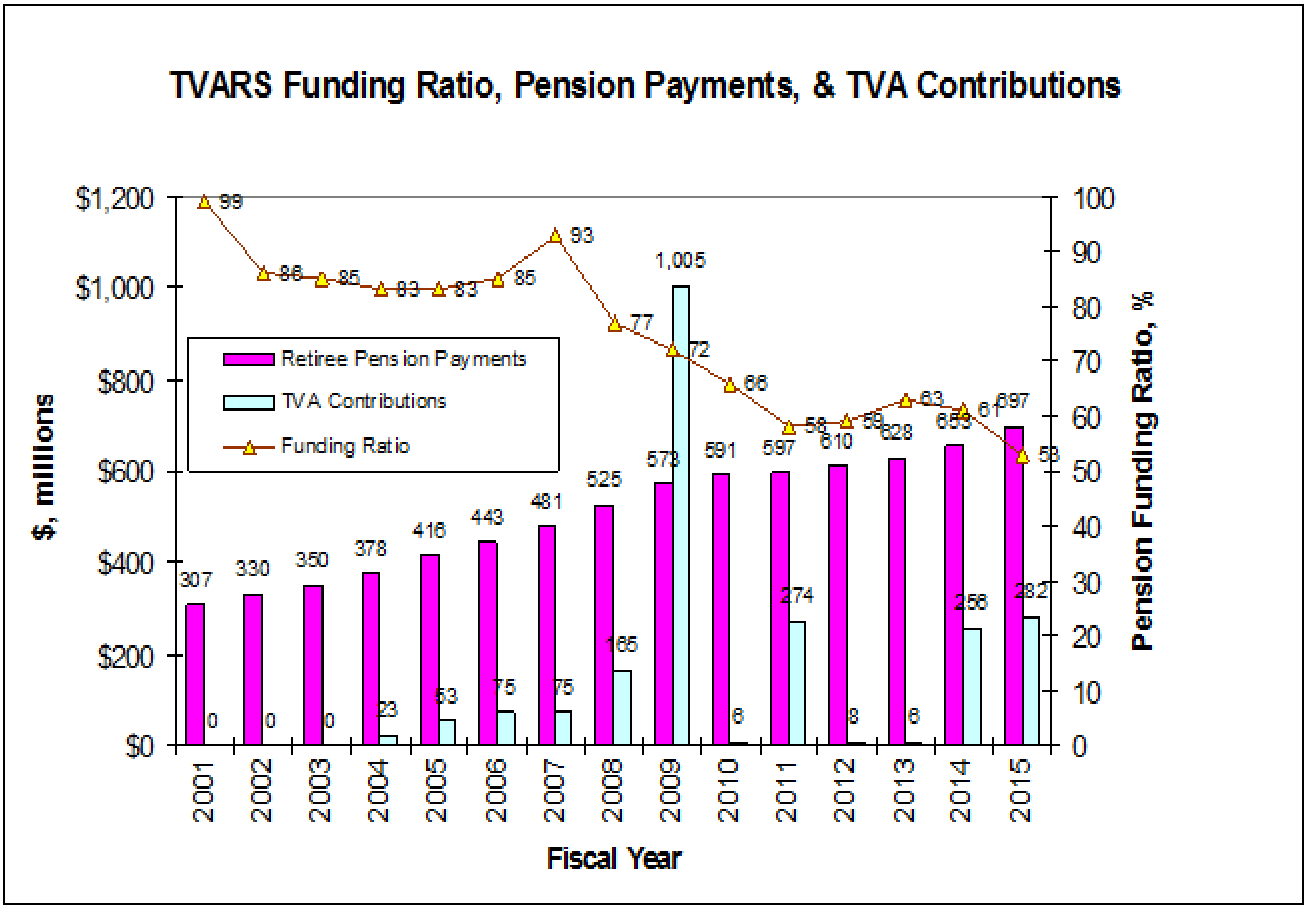
Bill Kadereit

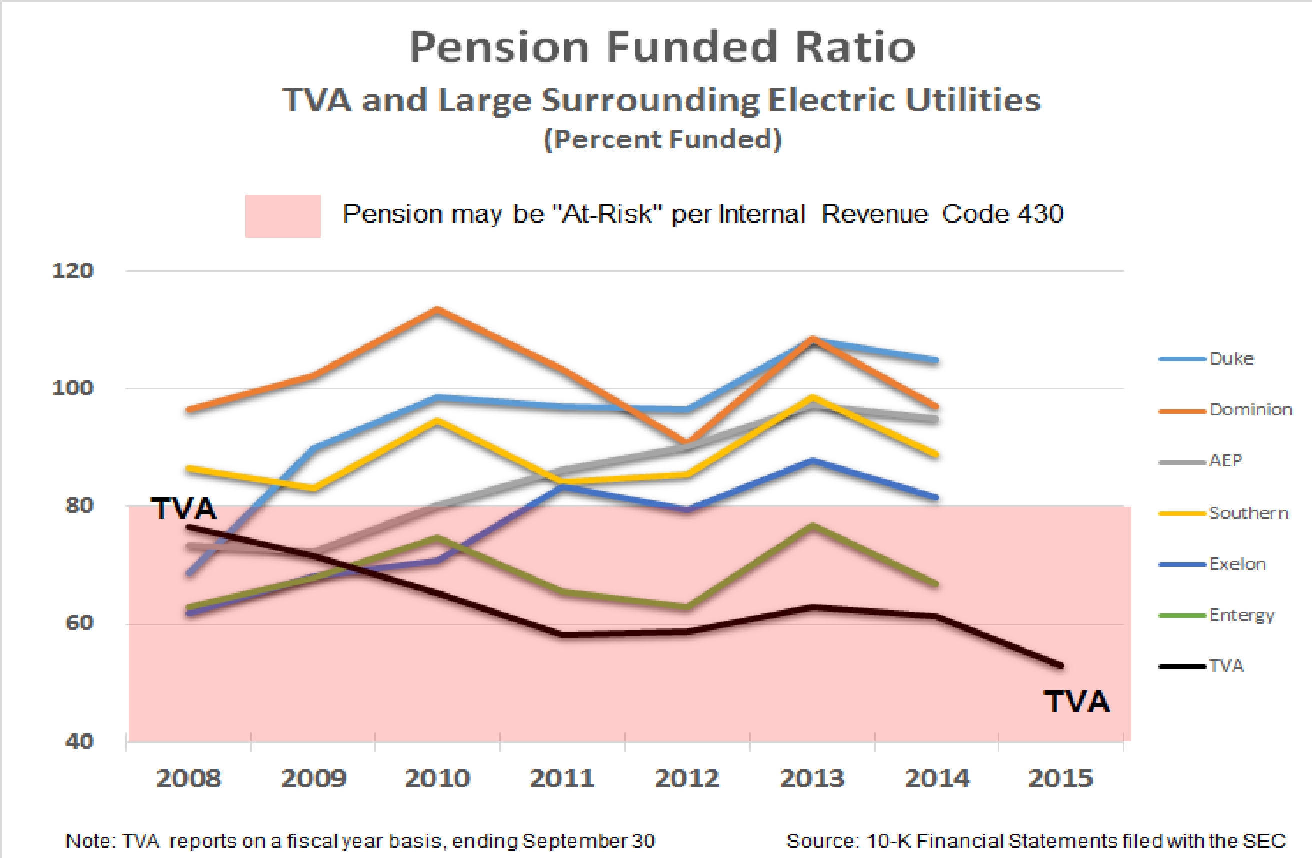
Bill Kadereit
President, NRLN

Mike Moseley

Mike Moseley
President, Tennessee Valley Authority Retirees Coalition
(TVARC)

Attachment Below


TVARS Funding Ratio, Pension Payments, & TVA Contributions
$1,200
$1,000
$800
$600
$400
$200
$0
$, millions
100
90
80
70
60
50
40
30
20
10
0
Pension Funding Ratio, %
Retiree Pension Payments
TVA Contributions
Funding Ratio
99
86
85
83
83
85
93
77
72
66
58
59
63
61
53
307
330
350
378
416
443
481
525
573
591
597
610
628
653
697
0
0
0
23
53
75
75
165
1,005
6
274
8
6
256
282
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
Fiscal Year


Pension Funded Ratio
TVA and Large Surrounding Electric Utilities
(Percent Funded)
Pension may be "At-Risk" per Internal Revenue Code 430
120
100
80
60
40
TVA
TVA
2008
2009
2010
2011
2012
2013
2014
2015
Duke
Dominion
AEP
Southern
Exelon
Entergy
TVA
Note: TVA reports on a fiscal year basis, ending September 30
Source: 10-K Financial Statements filed with the SEC