life after work℠

plan to make it good.

five steps to planning a healthy retirement

TVA 401(k) Plan

TVA

planning for **retirement**

Having a strategic financial plan is critical to your comfort and happiness in retirement. Why? Because more active retirement lifestyles, increasing life spans, and the impact of inflation mean we all need to manage our money effectively both before and after retirement so we can afford to live comfortably in the future.

This brochure is designed to help make planning for your retirement more manageable. By dividing planning for retirement into five steps, you can take it one step at a time.

Once you've completed all the steps, you'll be rewarded with a better-defined retirement plan that more closely matches your needs.

Let's get started!

step 1 identifying your income sources

No matter what you dream of doing in retirement, you'll need money to do it. Your retirement income will probably come from three main sources: employer-sponsored retirement plans, Social Security, and personal savings.

Employer-sponsored savings and retirement plans

There are two types of employer-sponsored retirement programs you may be participating in now: defined contribution plans like the TVA 401(k) Plan and traditional pension plans.

The tax advantages, employer contributions, and range of investment options make the TVA 401(k) Plan one of the best ways to build income for your future. Consider contributing as much as you can to the plan.

Once you are ready to turn your TVA 401(k) Plan assets into a stream of retirement income, there are several distribution options to consider. For example you may leave your money in the plan and take systematic withdrawals. To help you evaluate which option is appropriate for your situation, a *Guide to Your TVA 401(k) Plan Distribution Options* is available by calling Fidelity Investments at **1-800-354-7121.**

For details about how to begin receiving your TVA pension benefits, call TVA Retirement Services at 1-800-824-3870.

Social Security

Social Security provides monthly benefits to retirees. As you work and pay taxes today, you earn credits that count toward eligibility for future Social Security benefits. Most people need to work ten years to qualify for benefits, or be married to someone who works that long. Your benefit is calculated as a percentage of your earnings averaged over most of your years of work.

Currently, you may begin receiving Social Security retirement benefits as early as age 62. However, if you begin receiving payments before age 65, you will receive a lesser amount as your benefits will be reduced throughout your retirement. For every year you delay your benefits beyond age 65, you receive a special credit that increases the amount you receive from Social Security. Please note that the current full retirement age of 65 increases by two-month increments to age 66 in 2005 and age 67 in 2007.

Personal savings

Personal savings includes investments outside your retirement plan such as bank savings accounts and CDs or stock portfolios.

Gathering information about your income sources

1. Check the value of your TVA 401(k) Plan account virtually anytime by calling **1-800-354-7121,** or logging onto **fidelity.com/atwork**. Check the value of retirement assets in any other plans you might have by calling your former employer, if applicable.
2. Consider consolidating any other eligible retirement assets into your TVA 401(k) Plan. When your money is invested with a variety of different companies, it can be difficult to get a handle on your financial situation. Saving and investing for retirement is complicated enough without having to piece together multiple statements that report information differently before you can see the big picture. Call a Fidelity Retirement Services Specialist at **1-800-354-7121** to request a rollover form if you want to consolidate your assets.
3. Check your TVA Personal Statement of Benefits sent out each June to determine the future value of your TVA provided pension benefit. Call the human resources department of any **past** employers to request any applicable pension benefit estimate.
4. Call the Social Security Administration at 1-800-772-1213 for a personalized estimate of your benefit (called a Personal Earnings and Benefit Estimate Statement, or PEBES), log onto www.ssa.gov to request an estimate online or download software that lets you do it yourself.
5. Check the growth of your personal savings by taking a look at all your records to determine the value of your personal savings.

step 2 estimating your retirement expenses

It can be difficult to pinpoint just how much money you'll need to retire. Typically, you'll need up to 80% or more of your annual preretirement income to maintain your current lifestyle.

Whether this rule applies to you depends on your personal situation and plans for retirement. Some of your costs will probably go down or go away entirely when you retire (e.g., commuting costs) but others may increase. (e.g., moving costs, medical premiums or travel expenses.)

Defining how much money you need to retire is a good starting point for designing or redesigning your savings plan. Finding out how much you'll have if you keep saving the way you are now—and how to potentially make up for any savings gap between what you'll need and what you have is another good idea.

Help from Fidelity online

The NetBenefits℠ planning section (found through fidelity.com/atwork) provides a great tool that can help you assess your retirement income needs. Through NetBenefits℠ you can use your actual account information and investment holdings to analyze your current savings strategy, find out how much you may need to save for retirement as well as how close you are to meeting your goal. It also suggests a target asset allocation you may want to follow and compares this target mix to your current mix.

Using online planning tools, you can

- create "what if" scenarios as you adjust your assumptions (Your account balance is updated automatically and your information is saved every time you use the planning tools)
- build your investment knowledge with the educational materials offered throughout Fidelity's online services
- act on the summaries and action plans at your own pace

To connect with Fidelity online

If you haven't already done so, activate your online account at **1-800-354-7121,** then log on to NetBenefits℠ virtually anytime through **fidelity.com/atwork** to assess your current situation and make changes as needed.

Call a Fidelity Retirement Services Specialist at **1-800-354-7121** if you have any questions about your PIN number or if you'd like further information about your retirement plan.

step 3 bridging the gap

If your figures indicate your current savings and investment strategy falls short of your goals, don't panic. There are four strategies that may help you fill the gap.

1. **Earn a higher return.** Earning more on your contributions can help you achieve your retirement income goal without having to save more. Of course, earning a higher rate of return involves greater investment risk, but if you're investing for the long term, it may be a good idea to consider investing more aggressively.

2. **Increase the amount of your contributions.** Are you contributing the most you can to your retirement plan? You can contribute up to 100% of your salary or $11,000 on a pretax basis per year based on IRS dollar limits for the year 2002 (subject to any plan limits).

3. **Delay retirement.** Even though you may want to retire at age 55, you may find it's not a possibility. By working longer or part-time once you retire, you'll have more time to earn additional income and save.

4. **Reassess the amount of income you'll need.** Maybe you can live on less in retirement. Examine your current spending patterns and how you anticipate spending in retirement to see where you might be able to spend less.

Your next steps to bridging the gap

1. Determine what strategy you will use to make up for any shortfall.
2. Call Fidelity at **1-800-354-7121** for help in readjusting your investment mix.

step 4 learning about your distribution options

By now everyone is aware of the importance of saving for the future. But once that future becomes a reality, many people find themselves faced with a decision they hadn't anticipated: How to best access their savings to create retirement income.

When it comes time to start using the money in your TVA 401(k) Plan account, you have several distribution options.

Leave your money in the plan until you need it.
If you won't need your money immediately upon retirement, leaving your money in the TVA 401(k) Plan may offer many advantages. Your money has the potential to grow tax-deferred, and you continue to enjoy the same investment options as active employees.

Leave your money in the plan and set up a Systematic Withdrawal Plan.
This option lets you take distributions from the TVA 401(k) Plan at regularly scheduled intervals—just like you receive a paycheck from work now. You control how your payments are made by specifying the dollar amount you'd like to receive each month, quarter, or year or dividing up your assets over a specific period of time. With this option, you don't even have to wait until your next scheduled payment to access your money—you can take unscheduled withdrawals whenever you need them.*

Move your 401(k) plan savings to a rollover IRA or eligible retirement plan.
When you transfer your money directly into a rollover IRA or eligible retirement plan, it continues to maintain its tax-deferred status, and you have flexibility in terms of the type of investment options available to you. This distribution option has the additional benefit of allowing systematic withdrawals.

Opt for an annuity.
When you purchase an annuity with all or part of your retirement savings, you get an immediate stream of income that's guaranteed.** You can choose a fixed income or variable annuity.

Take a cash distribution.
This option provides immediate access to your retirement savings, but may leave you with less money than you might have anticipated due to federal, state, and local income taxes and possible early withdrawal penalties.

For more information

If you're nearing retirement or simply want more information about your distribution options, read the *Guide to Your TVA 401(k) Plan Distribution Options* for more in-depth details about your choices. It is available by calling Fidelity Investments at **1-800-354-7121.**

**If you set up a payment schedule to satisfy the IRS rules for minimum required distributions (MRDs) or if you are taking substantially equal periodic payments to avoid the 10% early withdrawal penalty, any changes to your payment schedule may have serious tax consequences. Always consult a tax advisor before making any changes.*

***Subject to the claims paying ability of the issuing insurance company.*

step 5 keeping more of what you've earned

After you've worked hard to acquire assets, you'll want to protect them and possibly pass them on to others some day. That's why everyone should have an estate plan— even individuals without children or a lot of property.

Without proper planning today, the assets you've worked so hard to create might go to paying taxes. With federal estate tax rates as high as 50%, more than half of what you worked for during your lifetime could be consumed by taxes after your death.

A will is an important part of an estate plan that dictates some very important things, including

- naming the beneficiaries of your estate
- designating how and when they will receive your assets
- selecting the guardians who will care for your minor children

If you don't have a will, many decisions about the distribution of your assets, the management of your estate, and the care of minor children will be determined by the laws of your state. Whatever the size of your estate, a will is an extremely valuable component of your estate plan.

Dying without a will (or in legal terms, dying intestate) may pose a bigger problem than just a simple loss of control. It may mean that your estate has to go through an administrative process that may be slow, expensive, and subject to some significant tax and legal ramifications.

The best way to ensure your estate is settled according to your wishes and avoid excessive taxation is to hire an expert who specializes in estate planning and wills. Please note that even with a will the probate process may be slow and extremely expensive.

Planning ahead

1. Think about who will be the beneficiary of your estate, who you want to execute your will, and what you want to leave behind.
2. Tally your assets to determine the total value of your estate.
3. Create your will.

follow the **five steps** to planning a **healthier retirement**

We hope this booklet has given you a clearer picture of how to plan for retirement. Remember the steps that can help you achieve a more focused and tailored financial retirement strategy:

- Identifying your income sources
- Estimating your retirement expenses
- Bridging the gap
- Learning about your distribution options
- Keeping more of what you've earned

You can easily access planning tools and information about your investment options at fidelity.com/atwork or by calling 1-800-354-7121 Monday through Friday from 8:00 A.M. to midnight ET.

Important Notice: In June 2001, President Bush signed into law the Economic Growth and Tax Relief Reconciliation Act of 2001 ("the Act"). The Act contains a number of pension reform and income tax provisions that may provide expanded opportunities for you as you plan for your retirement. Certain provisions are effective immediately and others will be phased in over the next several years. In addition, all of these provisions are scheduled to expire on December 31, 2010, unless legislation is enacted to extend them before that time. You will receive additional information describing how these provisions may affect you or your plan. Please consult your tax advisor or employer for more information.

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