Teachers Insurance & Annuity Assn. of America

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Credit Highlights

Overview

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<tr>
<th>Strengths</th>
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<tbody>
<tr>
<td>Dominant position in the U.S. higher education pension market and strong affinity relationships within the markets it serves, including the higher education institution market</td>
</tr>
<tr>
<td>Salaried sales force and low-cost distribution structure</td>
</tr>
<tr>
<td>Low-risk product portfolio and predictable earnings</td>
</tr>
<tr>
<td>Excellent financial risk profile supported by 'AAA' capital adequacy per our risk-based capital model</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prolonged low interest rates, despite recent increases in key rates, pressuring investment returns</td>
</tr>
<tr>
<td>Growing banking and asset management segments, which add diversification but may increase the industry risk of the group if they become a material part of operations</td>
</tr>
</tbody>
</table>

We expect Teachers Insurance & Annuity Assn. of America (TIAA) to maintain its dominant market position in the U.S. higher education pension market. TIAA is one of the nation's largest private retirement systems, with assets under administration of about $1.58 trillion as of Dec. 31, 2021. We anticipate it will remain the market leader in the U.S. higher education pension market, benefiting from its solid reputation of providing quality service and advice, which it has built over many years; a controlled, salaried sales force; a low cost structure; and good operating performance.

We anticipate TIAA's financial risk profile will remain excellent. Capitalization is likely to remain redundant at the 'AAA' level per our risk-based capital (RBC) model and is a key credit strength. As with the rest of the industry, the company will need to navigate through the capital market volatility resulting from geopolitical conditions and inflation, but we believe TIAA's capital position and organic earnings capability will support its ability to withstand such pressures. We expect TIAA will maintain leverage at about 20% and EBITDA fixed-charge coverage above 4x.
The company's exceptionally strong credit characteristics compare favorably with peers', though our 'AA+' rating on the U.S. sovereign caps our rating on TIAA. We have a favorable view of TIAA's large nonprofit status, which places a long-term focus on its contractholders; its low-risk product portfolio, wherein its pension liabilities have profit-sharing characteristics; the stability of its earnings; and the overall success of the business model. This results in a group credit profile of 'aaa'. However, we limit the rating to 'AA+' due to the U.S. sovereign rating.

**Outlook: Stable**

The outlook is stable, reflecting S&P Global Ratings' expectation that the group will maintain its excellent competitive position while sustaining its excellent capital and exceptional liquidity. It also reflects our stable outlook on the U.S. long-term sovereign credit rating.

**Downside scenario**

We could lower the ratings if:

- TIAA's unique competitive position in the U.S. higher education pension market erodes significantly or challenges emerge within its asset management or banking businesses;
- Its operating performance or capital adequacy deteriorates; or
- We lower our sovereign credit rating on the U.S.

**Upside scenario**

We do not expect to raise our ratings on TIAA in the next two years, given our current view of the U.S. sovereign's credit quality, which constrains our ratings on insurers.

**Key Assumptions**

- Real GDP growth of 2.4% in 2022 and 1.6% in 2023
- Core Consumer Price Index growth of 5.6% in 2022 and 3.3% in 2023
- Real consumer spending growth of 3.4% in 2022 and 1.9% in 2023
- 10-year Treasury note yield of 2.7% in 2022 and 3.2% in 2023


**TIAA Key Metrics**

<table>
<thead>
<tr>
<th>Metric</th>
<th>2023e</th>
<th>2022e</th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P Global Ratings capital adequacy</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
</tr>
<tr>
<td>EBIT adjusted (mil. $)</td>
<td>&gt;2,500</td>
<td>&gt;2,800</td>
<td>4,453</td>
<td>2,008</td>
<td>2,091</td>
</tr>
<tr>
<td>Pre-dividend return on assets (excluding investment gains/losses) (%)</td>
<td>&gt;1.5</td>
<td>&gt;1.5</td>
<td>1.96</td>
<td>1.48</td>
<td>1.56</td>
</tr>
<tr>
<td>Return on assets (excluding investment gains/losses) (%)</td>
<td>&gt;0.5</td>
<td>&gt;0.5</td>
<td>1.27</td>
<td>0.60</td>
<td>0.65</td>
</tr>
</tbody>
</table>
Business Risk Profile: Excellent

TIAA's core focus is on annuity products and retirement plan administration. The company has a No. 1 market position in the niche higher education not-for-profit defined contribution market, with an approximate 74% market share in 2021; however, growth is limited within this market. The company is also No. 1 in the not-for-profit defined contribution market for K-12 institutions, with a 19% market share, and No. 2 in the not-for-profit defined contribution market for health care institutions, with a 13% market share as of year-end 2021.

We expect the company's higher education market share will remain steady, with some upward potential for its K-12 and health care market shares. Despite these being relatively small markets, we view the company's dominant position within the higher education market and its affinity relationships as strong differentiators from peers.

The company has a salary-based, fully employed sales force, allowing for a high degree of control over its distribution, which we view as benefiting its competitive position. It offers products through institutional and participant counseling staff. The company provides contractholders with a number of services, including full-service recordkeeping for retirement plans and advice and lifetime income to individuals. Superior crediting rates and a very efficient, low-cost premium contribution system propel TIAA's extremely strong client retention rates, despite competition from low-cost mutual fund firms that may have stronger brand awareness.

The company's core business is complemented by banking and asset management services, which were developed further by the acquisition of TIAA FSB (formerly EverBank) and Nuveen Inc. (a diversified investment management company). We view these sources of noninsurance earnings as diversifiers, beneficial to the company's competitive position. However, if these segments were to grow faster than the company's insurance operations, the company might face heightened aggregate industry risk.

TIAA's core products have no living benefit guarantees and are relatively low risk, though further expansion into banking and asset management could increase the risk of its product portfolio. The company's pension annuities are very different from retail fixed deferred annuities:

• First, TIAA's pension annuities have profit-sharing characteristics, reflected as crediting rates above the minimum guarantees. The majority of in-force deferred annuities have a 3% guaranteed rate, though newer contracts have a floating guaranteed rate that is based on the five-year Treasury rate less 125 basis points, which is within 1%-3%

• Second, the main annuity product is very different from retail annuities in that it has limited withdrawal options, making it relatively illiquid and therefore carrying limited disintermediation interest rate risk.

• Third, TIAA's products are offered in retirement plans, leading to a more stable block of business with contributions that are almost entirely paycheck deductions or employer distributions.
• Fourth, TIAA’s product focus is on lifetime income with higher lifetime income payments for long-term participants through release of contingency reserves. On the other hand, the focus of retail annuities is growing the account value prior to annuitization.

These product features, combined with TIAA’s market dominance and scale in the higher education market, make for a very sticky liability base that contributes to its excellent competitive position.

In 2021, TIAA posted record revenue, assets, flows, and operating margin. Revenue hit record highs, boosted primarily by strong investment income (resulting from favorable private equity returns, for example) and fee and bank revenue. We do expect revenue and operating margins to decline in 2022 and 2023 as investment income normalizes. TIAA’s operating performance is generally in line with that of highly rated mutual peers. Further, the illiquid structure of the company’s main retirement annuity product allows for investment in less liquid, longer-term, and higher-yielding assets, producing returns above the peer average. This allows for crediting rates to policyholders above the guaranteed rates.

Chart 1

Pre-Dividend Return On Assets (Excluding Investment Gains/Losses)

Source: S&P Global Ratings.
Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.
Financial Risk Profile: Excellent

TIAA has a strong RBC ratio and 'AAA' level redundancy per the S&P Global Ratings capital model as of year-end 2021. We expect the company to maintain its strong capital position over the forecast horizon. Its capital position benefits from the organic earnings capabilities in its operating entities. We expect its capitalization will be able to absorb the potential credit migration and impairments within the investment portfolio resulting from a deterioration in the credit markets, but we are monitoring such movements closely.

TIAA’s risk exposure is moderately low, reflecting sufficient risk controls compared with its liability profile. The investment portfolio is high quality, reasonably diversified, and has consistently generated superior returns compared with most other large mutual insurers’, although it has faced strain from low interest rates. Yields to policyholders clearly benefit from the low liquidity demands of TIAA’s nonsurrenderable products, which permit TIAA to invest in less liquid, longer-term, and high-yielding investments, such as real estate and alternatives. While real estate and alternative assets provide beneficial portfolio diversification, we consider them to be high-risk assets. We will monitor the investment risk related to these asset classes but believe it to be offset by the noncashable nature of the company's liabilities and its large capital base.
Chart 3

TIAA Portfolio Composition As A Percentage Of General Account Invested Assets

Source: S&P Global Ratings.
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TIAA has $6.3 billion in surplus notes outstanding, with maturities spread over 38 years, the earliest of which is in 2039. The company has guaranteed payment of Nuveen's $1 billion of senior notes due 2028. TIAA's leverage and coverage remain in line with our expectations. Including Nuveen's $1 billion of senior debt, we expect TIAA's leverage to be about 20% over the outlook horizon. We expect coverage to be above 4x over the outlook horizon.

**Other Key Credit Considerations**

**Governance**
TIAA has appropriate strategic planning and comprehensive financial and operational standards. The company has robust risk governance processes in place, reflecting a risk-focused culture that permeates the organization. Risk appetite statements use qualitative and quantitative measures and look at tolerances from mark-to-market and statutory accounting perspectives to support appropriate risk-taking that aligns with strategic planning.

**Liquidity**
TIAA's liquidity ratio was 472% as of year-end 2021 per our calculations. Due to the noncashable structure of the company's main annuity products, the company has lower liquidity requirements. The company has sufficient liquid resources to cover its confidence-sensitive liabilities and insignificant collateral posting requirements. We include its real estate backstop guarantee in our evaluation of stressed liabilities.
Comparable ratings analysis
We apply a positive one-notch adjustment to our rating to capture TIAA's large nonprofit status, which allows for a long-term focus on its contractholders, stability of earnings, and overall success of the business model.

Group support
We consider Nuveen to be strategically important to the group. Strategically important entities are typically rated three notches above their stand-alone credit profiles (SACPs); however, we believe TIAA would provide Nuveen with somewhat more support than is typical of a strategically important entity. We therefore apply an additional positive one-notch adjustment to raise our issuer credit rating on Nuveen to be four notches above its SACP. This assessment considers TIAA's public statements of support and the importance of asset management to the group's long-term strategy, as well as its guarantee of half of Nuveen's debt and assumption of all of Nuveen's operating lease obligations. Further, Nuveen is integrated with the group and provides substantial asset management services to TIAA's general account.

Environmental, social, and governance

ESG Credit Indicators

We view TIAA's environmental, social, and governance (ESG) exposure as in line with that of the broader life insurance sector.

Its main ESG risk factors are social, such as trends in the U.S. retirement market, an aging population, and, to a lesser extent, societal shifts in the education sector. We believe these risks are well reflected in our ratings.

TIAA has appropriate strategic planning and comprehensive financial and operational standards. The company has robust risk governance processes in place, reflecting a risk-focused culture throughout the organization. Risk appetite statements use qualitative and quantitative measures and look at tolerances from mark-to-market and statutory accounting perspectives to support appropriate risk-taking that aligns with strategic planning.

As with many of its peers and competitors, the company has minimal exposure to environmental risks.

Accounting considerations
TIAA reports its financial results only on a statutory accounting basis. We believe its reserving standards are generally conservative. Most of TIAA's annuities provide no cash withdrawal benefits, which has generally resulted in very high retention. We take this into account in our assessment of capital adequacy by including a reduction in the interest rate risk factors assessed against liabilities, which leads to a higher measure of capital redundancy.

TIAA has $6.3 billion of surplus notes outstanding. To the extent these notes meet our criteria for equity treatment (including a remaining tenor of more than 10 years), we consider them to be equity up to 15% of capital.
TIAA benefits from its association with the College Retirement Equities Fund (CREF), an open-end management investment company. Structurally, CREF does not appear on TIAA's balance sheet, yet we include CREF's assets ($283 billion) when we cite the group's aggregate assets under administration ($1.58 trillion as of Dec. 31, 2021). CREF does not expose TIAA to any investment risk; in our view, it enhances TIAA’s competitive position by expanding investment options available to clients and widening its available investment expertise.

Related Criteria

- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Methodology For Assessing Capital Charges For U.S. RMBS And CMBS Securities Held By Insurance Companies, Aug. 29, 2014
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- Nuveen Finance LLC, Sept. 29, 2021

Appendix

**TIAA Credit Metrics History**

<table>
<thead>
<tr>
<th>Ratio/metric</th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P Global Ratings capital adequacy</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AA</td>
</tr>
<tr>
<td>Gross premiums written</td>
<td>14,308</td>
<td>17,705</td>
<td>15,651</td>
<td>15,845</td>
<td>16,255</td>
</tr>
<tr>
<td>Pre-dividend return on assets (excluding investment gains/losses) (%)</td>
<td>1.96</td>
<td>1.48</td>
<td>1.56</td>
<td>1.80</td>
<td>1.62</td>
</tr>
<tr>
<td>Return on assets (excluding investment gains/losses) (%)</td>
<td>1.27</td>
<td>0.60</td>
<td>0.65</td>
<td>0.76</td>
<td>0.64</td>
</tr>
<tr>
<td>Return on revenue (%)</td>
<td>14.6</td>
<td>6.0</td>
<td>6.7</td>
<td>7.4</td>
<td>6.1</td>
</tr>
<tr>
<td>Capital and surplus</td>
<td>42,973</td>
<td>40,001</td>
<td>38,872</td>
<td>38,126</td>
<td>36,336</td>
</tr>
<tr>
<td>Return on capital and surplus (%)</td>
<td>9.6</td>
<td>2.3</td>
<td>3.7</td>
<td>3.9</td>
<td>2.9</td>
</tr>
<tr>
<td>Total invested assets</td>
<td>299,349</td>
<td>288,820</td>
<td>275,159</td>
<td>267,632</td>
<td>259,987</td>
</tr>
</tbody>
</table>

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TIAA Credit Metrics History (cont.)

<table>
<thead>
<tr>
<th>Ratio/metric</th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBIT adjusted</td>
<td>4,453</td>
<td>2,008</td>
<td>2,091</td>
<td>2,359</td>
<td>1,927</td>
</tr>
<tr>
<td>Net income (attributable to all shareholders)</td>
<td>3,994</td>
<td>915</td>
<td>1,410</td>
<td>1,438</td>
<td>1,050</td>
</tr>
<tr>
<td>Expense ratio (%)</td>
<td>7.7</td>
<td>8.9</td>
<td>10.6</td>
<td>10.2</td>
<td>9.4</td>
</tr>
<tr>
<td>Net investment yield (%)</td>
<td>4.6</td>
<td>4.3</td>
<td>4.6</td>
<td>4.8</td>
<td>4.7</td>
</tr>
<tr>
<td>Financial leverage (%)*</td>
<td>18.18</td>
<td>19.48</td>
<td>17.06</td>
<td>16.73</td>
<td>15.03</td>
</tr>
<tr>
<td>EBITDA fixed-charge coverage (x)</td>
<td>12.3</td>
<td>6.0</td>
<td>7.0</td>
<td>9.2</td>
<td>8.0</td>
</tr>
</tbody>
</table>

*2018 onward includes the $1 billion of guaranteed debt at Nuveen in the numerator only, since the debt proceeds were used for Nuveen’s general corporate purposes.

Business And Financial Risk Matrix

<table>
<thead>
<tr>
<th>Business risk profile</th>
<th>Excellent</th>
<th>Very Strong</th>
<th>Strong</th>
<th>Satisfactory</th>
<th>Fair</th>
<th>Marginal</th>
<th>Weak</th>
<th>Vulnerable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>aa+</td>
<td>aa</td>
<td>aa-</td>
<td>a+</td>
<td>a-</td>
<td>bbb</td>
<td>bb+</td>
<td>b+</td>
</tr>
<tr>
<td>Very Strong</td>
<td>aa</td>
<td>aa/aa-</td>
<td>aa-/a+</td>
<td>a+/a</td>
<td>a-/bbb+</td>
<td>bbb/bbb-</td>
<td>bb+/bb</td>
<td>b+</td>
</tr>
<tr>
<td>Strong</td>
<td>aa-/a+</td>
<td>a+/a</td>
<td>a/a-</td>
<td>a-/bbb+</td>
<td>bbb+/bbb</td>
<td>bbb/-bb+</td>
<td>bb/-bb-</td>
<td>b+/b</td>
</tr>
<tr>
<td>Satisfactory</td>
<td>a</td>
<td>a-/aa-</td>
<td>a-/bbb+</td>
<td>bbb+/bbb</td>
<td>bbb/bbb-</td>
<td>bbb+/bb</td>
<td>bb/-b+</td>
<td>b/-b</td>
</tr>
<tr>
<td>Fair</td>
<td>a-</td>
<td>a-/bbb+</td>
<td>bbb+/bbb</td>
<td>bbb/bbb-</td>
<td>bbb/-bb+</td>
<td>bbb/-bb-</td>
<td>bb/-b+</td>
<td>b/-b</td>
</tr>
<tr>
<td>Weak</td>
<td>bbb+/bbb</td>
<td>bbb/bbb-</td>
<td>bbb-/bb+</td>
<td>bb+ /bb</td>
<td>bb/-bb-</td>
<td>bb/-b+</td>
<td>b/-b</td>
<td>b/-b</td>
</tr>
<tr>
<td>Vulnerable</td>
<td>bbb-/bb+</td>
<td>bb+/bb</td>
<td>bb/-bb-</td>
<td>bb-/b+</td>
<td>b+ /b</td>
<td>b/-b</td>
<td>b/-b</td>
<td>b/-b</td>
</tr>
</tbody>
</table>

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of financial risk profile.

Ratings Detail (As Of September 21, 2022)*

Operating Companies Covered By This Report

Teachers Insurance & Annuity Association of America

Financial Strength Rating

Local Currency  AA+/Stable/--

Issuer Credit Rating

Local Currency  AA+/Stable/NR

Subordinated  AA-

TIAA-CREF Life Insurance Co.

Financial Strength Rating

Local Currency  AA+/Stable/--

Issuer Credit Rating

Local Currency  AA+/Stable/--

Related Entities

Nuveen Finance LLC

Issuer Credit Rating  A/Stable/--

Senior Unsecured  A
### Ratings Detail (As Of September 21, 2022) *(cont.)*

<table>
<thead>
<tr>
<th>Domicile</th>
<th>New York</th>
</tr>
</thead>
</table>

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings’ credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.*