S&P Global Ratings

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Research Update:

Teachers Insurance & Annuity Assn. of America 'AA+' Ratings Affirmed On Revised Criteria; Outlook Remains Stable

May 29, 2024

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Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see " Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- Our view of Teachers Insurance & Annuity Assn. of America's financial strength is unchanged under the revised criteria.
- We affirmed our 'AA+' local currency long-term financial strength and issuer credit ratings on Teachers Insurance & Annuity Assn. of America.
- The outlook is stable, reflecting our expectation that the group will maintain its excellent competitive position while sustaining capital redundancy at the 99.99% confidence level.

Rating Action

On May 29, 2024, S&P Global Ratings affirmed its 'AA+' long-term local currency financial strength and issuer credit ratings on Teachers Insurance & Annuity Assn. of America (TIAA). The outlook remains stable.

Impact Of Revised Capital Model Criteria

- S&P Global Ratings' revised capital model does not materially affect its assessment of TIAA's capital adequacy.
- We expect the company will maintain capital redundancy at 99.99% confidence level (i.e. extreme stress, or our highest confidence level) for the next two years.
- TIAA's capital adequacy at the end of 2022, under our revised capital model, reflected a higher interest rate risk charge, offset by the benefits of risk diversification.

Credit Highlights

Overview

Key strengths	Key risks
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.	Significant exposure to a single sector (higher education) leaves the company susceptible to any material sector-related changes.
Salaried sales force and low-cost distribution structure.	Macroeconomic uncertainty.
Low-risk product portfolio and predictable earnings.	
Excellent capital and earnings.	

Outlook

The outlook is stable, reflecting our expectation that the group will maintain its excellent competitive position while sustaining redundancy at the 99.99% confidence level 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 businesses;
- Its operating performance or capital adequacy deteriorate; or
- We lower our 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.

Rationale

We continue to view TIAA as having an excellent competitive position, reflecting its core strength and focus on annuity products and retirement plan administration. TIAA is one of the nation's largest private retirement systems, with assets under management of about $1.28 trillion as of Dec. 31, 2023.

TIAA has a No. 1 market position in the not-for-profit defined contribution market in the niche higher education and K-12 institutions segments, with an approximate 76% and 19% market share, respectively, as of September 30, 2023. It also benefits from a controlled, salaried sales force; a low-cost structure; and good operating performance. However, and while unlikely, any unexpected sector-specific changes in the higher education sector could disrupt the business, given the significant exposure to that sector.

We believe the company's asset management arm, Nuveen Inc. (a diversified investment management company), complements the core business. We view the non-insurance earnings contributions from Nuveen as a positive to TIAA's overall competitive position. However, if the company's non-insurance segment were to grow faster than its insurance operations, it might face higher aggregate industry risk.

As of year-end 2023, TIAA's overall revenue increased by about 12% to about $36.6 billion, but the company reported a net loss of $613 million, driven primarily by an increase in dividends to policyholders and net operating expenses. TIAA's adjusted EBIT was just over $1 billion, which is in line with some of the other mutual companies.

In 2023, TIAA reported capital and surplus of $50.2 billion and a strong risk-based capital ratio of 507%, though below its 2022 level. The lower ratio is predominantly a result of strategic positioning into riskier invested assets.

Per S&P Global Ratings' revised capital model, TIAA exhibits capital redundancy at the 99.99% level. We believe TIAA's capital position benefits from the organic earnings capabilities in its operating entities; however, we will keep track of losses reported by TIAA on the back of two consecutive loss-making years.

TIAA's risk exposure is moderately low, reflecting its high-quality and reasonably diversified investment portfolio. The portfolio has consistently generated superior returns compared with most other large mutual insurers, although it has faced strain from low interest rates. TIAA's core products have no living benefit guarantees and are relatively low risk.

We expect TIAA's leverage to be about 20% over the next two years, with coverage above 4x. TIAA has about $6.3 billion in surplus notes outstanding, with maturities spread over 31 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, TIAA's leverage was 19.2% for year-end 2023.

TIAA's liquidity ratio was about 434% as of year-end 2022, per our calculations. TIAA has sufficient liquid resources and, due to the noncashable structure of the company's main annuity products, the company has lower liquidity requirements.

Ratings Score Snapshot

Financial strength rating	AA+/Stable/--
Anchor	aa+
Business risk	Excellent
IICRA	Low
Competitive position	Excellent
Financial risk	Excellent
Capital and earnings	Excellent
Risk exposure	Moderately low
Funding structure	Neutral
Modifiers	0
Governance	Neutral
Liquidity	Exceptional

Comparable ratings analysis	1
Support	0
Group support	0
Government support	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed	
Teachers Insurance & Annuity Association of America	
Issuer Credit Rating	
Local Currency	AA+/Stable/--
Teachers Insurance & Annuity Association of America	
TIAA-CREF Life Insurance Co.	
Financial Strength Rating	
Local Currency	AA+/Stable/--
TIAA-CREF Life Insurance Co.	
Issuer Credit Rating	
Local Currency	AA+/Stable/--
Teachers Insurance & Annuity Association of America	
Subordinated	AA-
Nuveen LLC	
Senior Unsecured	AA

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors,