

Teachers Insurance & Annuity Assn. of America

Primary Credit Analyst:

Heena C Abhyankar, New York + 1 (212) 438 1106; heena.abhyankar@spglobal.com

Secondary Contact:

Anika Getubig, CFA, New York + 1 (212) 438 3233; anika.getubig@spglobal.com

Research Contributor:

Pranay Bhat, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

Table Of Contents

Credit Highlights

Outlook

Assumptions

Business Risk Profile

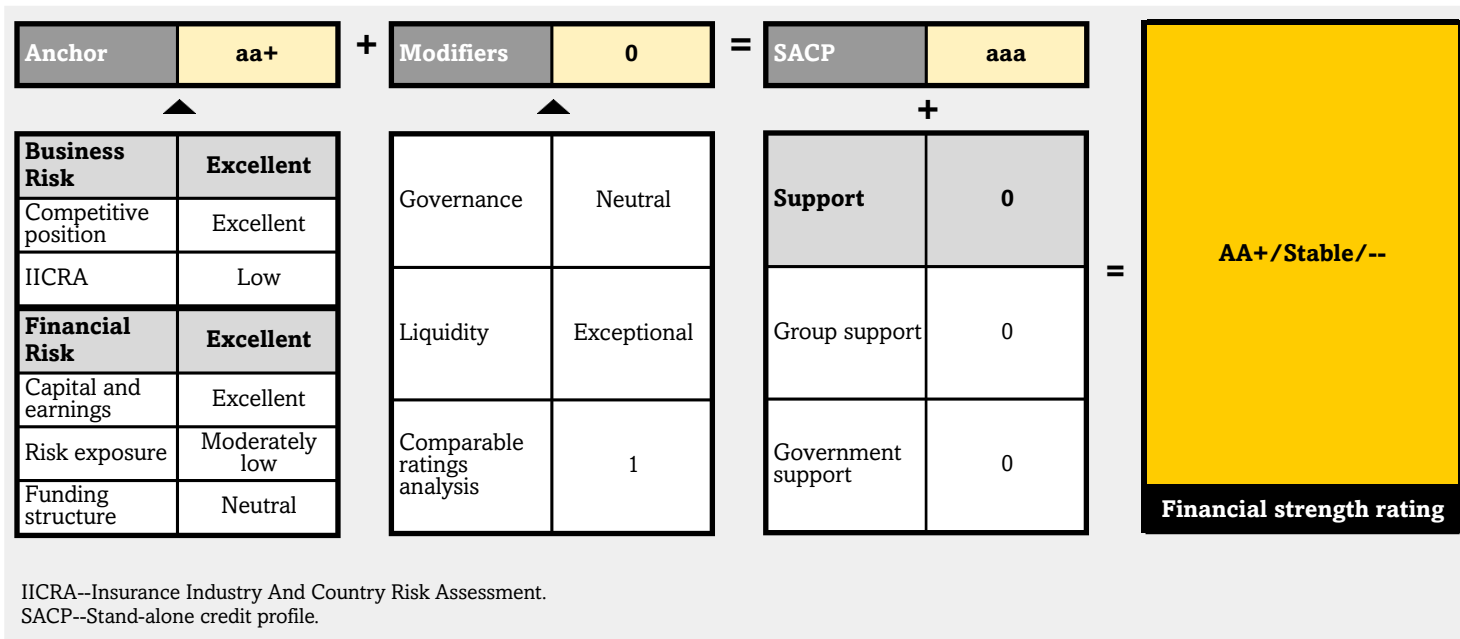
Financial Risk Profile

Other Credit Considerations

Related Criteria

Appendix

Teachers Insurance & Annuity Assn. of America



Credit Highlights

Overview	
Strengths	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.	Uncertain macroeconomic conditions.
Low-risk product portfolio and predictable earnings.	
Excellent financial risk profile supported by 'AAA' capital adequacy per our risk-based capital model.	

Exit from banking operations doesn't affect Teachers Insurance & Annuity Assn. of America's (TIAA's) excellent business profile. TIAA's sale of TIAA Bank (now EverBank N.A.) has no implications for TIAA's overall business because of TIAA's strong presence in its core retirement business. Despite the sale, TIAA's business profile remains diversified, with non-insurance-related contributions from Nuveen Finance LLC (A/Stable/--). While the sale had a one-time impact on the company's capital and earnings, we think on an ongoing basis, overall earnings should remain unaffected.

We expect 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 management of about \$1.21 trillion as of Dec. 31, 2022. 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. 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 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. Like the rest of the industry, the company will need to navigate through uncertain macroeconomic conditions and capital market volatility, but we think 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. TIAA has a nonprofit heritage and we have a favorable view of company's long-term focus on sharing profits with its contractholders; its low-risk product portfolio; its earnings stability; 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 our 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 businesses;
- Its operating performance or capital adequacy deteriorates; 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.

Assumptions

- Real U.S. GDP growth of 1.7% in 2023 and 1.3% in 2024
- S&P 500 Index at 4,288.8 in 2023 and 4,295.4 in 2024
- Average 10-year Treasury note yield of 3.7% in 2023 and 3.6% in 2024

Source: "Economic Outlook U.S. Q3 2023: A Sticky Slowdown Means Higher For Longer," June 26, 2023.

Table 1

Key metrics					
	2024E	2023E	2022	2021	2020
S&P Global Ratings capital adequacy	AAA	AAA	AAA	AAA	AAA
EBIT Adjusted (mil. \$)	>2,700	>2,700	2,660	4,453	2,008
Pre-dividend return on assets (excluding investment gains/losses) (%)	>1.5	>1.5	1.78	1.96	1.48
Return on assets (excluding investment gains/losses) (%)	>0.5	>0.5	0.73	1.27	0.60
EBITDA fixed-charge coverage (x)	>4.0	>4.0	7.1	12.3	6.0
Financial leverage incl. guaranteed Nuveen debt (%)	~20.0	~20.0	18.7	18.2	19.5

E--Estimated.

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 76% market share in 2022; 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 2022.

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. Although these are 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, giving it a high degree of control over its distribution, which we think benefits 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 its asset management arm, Nuveen Inc. (a diversified investment management company). 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.

TIAA's core products have no living benefit guarantees and are relatively low risk. 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, which TIAA no longer offers, and the 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 because 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.

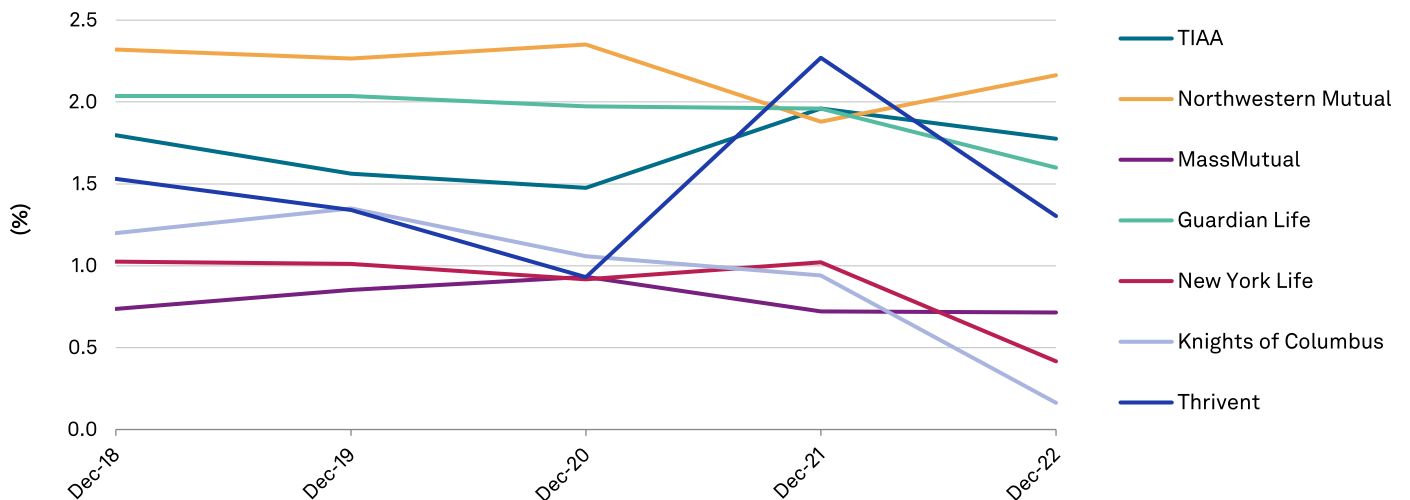
These product features, combined with TIAA's market dominance and scale in the higher education market, make for a very sticky liability base that contributes to its excellent competitive position.

In 2022, TIAA's overall revenue increased but the company reported a net loss of \$261 million, primarily due to net capital losses of \$2.6 billion, which included a \$1.3 billion impairment related to the sale of its banking operations. Excluding this one-time impact, we believe TIAA's operating performance is generally in line with that of highly rated mutual peers.

Furthermore, 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

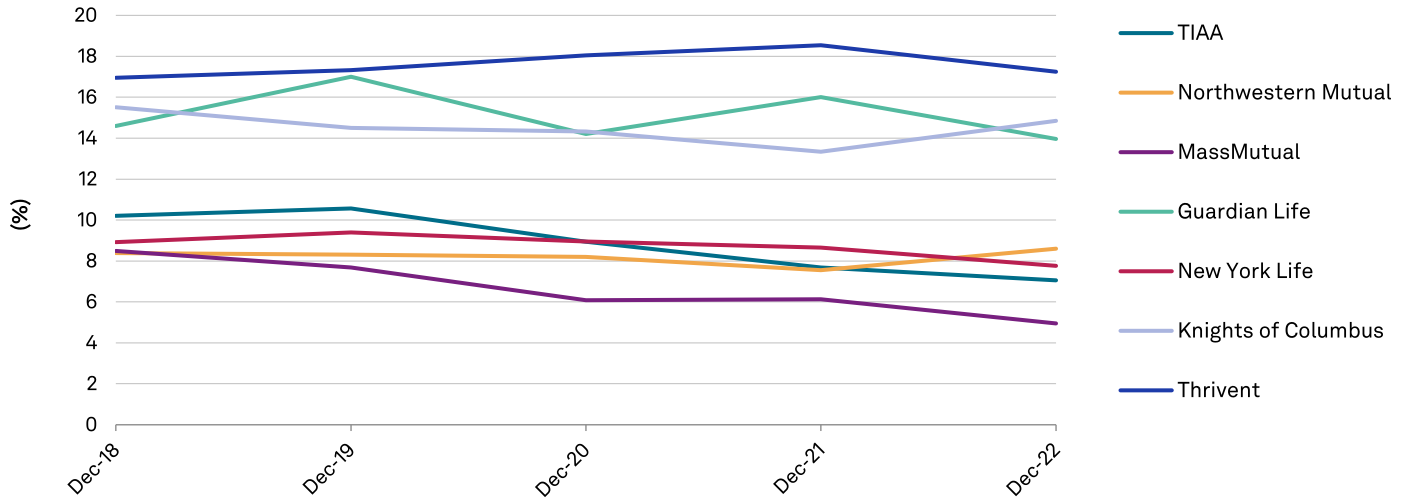
Pre-dividend return on assets (excluding investment gains/losses)



Source: S&P Global Ratings.
 Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

Chart 2

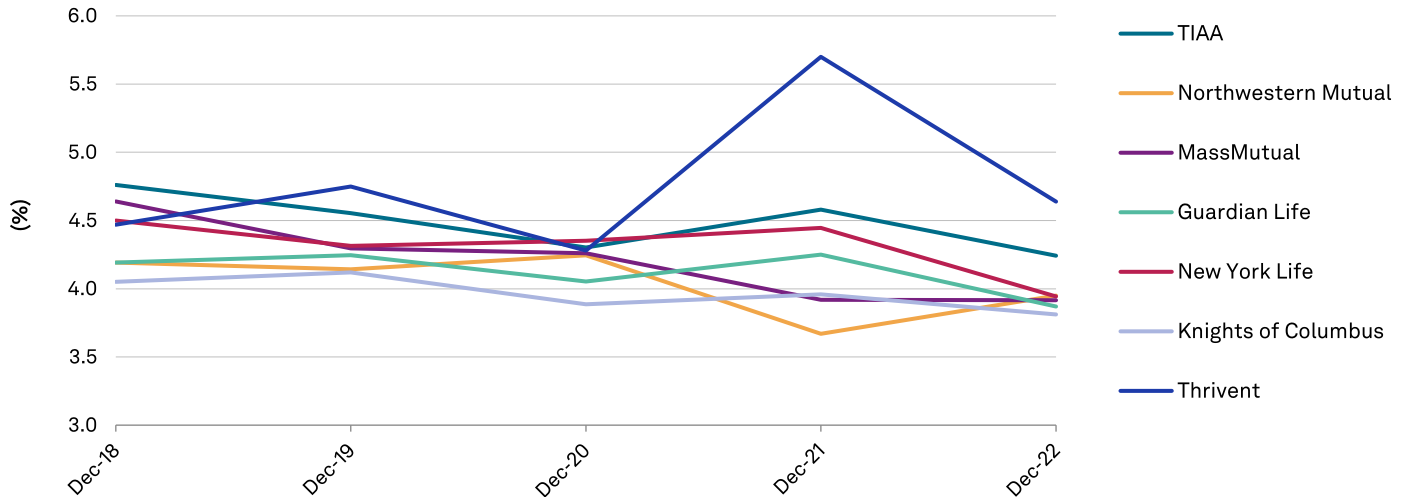
General expenses ratio



Source: S&P Global Ratings.
 Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

Chart 3

Net investment yield



Source: S&P Global Ratings.
 Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

Financial Risk Profile: Excellent

TIAA has a strong RBC ratio of 542% and 'AAA' level redundancy per S&P Global Ratings' capital model as of year-end 2022. In 2022, overall capital and surplus dropped to \$50.5 billion from \$52.4 billion in 2021, mainly because TIAA sold its banking operations. However, we expect the company to rebuild its capital position and to maintain its strong capital strength in the next few years. TIAA's capital position benefits from the organic earnings capabilities in its operating entities.

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 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.

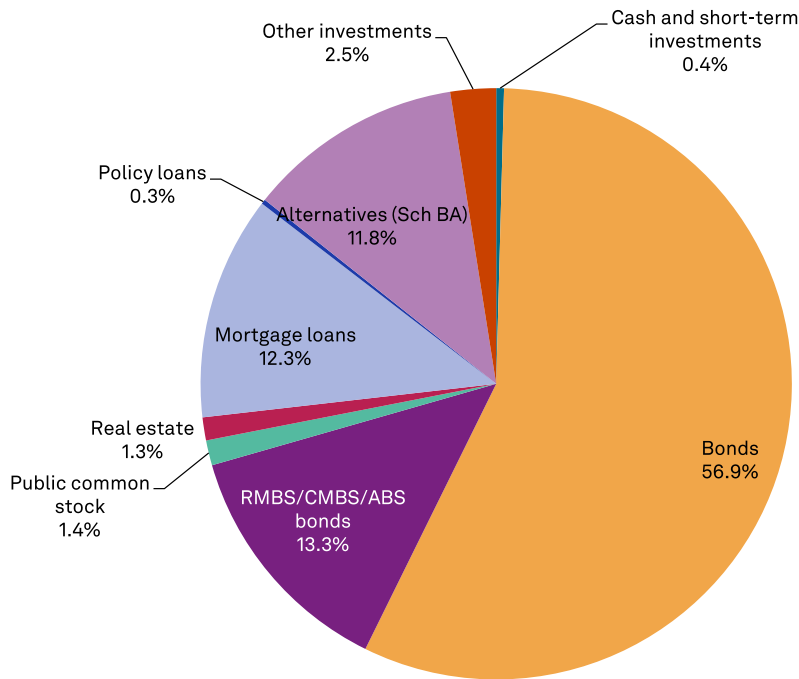
In light of ongoing pressure on the commercial real estate sector, we are also monitoring TIAA's exposure to commercial mortgage loans (CML; about \$38 billion), and exposure to the office space (about 31% of total CML exposure). While we remain concerned about this exposure, the company has a solid loan-to-value ratio of 50% and the debt service coverage ratio was 2.6x for the company's overall CML portfolio as of year-end 2022. As a result, we expect any impact from nonperforming commercial whole loans (CWL) to be fairly absorbable.

Additionally, we expect TIAA's extremely strong capitalization to allow it to absorb the potential credit migration and impairments within the investment portfolio resulting from a deterioration in the credit markets, but will monitor such movements closely.

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, we expect TIAA's leverage to be about 20% over the next two years, with coverage above 4x.

Chart 4

Portfolio composition as a percent of general account invested assets



Source: S&P Global Ratings.
 Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

Other 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 about 434% as of year-end 2022, per our calculations. Due to the noncashable structure of the company's main annuity products, the company has lower liquidity requirements. TIAA 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 heritage and 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. In addition, Nuveen is integrated with the group and provides substantial asset management services to TIAA's general account.

Environmental, social, and governance

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 about \$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 (\$216 billion) when we cite the group's aggregate assets under administration (\$1.39 trillion as of Dec. 31, 2022). 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

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

- General Criteria: Group Rating Methodology, 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
- Criteria | Insurance | General: Methodology For Assessing Capital Charges For Commercial Mortgage Loans Held By U.S. Insurance Companies, May 31, 2012
- Criteria | Insurance | General: Methodology For Calculating The Convexity Risk In U.S. Insurance Risk-Based Capital Model, April 27, 2011
- 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

Appendix

Table 2

TIAA--credit metrics history					
Ratio/Metric	2022	2021	2020	2019	2018
S&P Global Ratings capital adequacy	AAA	AAA	AAA	AAA	AAA
Gross premiums written	15,715	14,308	17,705	15,651	15,845
Pre-dividend return on assets (excluding investment gains/losses) (%)	1.78	1.96	1.48	1.56	1.80
Return on assets (excluding investment gains/losses) (%)	0.73	1.27	0.60	0.65	0.76
Return on revenue (%)	8.1	14.6	6.0	6.7	7.4
Capital and surplus	42,722	42,973	40,001	38,872	38,126
Return on capital and surplus (%)	(0.6)	9.6	2.3	3.7	3.9
Total invested assets	306,499	299,349	288,820	275,159	267,632
EBIT adjusted	2,660	4,453	2,008	2,091	2,359
Net income (attributable to all shareholders)	(261)	3,994	915	1,410	1,438
Expense ratio (%)	7.1	7.7	8.9	10.6	10.2
Net investment yield (%)	4.2	4.6	4.3	4.6	4.8
Financial leverage (%)*	18.73	18.18	19.48	17.06	16.73
EBITDA fixed-charge coverage (x)	7.1	12.3	6.0	7.0	9.2

*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

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

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 the financial risk profile.

Ratings Detail (As Of October 12, 2023)*

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

Domicile

New York

*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.

Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.