Teachers Insurance & Annuity Assn. of America

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Credit Highlights

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<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>
<td>Prolonged low interest rates pressuring investment returns</td>
</tr>
<tr>
<td>Salaried sales force and low-cost distribution structure</td>
<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>
<tr>
<td>Low-risk product portfolio and predictable earnings</td>
<td>Uncertainty about the length and depth of the COVID-19 pandemic and its impact on the economy</td>
</tr>
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</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 $1.286 trillion as of Dec. 31, 2019. We anticipate that it will continue to be 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. TIAA’s capitalization is likely to maintain redundancy at the ‘AAA’ level per our risk-based capital (RBC) model and is a key credit strength. We do expect some deterioration in the company’s investment portfolio because of COVID-19-related financial market volatility, but we believe TIAA’s capital position and organic earnings capability, combined with an expected market recovery in the next two years, will continue to support its ability to withstand such pressures. We believe TIAA will maintain leverage at about 20% and EBITDA fixed-charge coverage above 4x.
TIAA’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

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 business;
• 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 U.S. GDP decline of about 5.0% in 2020 and growth of 5.2% in 2021
• Core Consumer Price Index growth of 0.7% in 2020 and 1.4% in 2021
• Real consumer spending decline of 4.8% in 2020 and growth of 5.5% in 2021
• Average 10-year Treasury note yield of about 1.0% in 2020 and 1.4% in 2021

Source: "The U.S. Faces A Longer and Slower Climb From The Bottom," published June 25, 2020

Key Metrics

<table>
<thead>
<tr>
<th></th>
<th>2021e</th>
<th>2020e</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>EBIT adjusted (mil. $)</td>
<td>&gt;2,000</td>
<td>&gt;1,900</td>
<td>2,109</td>
<td>2,363</td>
<td>1,927</td>
</tr>
<tr>
<td>Predividend return on assets (excluding investment gains/losses) (%)</td>
<td>&gt;1.50</td>
<td>&gt;1.30</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>&gt;0.65</td>
<td>&gt;0.50</td>
<td>0.65</td>
<td>0.76</td>
<td>0.64</td>
</tr>
<tr>
<td>EBITDA fixed-charge coverage (x)</td>
<td>&gt;4.0</td>
<td>&gt;4.0</td>
<td>6.1</td>
<td>8.9</td>
<td>8.0</td>
</tr>
<tr>
<td>Financial leverage incl. guaranteed Nuveen debt (%)</td>
<td>~20.0</td>
<td>~20.0</td>
<td>17.6</td>
<td>16.9</td>
<td>15.0</td>
</tr>
</tbody>
</table>

e--Estimated.
Business Risk Profile

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 78% market share in 2019; 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 an 19% market share, and No. 2 in the not-for-profit defined contribution market for health care institutions, with a 14% market share as of year-end 2019. We expect the company's higher education market share will remain steady, with some upward potential for the 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 further 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 for participants 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, 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 growth of these segments were to outpace that of the company's insurance operations, the company might face heightened aggregate industry risk. The company ceased new life insurance sales in 2019, but this had been an insignificant portion of the company's business.

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.

The COVID-19 pandemic has affected the operations of TIAA's institutional clients as students stay home and health care organizations shift their focus to pandemic-related procedures. Consequently, we anticipate TIAA's new sales and related earnings will be lower in 2020; however, we expect demand to return in 2021. Despite the challenges TIAA's clients are experiencing, we believe the overall impact to TIAA's existing businesses will be limited because the company's economics are mainly driven by large and stable institutional clients.
Financial Risk Profile

TIAA has a strong RBC ratio and ‘AAA’ level redundancy per the S&P Global Ratings capital model as of year-end...
2019. The company continues to execute on a well-defined capital management plan to rebuild capital following a decrease in capitalization in 2017 resulting from its acquisition of EverBank, as well as from the deferred tax asset write-down resulting from tax reform. The company has further plans to improve capitalization over the next two years. TIAA's capital position benefits from the organic earnings capabilities in its operating entities. We expect the company's capitalization will be able to absorb the potential credit migration and impairments within the investment portfolio resulting from the deterioration in the credit markets, but we are monitoring such movements closely.

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. 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 1%-3% guaranteed rates. The main annuity product is unique in that it has limited withdrawal options, making it relatively illiquid and therefore carrying little interest rate risk.

The company's risk exposure is moderately low, reflecting sufficient risk controls compared with its liability profile. The investment portfolio is high quality and 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.
Chart 3
Portfolio Composition As Percentage Of General Account Invested Assets

- Bonds 49.9%
- RMBS/CMBS/ABS bonds 21.8%
- Public common stock 0.2%
- Real estate 1.3%
- Mortgage Loans 11.8%
- Policy loans 0.7%
- Alternatives (Sch BA) 11.4%
- Other Investments 2.5%
- Cash and short-term investments 0.4%

Source: S&P Global Ratings.
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Chart 4
Net Investment Yield

Source: S&P Global Ratings.
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TIAA has $6.3 billion surplus notes outstanding, with maturities spread over 40 years, the earliest of which is in 2039. The company has guaranteed payment of Nuveen’s $1 billion senior notes due 2028. TIAA’s leverage and coverage remain in line with our expectations. Including Nuveen’s $1 billion senior debt, we expect TIAA’s leverage to be about 20% over the rating horizon. We expect coverage to be above 4x over the rating 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 throughout the organization. Risk appetite statements use both qualitative and quantitative measures and look at tolerances from both a marked-to-market and statutory accounting perspective to support appropriate risk-taking that aligns with strategic planning.

**Liquidity**
TIAA’s liquidity ratio was 505% as of year-end 2019 per our calculations. Due to the noncashable structure of the company’s main annuity products, the company has lower liquidity requirements. The company has no confidence-sensitive liabilities and insignificant collateral posting requirements.

**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; 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 stand-alone credit profile. 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 the general account of TIAA.

**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. 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 78% market share over the past several years; it hold the top position in the not-for-profit defined contribution market for K-12 institutions, with a 19% market share; and it holds the No. 2 position in the not-for-profit defined contribution market for health care institutions, with a 14% market share as of year-end 2019.

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 that permeates throughout the organization. Risk appetite statements use both qualitative and quantitative measures and look at tolerances from both a marked-to-market and statutory accounting perspective 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 as equity up to 15% of capital.

TIAA benefits from its association with 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 ($235 billion) when we cite the group's aggregate assets under administration ($1.286 trillion as of Dec. 31, 2019). 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

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, 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
- 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, Oct. 8, 2019

Appendix

TIAA--Credit Metrics History

<table>
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<tbody>
<tr>
<td>S&amp;P Global Ratings capital adequacy</td>
<td>AAA</td>
<td>AAA</td>
<td>AA</td>
<td>AAA</td>
<td>AAA</td>
</tr>
<tr>
<td>Gross premiums written</td>
<td>15,651</td>
<td>15,845</td>
<td>16,255</td>
<td>16,010</td>
<td>12,804</td>
</tr>
<tr>
<td>Predividend return on assets (excluding investment gains/losses) (%)</td>
<td>1.56</td>
<td>1.80</td>
<td>1.62</td>
<td>1.91</td>
<td>1.80</td>
</tr>
<tr>
<td>Return on assets (excluding investment gains/losses) (%)</td>
<td>0.65</td>
<td>0.76</td>
<td>0.64</td>
<td>0.68</td>
<td>0.68</td>
</tr>
<tr>
<td>Return on revenue (%)</td>
<td>6.7</td>
<td>7.4</td>
<td>6.1</td>
<td>6.1</td>
<td>6.8</td>
</tr>
<tr>
<td>Capital and surplus</td>
<td>38,872</td>
<td>38,126</td>
<td>36,336</td>
<td>35,583</td>
<td>34,735</td>
</tr>
<tr>
<td>Return on capital and surplus (%)</td>
<td>3.7</td>
<td>3.9</td>
<td>2.9</td>
<td>4.2</td>
<td>3.5</td>
</tr>
<tr>
<td>Total invested assets</td>
<td>275,159</td>
<td>267,632</td>
<td>259,987</td>
<td>248,740</td>
<td>239,793</td>
</tr>
<tr>
<td>EBIT adjusted</td>
<td>2,109</td>
<td>2,363</td>
<td>1,927</td>
<td>1,946</td>
<td>1,882</td>
</tr>
<tr>
<td>Net income (attributable to all shareholders)</td>
<td>1,410</td>
<td>1,438</td>
<td>1,050</td>
<td>1,492</td>
<td>1,214</td>
</tr>
<tr>
<td>Expense ratio (%)</td>
<td>10.6</td>
<td>10.2</td>
<td>9.4</td>
<td>9.4</td>
<td>10.8</td>
</tr>
<tr>
<td>Net investment yield (%)</td>
<td>4.6</td>
<td>4.8</td>
<td>4.7</td>
<td>4.9</td>
<td>4.7</td>
</tr>
<tr>
<td>Financial leverage (%)</td>
<td>17.63</td>
<td>16.90</td>
<td>15.03</td>
<td>12.48</td>
<td>12.56</td>
</tr>
<tr>
<td>EBITDA fixed-charge coverage (x)</td>
<td>6.1</td>
<td>8.9</td>
<td>8.0</td>
<td>8.2</td>
<td>8.2</td>
</tr>
</tbody>
</table>

*2018 onwards 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.

<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>
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<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-/bbb+</td>
<td>bb/bb-</td>
<td>b+/b</td>
</tr>
<tr>
<td>Satisfactory</td>
<td>a</td>
<td>a/a-</td>
<td>a-/bbb+</td>
<td>bbb+/bbb</td>
<td>bbb/bbb-</td>
<td>bbb-/bb+</td>
<td>bb-/bb+</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>bb-/bb+</td>
<td>b+/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 the financial risk profile.

Ratings Detail (As Of August 18, 2020)*

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

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*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.*