S&P Global Ratings

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Teachers Insurance & Annuity Assn. of America

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Teachers Insurance & Annuity Assn. of America

SACP* Assessments				SACP*		Support		Ratings
Anchor	aa+	Modifiers	1	aa+		0		Financial Strength Rating
Business Risk		ERM and Management	0	Liquidity	0	Group Support	0	AA+/Stable/--
Excellent								
Financial Risk		Holistic Analysis	1	Sovereign Risk	-1	Gov't Support	0	
Extremely Strong								

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Major Rating Factors

Strengths	Weaknesses
• Dominant competitive position in U.S. higher–education pension market • Low-risk product portfolio and predictable earnings • Recent acquisitions boosting scale and product offerings, albeit while raising industry risk • Controlled distribution channel and salary-based sales force	• Capital adequacy at the 'AA' level • Limited access to the capital markets as a nonprofit entity versus public peers • Rating limited to 'AA+' sovereign credit rating on the U.S. (group credit profile indicatively 'aaa')

Rationale

S&P Global Ratings' ratings on Teachers Insurance & Annuity Assn. of America (TIAA) reflects the group's excellent business risk profile (BRP) and extremely strong financial risk profile (FRP). The ratings benefit from TIAA's excellent competitive position in the U.S. higher-education pension market and a low-risk product portfolio. The FRP is supported by our overall view of capital adequacy at the 'AAA' level. For year-end 2017, TIAA's capital adequacy fell to 'AA' per our risk-based capital (RBC) model--an outlier at this rating level where we typically see peers demonstrating 'AAA' capital adequacy. But we believe the group will rebuild its capital back to 'AAA' levels in the next two years through a viable capital management plan. TIAA also has adequate financial flexibility that supports the rating. We adjusted our rating upward by one notch to capture its large nonprofit status that maintains a long-term view, stability of earnings and overall success of its business model resulting in an indicative group credit profile of 'aaa'. We limit the rating, however, to 'AA+' due to the U.S. foreign and local currency credit ratings.

TIAA, TIAA-CREF Life Insurance Co., and College Retirement Equities Fund (CREF; collectively, TIAA-CREF) form one of the nation's largest private retirement systems, with combined assets under administration of about $1.135 trillion as of Dec. 31, 2017.

Outlook: Stable

The stable outlook reflects our view that TIAA's credit characteristics will remain excellent. We expect the group to maintain its excellent business risk profile, extremely strong capital and earnings, and exceptional liquidity during the next two years.

Downside scenario

We could lower our ratings if, contrary to our expectations, the group's unique competitive position in the U.S. higher-education pension market erodes significantly or challenges within its asset management or banking business emerge, affecting its brand or reputation; its capital adequacy deteriorates below our 'AA' RBC target; or we lower the U.S. sovereign rating.

Upside scenario

A positive rating action is unlikely in the next two years given TIAA's profile and our current view of the credit quality of the U.S. sovereign, which constrains our ratings on insurers.

Macroeconomic Assumptions

- Real U.S. GDP growth of about 3% in 2018 and 2.5% in 2019
- Average 10-year U.S. Treasury yield of about 3.0% in 2018 and 3.3% in 2019
- Average 'AAA' corporate bond yields of about 3.6% in 2018 and 4.3% in 2019

Key Metrics

	--Year ended Dec. 31--					
(Mil. $)	**2020***	**2019***	**2018***	**2017**	**2016**	**2015**
Total revenue	>34,350	>33,300	>32,350	31,451.0	31,783.0	27,857.7
Gross premiums and annuity considerations	>17,000.0	>16,700.0	>16,500.0	16,255.0	16,010.0	12,804.0
EBIT adjusted	>1,800	>1,700	>1,600	1,925.5	1,945.4	1,882.2
Net income	>1,600	>1,400	>1,200	1,050.0	1,492.0	1,214.2
Return on revenue (%)	>4.5	>4.0	>3.0	6.1	6.1	6.8
Return on assets (%)	>0.5	>0.4	>0.4	0.6	0.7	0.7
Return on capital and surplus (%)	>3.5	>3.5	>3.5	2.9	4.2	3.5
S&P Global Ratings' capital adequacy/redundancy	AAA	AA	AA	AA	AAA	AAA
Financial leverage (%)	<20	<20	<20	12.8	10.9	11
Fixed-charge coverage (x)	>5.0	>5.0	>5.0	8	8.2	9

*Forecast data reflect S&P Global Ratings' base-case assumptions.

Business Risk Profile: Excellent

TIAA is a legal reserve life insurance company under the insurance laws of the state of New York. By the terms of its charter, TIAA operates without profit to the corporation or its stockholder. TIAA may return excess capital to its participants from time to time. It operates in the U.S. Life insurance market, which we view as having low country and industry risk.

TIAA's BRP reflects its strong reputation for products and services, relatively low-risk product portfolio, favorable competitive position vis-à-vis peers, strong and predictable earnings, and successful business model. Offerings include basic accumulation pension products (59% of reserves), supplemental accumulation products (19%), payout and other pension products (13%), IRAs (7%), and other nonpension products (2%). TIAA garners a very high share of its primary U.S. higher-education pension market; but this market has limited growth. Although its acquisitions of Nuveen Inc. (a diversified investment-management company) and EverBank (now renamed as TIAA Bank) diversify, broaden, and add scale to TIAA, they also boost industry risk. We will continue to monitor TIAA's aggregate industry risk, since material growth of those segments could ultimately pressure the ratings.

TIAA's controlled distribution channel and salary-based sales force, coupled with its institutional and participant counseling staff, are a competitive strength. Superior crediting rates and a very efficient, low-cost premium contribution system drive TIAA's extremely strong client retention rates despite competition for participants from low-cost mutual fund firms that may have stronger brand awareness.

TIAA has an excellent long-term investment performance record of above-average returns. Yields to policyholders benefit from the low liquidity demands of TIAA's nonsurrenderable products, which permit it to invest in less-liquid, longer-term, and comparatively higher-yielding investments. As a result, dividends have increased total credited yields to policyholders to more than the guaranteed annuity rates (typically 1%-3%).

Financial Risk Profile: Extremely Strong

We expect TIAA to maintain its extremely strong earnings and capital despite a prolonged low interest rates and volatile equity markets. At year-end 2017, capital adequacy declined to the 'AA' level from 'AAA' per our RBC model. This was primarily due the acquisition of TIAA FSB Holdings Inc. (formerly EverBank Financial Corp.), an allocation towards investments that merit higher asset charges, and a deferred tax asset (DTA) write-down resulting from tax reform, which we view as a one-time, nonrecurring item. The deficiency at the 'AAA' level is about the same size as the DTA write-down, and we believe management is committed to and has a clear, viable strategy of rebuilding capital adequacy to the 'AAA' level in the next two years. TIAA's capital position benefits from the organic earnings at its operating entities, but if it remains at the 'AA' level for a prolonged period, we would consider this a credit negative.

TIAA's operating earnings depend on the performance of market-sensitive businesses such as annuities and asset management. Its profitability benefits from a low-cost operating structure. We expect TIAA to manage the potential operational and reputational risks inherent in its expanded banking and asset-management businesses. We also expect these riskier lines to remain moderate in size relative to total general account investments and be well supported in terms of capital.

TIAA's risk position benefits from a well-diversified general account portfolio, with low sector and obligor concentrations. By yield, TIAA's investment performance has been consistently superior to most other large mutual insurers', reflecting the group's high-quality investment management, historically low costs, and long-term focus. TIAA's largest sector holdings (not considering its 43.1% holdings in corporates) were in residential mortgage-backed securities, accounting for about 13.1% of total invested assets at year-end 2017 (down from 24% at year-end 2012). Commercial mortgages, commercial mortgage-backed securities, and real estate comprised 15.0% as of year-end 2017 holdings, significantly down from 25.0% 10 years earlier.

TIAA's mutual status limits its access to capital markets, but it has successfully issued surplus notes ($5 billion outstanding), typically to fund acquisitions. Internally generated capital has sufficiently supported TIAA's organic growth. It has shown through cycles that it is willing to adjust dividends to retain additional income.

Other Assessments

We continue to view TIAA's enterprise risk management (ERM) as adequate, supported by neutral assessments of its emerging and strategic risk management, risk-management culture, and overall risk controls, as well as a positive assessment of its risk models. ERM is of low importance to the ratings due to its risk profile and relatively simple product offerings. But the importance of ERM to TIAA is rising, however, as it expands into banking and asset management. We view TIAA's risk-management framework as slightly less robust and formalized than other insurers' we score positively. The group has been focusing on building out its second line of defense within ERM over the past few years and is now shifting to embedding risk management on the front lines, which we view favorably but as lagging the pace of its peers.

We score TIAA's risk controls as neutral, reflecting positive scores for credit and insurance risk controls and neutral scores market, interest rate, and operational risk controls. Of all risk types, the credit risk control framework seems the most granular, formalized, and seasoned. We base our positive score on the group's detailed approach to identifying sources of insurable risk, formal experience study process, deliberate design of low-risk products, and robust stress testing. Due to limited ability to cash out most of its products, as well as the lack of long-term living or death benefits, market risk is minimal for TIAA, and we believe the controls it has in place are appropriate for its risk profile.

We view TIAA's risk models positively, reflecting its thorough utilization of risk models, formal framework for governing them, consistent approach to stressing models, and the robustness and independence of the team that develops and validates risk models. We also view TIAA's emerging risk management framework and practices as neutral, recognizing its formal framework for identification and monitoring emerging risks but lack of metrics to quantify each. We score TIAA's strategic risk management neutral due to clear involvement of ERM in strategic decision-making but with a lack of formal, quantifiable risk-adjusted metrics and goals.

We assess TIAA's management and governance as strong, reflecting management's depth and breadth of experience and expertise across its major lines of business. Management has also consistently exhibited strengths related to strategic planning, operational effectiveness, and consistency of strategy. TIAA clearly defines and adheres to strict financial and operational management goals, focusing on achieving greater synergies throughout the organization while maintaining a very conservative capital structure.

We view TIAA's liquidity as exceptional, with little to no exposure to confidence-sensitive liabilities or collateral-posting requirements. TIAA also has a positive liquidity ratio of 367% based on our liquidity analysis. This reflects the unique design and protective features of its products, most of which are nonsurrenderable or only permit withdrawals during designated time periods, enhancing the liquidity-risk profile.

Other Considerations

Group ratings methodology

Our ratings on Nuveen Finance LLC (formerly TIAA Asset Management Finance Co. LLC, a wholly owned subsidiary of Nuveen LLC, itself a wholly owned subsidiary of TIAA established to facilitate the purchase of Nuveen) reflect the implicit support it receives from TIAA under our group rating methodology. Our 'BBB+' issuer credit rating on Nuveen Finance is three notches above its 'bb+' stand-alone credit profile, which is standard for a strategically important subsidiary of a consolidated group.

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 levels. 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 $5 billion of surplus notes outstanding. To the extent these notes meet our criteria for equity treatment (including a remaining tenor of more than 20 years), we consider them as equity up to 15% of capital.

TIAA benefits from its association with CREF, an open-end management investment company. Structurally, CREF does not appear on TIAA's balance sheet, yet we include CREF's assets ($237 billion) when we cite the group's aggregate assets under administration ($1.135 trillion at Dec. 31, 2017). 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: Methodology For Assessing Capital Charges For U.S. RMBS And CMBS Securities Held By Insurance Companies, Aug. 29, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- 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

- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- Criteria - Insurance - Life: Liquidity Model For U.S. And Canadian Life Insurers, April 22, 2004

Ratings Detail (As Of October 10, 2018)	
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	BBB+/Stable/--
Senior Unsecured	BBB+
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.