S&P Global
Ratings

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Teachers Insurance & Annuity Assn. of America

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Teachers Insurance & Annuity Assn. of America

Anchor	aa+
Business Risk	**Excellent**
Competitive position	Excellent
IICRA	Low
Financial Risk	**Excellent**
Capital and earnings	Excellent
Risk exposure	Moderately low
Funding structure	Neutral

+

Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	1

=

SACP	aaa

+

Support	0
Group support	0
Government support	0

=

AA+/Stable/--

Financial strength rating

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

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	Prolonged low interest rates pressuring investment returns
Salaried sales force and low-cost distribution structure	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
Low-risk product portfolio and predictable earnings	Evolving COVID-19 pandemic situation and continued headwinds in TIAA's main market, the higher education sector.
Excellent financial risk profile supported by 'AAA' capital adequacy per our risk-based capital model	

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 $1.42 trillion as of Dec. 31, 2020. 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 the continued market recovery in the next two years, will 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 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 6.7% in 2021 and 3.7% in 2022
- Core Consumer Price Index growth of 2.8% in 2021 and 2.4% in 2022
- Real consumer spending growth of 8.1% in 2021 and growth of 4.1% in 2022
- 10-year Treasury note yield of 1.7% in 2021 and 2.3% in 2022

Source: "Economic Outlook U.S. Q3 2021: Sun, Sun, Sun, Here It Comes," June 24, 2021

Key Metrics

	2022e	2021e	2020	2019	2018
S&P Global Ratings capital adequacy	AAA	AAA	AAA	AAA	AAA
EBIT adjusted (mil. $)	>1,700	>1,600	2,008	2,091	2,359
Pre-dividend return on assets (excluding investment gains/losses) (%)	>1.3	>1.1	1.48	1.56	1.80
Return on assets (excluding investment gains/losses) (%)	>0.5	>0.5	0.60	0.65	0.76
EBITDA fixed-charge coverage (x)	>4.0	>4.0	6.0	7.0	9.2
Financial leverage incl. guaranteed Nuveen debt (%)	~20.0	~20.0	19.5	17.1	16.7

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 77% market share in 2020; 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 13% market share as of year-end 2020. 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 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 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 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. TIAA'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 which 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 for the account value to grow prior to annuitization.

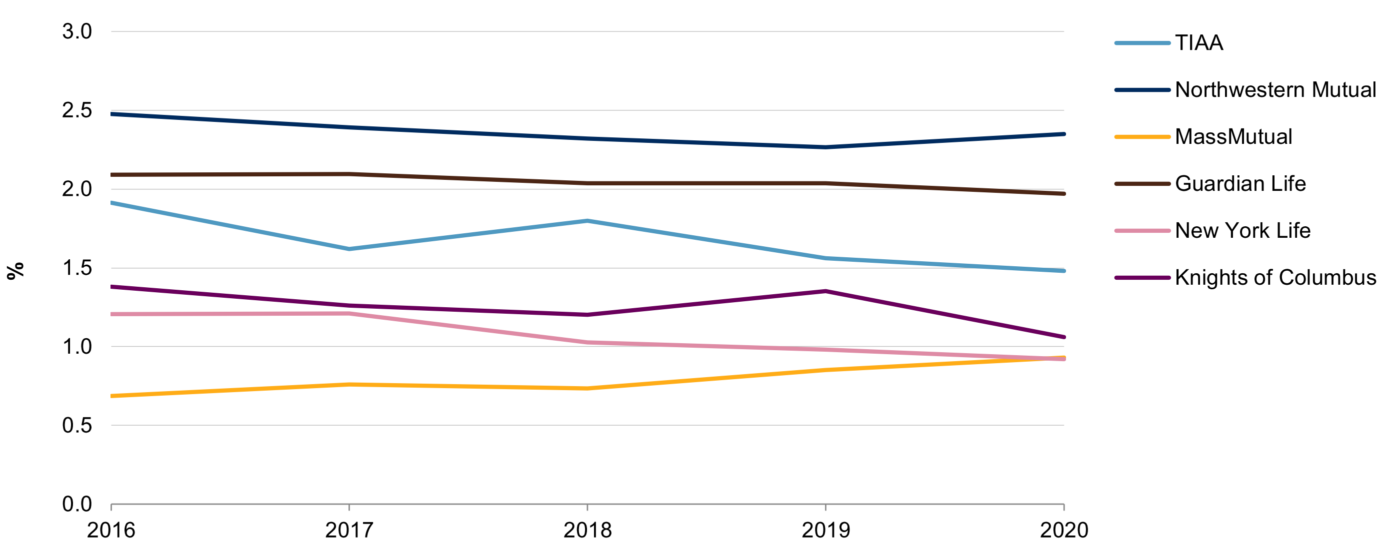
These product features combined with TIAA's market dominance and scale in the higher education market make for a very sticky liability profile that contributes to its excellent competitive position.

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. TIAA exhibited resilience during economic uncertainty in 2020. Even though we witnessed a strong economic recovery in the first half of 2021, there are still headwinds in the education sector. Consequently, we expect lower new sales and earnings in 2021 compared to a strong 2020, and then a continuation of the growth trajectory in 2022 as the economy continues to rebound. 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.

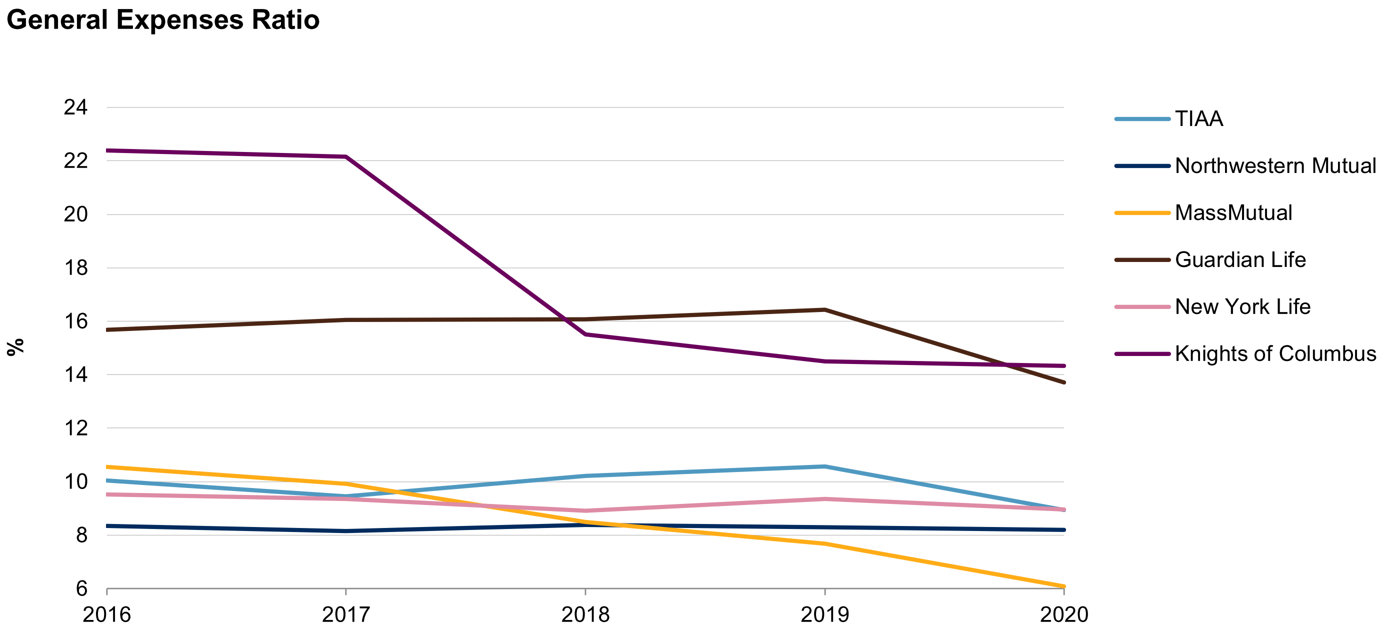
Chart 1

Predividend Return On Assets (Excluding Investment Gain/Losses)



Source: S&P Global Ratings.

Chart 2



Source: S&P Global Ratings.

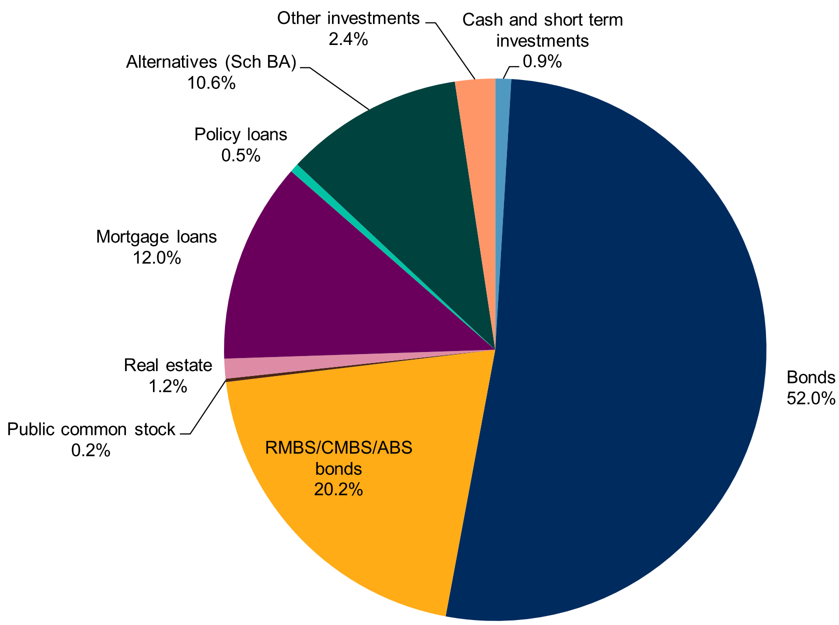
Financial Risk Profile

TIAA has a strong RBC ratio and 'AAA' level redundancy per the S&P Global Ratings capital model as of year-end 2020. We expect TIAA to maintain its strong capital position over the forecast horizon. 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 a deterioration in the credit markets, but we are monitoring such movements closely.

The company'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

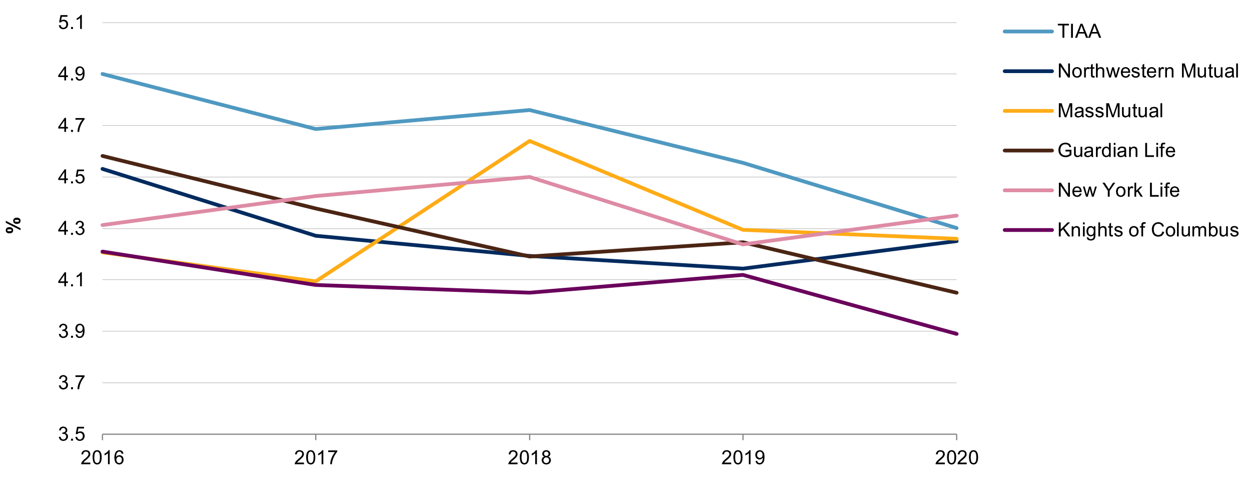
Portfolio Composition As A Percent Of General Account Invested Assets



Source: S&P Global Ratings.

Chart 4

Net Investment Yield



Source: S&P Global Ratings.

TIAA has $6.3 billion in 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 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 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 the organization. Risk appetite statements use qualitative and quantitative measures and look at tolerances from a mark-to-market and statutory accounting perspective to support appropriate risk-taking that aligns with strategic planning.

Liquidity

TIAA's liquidity ratio was 488% as of year-end 2020 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 (SACP); 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

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 a mark-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 ($259 billion) when we cite the group's aggregate assets under administration ($1.42 trillion as of Dec. 31, 2020). 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: 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
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- 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
- 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

Related Research

- Nuveen Finance LLC, Sep 15, 2020

Appendix

TIAA--Credit Metrics History

Ratio/metric	2020	2019	2018	2017	2016
S&P Global Ratings capital adequacy	AAA	AAA	AAA	AA	AAA
Gross premiums written	17,705	15,651	15,845	16,255	16,010
Pre-dividend return on assets (excluding investment gains/losses) (%)	1.48	1.56	1.80	1.62	1.91
Return on assets (excluding investment gains/losses) (%)	0.60	0.65	0.76	0.64	0.68
Return on revenue (%)	6.0	6.7	7.4	6.1	6.1
Capital and surplus	40,001	38,872	38,126	36,336	35,583
Return on capital and surplus (%)	2.3	3.7	3.9	2.9	4.2
Total invested assets	288,820	275,159	267,632	259,987	248,740
EBIT adjusted	2,008	2,091	2,359	1,927	1,946
Net income (attributable to all shareholders)	915	1,410	1,438	1,050	1,492
Expense ratio (%)	8.9	10.6	10.2	9.4	9.4
Net investment yield (%)	4.3	4.6	4.8	4.7	4.9
Financial leverage (%)*	19.48	17.06	16.73	15.03	12.48
EBITDA fixed-charge coverage (x)	6.0	7.0	9.2	8.0	8.2

*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 corporpate 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 September 16, 2021)*

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

Ratings Detail (As Of September 16, 2021)*(cont.)	
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.