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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			Holistic Analysis	1		Sovereign Risk	-1	Gov't Support	0	
Financial Risk										
Extremely Strong										

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

Rationale

Business Risk Profile: Excellent

- Dominant position in the U.S. higher-education pension market
- Very strong and consistent operating performance
- Recent and pending acquisitions raising industry risk, but favorably adding scale and product offerings

Financial Risk Profile: Extremely Strong

- Extremely strong capital adequacy with comfortable redundancy at 'AAA' level
- Strong earnings supported by high persistency rates, low expenses, and above-average investment returns
- Adequate financial flexibility with limited access to capital due to private status

Other Factors

- Mutual status, strength and predictability of earnings, and overall successful business model
- Exceptional liquidity enhanced by barriers to early annuity withdrawal
- Rating limited to 'AA+' sovereign credit rating on the U.S. (group credit profile indicatively 'aaa')
- Satisfactory management and governance and adequate enterprise risk management (ERM) practices strengthening as they develop

Outlook: Stable

The stable outlook on Teachers Insurance & Annuity Assn. of America (TIAA) reflects S&P Global Ratings' view that its credit characteristics, and those of its wholly owned subsidiary TIAA-CREF Life Insurance Co. (TIAA-CREF Life), remain excellent. We expect TIAA to maintain its excellent business risk profile, extremely strong capital and earnings, and exceptional liquidity.

Downside scenario

We might lower our ratings on TIAA if, contrary to our expectations, its unique competitive position in the U.S. higher-education pension market erodes significantly, affecting the brand and/or reputation; capital adequacy deteriorates below our 'AA' risk-based capital (RBC) target; or we lower our sovereign rating on the U.S.

Upside scenario

Any positive rating action depends on us raising our sovereign rating on the U.S., which constrains our ratings on insurers.

Base-Case Scenario**Macroeconomic Assumptions**

- Real U.S. GDP growth of about 1.5% in 2016 and 2.4% in 2017
- Average 10-year U.S. Treasury yield of about 1.8% in 2016 and 2.2% in 2017
- U.S. 'AAA' corporate bond yields of about 2.6% in 2016 and 3.3% in 2017
- Average S&P 500 Index level of 2073 in 2016 and 2255 in 2017
- Average payroll employment of 144 million in 2016 and 146 million in 2017

Company-Specific Assumptions

- TIAA pre-dividend 2016 income of roughly \$4.6 billion
- Positive financial leverage at TIAA consistently less than 20%

Key Metrics

	--Year ended Dec. 31--				
	2017*	2016*	2015	2014	2013
S&P Global Ratings capital adequacy/redundancy	AAA*	AAA*	AAA	AAA	AAA
Financial leverage(%)	<20	<20	12.2	12.3	6.5
Net income (mil. \$)	>4,500	>4,500	4,961	4,899	5,527

*Forecast data reflect S&P Global Ratings' base-case assumptions. Net income is predividend and pretaxes.

Company Description: Dominant In The U.S. Higher-Education Pension Market

TIAA, TIAA-CREF Life, and College Retirement Equities Fund (CREF; collectively TIAA-CREF) form one of the largest private retirement systems in the U.S. Their combined assets under management totaled \$854 billion (with assets under administration of about \$913 billion) as of Dec. 31, 2015. Its offerings include basic accumulation pension (61% of reserves), supplemental accumulation (18%), payout and other pension (13%), IRA (7%), and other non-pension products (2%).

Business Risk Profile: Excellent

TIAA's business risk profile reflects its relatively low-risk product portfolio, favorable competitive position vis-à-vis peers, strength and predictability of earnings, and overall success of its business model.

Insurance industry and country risk

TIAA faces relatively low country risk and industry risk since most of its operations are in the U.S. life insurance market. Our view of low country risk stems from the stable economic growth prospects, relatively effective and stable political institutions, sophisticated financial systems, and a strong payment culture in the U.S. Our view of low industry risk reflects the U.S. life insurance market's relative maturity, an adequate regulatory infrastructure, moderate product risk, and strong availability of fixed-income instruments to match life and annuity liabilities. Although U.S. life insurers face significant opportunities due to an underserved market and increased demand for investment and retirement products, we believe a stable but low-growth economy, low interest rates, and intense competition may limit the sector's near-term growth prospects and potential for higher operating margins. If TIAA shifts its business (by revenues or liabilities) so that asset management and banking become meaningful contributors, we could revise our view of the company's industry risk.

Table 1

Teachers Insurance & Annuity Assn. of America (Combined) -- Industry And Country Risk

Insurance sector	Risk	Business mix (%)
U.S. life	Low	99.98
Canada life	Very low	0.02

Competitive position

TIAA has a very strong competitive position based on its reputation for providing quality products and service to its target clients--nonprofit educational and research institutions' faculty and staff. The company continues its efforts to expand within the not-for-profit market, including cultural institutions and health-care clients. Its 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 premium contribution system contribute to TIAA's extremely strong client retention rates (more than 95%) despite competition from low-cost mutual fund firms that may have stronger brand recognition. TIAA is rolling out a multiyear marketing and brand strategy to enhance these strengths.

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

TIAA has a very high share of its primary U.S. higher-education pension market, but this market has limited growth. TIAA's acquisition of Nuveen Inc., a diversified investment management company, and its pending acquisition of EverBank increase its industry risk modestly. But these acquisitions should diversify, broaden, and add scale to its existing asset-management and banking businesses.

Table 2

Teachers Insurance & Annuity Assn. of America (Combined) -- Competitive Position					
--Year ended Dec. 31--					
(Mil. \$)	2015	2014	2013	2012	2011
Gross premiums and annuity considerations	12,804.0	12,001	13,194	10,785	11,364
Change in gross premiums and annuity considerations (%)	6.7	(9.0)	22.3	(5.1)	0.2
Net premiums and annuity considerations	12,664.3	11,861	13,061	10,714	11,308
Change in net premiums and annuity considerations (%)	6.8	(9.2)	21.9	(5.3)	0.2
Total assets under management	280,506.1	272,083	258,109	242,281	229,783
Growth in total assets under management (%)	3.1	5.4	6.5	5.4	5.5

Financial Risk Profile: Extremely Strong

Capital and earnings

We expect TIAA to maintain its extremely strong earnings and capital despite volatile equity markets and prolonged low interest rates. Its capital position benefits from the organic earnings capabilities of its operating entities. We expect operations to maintain capital adequacy consistent with 'AAA' confidence levels.

TIAA's U.S. statutory-based operating performance has been strong. We expect about \$4.6 billion in 2016 pre-dividend income. But overall operating earnings depend on the performance of market-sensitive businesses, such as annuities and asset management. TIAA's historically low-cost operating structure contributed to its above-average profitability. We believe the recent rise in its expense ratio, however, may lead to erosion in profitability.

We expect TIAA to continue to pursue inorganic growth strategically. We view its pending EverBank acquisition (expected to close in first-half 2017) as relatively modest in size, at roughly 1% of general account assets. We, therefore, expect TIAA to fund the purchase so that capital remains redundant at the 'AAA' capital level. We view the transaction as strategically consistent with TIAA's plans to expand offerings to its existing individual and institutional customers. We expect its investments in riskier businesses (like banking and asset management) to remain modest relative to total investments.

Table 3

Teachers Insurance & Annuity Assn. of America (Combined) -- Capitalization					
--Year ended Dec. 31--					
(Mil. \$)	2015	2014	2013	2012	2011
Capital and surplus	34,735.5	33,919.9	30,779.1	29,308.1	27,130.9
Change in capital and surplus (%)	2.4	10.2	5.0	8.0	7.9
Total adjusted capital (TAC)	39,610.9	39,912.1	36,397.4	33,671.6	30,826.3
Change in TAC (%)	(0.8)	9.7	8.1	9.2	10.0

Table 4

Teachers Insurance & Annuity Assn. of America (Combined) -- Earnings					
--Year ended Dec. 31--					
(Mil. \$)	2015	2014	2013	2012	2011
Total revenue	27,857.7	27,145.2	28,231.9	25,133.1	25,490.7
EBIT adjusted	1,882.2	1,457.0	2,254.9	2,605.0	2,832.0
Net income	1,214.2	966.7	1,722.1	2,060.0	2,388.4
Return on revenue (%)	6.8	5.4	8.0	10.4	11.1
Return on revenue (including realized gains/losses) (%)	5.1	4.0	6.6	8.8	9.6
Return on assets (excluding realized gains/losses) (%)	0.7	0.5	0.9	1.1	1.3
Return on capital and surplus (%)	3.5	3.0	5.7	7.3	9.1
Expense ratio (%)	10.9	11.2	7.0	7.6	7.0
Prebonus pretax earnings/total assets (%)	1.8	1.8	2.2	2.4	2.6

Risk position

TIAA's risk position benefits from a well-diversified general account portfolio, with low sector and obligor concentrations. By yield, its investment performance has been consistently superior to that of most other large mutual insurers, reflecting the company's high-quality investment management, historically low costs, and long-term focus. We consider TIAA's level of high-risk assets to total adjusted capital as neutral (at roughly 96%). TIAA's largest sector holdings (not considering its 41.4% holdings in corporates) were in residential mortgage-backed securities (about 17% of total invested assets at year-end 2015, down from 24% as of year-end 2012). Commercial mortgages and mortgage-backed securities, and real estate made up 16% of year-end 2015 holdings, significantly down from 30% a decade earlier.

Table 5

Teachers Insurance & Annuity Assn. of America (Combined) -- Risk Position					
--Year ended Dec. 31--					
(Mil. \$)	2015	2014	2013	2012	2011
Total invested assets (including affiliated investments)	239,793.0	235,123.8	226,722.0	216,557.2	207,548.5
Change in total invested assets (%)	2.0	3.7	4.7	4.3	4.5
Separate account assets	35,119.3	31,382.7	26,017.0	20,209.9	16,886.9
Net investment income	11,250.3	11,231.5	11,277.8	11,070.5	10,902.1
Realized capital gains/(losses)	(491.4)	(373.6)	(417.0)	(418.1)	(434.4)
Net investment yield (%)	4.7	4.9	5.1	5.2	5.4

Table 5

Teachers Insurance & Annuity Assn. of America (Combined) -- Risk Position (cont.)					
	--Year ended Dec. 31--				
(Mil. \$)	2015	2014	2013	2012	2011
Net investment yield including realized capital gains/(losses) (%)	4.5	4.7	4.9	5.0	5.2
Portfolio composition (% of general account invested assets)					
Cash and short-term investments	0.3	0.7	0.7	0.8	0.3
Bonds	77.7	78.5	81.6	81.7	82.3
Unaffiliated equity investments	0.5	0.6	0.5	0.5	0.5
Real estate	0.8	0.8	0.8	0.7	0.8
Mortgages	7.9	6.6	6.3	6.0	6.3
Investments in affiliates	6.7	6.9	6.1	5.3	4.3
Investments in partnerships, joint ventures, and other alternative investments	2.9	3.1	3.0	4.0	4.1
Other investments	3.2	2.7	1.1	0.9	1.3

Financial flexibility

We consider TIAA's financial flexibility to be adequate. TIAA's mutual status limits its access to capital markets, but it has successfully issued surplus notes (\$4 billion outstanding). Historically, internally generated capital has sufficiently supported TIAA's organic growth. The company has demonstrated through cycles that it is willing to adjust its dividend to retain additional income.

Table 6

Teachers Insurance & Annuity Assn. of America (Combined) -- Financial Flexibility					
	--Year ended Dec. 31--				
(Mil. \$)	2015	2014	2013	2012	2011
EBIT Interest coverage (x)	7.4	9.9	16.5	19.0	20.6
Financial leverage (%)	12.2	12.3	6.5	7.0	10.1
Net cash flow from operating activities	5,700.4	5,505.0	8,240.5	8,253.9	8,540.2
Net cash flow from investing activities	(7,220.9)	(7,750.9)	(8,563.9)	(7,201.5)	(9,472.9)
Net cash from from financing activities	587.1	2,401.9	30.3	13.1	183.6

Other Assessments

Enterprise risk management

We consider TIAA's ERM to be adequate reflecting its risk focused culture and strong risk governance. Evolving control functions enable the company to identify and assess risks and their impact, in our view. Given its relatively basic products and extremely well-capitalized position, we continue to view ERM as being of low importance to the rating. We consider its ERM culture, which is embraced by senior management and integrated throughout the organization, to be positive. TIAA has an established culture of accountability and continues to build out its risk capabilities with the support of chief risk officers to embed risk in its strategic business decisions and to align business risk limits to overall enterprise tolerances.

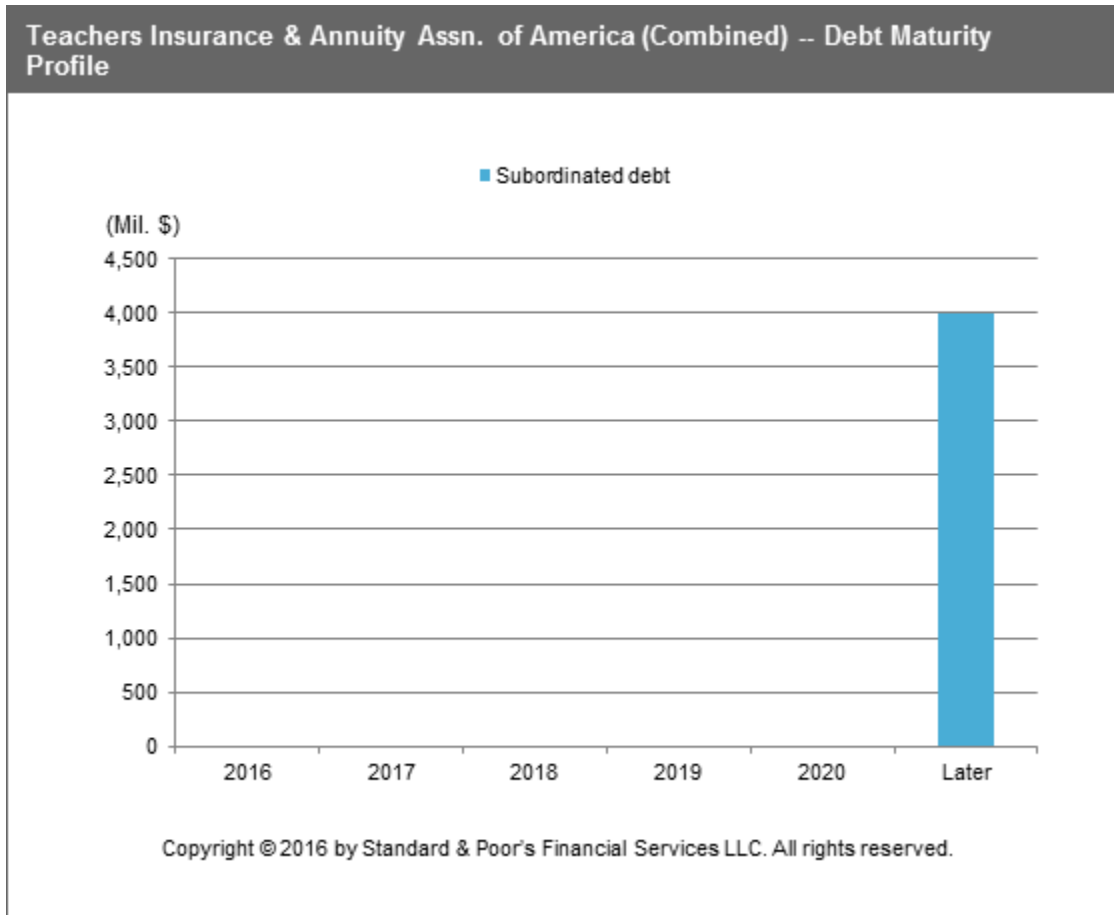
We currently view risk controls as neutral, reflecting the continued improvement and formalization of processes slightly offset by lack of seasoning. We believe its investment risk controls are well developed and supported by sophisticated modeling capabilities, and are appropriate for the generally higher level of investment risk it assumes. TIAA is able to assume incremental investment risk because of the surrender limitations embedded in its products and the resulting persistency of its liabilities. But we believe the longer-term investment profile requires diligence to monitor and control investment and asset-liability risks. Maintaining investment performance and reputational integrity are critical to TIAA's competitive advantage and a key contributor to its financial strength. The acquisition of Nuveen boosts TIAA's exposure to potential earnings volatility from adverse capital market movements (equity and interest rates), increasing the importance of strong risk controls.

Management and Governance

TIAA's management and governance is satisfactory, reflecting the experience and expertise of the management team, which has consistently demonstrated strong strategic planning, operational effectiveness, and consistency of strategy. TIAA clearly defines and adheres to strict financial and operational management goals focused on achieving greater synergies throughout the firm while maintaining a conservative capital structure. We believe TIAA's acquisition of Nuveen, its largest acquisition to date, remains consistent with its goal to expand its asset-management platform. We expect management to smoothly integrate the pending EverBank acquisition, as well.

Liquidity

We view TIAA's liquidity as exceptional with little to no exposure to confidence-sensitive liabilities or collateral-posting requirements. It also has a very strong liquidity ratio of 424% per our liquidity analysis, reflecting the unique design of its products and their protective features, most of which are nonsurrenderable or only permit withdrawals during designated time periods, enhancing TIAA's liquidity-risk profile.



Support

Group support

Our ratings on TIAA Asset Management Finance Co. LLC (TAMF; a wholly owned subsidiary of TIAA Asset Management 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 issuer credit rating on TAMF is three notches above its 'bb' stand-alone credit profile, reflecting our standard three-notch uplift 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 historically 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 results in a higher measure of capital redundancy.

TIAA has \$4 billion of surplus notes outstanding. To the extent these notes meet our criteria for equity treatment

(including a remaining debt tenor of more than 20 years), we consider the surplus note as equity up to 15% of capital. The company has no captives and no operating leverage.

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 incorporate CREF into our analysis of TIAA. For example, we include CREF's assets (\$215 billion) when citing the group's aggregate assets under management (\$854 billion as of Dec. 31, 2015). CREF does not expose TIAA to any investment risk; in our view, it enhances TIAA's competitive position by expanding the investment options available to clients and increasing the breadth of investment expertise available to the organization.

Related Criteria And Research

- Methodology For Assessing Capital Charges For U.S. RMBS And CMBS Securities Held By Insurance Companies, Aug. 29, 2014
- Group Rating Methodology, Nov. 19, 2013
- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Methodology For Assessing Capital Charges For Commercial Mortgage Loans Held By U.S. Insurance Companies, May 31, 2012
- Methodology For Calculating The Convexity Risk In U.S. Insurance Risk-Based Capital Model, April 27, 2011
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- Liquidity Model For U.S. And Canadian Life Insurers, April 22, 2004

Ratings Detail (As Of November 21, 2016)

Operating Companies Covered By This Report

Teachers Insurance & Annuity Association of America

Financial Strength Rating

Local Currency

AA+/Stable/--

Counterparty 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/--

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.

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