

MOODY'S

INVESTORS SERVICE

CREDIT OPINION

20 September 2023

Update



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RATINGS

Teachers Ins. and Annuity Assoc. of America

Domicile	New York, New York, United States
Long Term Rating	Aa1
Type	Insurance Financial Strength
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Teachers Ins. and Annuity Assoc. of America

Affirmation reflects excellent capitalization and stable liability structure

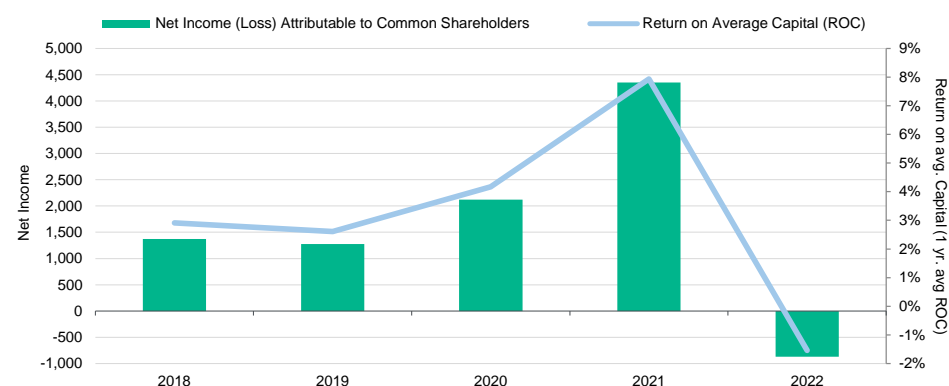
Summary

Our credit view of [Teachers Insurance and Annuity Association of America](#) (TIAA; insurance financial strength (IFS) Aa1 stable) and its wholly-owned subsidiary [TIAA-CREF Life Insurance Company](#) (TC Life; IFS A1 negative) reflects the company's dominant position in the higher-education pension market, its outstanding capital base, its expense advantages, and its uniquely stable liability structure. TIAA's strengths are somewhat offset by significant exposure to interest-sensitive fixed annuity liabilities, as well as the potential for investment losses and earnings volatility in a stress scenario, especially in commercial real estate related investments. TIAA is exposed to interest rate risk given the relatively high guaranteed rates that it offers, with a significant portion of its balances in the accumulating contracts with a 3% guaranteed rate. Higher interest rates have relieved some of this pressure.

On September 18 2023, Moody's [affirmed](#) TIAA's ratings reflecting the company's excellent capitalization, stable liability structure and reduced pressure from low rates. The company is focused on growing its core retirement business, both in its traditional 403b and the 401k corporate market. Moody's believes that TIAA's various attempts to create retail growth areas, such as through the bank, have not met expectations and could take negative action if TIAA experiences a contraction in its core retirement and related businesses.

Exhibit 1

Net income down in 2022, driven by a large loss due to a write down of TIAA Bank, but expect improved earnings going forward



Net income shown is Moody's adjusted net income
Sources: Moody's Investors Service and company filings

Credit strengths

- » Dominant market presence in education and research institution market
- » Reputation and expertise in the payout annuity market
- » Unique liability structure - approximately 70% of TIAA's liabilities are not subject to discretionary withdrawal
- » Outstanding capitalization
- » Most liabilities pass actual investment experience through to policyholders

Credit challenges

- » Managing large block of interest-sensitive fixed annuities
- » Retaining assets of higher education retirees
- » An earnings profile with modest profitability
- » Slow growth of the company's core defined contribution pension market and increasing competition at employee participant level at sponsoring institutions
- » Significant exposure to alternative investments

Outlook

The outlook for TIAA is stable, reflecting TIAA's excellent capitalization, illiquid nature of its liabilities, and the company's ability to take actions to reduce spread compression. Items to watch for include interest rate and equity levels, the effect of the economic environment on TIAA's asset portfolio and its educational institution clients, as well as TIAA's ability to gain a foothold in the corporate 401k market.

Factors that could lead to an upgrade

- » Reduction of spread compression risk while maintaining dominant position in core markets
- » Successful expansion in the company's core pension market and other related market segments
- » Improved asset quality as measured by Moody's stress losses
- » Measured growth in the asset management business

Factors that could lead to a downgrade

- » Spread compression between book yields and policyholder guarantees
- » Contraction in the company's core pension market and other related market segments
- » NAIC company action level risk-based capital (RBC) ratio declining below 400% for more than a short period of time or a reduction in capital of more than 10% over a 12 month period
- » Adjusted financial leverage of 20%

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

Teachers Ins. and Annuity Assoc. of America [1][2]	2022	2021	2020	2019	2018
As Reported (US Dollar Millions)					
Total Assets	365,300	360,224	341,257	328,219	316,038
Total Shareholders' Equity	42,729	42,979	40,009	38,868	38,112
Net Income (Loss) Attributable to Common Shareholders	(345)	3,912	915	1,410	1,438
Total Revenue	30,460	30,277	32,938	31,236	31,554
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	139.7%	127.6%	125.9%	129.4%	135.8%
Goodwill & Intangibles % Shareholders' Equity	0.0%	0.0%	0.0%	0.0%	0.0%
Shareholders' Equity % Total Assets	11.5%	12.4%	11.5%	11.7%	11.6%
Return on Average Capital (ROC)	-1.5%	7.9%	4.2%	2.6%	2.9%
Sharpe Ratio of ROC (5 yr.)	94.6%	189.7%	507.9%	790.4%	468.2%
Adjusted Financial Leverage	13.0%	12.5%	13.9%	12.5%	12.8%
Total Leverage	15.9%	15.2%	16.9%	15.1%	15.5%
Earnings Coverage	-0.9x	11.0x	3.3x	4.2x	4.4x
Cash Flow Coverage	NA	NA	NA	NA	NA

[1] Information based on SAP financial statements as of the fiscal year ended 31 December.

[2] Certain items may have been relabeled and/or reclassified for global consistency.

Sources: Company filings and Moody's Investors Service

Source: Company filings and Moody's Investors Service

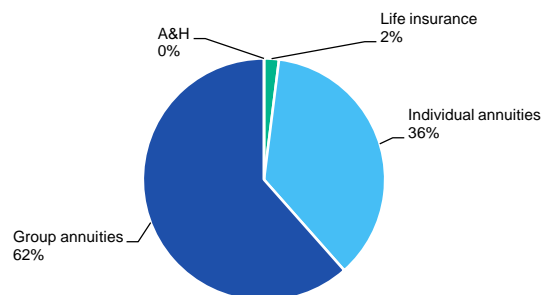
Profile

TIAA and its sister organization, College Retirement Equities Fund (CREF), operate on a non-profit basis and specialize in providing retirement annuities for employees in the academic, medical, cultural, governmental and research fields. CREF offers equity-oriented investments to TIAA plan participants. While TIAA itself has no direct exposure to CREF's financial performance, since the two organizations have an expense sharing arrangement, a decline in equity markets means that TIAA will be called upon to absorb an increased proportion of the combined organization's expenses, placing pressure on TIAA's participant crediting rates. For context, CREF's expenses are typically around 10-12% of TIAA's expenses.

TIAA has owned Nuveen, a global asset manager, since 2014. Nuveen Finance, LLC's Baa1 long term issuer rating incorporates three notches of uplift from Nuveen's standalone credit profile to reflect implied financial support from TIAA. Total Nuveen assets under management of \$1.09 trillion as of December 31, 2022 include \$407 billion (37%) from third parties and \$683 billion (63%) from TIAA channels.

In July, the company closed on its sale of TIAA Bank to funds managed by Stone Point Capital, Warburg Pincus, Reverence Capital Partners, Sixth Street and Bayview Asset Management. TIAA will retain a non-controlling ownership stake in the bank.

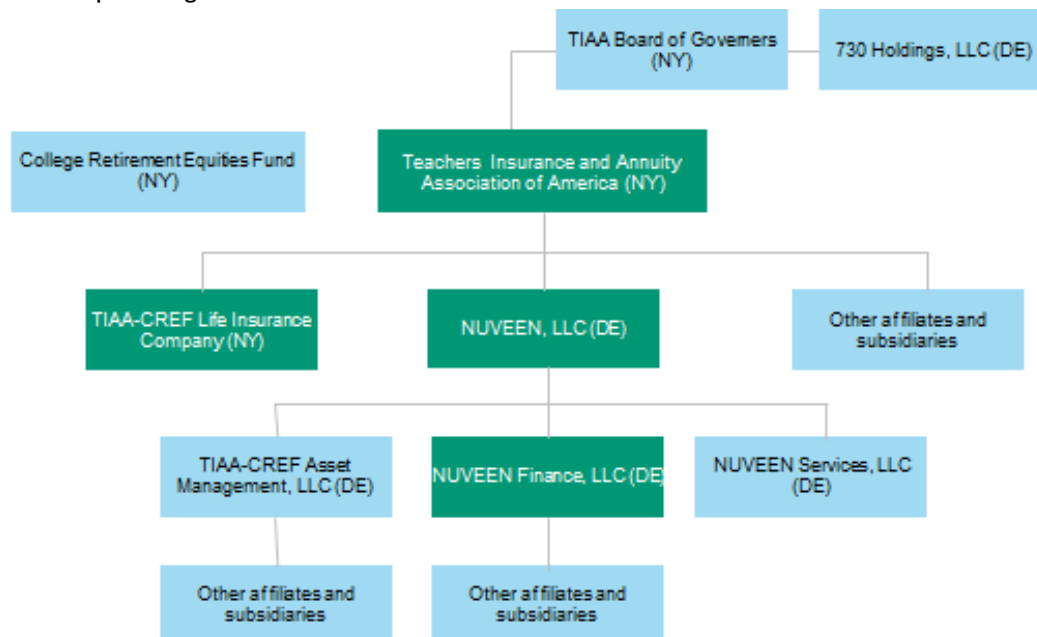
Exhibit 3

Nearly all revenue is derived from annuities

As of December 31, 2022

Source: Company statutory filings and Moody's Investors Service

Exhibit 4

TIAA simplified organizational chart

Green=rated; Blue=non-rated

Source: Company statutory filings and Moody's Investors Service

Detailed credit considerations

Moody's rates TIAA Aa1 for insurance financial strength, which is in line with the adjusted-scorecard outcome indicated by Moody's rating methodology scorecard.

Insurance financial strength rating

The key factors currently influencing the rating and outlook are:

Market position and brand: Dominant position and respected brand in retirement savings for the higher education and not for profit retirement markets

TIAA is a top five life group in the US when ranked by assets but is focused on a very specialized market - the retirement savings of educators and non-profit research professionals. Though some large competitors such as Fidelity are continuing to show strong growth

in the non-profit market, TIAA is by far the dominant provider of employer-sponsored savings plans in the higher education market (colleges and universities). Additionally, the company is looking to expand other related markets such as K-12 schools and health care. The traditional business is mainly composed of deferred and payout annuities. TIAA also provides annuities embedded in target date funds as facilitated by the SECURE Act and seeks to grow its coverage in this space in the corporate 401k market. This is an area of focus for the company as it seeks to strengthen relationships with policyholders during the distribution phase. Because of TIAA's intense focus and dominance in its market, we have adjusted this factor to Aa from the unadjusted A level.

Distribution: Salaried distribution force and strong relationships with sponsors

TIAA exclusively markets its primary products directly to plan participants through their employers via full-time TIAA staff. TIAA products are often the default retirement savings vehicle offered by the employer. Because of the high degree of control of TIAA's salaried distribution force and the strong relationships with sponsoring employers, we have adjusted the rating factor for this category to Aa from the unadjusted A level.

Product focus and diversification: Dividend flexibility and withdrawal restrictions unique in the industry

TIAA's primary products are dividend-paying annuities sold through employer-sponsored retirement savings plans. The crediting rates on these annuities have dividend margins that can be adjusted downward if the company is subject to financial stress, which the company has done during economic downturns to preserve capital. However, the company remains exposed to interest rate risk given the relatively high guaranteed rates that it offers, with a significant portion of its balances in accumulating contracts with a 3% guaranteed rate. Most of these liabilities are subject to extensive withdrawal restrictions, to an extent that is unique in the industry. Because of the combination of the flexibility allowed by the dividend mechanism and the company's uniquely illiquid liabilities, we have adjusted this rating factor to Aaa from the unadjusted A level.

Asset quality: Significant private equity and real estate related investments which could face pressure in weakening economic environment

The risk profile for TIAA's investment portfolio is good, with a high risk asset ratio of 139.7%, which is consistent with A rated peers. However, we note this ratio is calculated using statutory capital, which is more conservative than the GAAP capital used by a number of mutual peers. Additionally, TIAA balances its high risk assets with a significant allocation to US Treasuries and Agency MBS that is larger than most of its peers. The company takes advantage of its unique liability structure to invest in some less liquid assets such as private equity investments and real estate related securities. The company increased its allocation to below investment grade assets in 2022. The company's high RBC ratio allows it to add some marginal risk to improve portfolio income and participant credited rates.

As of December 31, 2022, TIAA had \$24.5 billion in affiliated private equity (8.4% of investment portfolio) and \$11.8 billion in unaffiliated private equity (4.0% of investment portfolio). The company also had \$9.7 billion of CMBS (3.3% of the investment portfolio) and \$37.7 billion (12.9% of the investment portfolio) in direct commercial mortgage lending, relatively low compared to peers. TIAA reported a decline in AVR of \$1.8 billion in 2022 primarily driven by a write-down of TIAA Bank given its sale.

By July 2024, Moody's [projects](#) global speculative grade defaults to rise to 4.3% in the baseline scenario, 9.9% in the moderately pessimistic scenario and 15.1% in the severely pessimistic scenario. In our [adverse scenario analysis](#) which included severe shocks on equities and credit markets, TIAA's RBC remained above 500%, one of the strongest in our rated universe.

Overall, we view the company's asset quality in line with A rated peers.

Capital adequacy: TIAA capitalization will remain robust even in a stress scenario

TIAA has excellent capital adequacy based on the less refined metric of shareholders' equity as a percentage of total assets (11.5% at year-end 2022), which is in line with Moody's expectations for Aa-rated insurers. The company's consolidated NAIC RBC ratio (company action level), which we believe is a better capitalization metric for US insurers given its risk adjusted orientation, was 542% at year-end 2022. The write-down of TIAA Bank had a positive impact on the RBC ratio. We expect RBC to decline in 2023 due to increased investment losses. Given the company's high quality capital, we consider TIAA's NAIC company action level RBC ratio to be resilient.

We believe that the company will remain well capitalized, even under a stress scenario. In a downside scenario, the company could protect its capital level by cutting dividends on its accumulating and payout annuities. Because of the company's robust absolute capital level and the flexibility to maintain strong capital levels in the event of a stress scenario, we raise the adjusted score on capital adequacy to Aaa from Aa.

Profitability: Large capital base and policyholder dividends limit ROC metric; higher interest rates relieve potential pressure on earnings

TIAA's return on capital (ROC) averaged 3.2% for the five-year period ending 2022, in part pressured by the high level of capital. We estimate that at a 400% RBC level and backing out policyholder dividends, the ROC would be in the high single digit range.

In 2022, TIAA reported a \$0.3 billion loss, largely driven by a sales agreement for the bank, higher dividends to policyholders, and lower net investment income of \$0.5 billion. Historically, TIAA's large policyholder dividends have had a material impact on earnings. TIAA dividends to policyholders in 2022 were \$4.1 billion, approximately \$1.4 billion higher than in 2021. TIAA's dividend strategy is geared to the company's capital position rather than earnings: the company will increase dividends when capital grows to above-target levels and cut dividends when company management feels the need to conserve capital, which introduces greater volatility in reported net income.

In a low interest rate environment, spread compression could place pressure on the company's earnings and capital, which would, in turn, place pressure on dividends. High interest rates have relieved this pressure. Relatively high administrative costs of record-keeping also pressure earnings.

Over the long term, we expect ROC to be constrained to single digits, due to TIAA's very strong capital position (which depresses reported return on capital) as well as its emphasis on superior customer value and crediting rates (which also depresses the company's profitability as additional dividends are paid).

Overall, we view the company's profitability as A, above the unadjusted Baa score.

Liquidity and asset/liability management (ALM): Liability structure is one of the most stable in the industry

TIAA has an outstanding liquidity position, as evidenced by it having one of the strongest results in our liquidity stress testing for US life insurers.

TIAA had approximately \$235 billion in general account liabilities as of December 31, 2022. Only approximately 30% of that amount is withdrawable upon demand by participants. Approximately 14% is in payout mode and is not subject to surrender by participants. Another 56% is in accumulation mode and can only be withdrawn by participants ratably over a 7-10 year period. In total, TIAA's liability structure gives the company one of the best liquidity profiles in the industry. We have left this factor at the Aaa level, in line with the unadjusted score.

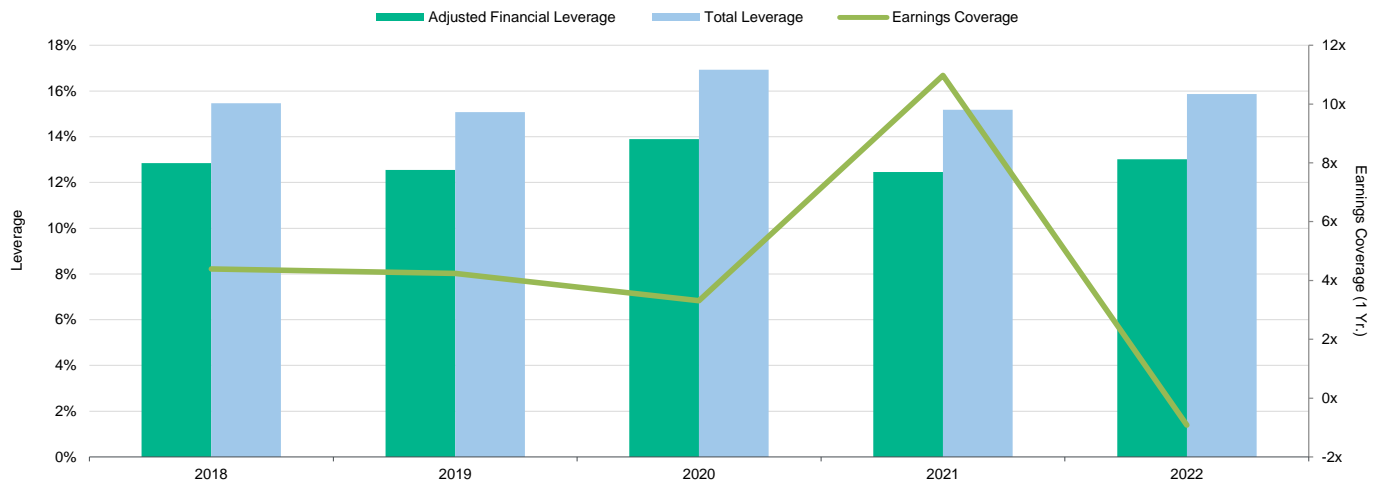
Financial flexibility: Leverage remains low; loss from sale of bank drives down earnings coverage

TIAA has modest adjusted financial leverage at 13.0% as of year-end 2022. The company has \$2 billion of senior debt outstanding at Nuveen Finance, LLC and Nuveen, LLC (Aa2, stable), with \$1 billion maturing in 2024 and \$1 billion in 2028, respectively. The Nuveen, LLC notes benefit from explicit support through an irrevocable and unconditional guarantee from TIAA.

TIAA's average five-year earnings coverage was 4.4x at year-end 2022, though one-year coverage was down to (0.9)x driven by negative net income. Interest cost is approximately \$295 million per year at TIAA and approximately \$80 million at Nuveen Finance, LLC and Nuveen, LLC.

As a non-public company, TIAA's lack of access to the public equity markets limits its financial flexibility compared to its large public counterparts. However, given TIAA's strong financial position, we believe it could issue additional surplus notes, should the need to raise capital arise. Overall, TIAA's financial flexibility remains robust and we therefore maintain the score for this factor to the Aa level.

Exhibit 5

Net capital losses drives down 1 year earnings coverage in 2022

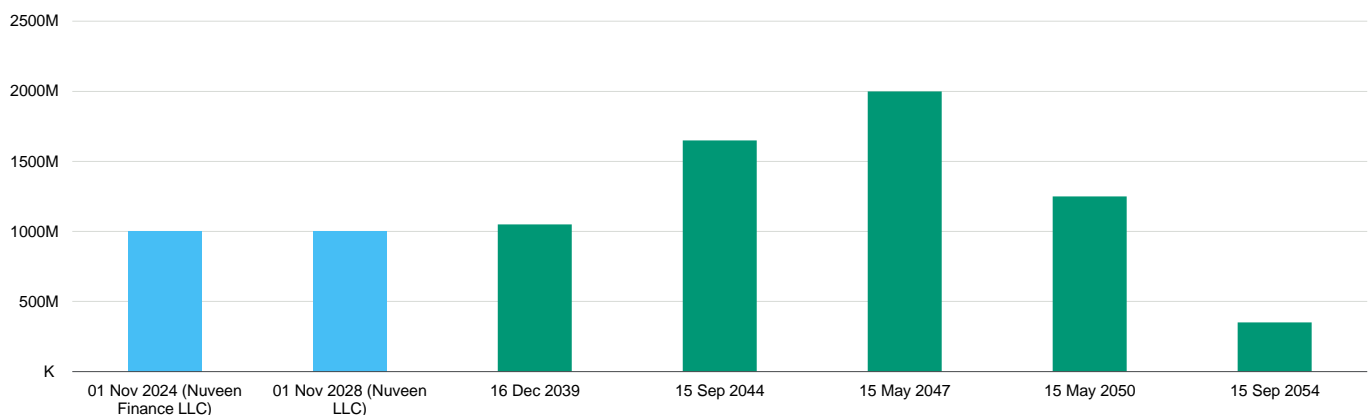
Source: Moody's Investors Service and company filings

Liquidity analysis

TIAA's debt consists of \$6.3 billion long-term surplus notes, including \$1.05 billion maturing in 2039; \$1.65 billion maturing in 2044; \$2 billion maturing in 2047; \$1.25 billion maturing in 2050; and \$350 million fixed to floating notes redeemable in 2024, with a final maturity of 2054. The company also has \$2 billion of senior debt outstanding at Nuveen Finance, LLC and Nuveen, LLC, with \$1 billion maturing in 2024 and \$1 billion in 2028, respectively. Additionally, TIAA has the ability to access advances from the Federal Home Loan Bank of New York (FHLBNY); the company estimates a maximum borrowing capacity of around \$17 billion.

TIAA's outstanding liquidity profile is driven by the profile of its liabilities, the majority of which offer policyholders only limited ability to surrender over the immediate term. Additionally, as of December 31, 2022, TIAA reported \$1.3 billion in cash, cash equivalents and short-term investments and about \$18 billion in US Treasury securities.

Exhibit 6

Next debt maturity due in 2024

Source: Moody's Investors Service and company filings

ESG considerations

Teachers Ins. and Annuity Assoc. of America's ESG Credit Impact Score is Positive CIS-1

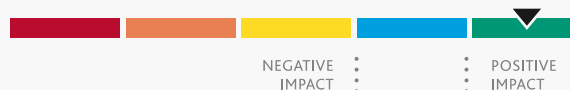
Exhibit 7

ESG Credit Impact Score

CIS-1

Positive

For an issuer scored CIS-1 (Positive), its ESG attributes are overall considered as having a positive impact on the rating. The overall positive influence from its ESG attributes on the rating is material.



Source: Moody's Investors Service

TIAA's Credit Impact Score of CIS-1 indicates that ESG considerations have a positive impact on the rating. The score reflects the positive rating impact of the insurer's overall governance profile, which includes its conservative risk and governance practices stemming from its mutual-like ownership structure. These factors offset its exposure to environmental and social risks, in particular carbon transition, customer relations, and societal and demographic risks.

Exhibit 8

ESG Issuer Profile Scores

ENVIRONMENTAL

E-3

Moderately Negative



SOCIAL

S-4

Highly Negative



GOVERNANCE

G-1

Positive



Source: Moody's Investors Service

Environmental

TIAA has exposure to carbon transition risk through the long-duration assets held in its investment portfolio and inherent asset leverage, while emerging stakeholder focus on environmental stewardship in its investment portfolio gives rise to strategic and reputational risk. This risk is mitigated by TIAA's portfolio risk management capabilities and its developing focus on managing climate risk.

Social

TIAA faces customer relations risk in relation to its sale of products and significant interaction with retail customers against a background of regulatory focus on the fair treatment of customers, which is mitigated by well-developed policies and procedures. In addition, because of the participating nature of its policies, the insurer benefits from a strong alignment of interests with policyholders, more controlled distribution and a conservative product design, which reduce customer relations risk relative to that of some peers. High cyber and personal data risks, amplified by increasing digital product distribution, are mitigated by a strong technology framework. High exposure to demographic and societal risks can make the operating environment more difficult; however, an aging population supports the demand for the firm's longevity products.

Governance

TIAA's governance is a positive factor. Due to its mutual-like ownership structure, management's interests are strongly aligned with those of policyholders as the management team does not deviate from its core policyowner-oriented principles. The insurer has strong governance practices, risk management and internal controls.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

The notching between TIAA's IFS rating and its issuer and surplus notes ratings is consistent with Moody's typical notching practice for US insurance companies. The issuer rating (which applies to senior unsecured financial counterparty obligations and contracts) is one notch below the IFS rating and the surplus note rating is two notches below the IFS rating.

Rating methodology and scorecard factors

Exhibit 9

Teachers Ins. and Annuity Assoc. of America

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	ScoreAdj	Score
Business Profile								A	Aa
Market Position and Brand (15%)								A	Aa
-Relative Market Share Ratio			X						
Distribution (10%)								A	Aa
-Distribution Control	X								
-Diversity of Distribution					X				
Product Focus and Diversification (10%)								A	Aaa
-Product Risk	X								
-Life Insurance Product Diversification					X				
Financial Profile								A	Aa
Asset Quality (10%)								A	A
-High Risk Assets % Shareholders' Equity				139.7%					
-Goodwill & Intangibles % Shareholders' Equity	0.0%								
Capital Adequacy (15%)								Aa	Aaa
-Shareholders' Equity % Total Assets		11.5%							
Profitability (15%)								Baa	A
-Return on Capital (5 yr. avg.)				3.2%					
-Sharpe Ratio of ROC (5 yr.)					94.6%				
Liquidity and Asset/Liability Management (10%)								Aaa	Aaa
-Liquid Assets % Liquid Liabilities	X								
Financial Flexibility (15%)								A	Aa
-Adjusted Financial Leverage		13.0%							
-Total Leverage		15.9%							
-Earnings Coverage (5 yr. avg.)				4.4x					
-Cash Flow Coverage (5 yr. avg.)									
Operating Environment								Aaa - A	Aaa - A
Preliminary Standalone Outcome								A1	Aa1

[1] Information based on SAP financial statements as of fiscal year ended December 31, 2022. [2] The Scorecard rating is an important component of the company's published rating, reflecting the standalone financial strength before other considerations (discussed above) are incorporated into the analysis.

Source: Moody's Investors Service

Ratings

Exhibit 10

Category	Moody's Rating
TEACHERS INS. AND ANNUITY ASSOC. OF AMERICA	
Rating Outlook	STA
Insurance Financial Strength	Aa1
LT Issuer Rating	Aa2
Surplus Notes	Aa3 (hyb)
TIAA-CREF LIFE INSURANCE COMPANY	
Rating Outlook	NEG
Insurance Financial Strength	A1

Source: Moody's Investors Service

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