

TIAA TRADITIONAL ANNUITY IN DEFINED CONTRIBUTION PLANS

HELPING PLAN FIDUCIARIES PROVIDE ENHANCED RETIREMENT SECURITY

EXECUTIVE SUMMARY

Offering a guaranteed annuity as part of a diverse menu of investment options can help plan sponsors meet their fiduciary duty. An appropriate allocation to TIAA Traditional:

- Provides a guaranteed income floor that participants can't outlive¹
- Improves stability because assets grow steadily and never lose value
- Enhances diversification due to low correlations with other asset classes
- Increases the likelihood of successful retirement outcomes

THE FOUNDATION OF A COMPLETE RETIREMENT PLAN: SAVINGS GROWTH MATCHED TO FUTURE INCOME NEEDS

Plan sponsors can increase the likelihood of successful retirement outcomes by helping their participants achieve two critical goals: **build sufficient savings while they're working** and **guarantee an income base in retirement**.

A complete retirement plan should deliver on both goals. Savings growth alone can't ensure retirement security. Volatile investment returns and extreme events like the financial crisis of 2008–2009 can erode nest eggs—particularly for older workers who have most of their assets at risk and less time to recover from steep losses.

A low-cost² guaranteed annuity option, such as TIAA Traditional, offers both savings *and* future income benefits. As a plan investment option, TIAA Traditional **helps build retirement savings** by guaranteeing safety of principal and a specified rate of interest, with the potential to earn additional amounts.³ These guarantees ensure that contributions to TIAA Traditional will *only increase* in value.

Unlike a mutual fund or other variable investment, TIAA Traditional **also provides guaranteed lifetime income in retirement**.¹ Every dollar contributed to TIAA Traditional during the accumulation phase purchases a guaranteed amount of lifetime income when annuitized.



The dual benefits of building savings and creating income make it possible for participants to match their asset accumulation goals to future spending needs. As a result, the workforce can be better prepared to address longevity and shortfall risk in retirement. Moreover, plan sponsors can more easily meet their fiduciary obligations to participants with differing needs for savings and income replacement.

BUILDING SUFFICIENT SAVINGS WITHOUT UNDUE RISK

As shown in Exhibit 1, TIAA Traditional has produced competitive returns over time—with extremely low volatility (Exhibit 2). These returns are made possible in part because TIAA Traditional is supported by the investment performance of TIAA's General Account. Although plan participants do not invest in the General Account, its diversified portfolio includes exposure to longer-term, higher-yielding, less liquid alternative investments. Directly owned real estate, mortgage- and asset-backed securities, commercial mortgages and private equity, for example, are among the General Account investments that support TIAA Traditional's ability to meet its minimum guarantees and pay additional interest above the guaranteed minimum.³

HELPING CREATE A GUARANTEED INCOME FLOOR

A complete retirement plan doesn't simply seek to maximize savings while participants are working. That approach can leave an income gap for many participants, putting them at risk of running out of money in retirement. Instead, plan fiduciaries should focus on *outcomes*. Using this approach, the first question isn't how big of a nest egg participants should try to accumulate during their working years, but rather how much monthly replacement *income* they'll need when they retire.

TIAA Traditional, combined with Social Security and other sources of guaranteed income, can create an income

“floor,” assuring plan sponsors that retirees will be able to meet basic living expenses (food, shelter, clothing and other nondiscretionary items)—no matter how markets perform or how long they live.

TIAA Traditional's Role During the Accumulation Phase

By offering TIAA Traditional during the accumulation phase, plan sponsors can help participants save now to increase the amount of guaranteed income they'll receive in retirement. As with Social Security, the earlier participants begin contributing to TIAA Traditional, the more time they have to build a guaranteed monthly income benefit they can't outlive.

Contributing to TIAA Traditional throughout a working career offers the potential for higher monthly income payments, compared with purchasing a fixed annuity with the same amount of accumulated savings at retirement. That's because excess contingency reserves, which TIAA is required to maintain, may be distributed to policyholders in the form of additional returns over the lifetime of their association with TIAA. (These reserves may also remain available for purposes that the Trustees of TIAA determine can help uphold TIAA's mission.)

EXHIBIT 1. BUILDING SAVINGS WITH COMPETITIVE LONG-TERM RETURNS

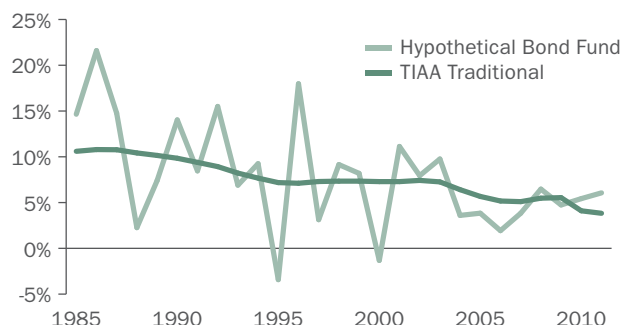
PERIODS ENDED 12/31/2010	ANNUALIZED RATES OF RETURN
1 Year	4.00%
5 Years	4.50%
10 Years	5.79%
20 Years	6.60%
30 Years	7.87%

Returns show the average annual rates credited to premiums to a TIAA Traditional Annuity (RA contract). Past performance is no guarantee of future results.

EXHIBIT 2. A MUCH SMOOTHER RIDE

Across all interest-rate environments, TIAA Traditional's returns have had much lower volatility than a typical bond fund. **Result: steady, reliable performance over time.**

TIAA Traditional vs. Hypothetical Bond Fund Returns 1/1/1985-1/1/2011



TIAA Traditional returns show the average annual rates credited to premiums to a TIAA Traditional Annuity (RA contract). Hypothetical bond fund returns are based on the returns of the Barclays Capital U.S. Aggregate Bond Index, less 50 basis points for expenses (approximately 50% of the median expense ratio for bond funds as reported in the Investment Company Institute 2010 Fact Book). There are substantial differences between bond funds and fixed annuities, including differing investment objectives, costs and expenses, liquidity, safety, guarantees or insurance, and fluctuation of principal or return. Past performance is no guarantee of future results. There is no assurance that additional amounts above the TIAA Traditional Annuity's guaranteed minimum rate will be declared in the future. Source: TIAA-CREF calculations.

Moreover, through a “vintage” system of determining interest crediting rates during the accumulation phase, participants are exposed to a broad range of interest-rate environments across economic cycles. By contributing to TIAA Traditional over a long period of time, as interest rates rise and fall, participants can expect a potentially higher, more predictable income stream at retirement. In particular, they avoid the timing risk of annuitizing when prevailing rates are lower than their long-term average.

How Much to Allocate to Build an Income Floor?

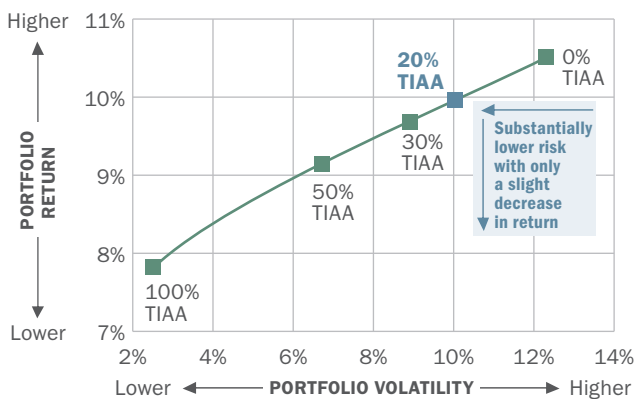
Although the needs of individual participants vary, plan sponsors can be assured that TIAA Traditional has an appropriate role in asset allocation. The following steps can be used to determine the allocation within a diversified portfolio:

1. **Determine** the guaranteed income floor required to meet basic living expenses in retirement. While this amount varies, research suggests that most people need roughly \$30,000 to \$50,000 per year (or \$2,500 to \$4,200 per month).⁴

EXHIBIT 3. LOWER PORTFOLIO VOLATILITY THROUGH DIVERSIFICATION

Average annual returns and volatility of portfolios with varying allocations to TIAA Traditional, 1980–2010

Over a 30-year period, diversifying a 60% stock/40% bond portfolio with an allocation to TIAA Traditional can deliver important diversification benefits. Principal safety, guaranteed income, and low correlations with other asset classes provide a significant reduction in portfolio volatility, with a smaller impact on returns. This helps to offset the volatility of variable assets, making it easier for participants to maintain an appropriate asset allocation.



Source: TIAA-CREF calculations based on TIAA Traditional Annuity (RA contract); Russell 1000® Index (equities) and Barclays Capital U.S. Aggregate Bond Index (fixed income). Volatility measured by standard deviation of returns. You cannot invest directly in any index. Past performance is no guarantee of future results.

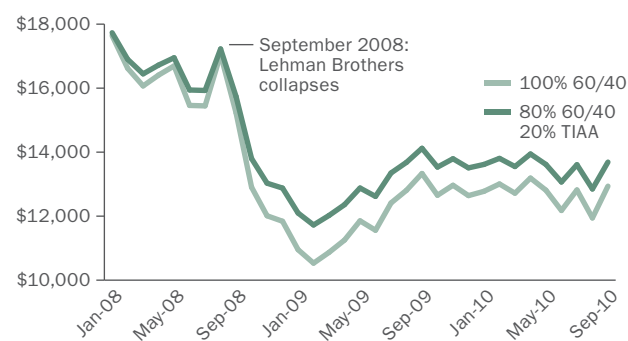
2. **Estimate** monthly Social Security income.
3. **Calculate** the resulting income gap.
4. **Carve out** an allocation to TIAA Traditional that will generate the income needed to close the gap.
5. **Allocate** remaining plan contributions among a diversified mix of variable assets to help meet other investment and spending goals in retirement.

Long-term Guarantees vs. Short-term Liquidity: A Prudent Tradeoff

TIAA Traditional is designed expressly to meet long-term income needs in retirement—not to substitute for bond funds or cash equivalents. As a result, TIAA Traditional limits liquidity under certain contracts as a necessary tradeoff for paying higher interest rates and providing lifetime income guarantees. Plan sponsors can readily offer TIAA Traditional along with a variety of fixed-income investment options to meet return and liquidity needs in a diversified portfolio. Moreover, TIAA-CREF offers a robust education program to help plan participants understand the appropriate use of annuities as a long-term retirement savings vehicle—not a source of short-term liquidity.

EXHIBIT 4. A BUFFER DURING STEEP MARKET DECLINES

Value of hypothetical \$10,000 portfolios over rolling 10-year periods, 1/2008–9/2010



Comparing two hypothetical portfolios during the financial crisis of 2008–2009:

- 20% TIAA Traditional + 80% 60/40 split
- 60% stocks/40% bonds

Result: Downside risk protection. The portfolio with TIAA Traditional would have provided better protection against losses.

Source: TIAA-CREF calculations based on TIAA Traditional Annuity (RA contract); Russell 1000® Index (equities) and Barclays Capital U.S. Aggregate Bond Index (fixed income). You cannot invest directly in any index. Past performance is no guarantee of future results.

WE INVITE YOU TO LEARN MORE

Contact TIAA-CREF for information about our full range of retirement plan investments, including mutual funds and fixed or variable annuities.

BY PHONE
866-861-2249

ONLINE
www.tiaa-cref.org/plansponsors

IMPROVING RETIREMENT OUTCOMES

Ultimately, the test of TIAA Traditional's value is how well it serves participants' chances of enjoying successful retirement outcomes. As shown in Exhibit 5, contributing to TIAA Traditional in a defined contribution plan for 30 years can result in higher monthly income payments, compared with contributing to a hypothetical bond fund. A powerful combination of advantages—competitive returns, safety of principal, diversification and guaranteed income—make TIAA Traditional a compelling choice for plan fiduciaries seeking to ensure lifetime financial security for their participants.

EXHIBIT 5. TIAA TRADITIONAL VS. HYPOTHETICAL BOND FUND

In this example, TIAA Traditional's monthly income payments would be 9% higher than the hypothetical bond fund's. **Result: Greater financial security in retirement.**

BASED ON 30-YEAR ACCUMULATION ENDING 12/31/2010	TIAA TRADITIONAL	HYPOTHETICAL BOND FUND	TIAA TRADITIONAL ADVANTAGE
Annual income beginning 1/1/2011	\$9,553 (\$796/month)	\$8,698 (\$725/month)	\$855 (\$71/month)

Monthly income payments are based on the following accumulations: \$154,749 for TIAA Traditional and \$154,012 for a hypothetical bond fund. Assumes contributions increase 4% per year for the 30-year period. Income shown is based on a joint life annuity, full survivor benefits with no guarantee period, both annuitants age 65 when income begins. Hypothetical bond fund returns are based on the returns of the Barclays Capital U.S. Aggregate Bond Index, less 50 basis points for expenses (approximately 50% of the median expense ratio for bond funds as reported in the Investment Company Institute 2010 Fact Book). There are substantial differences between bond funds and fixed annuities, including differing investment objectives, costs and expenses, liquidity, safety, guarantees or insurance, and fluctuation of principal or return. Past performance cannot guarantee future results. There is no assurance that additional amounts above the TIAA Traditional Annuity's guaranteed minimum rate will be declared in the future.

- ¹ All guarantees are subject to TIAA's claims-paying ability. TIAA holds the highest possible financial strength ratings from all four leading independent insurance company rating agencies: Standard & Poor's (AAA as of 8/10); Moody's Investors Service (Aaa as of 7/10); A.M. Best (A++ as of 02/2011); and Fitch (AAA as of 4/10). These ratings don't apply to variable annuities, mutual funds or any other product or service not fully backed by TIAA's claims-paying ability. Ratings are subject to change. There is no guarantee that current ratings will be maintained.
- ² Unlike some guaranteed income products, TIAA Traditional has no hidden fees or penalties, teaser rates or deferred sales charges.
- ³ Additional amounts in excess of the guaranteed rate may be declared on a year-by-year basis by the TIAA Board of Trustees. Additional amounts are not guaranteed, and, when declared, remain in effect for the twelve-month period that begins each March 1 for accumulating annuities. Additional amounts have been declared for TIAA Traditional Retirement Annuity (RA) contracts in every year since 1948.
- ⁴ Source: Russell, Laura Henze et al., *National Elder Economic Security Standard: A Methodology to Determine Economic Security for Elders*, 2006, 2008, 2009."

This analysis is based on the Retirement Annuity (RA) contract, which has the longest track record of all TIAA Traditional contracts used in employer-sponsored defined contribution plans. While the RA contract is no longer available for new business, TIAA Traditional is also offered through other types of contracts, which may have different return, volatility, interest rate, payout and liquidity characteristics. Retirement Annuity contract form Series 1000.24.

You should consider the investment objectives, risks, charges and expenses carefully before investing. Please call 877 518-9161 or visit tiaa-cref.org for a current prospectus that contains this and other information. Please read the prospectus carefully before investing.

TIAA-CREF Individual & Institutional Services, LLC, and Teachers Personal Investors Services, Inc., members FINRA, distribute securities products. Annuity contracts and certificates are issued by Teachers Insurance and Annuity Association (TIAA) and College Retirement Equities Fund (CREF), New York, NY.

© 2011 Teachers Insurance and Annuity Association—College Retirement Equities Fund (TIAA-CREF), New York, NY 10017

