TIAA’s Perspective on Its Business Operations

TIAA was created with a mission to serve, and we have always run our organization on a foundation of strong values, ethical behaviors and integrity. A recent article in The New York Times contained a number of misleading and inaccurate statements regarding TIAA and its business operations. Through the information that follows, we provide TIAA’s perspective on a wide range of topics covered in the article.

Key Points

- TIAA’s primary focus is to address our clients’ long-term financial needs.
- We put our clients first – this is a cornerstone TIAA value that drives how we serve our clients, including operating in a highly transparent and ethical way.
- The outcomes we have delivered for our clients speak volumes:
  - Through TIAA Traditional, we’ve paid more than the guaranteed payouts to our fixed-annuity holders every year for more than half a century.
  - We’ve paid $394 billion in benefits to retired participants since 1918.
  - Since our founding, our retired participants have never missed a payout from us – through depressions, wars and natural disasters.
  - Whether a participant has $500 or $5 million, we offer personalized financial advice at no additional cost.
- TIAA is not publicly traded and therefore not subject to short-term shareholder interests. We exist to serve our clients, and profits that we make are returned to our participants or reinvested in the business.
  - Throughout our history, our purpose and priorities have remained the same, and we continue to operate without profit in accordance with our charter.
  - We are also able to invest earnings in the people, technologies and other resources intended to provide superior service for the next 100 years.
- Our financial advisor compensation practices are designed to put our clients first and we provide detailed disclosures to them.
- The SEC regularly examines our sales practices. While we do not comment on specific exams or inquiries, we are proud of our practices and believe they are best in class, and we are committed to keeping them compliant with all laws and our clients’ expectations.

Questions and Answers

General

What is TIAA’s reaction to the article in The New York Times?

- We fundamentally disagree with how the article characterizes TIAA and the way we serve our clients.
- TIAA is focused on addressing our clients’ long-term financial needs. We put our clients first.
- TIAA has a track record for operating in a highly transparent and ethical way, which includes being named one of the world’s most ethical companies for the last three years in a row by the Ethisphere Institute.
Is TIAA a non-profit company, and what does the company’s business status mean to the returns participants receive?

- While TIAA’s tax-exempt status was eliminated in 1998 (based on a law that went into effect at that time), our purpose and priorities have remained the same. We continue to operate without profit, in accordance with our charter.
- TIAA is not publicly traded and therefore not subject to short-term shareholder interests.
- Any profits that we make are returned to our participants or reinvested in the business.
- Money made by any affiliate companies or for-profit businesses that we own is used to increase TIAA's surplus, is invested in its business, or is paid as additional amounts to retirement plan annuity holders.

Is TIAA the subject of a whistle-blower lawsuit?

- No. The article erroneously referred to "whistle-blower lawsuits" and repeatedly referenced lawsuits regarding TIAA’s sales practices. However, The New York Times published a correction on October 24 to remove those references, as they were inaccurate.

TIAA Traditional

What is the advantage to participants of limited liquidity for TIAA Traditional?

- TIAA Traditional’s structure and withdrawal restrictions are designed to facilitate long-term financial security and higher potential crediting rates (guaranteed minimum credited rate of interest).
- By providing a steady stream of guaranteed payments during retirement, TIAA Traditional assumes the longevity risk retirees face.
- Reduced liquidity has provided TIAA with the flexibility to invest its General Account assets in a wider range of long-term investments.
- The design of the contracts has allowed TIAA to credit interest at annual rates that have typically been between 0.5 percent to 0.75 percent higher than contracts used in supplemental savings plans, which do allow for full transfer and withdrawal flexibility. Over a participant’s career, this differential can potentially provide a positive difference in ending account balance and lifetime income payments.

How do TIAA Traditional’s fees compare to those for mutual funds?

- TIAA Traditional is a fixed annuity product that offers lifetime income, and so cannot be compared to a mutual fund. Lifetime income products must be priced to account for the guarantee features, which operate as insurance contracts, and are conceptually akin to insurance premiums.
- Like any guaranteed insurance product, the purchaser is paying for the guarantee that the income will be there when it’s needed.

How are the expense ratios for TIAA Traditional characterized by Morningstar?

- Morningstar tracks mutual funds and variable annuities.
- Because TIAA Traditional is a guaranteed / fixed annuity, it is not part of Morningstar’s universe.
- It is important to remember that the TIAA Traditional Annuity is not a securities investment; it is a guaranteed insurance contract.
- Unlike investments, TIAA Traditional does not include an identifiable “fee” that you might see published for an investment.

Product and Service Fees

How do your fees and performance compare to those across the industry?

- 81 percent of our mutual funds and variable annuities have expense ratios that are in the bottom quartile of their respective Morningstar categories.
- 100 percent of our institutional-class lifecycle funds are rated 4 or 5 stars.

How do fees for your managed accounts compare to others?

- We believe our managed account offer is strong and competitively priced.
- A team of skilled investment management professionals manages the asset allocation,
investment selection, daily portfolio review and rebalancing, as needed. Additionally, all managed account clients have a dedicated advisor who assists with professional oversight.

- Our offers also take into account tax sensitivities, where appropriate.

DOL Fiduciary Rule

Where does TIAA stand on the DOL’s Fiduciary Rule?

- The *New York Times* article falsely stated that TIAA stood with other financial institutions against the DOL Fiduciary Rule. In fact, TIAA has supported the Department of Labor in making this an industry standard from the beginning.
- Putting the customer first has always been a core value that defines how TIAA serves our participants. We continue to support the Department of Labor in making this an industry standard.
- We were one of the few financial firms to offer our support and ideas for making the proposed fiduciary rule better.
- We articulated this support in testimony to the Department of Labor and in seven letters of support to the department. We provided these letters to *The New York Times* well in advance of their publication, which nonetheless misrepresented TIAA’s well-known position on this issue.

How does TIAA determine the compensation for CEO Roger Ferguson?

- TIAA publishes and makes widely available disclosures on our executive compensation practices and governance principles. These highly transparent compensation disclosures are available on our corporate website.
- Compensation for the CEO is approved by the company’s Board of Trustees following recommendation by the Board’s Human Resources Committee.
- The Committee bases its determination on its assessment of TIAA’s overall performance, the CEO’s individual contributions against the achievement of the corporate goals, and other priorities agreed to by the Board and the CEO.
- Also considered are market-competitive compensation packages for chief executive officers among firms in the asset management and insurance industries of similar size and complexity.

Compensation Topics

What are your compensation practices for financial advisors, and are they designed so that clients’ interests come first?

- Our financial advisor compensation practices are designed to put our clients first.
- They are paid a salary plus an annual variable bonus that is not based on the profit any product may deliver.
- Instead, our annual bonus takes into account the effort involved by the advisor in connection with the investment solutions we offer, including the time and complexity of the work required of the advisor.
- Our advisors do not have product-specific targets.
- Investment recommendations go through a central review process designed to put the client’s interests first.
- We are transparent about how we compensate our financial advisors. More information on this topic is available on our public website.

Lawsuit Topics

The article referenced a lawsuit filed in 2015 involving TIAA employees. What occurred?

- A lawsuit was filed in 2015 by two former TIAA employees, who claimed that TIAA and the TIAA Plan Investment Review Committee (PIRC) for our employees’ Retirement Plan and 401(k) Plan (the Plans) violated the Employee Retirement Income Security Act of 1974 (known as ERISA) with respect to plan investment options, recordkeeping services and fees.
- The lawsuit was brought on behalf of those who were participants in the Plans during the time period of October 14, 2009, to April 30, 2017.
- TIAA, the PIRC and the individual defendants deny all of the allegations, but agreed to settle the matter to avoid the expense, distraction and uncertainty of litigation.

What is TIAA’s view of the claims?
- TIAA and the PIRC deny the allegations in the lawsuit. TIAA believes that the organization has acted in the best interests of plan participants and that the Plans have provided strong performance at competitive costs through a variety of investment options, many of which offer lifetime income opportunities.

Why did TIAA agree to a settlement?
- To avoid the significant cost and distraction of ongoing litigation, TIAA and the plaintiffs agreed to a settlement of $5 million, plus certain plan-related actions.
- These actions include broadening our investment fund offerings with inclusion of 10 non-proprietary investment options in certain of our retirement plans, at least five of which have investment fees of 15 basis points or less.
- The PIRC hired an independent investment consultant to advise the PIRC and recommend new fund choices to be added to the Plans.
- In addition, we launched a brokerage window at the end of 2016 to enable participants to invest in a broader range of mutual funds, including non-proprietary funds. This change reflects input we heard from many of our employees who wanted this capability for their retirement planning.
- The settlement reflects TIAA’s view that our products charge reasonable fees, and in many instances, fees that are among the lowest in the industry.

The article referenced a lawsuit brought by St. Michael’s College in Vermont. What occurred?
- In 2014, the court granted approval of the settlement in the class-action case of Bauer-Ramazani v. TIAA, et. al. This litigation concerned allegations of delayed distributions to certain participants, who contended that TIAA profited from those delays.
- TIAA denies any wrongdoing or liability in this matter. Any processing delays that were the subject of the lawsuit were the byproduct of a systems upgrade that was completed long before the settlement.
TIAA gives participants the value of their investments as of the good order date, as disclosed in the prospectuses.

This practice honors the participants’ requests to be out of the market from the date of their request, and protects them from market fluctuations while their requests are being processed.

Additional Questions

Do you serve as a fiduciary to your institutional clients?

- TIAA does not serve as a plan-level fiduciary to retirement plans record-kept on our systems.
- Our retirement plan services support open architecture, so plan sponsors can choose whatever investment options they want to include in their plan menus.
- When authorized by a plan sponsor, TIAA takes fiduciary responsibility at the participant level with service that delivers objective, fund-level advice to participants on their retirement plan investment options.

Why does TIAA require its employees to sign an agreement when they are hired stating that they will not make disparaging public comments about the company?

- These agreements are industry standard, and include provisions focused on protecting an organization’s client, business and workforce data.
- The limited non-disparagement provision in TIAA’s agreement, in particular, fully meets legal requirements. At the same time, we explicitly recognize in our agreements the right of employees to engage in protected activity and pursue legal matters against the organization if they choose.
- Additionally, TIAA regularly reviews and, as appropriate, updates its agreement to ensure compliance with any changes in legal requirements.

The TIAA Traditional Annuity provides a guarantee of principal, a guaranteed minimum rate of interest and the potential for additional amounts of interest when declared by TIAA’s Board of Trustees. Additional amounts, when declared, remain in effect for the “declaration year” that begins each March 1 for accumulating annuities and January 1 for lifetime payout annuities. Additional amounts are not guaranteed for future years. The TIAA Traditional Annuity has credited additional amounts every year since 1948. TIAA Traditional is issued by Teachers Insurance and Annuity Association of America, New York, NY.

As of 12/31/2016. Other benefits from TIAA and CREF include: additional amounts paid on TIAA Traditional annuity contracts above the guaranteed rate, surrender benefits and other withdrawals, death benefits, health insurance and disability insurance benefits, and all other policy proceeds paid.

Certain products and services are available only to eligible individuals.

2015, 2016, 2017. The World's Most Ethical Company assessment is based upon the Ethisphere Institute's Ethics Quotient® (EQ) framework which offers a quantitative way to assess a company's performance in an objective, consistent and standardized way. The information collected provides a comprehensive sampling of definitive criteria of core components, rather than all aspects of corporate governance, risk, sustainability, compliance and ethics. Scores are generated in five key categories: ethics and compliance program (35%), corporate citizenship and responsibility (20%), culture of ethics (20%), governance (15%) and leadership, innovation and reputation (10%) and provided to all companies who participate in the process. The full list of the 2017 World's Most Ethical Companies can be found at http://worldsmostethicalcompanies.ethisphere.com/honorees/

Any guarantees under annuities issued by TIAA are subject to TIAA's paying ability.

Based on Morningstar Direct (as of 6/30/17) expense comparisons by category, excluding Money Market products. TIAA-CREF mutual fund and CREF variable annuity products are subject to various fees and expenses, including but not limited to management, administrative, and distribution fees; variable annuity products have an additional mortality and expense risk charge.

TIAA-CREF has 24 Lifecycle Fund (12 actively managed funds and 12 index funds.) The Morningstar category for Lifecycle Funds is named Target Date and Morningstar groups funds with the same target date in compiling its individual fund rankings. Source: Morningstar Direct Data as of September 30, 2017. Morningstar ratings based on the lowest cost share class for each mutual fund, based on U.S. open end mutual funds. For a fund with multiple share classes and the same pricing, the share class with the longest performance history is used. Morningstar ratings may be higher or lower on a monthly basis. Morningstar is an independent service that rates mutual funds. The top 10% of funds or accounts in an investment category receive five stars, the next 22.5% receive four stars and the next 35% receive three stars. Morningstar proprietary ratings reflect historical risk-adjusted performance and can change every month. They are calculated from the fund or the account’s three-, five-, and ten-year annual returns in excess of 90-day Treasury bill returns with appropriate fee adjustments, and a risk factor that reflects fund or account performance below 90-day T-bill returns. The overall star ratings are Morningstar's published ratings, which are weighted averages of its three-, five-, and ten-year year ratings for periods ended September 30, 2017. Past performance cannot guarantee future results. For current performance and rankings, please visit TIAA.org/public/tcfpi/InvestResearch.org/public/tcfpi/InvestResearch. 

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Investment, insurance and annuity products are not FDIC insured, are not bank guaranteed, are not deposits, are not insured by any federal government agency, are not a condition to any banking service or activity, and may lose value.

Past performance does not guarantee future results.

Annuity contracts contain exclusions, limitations, reductions of benefits and may contain terms for keeping them in force. We can provide you with costs and complete details.

You should consider the investment objectives, risks, charges, and expenses carefully before investing. Please call 877-518-9161 or go to TIAA.org for underlying product and fund prospectuses that contain this and other information. Please read the prospectuses carefully before investing.

Teachers Insurance and Annuity Association of America is domiciled in New York, NY, with its principal place of business in New York, NY. Its California Certificate of Authority number is 3092.

The TIAA Traditional Annuity Retirement Annuity (RA) contract form series 1000.24; Group Retirement Annuity (GRA) certificate form series G-1000.4 or G-1000.5/G1000.6 or G1000.7 (not available in all states); Supplemental Retirement Annuity (SRA) contract form series 1200.8; Group Supplemental Retirement Annuity (GSRA) certificate form series G1250.1; Retirement Choice (RC) contract form series IGRS-01-84-ACC; Retirement Choice certificate series IGRS-CERT2-84-ACC; Retirement Choice Plus contract form series IGRSP-01-84-ACC; Retirement Choice Plus certificate series IGRSP-CERT2-84-ACC; Group Annuity (GA) contract form series 6008.8 and 6008.9-ACC; After-Tax Retirement Annuity (ATRA) contract form series 1000.24-ATRA; IRA contract form series 1280.2, 1280.4 (not available in all states and generally no longer issued), or TIAA-IRA-01 and Roth IRA contract form series 1280.3 or 1280.5 (not available in all states and generally no longer issued), or TIAA-Roth-01; and Keogh certificate form series G1350 (not available in all states) are issued by Teachers Insurance and Annuity Association of America, 730 Third Avenue, New York, NY 10017.

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