(TEXT ONLY)

The New York Times
Business Day
The Finger-Pointing at the Finance Firm TIAA
By GRETCHEN MORGENSON
October 21, 2017

In the treacherous world of finance, where investors confront biased advice, hidden costs and onerous fees, one investment giant seems to stand apart — the Teachers Insurance and Annuity Association, also known as TIAA. Calling itself a "mission-based organization" with a "nonprofit heritage," TIAA has enjoyed a reputation as a selfless steward of its clients' assets for almost a century.

"Our values make us a different kind of financial services organization, known for our integrity," Roger W. Ferguson Jr., TIAA's president and chief executive, says on the company's website.

TIAA's clients — educators, researchers and public service workers, many inexperienced with finance — consider the company a trusted partner without whom they could not hope to retire comfortably. That many customers revere it is not an overstatement.

Now, TIAA's image as a benevolent provider of investment advice is in question. Several legal filings — including a lawsuit by TIAA employees with money under the company's management, and a whistle-blower complaint by a group of former workers — say it pushes customers into products that do not add value and may not be suitable but that generate higher fees. Such practices would violate the legal standard that applies to retirement accounts and securities laws governing investment advisers.

And while TIAA contends that its operations are untainted by conflicts because its 855 financial advisers and consultants do not receive sales commissions, former employees, in interviews and in lawsuits, disagree. They say the company rewards its sales personnel with bonuses when they steer customers into more expensive in-house products and services.

The accusations are notable not only because TIAA tells clients that it puts them first, but also because it is one of the world's larger money managers, with almost $1 trillion in assets under management. Today, five million people — most of them college professors, nurses, administrators, researchers and government employees — entrust their money to TIAA. (Formerly known as TIAA-CREF, the company changed its name to TIAA last year.)

Pushing customers into investment products to generate higher pay is a tactic as old as investing itself. And many Wall Street firms, JPMorgan Chase and Morgan Stanley among them, have gotten into trouble for aggressive sales practices. TIAA, by contrast, has been seen as a different animal from its Wall Street counterparts.

Asked about the allegations, Chad Peterson, a TIAA spokesman, said the company focuses exclusively on meeting its clients' long-term financial needs and operates in "a highly transparent and ethical way." He added that TIAA's clients had benefited from their association with the firm.

"We've paid more than the guaranteed payouts to our fixed annuity holders every year for more than half a century," Mr. Peterson said. "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."

According to interviews with 10 former employees, TIAA management assigned outsize sales quotas to its representatives and directed them to meet the quotas by playing up customers' fears of not having enough money in retirement and other "pain points."

These allegations are echoed in a confidential whistle-blower complaint filed against the company with the Securities and Exchange Commission and obtained by The New York Times. The complaint, which is pending, contends that TIAA began conducting a fraudulent scheme in 2011 to convert "unsuspecting retirement plan clients from low-fee, self-managed accounts to TIAA-CREF-managed accounts" that were more costly. Advisers were pushed to sell proprietary mutual funds to clients as well, the complaint says. The more complex a product, the more an employee earned selling it.

Those who questioned management's directives, the complaint says, were "processed out" of TIAA.

Under the legal standard applied to retirement accounts, these plans must be run solely in the interests of participants and beneficiaries. Fiduciaries are barred from engaging in transactions in the plan that would benefit them or other service providers like TIAA.

Clients must also be told of conflicts. Sales representatives who do not make this clear would violate the rules.

The former TIAA employees spoke on condition of anonymity for fear of retribution. TIAA makes employees sign an unusual agreement when they are hired stating that they will not make disparaging public comments about the company. The agreement, reviewed by The Times, gives TIAA the right to go to court to force compliance with its terms.

TIAA's claims that it is more honorable than its competitors may have been true decades ago, but they no longer are, the former employees said.

Edward Siedle, founder of Benchmark Financial Services, is a former S.E.C. enforcement lawyer whose firm investigates improprieties at pension funds and recently helped a whistle-blower win the largest award from the S.E.C. after an enforcement action. Mr. Siedle has been briefed on the TIAA whistle-blower complaint and the former employees who brought it. "TIAA's longstanding reputation as a low-cost provider doing well for educators and not driven by profit seems to be challenged by the revelations about how it's doing business today," he said.

A Broad Reach

In the early 1900s, teachers had no access to pensions that would help them live comfortably in retirement. So in 1918, the Carnegie Foundation donated $1 million to create the nonprofit Teachers Insurance and Annuity Association. Its goal was to "ensure that teachers could retire with dignity."

For decades, TIAA grew by selling mostly insurance products, like annuities that guaranteed a steady stream of retirement income to their holders. Then in 1952, TIAA added the College Retirement Equities Fund, a global stock portfolio, to its offerings. The company, still operating as a nonprofit, became known as TIAA-CREF.

In most cases, clients invest with TIAA because their employers have hired it to administer their workers' retirement accounts, known as 403(b) plans. Some 15,000 of the nation's colleges, hospitals and other nonprofit organizations employ TIAA, its website says.
Five million people — most of them college professors, nurses, administrators, researchers and government employees — entrust their money to TIAA.
John Moore / Getty Images

TIAA typically acts as record-keeper to these institutions, administering accounts that allow beneficiaries to choose among an array of mutual funds and annuities. When TIAA is a plan's record keeper, its in-house funds are typically among the investments offered.

The company earns a record-keeping fee from these institutions, but it can also receive far more revenues when investors buy its mutual funds and annuities. Therein lies the potential for conflict at TIAA.

(I am a trustee of St. Olaf College, an institution that employs TIAA as record keeper on its retirement plans. The college recently asked other companies for information about their costs and offerings to help assess whether TIAA should stay on the job, but I will not be advising or making decisions on that matter.)

In 1997, Congress revoked the company's nonprofit status as part of a tax reform bill, saying the status gave TIAA an unfair advantage over other companies. This meant TIAA's costs would rise significantly because it would have to pay taxes.

Still, TIAA's management said, the change would allow it to pursue investment opportunities it had not been able to engage in as a tax-exempt entity.

Former employees said the company became more aggressive in its sales practices when Herbert M. Allison Jr., a longtime Merrill Lynch executive, took over as TIAA's chief executive in 2002. Around that time, the company was facing a major problem: Many clients withdrew their money when they retired from their universities or hospitals, moving their accounts to competitors like Vanguard, Charles Schwab and even higher-end brokerages like Merrill Lynch.

Eager to stanch the outflows, TIAA set up a registered investment advisory firm in 2004 that began offering private asset management services. In 2005, it created the Wealth Management Group, providing managed accounts for clients, for a fee.

The costs of these accounts were high compared with TIAA's basic retirement accounts, and so was the pressure to sell them, according to the whistle-blower lawsuit. It notes that TIAA levied fees of 0.75 percent to 1.15 percent of assets under management. These charges came on top of the often hefty costs associated with TIAA funds or annuities.

"Had the retirement plan clients known of the advisers' conflict of interest, they certainly would have been more wary and undertaken more investigation to discover the managed accounts the advisers were pushing were subject to substantially higher fees," the complaint says.

Former employees contend that sales pressures at TIAA increased after it began losing university and other institutional accounts to competitors. Internally, TIAA executives had a name for this problem: Money in Motion. And in the fall of 2014, TIAA was reeling from the loss of the $1.3 billion University of Notre Dame account.

Losing such an account not only means no more record-keeping fees for TIAA, it also means the company will no longer generate money management revenues from participants' purchases of in-house funds. That's because TIAA's funds are rarely offered to participants in plans that do not employ the company as record keeper. The University of Notre Dame left TIAA in 2014, taking $1.3 billion in business with it. Some former TIAA employees say sales pressure from the company increased when such institutions left.

After Notre Dame decided to move to Fidelity, a group of TIAA executives convened a conference call. Topic A: how to stop other accounts from walking out the door.

According to a tape provided by a former employee, one executive reported that the company had lost almost $6.4 billion in assets to competitors so far that year. When clients stopped taking part in a plan by retiring or changing jobs, the executive said, only half kept their money there.

Changing this dynamic was crucial, the executives agreed. And one urged the group to look at who was at risk of moving money out of TIAA accounts "and target those participants."

Lawsuits Over Costs

In recent years, lawsuits directed at high-cost providers of retirement account services have shed light on the expenses associated with these arrangements. TIAA's offerings have been among those drawing scrutiny.

In 2015, TIAA came under attack in a lawsuit brought by its own employees. This past May, TIAA agreed to pay $5 million to settle the plaintiffs' allegations that the company breached its fiduciary duty by overcharging its workers in their retirement plan.

The plan offered only high-cost TIAA investment products, the lawsuit said. TIAA strongly denied the allegations but agreed to include investment options from outside fund managers in a settlement of the case; TIAA said it settled to avoid the costs and distractions of litigation.

On its website, TIAA says that its investment vehicles carry "some of the lowest costs in the industry."

According to Morningstar, the average asset-weighted expense ratio on TIAA's mutual funds was 0.32 percent in 2016. Although lower than the 0.57 percent mutual fund industry average, it is more expensive than a low-cost provider like Vanguard, whose average expense ratio was 0.11 percent in 2016.

TIAA also paid $19.5 million in 2014 to settle a suit brought by faculty members at St. Michael's College in Vermont. They contended that TIAA failed to pay customers investment gains generated on their money during the time between the clients' requests to move their funds from TIAA and the actual redemptions. TIAA had to pay $3.3 million in plaintiffs' legal fees in that case.

TIAA denied liability in this case, saying the processing delays arose from a system upgrade.

Last February, a new lawsuit was brought by Melissa Haley, a participant in the Washington University Retirement Savings Plan. She alleged that TIAA had improperly charged her for loans she took out using her retirement account as collateral.

When a participant borrows against retirement-plan assets, most plan overseers take the loan out of the participant's account. That way, the interest paid on the loan goes back to the borrower.

TIAA had a different practice, taking a loan from TIAA's general account. That meant TIAA earned the difference between the interest it charged on the loan and the amount the participant earned on the money invested with TIAA. This enabled the firm "to earn additional income at the expense of retirement plan," the lawsuit said, estimating that TIAA had generated $50 million a year from this practice nationwide.

Ms. Haley, who works as an administrator in cancer research at Washington University's School of Medicine, said in an interview that she had been surprised when she learned about TIAA's loan practices. "We're all trying to do good things at the university, and you assume that anyone who is affiliated with it would be on the same path," she said. "TIAA doesn't have the values I thought it did."
Melissa Haley, an administrator in cancer research at Washington University's medical school, is suing TIAA, accusing the company of improperly charging her for loans she took out using her retirement account as collateral.
Whitney Curtis for The New York Times

Mr. Peterson of TIAA said the company denies Ms. Haley's allegations and will fight her suit vigorously. After the lawsuit was filed, TIAA told some college officials that loans should be funded from a participant's account, calling that approach "a best practice."

Incentive Compensation

Even though TIAA stopped being a nonprofit organization in 1997, many of its customers might think it remains one. The company's website ends in a .org rather than a .com and TIAA repeatedly refers to its "nonprofit heritage."

Most of TIAA is for-profit. Teachers Advisors, for example, is an investment advisory firm that receives compensation from each in-house mutual fund it manages. Nuveen, a mutual fund company purchased by TIAA in 2014, is also run on a for-profit basis. So is EverBank, a Florida banking institution TIAA acquired in June.

According to TIAA's 2016 annual statement, it generated $30.8 billion in income; $15 billion of that came from premiums collected on its insurance products. It earned almost $12 billion in investment income for its clients and $221 million in fees associated with TIAA's investment management, administration and investment contract guarantees.

As these figures show, insurance is by far TIAA's biggest business. It is a stock life insurance company whose shares are held by TIAA's board of overseers. Most of the money it generates in its businesses is reinvested in the company or paid out to holders of TIAA annuities, the company says. Last year, it paid $3.8 billion to those holders.

TIAA's employees were paid almost $1 billion in 2016, its filings show.

TIAA's executive pay packages are comparable to those on Wall Street. During 2016, Mr. Ferguson, its chief executive officer, received $18.5 million in compensation, $5.1 million more than Michael Corbat, the chief executive of Citigroup, received.

Although TIAA contends that its sales representatives are not paid commissions, it does award bonuses to financial consultants and advisers if they sell in-house products or services. "There is an incentive for consultants to refer you to, or recommend that you open, TIAA accounts, products and services," one TIAA filing with the S.E.C. said.

TIAA's financial consultants who deal with institutions also receive bonuses based on their success in keeping clients' money in house, the filing shows.

The company says in the filing that it addresses these conflicts of interest "by disclosing them to you." While the lengthy document is sent to TIAA's clients, they may not read it. The conflicts are not discussed in TIAA's current private asset management brochure, dated March 2017, which says, "Your team always manages your portfolio according to your best interests."

But the whistle-blower suit recounted a comment made by an executive at a convention of the company's advisers in Orlando, Fla., in 2014. At the event, the lawsuit said, Carol Deckbar, then executive vice president and chief operating officer at the company, urged advisers to put more of their clients into in-house mutual funds. “Where do you think you get your bonuses?” the executive asked the crowd, according to the lawsuit.

Ms. Deckbar, now head of institutional investment and endowment products and services at TIAA, declined to comment through the TIAA spokesman. The spokesman also declined to comment.

To receive a bonus, the former employees said, they had to meet a series of production thresholds and qualitative measures. Advisers work against a performance scorecard each year.

According to internal and S.E.C. documents, TIAA advisers receive more money if they put clients into what the company calls complexity products — in-house offerings like annuities and life insurance as well as costlier private asset management accounts and fee-based Portfolio Advisor accounts.

This creates an incentive, former employees said, for sales representatives to push retiring professors or administrators to move money from their institutional plan, with annual costs of around 0.3 percent of assets under management, to managed accounts charging fees of 0.7 percent to 1 percent.

Mr. Peterson, the TIAA spokesman, declined to comment about these allegations. An S.E.C. filing by TIAA said that it has a transaction review process aimed at making sure that recommendations are appropriate for clients.

The employee scorecard represented both carrot and stick. If enough money was not being rolled into managed accounts, representatives’ bonuses could be cut at their supervisor’s discretion, a former sales representative said.

A new federal fiduciary rule, which will require financial advisers working on retirement accounts to put their clients’ interests first, states that firms like TIAA cannot use bonuses or other incentives that would “cause advisers to make recommendations that are not in the best interest of the retirement investor.” Along with many on Wall Street, TIAA argued against the fiduciary rule.

TIAA’s efforts to hold on to client assets and bring in new customers seem to be working. In 2016, the company said, its Institutional Financial Services unit attracted more than 261,000 new individual clients. The business group “beat their targets” in many areas.

But in June, the company changed the message it wanted its sales representatives to tell clients. A training update to wealth management advisers, provided to The Times from a current employee, came as the new fiduciary rule was being finalized.

It told advisers “to avoid accidentally implying that you may be acting as a fiduciary,” when having educational conversations with clients. They should avoid “referencing the participant’s best interest” and “discussions regarding TIAA’s not-for-profit heritage.”

---

e-mail sent Sat 10/21/2017 4:01 PM

A message from Ron Pressman

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. Therefore, it was incredibly disappointing and concerning to read a very misleading article about TIAA that you may have seen in The New York Times recently. We fundamentally disagree with how the article characterizes TIAA and the way we operate our company and address our clients’ financial needs.

As I hope you have experienced, TIAA is a different kind of financial services organization. The long-term goals of our institutional clients and their employees have been our primary focus for nearly a century. We are not publicly traded, and therefore not subject to short-term shareholder interests. We put our clients first, and operate in a highly transparent and ethical way.

We are not an organization that is particularly boastful, but I am proud of what we have been able to deliver for our institutional clients and their employees. I would put our investment performance[1], fees[2] and service delivery up against any other financial services company. The outcomes 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[3]. We’ve paid $394 billion in benefits to retired participants since 1918[4]. In fact, since our founding, our retired participants have never missed a payout from us – through depressions, wars, and natural disasters.

The bottom line is that participants in TIAA administered plans have more confidence[5], more monthly income[6] and the highest average account balances[7]. And that’s why TIAA exists – to help the millions of people we serve achieve lifetime financial security.

By misrepresenting facts, taking comments out of context, and making apples-to-oranges comparisons, the article presents a misleading portrait of who we are as an organization and our commitment to putting our clients first.

We fully believe that our trusted reputation and track record will enable us to quickly move past this unfortunate article, and we remain committed to our core mission and to working every day to serve the interests of our clients and their employees.

Please feel free to reach out to your TIAA representative or me if you have any questions or want additional context regarding points made in the article.

Ron Pressman
CEO, Institutional Financial Services

[1] Winner of the Thompson Lipper Best Overall Large Fund Company award five years in a row. The award is based on a review of 36 companies in 2012, 48 companies in 2013 and 2014, 37 companies in 2015, and 34 companies in 2016 risk-adjusted performance. Past performance is no guarantee of future results. The Lipper Large Fund Award is given to the group with the lowest average decile ranking of three years' Consistent Return for eligible funds over the three-year period with at least five equity, five bond, or three mixed-asset portfolios. Note this award pertains to mutual funds within the TIAA-CREF group of mutual funds; other funds distributed by Nuveen Securities were not included. From Thomson Reuters Lipper Awards, © 2017 Thomson Reuters. All rights reserved. Used by permission and protected by the Copyright Laws of the United States. The printing, copying, redistribution, or retransmission of this Content without express written permission is prohibited. Past performance does not guarantee future results. Certain funds have fee waivers in effect. Without such waivers ratings could be lower. For current performance, rankings and prospectuses, please visit the Research and Performance section on TIAA.org. TIAA-CREF Individual & Institutional Services, LLC, Members FINRA and SIPC.

[2] Applies to mutual fund and variable annuity expense ratios. Source: Morningstar Direct, June 30, 2017. The expense ratio on all mutual fund products and variable annuity accounts managed by TIAA-CREF is generally less than half the mutual fund industry average. 59% are less than half their respective Morningstar Universe average and 50% are less than half their respective Morningstar Universe median.

[3] 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.

[4] 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.

[5] Retirees, Annuitization and Defined Contribution Plans, Paul J. Yakoboski, TIAA-CREF Institute, April, 2010.

[6] TIAA Traditional White Paper, page 3, exhibit 2.

[7] Source: LIMRA Secure Retirement Institute, Not-for-Profit Market Survey, fourth-quarter 2016 results. Average assets per participant based on full-service business.

New York Times
Correction: *October 24, 2017*
An earlier version of this article referred incorrectly to the mechanism used by some former employees of the Teachers Insurance and Annuity Association to make whistle-blower accusations against the company. It was through a complaint filed with regulators, not a lawsuit.