



STATE OF NEW YORK INSURANCE DEPARTMENT
REPORT ON EXAMINATION
OF THE
COLLEGE RETIREMENT EQUITIES FUND

CONDITION:

DECEMBER 31, 2004

DATE OF REPORT:

MARCH 3, 2006

STATE OF NEW YORK INSURANCE DEPARTMENT
REPORT ON EXAMINATION
OF THE
COLLEGE RETIREMENT EQUITIES FUND
AS OF
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EXAMINER:

MARK A. MCLEOD

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

March 3, 2006

Honorable Howard Mills
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22382, dated June 1, 2005 and annexed hereto, a limited scope examination has been made into the condition and affairs of the College Retirement Equities Fund, hereinafter referred to as "CREF" or the "Fund", at its home office located at 730 Third Avenue, New York, New York 10017.

Wherever "Department" appears in this report, it refers to the State of New York Insurance Department.

The report indicating the results of this examination is respectfully submitted.

1. EXECUTIVE SUMMARY

This was a limited scope examination as of December 31, 2004, which included: (i) a review or audit of certain targeted balance sheet items and (ii) a limited review of the market conduct activities of the Fund. The examiner's review did not reveal any differences which materially affected the Fund's financial condition as presented in its financial statements contained in the December 31, 2004 filed annual statement. (See item 5 of this report)

The examiner's limited scope review of the Fund's market conduct activities did not reveal significant instances which deviated from the New York Insurance Law, Department regulations and circular letters and the operating rules of the Fund. (See item 6 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1999. This examination covers the period from January 1, 2000 through December 31, 2004. This was a limited scope examination which included: (i) a review or audit of certain targeted balance sheet items considered by this Department to require analysis, verification or description, (ii) a review of certain targeted market conduct activities of the Fund and (iii) a review or audit of the items noted in the following paragraph. The balance sheet items targeted for review were bonds, stocks, securities lending, and reserves. The limited scope examination of the Fund's market conduct activities consisted of a review of participants' complaints and a review of issued deferred and immediate annuity contracts. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2004 but prior to the date of this report (i.e., the completion date of the examination).

The examiner utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

- Fund history
- Management and control
- Corporate records
- Territory and plan of operation
- Growth of Fund
- Business in force by states

The examiner reviewed the prior report on examination, which did not contain any violations, recommendations, or comments.

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations, or rules, or which require explanation or description.

3. DESCRIPTION OF FUND

A. History

The College Retirement Equities Fund was organized as a nonprofit membership corporation under a special act of the New York State Legislature (Chapter 124, Laws of New York State of 1952), effective March 18, 1952. The act also specified that the Fund has the status of a nonprofit educational corporation. The act further specified that the Fund shall be subject to the provisions of Article one, three, sixteen, and Sections fifty-nine, sixty-six, seventy-eight and two-hundred-fourteen of the New York Insurance Law in effect as of March 18, 1952, subject to further amendments, not inconsistent with the provisions of the act. The Fund commenced business on July 1, 1952.

The Fund was established as a separate corporation to be a companion organization to the Teachers Insurance and Annuity Association of America (“TIAA”). The Fund was organized to provide annuities based upon equity investments that would vary with economic conditions, while TIAA would provide fixed annuity contracts.

In 1988, the Fund registered under the Investment Company Act of 1940 as an open-ended diversified management company and filed registration statements with the Securities and Exchange Commission for certain of its variable annuity certificates. These registration statements were declared effective on March 31, 1988 and, in connection therewith, the Fund was restructured to consist of two distinct investment portfolios: a stock account representing the continuation of the equity portfolio, and a money market account investing primarily in money market instruments.

B. Management and Control

Board of Overseers

CREF's constitution provides that CREF shall consist of seven members, known individually as "overseers", and collectively as the "CREF Board of Overseers"; and that the CREF Board of Overseers shall be the same individuals as the TIAA Board of Overseers. The constitution also provides that the President of the Board of Overseers shall call an annual meeting each year, held on the second Tuesday of June, for the purpose of electing or reelecting members to fill vacancies, to elect a President and Secretary of the CREF Board of Overseers, and to transact such other business as shall properly come before the meeting. The overseers are elected for a term of seven years with one overseer being elected in each year.

As of December 31, 2004, the members of the TIAA Board of Overseers were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Herbert M. Allison, Jr. Scarsdale, NY	Chairman, President and CEO, Teachers Insurance and Annuity Association of America, College Retirement Equities Fund	2002
William G. Bowen Princeton, NJ	President, The Andrew W. Mellon Foundation	1995
Dr. Stanley O. Ikenberry Champaign, IL	Regent Professor and President Emeritus, University of Illinois	1998
Arthur Levitt Greenwich, CT	Senior Advisor, The Carlyle Group	2002
Franklin D. Raines Washington, DC	Chairman and Chief Executive Officer, Federal National Mortgage Association	2002
Samuel O. Their Boston, MA	Professor of Medicine and Health Care Policy, Harvard Medical School	2003
Alair A. Townsend New York, NY	Publisher, Crain's New York Business; Vice President, Crain Communications Inc.	2000

In 2005, Michael S. McPherson replaced Franklin D. Raines as overseer.

Board of Trustees

The Fund's constitution requires that each year the Board of Overseers shall schedule an annual meeting, on the second Tuesday in May, of policyholders for the election of trustees and the transaction of such other business.

The Fund's constitution provides that the general management of the property, business and affairs of the Fund shall be vested in its board of trustees. The board of trustees shall consist of at least five trustees and no more than twelve, and the number of trustees shall be fixed by a vote of the majority of the board of trustees. All trustees shall be elected by the policyholders to a term of one year. The bylaws specify that the board shall hold an annual meeting, on the third Wednesday in June, for the election of officers, the appointment of committees, and the transaction of such other business as shall properly come before the meeting.

As of December 31, 2004, the board of trustees consisted of seven members. The seven board members and their principal business affiliation were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Willard T. Carleton* Tucson, AZ	Professor of Finance Emeritus, University of Arizona	2003
Martin J. Gruber* New York, NY	Nomura Professor of Finance, Leonard N. Stern School of Business, New York University	2000
Nancy L. Jacob* Portland, OR	President, Windermere Investment Associates	1979
Bevis Longstreth* New York, NY	Retired Partner, Debevoise & Plimpton	1996
Bridget A. Macaskill* New York, NY	Principal, BAM Consulting	2003
Maceo K. Sloan* Durham, NC	Chairman and Chief Executive Officer, NCM Capital Management	1991
Ahmed H. Zewail* Pasadena, CA	Professor, California Institute of Technology	2004

*Not affiliated with CREF or TIAA.

In February 2005, Martin J. Gruber resigned from the board. On July 19, 2005, Eugene Flood, Jr. and Howell E. Jackson were elected as members of the board.

The examiner's review of the minutes of the meetings of the board of trustees indicated that meetings were well attended and that each trustee attended a majority of meetings.

The following is a listing of the principal officers of the Fund as of December 31, 2004:

<u>Name</u>	<u>Title</u>
Herbert M. Allison, Jr.	Chairman, President and Chief Executive Officer
Elizabeth A. Monrad	Executive Vice President and Chief Financial Officer
Harry I. Klaristenfeld	Executive Vice President and Chief Actuary
Scott C. Evans	Executive Vice Chairman and Chief Investment Officer
Erwin W. Martens	Executive Vice President, Risk Management
Susan S. Kozik	Executive Vice President and Chief Technology Officer
Dermot J. O'Brien	Executive Vice President, Human Resources
Irwin S. Goldstein	Executive Vice President, Public Affairs
George W. Madison	Executive Vice President and General Counsel
Frances Nolan	Executive Vice President, Client Services
Evelyn L. Jones	Vice President and Corporate Secretary
Bertram L. Scott	Executive Vice President, Product Management

Arti Jurakhan is the designated consumer services officer per Section 216.4(c) of Department Regulation No. 64

Elizabeth Monrad resigned November 15, 2005 from her position as Executive Vice President and Chief Financial Officer. Russel Noles was appointed Acting Chief Financial Officer on the same date replacing Ms. Monrad.

Prior to 2005, an annual code of ethics acknowledgement by the Fund's officers was not part of the Fund's procedures. The code of ethics acknowledgement was only signed by employees, including officers, upon commencement of employment with the Fund. In addition, the Fund trustees were exempted from those filing requirements. Beginning in 2005, the Fund implemented an automated process for maintaining, monitoring and reporting code of ethics acknowledgements on an annual basis.

The examiner recommends that the Fund ensure that all officers and trustees complete the Code of Ethics Acknowledgement form on an annual basis.

C. Territory and Plan of Operation

The Fund has participating annuity certificate holders residing in 50 states, Canada and 33 foreign countries. The Fund files annual statements to state or government officials in 16 states. The Fund is licensed in five states: Colorado, Maine, New York, Texas and Utah. In 11 other states, statements are filed either under specific statutory exemption or under recognition by the state insurance departments that CREF is the companion organization to TIAA.

Before 2000, participation in CREF was only available to employees of nonprofit educational or research institutions, as well as nonprofit ancillary educational institutions. In 2000, CREF amended its charter to include participation by employees of government agencies and other nonprofit institutions. In general, participants of TIAA are eligible to participate in CREF except in those cases where the eligible institution does not authorize participation. As of December 31, 2004, CREF participants can elect to participate in variable annuities, both deferred and immediate, in the following investment funds:

1. The CREF Stock Account which offers long-term growth mainly through capital appreciation;
2. The CREF Global Equities Account which offers long-term growth through capital appreciation and investment income through a diverse investment portfolio of United States and foreign common stock;
3. The CREF Growth Account which offers long-term growth mainly through capital appreciation of common stock;
4. The CREF Equity Index Account which offers long-term growth through a diverse investment portfolio of stocks selected to track overall market trends of stocks publicly traded in the United States;
5. The CREF Bond Market Account which offers long term returns through interest income and capital preservation;
6. The CREF Inflation-Linked Bond Account which offers a long term rate of return that outpaces inflation primarily through investments in inflation linked bonds;
7. The CREF Money Market Account which offers high current income with liquidity and asset preservation; and
8. The CREF Social Choice Fund which offers long-term growth through a diverse investment portfolio of stocks giving special consideration to certain social criteria.

Participants receiving variable income can transfer their source of retirement income to any other variable account or transfer all or part of their variable income to a TIAA fixed annuity. Participants can redistribute funds between both CREF and TIAA.

4. SIGNIFICANT OPERATING RESULTS

The information contained in the following tables has been extracted from the Fund's filed annual statements for the period under examination and has been subjected to a limited audit or review as indicated in the Scope of Examination. (See item 2 of this report)

The following table indicates the Fund's financial growth (decline) during the period under review:

	<u>December 31,</u> <u>1999</u>	<u>December 31,</u> <u>2004</u>	<u>Increase</u> <u>(Decrease)</u>
Admitted assets	\$ <u>178,750,561,332</u>	\$ <u>171,879,545,490</u>	\$ <u>(6,871,015,842)</u>
Liabilities	\$ <u>178,750,561,332</u>	\$ <u>171,879,545,490</u>	\$ <u>(6,871,015,842)</u>

The Fund's assets were mainly distributed between common stock (84.6%) and bonds (14.8%).

The following table shows the growth (decline) of admitted assets in the Fund's investment accounts during the period under review:

<u>CREF Investment Accounts</u>	<u>December 31,</u> <u>1999</u>	<u>December, 31</u> <u>2004</u>	<u>Increase</u> <u>(Decrease)</u>
Stock	\$136,007,703,096	\$114,818,550,151	\$(21,189,152,945)
Money Market	7,054,624,183	6,781,379,261	(273,244,922)
Bond Market	3,504,992,773	6,733,470,064	3,228,477,291
Social Choice	4,438,926,739	7,694,889,476	3,255,962,737
Global Equities	9,042,050,336	10,902,171,238	1,860,120,902
Growth	13,576,431,365	12,129,513,586	(1,446,917,779)
Equity Indexed	4,984,753,074	9,266,396,984	4,281,643,910
Inflation-Linked Bond	<u>141,079,766</u>	<u>3,553,174,730</u>	<u>3,412,094,964</u>
Total Admitted Assets	\$ <u>178,750,561,332</u>	\$ <u>171,879,545,490</u>	\$ <u>(6,871,015,842)</u>

5. FINANCIAL STATEMENTS

The following statements show the assets and liabilities as of December 31, 2004, and the summary of operations for each of the years 2000 through 2004 as extracted from the Fund's filed annual statements for the period under examination. These financial statements have been subjected to a limited audit or review as indicated in the Scope of Examination. (See item 2 of this report)

A. ASSETS AND LIABILITIES AS OF DECEMBER 31, 2004 (All CREF Accounts Consolidated)

Assets

Book value of bonds	\$ 25,492,855,618
Book value of stocks	145,447,262,610
Cash on deposit not on interest	77,489,197
Cash on deposit on interest	(46,651,299)
Receivable from sale of securities and short-term maturities	587,574,329
Dividends and interest receivable	286,833,092
Sundry receivables	<u>34,181,943</u>
Total assets	<u>\$171,879,545,490</u>

Liabilities

Reserve for annuity units	\$ 17,207,060,161
Reserve for accumulation units	147,182,280,270
Expenses due or accrued	1,768,635
Liability for undelivered securities	7,488,064,699
Miscellaneous liabilities	<u>371,725</u>
Total liabilities	<u>\$171,879,545,490</u>

B. SUMMARY OF OPERATIONS
(All CREF Accounts Consolidated)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Amount of ledger assets at end of previous year	<u>\$178,750,561,332</u>	<u>\$162,816,111,800</u>	<u>\$144,736,815,196</u>	<u>\$119,422,344,012</u>	<u>\$152,503,846,007</u>
<u>Income:</u>					
Annuity premiums	\$ 9,864,154,363	\$ 8,757,029,393	\$ 9,518,423,524	\$ 10,007,406,782	\$ 11,212,808,106
Consideration for minimum distribution option and IRA rollovers	752,231,870	665,593,385	831,555,738	766,240,885	698,924,986
Consideration for supplementary certificates involving life contingencies	6,824,722	4,488,512	1,451,921	1,112,745	1,826,772
Consideration for supplementary certificates not involving life contingencies	8,555,511	4,723,827	5,593,417	3,663,294	4,752,705
Increase in liabilities for undelivered securities	347,985,405	2,910,782,248	717,892,818	3,503,885	2,025,597,058
Increase in liabilities for securities transactions	0	0	0	4,129,696,768	0
Gross interest on bonds	953,594,000	800,423,056	640,845,683	579,998,367	647,197,055
Gross dividends on stocks	1,767,249,326	1,721,639,537	1,722,315,650	2,006,657,991	2,521,470,848
Gross interest on cash on deposit	8,420,890	23,714,070	2,269,914	1,130,822	549,692
Increase in interest receivable on bonds	25,219,133	17,777,670	0	0	0
Decrease in interest receivable on bonds	0	0	21,358,467	5,684,867	12,082,592
Increase in miscellaneous liabilities	84	0	171,639,209	0	333,676
Decrease in miscellaneous liabilities	0	664,685,401	0	0	0
Increase in dividend receivable on stocks	3,750,776	4,896,145	0	0	0
Decrease in dividend receivable on stocks	0	0	29,166,786	15,817,795	40,753,810
Securities lending income	20,146,512	18,931,930	80,342,892	11,975,878	11,972,848
Increase in expenses due and accrued	0	0	597,521	566,342	116,762
Miscellaneous income	11,359,974	259,636	334,358	1,476,349	26,929,913
Gain of futures	1,555,040,442	594,458,336	576,056,875	256,205,003	0
Gross increase, by adjustment, on book value of bonds	1,543,564,558	92,611,384	561,406,158	2,601,397,630	93,891,152
Gross increase, by adjustment, on book value of stocks	529,762,269,009	320,660,829,993	249,567,061,501	127,720,138,662	14,206,827,325
Exchange gains	<u>0</u>	<u>113,941,963</u>	<u>27,477,048</u>	<u>17,787,658</u>	<u>5,339,118</u>
Total income	<u>\$546,630,366,575</u>	<u>\$337,056,786,486</u>	<u>\$264,475,789,480</u>	<u>\$148,130,461,723</u>	<u>\$ 31,511,374,418</u>

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
<u>Disbursements:</u>					
Payments on unit-annuities involving life contingencies excluding supplementary certificates	\$ 10,572,724,020	\$ 9,338,999,862	\$ 9,980,981,899	\$ 8,606,763,638	\$ 11,163,088,059
Payments on unit-annuities involving life contingencies-supplementary certificates	39,662,878	33,464,456	27,742,964	21,191,751	23,016,405
Payments on unit-annuities not involving life contingencies-supplementary certificates	190,310,598	179,891,261	150,019,361	134,232,186	20,864,747
Administrative expenses	538,996,868	590,320,626	550,389,237	645,334,021	617,661,903
Decrease in interest receivable on bonds	1,396,327	26,652,626	13,883,483	6,954,968	9,513,228
Decrease in dividends receivable on stocks	5,713,785	2,014,278	0	0	4,936,082
Increase in liability for undelivered securities	0	0	364,882,201	3,495,078,795	3,504,801
Increase in expenses due and accrued	0	0	3,211,077	60,478,783	129,489
Interest on bank loans	0	0	95,005	0	0
Increase in miscellaneous liabilities	0	0	1,843,398	587,598,821	1,309,471
Decrease in miscellaneous liabilities	129,682,158	69,885	0	0	0
Miscellaneous charges	34,970,477	64,481,563	6,514,131	178,478,957	5,985,957
Securities lending fees incurred	132,034,470	20,786,201	29,362,583	25,848,350	38,374,763
Loss on futures	1,773,693,423	573,620,852	696,494,161	211,865,286	0
Exchange losses	23,418,679	24,714,878	0	0	0
Gross decrease, by adjustment, in the book value of bonds	1,366,470,768	118,580,140	40,485,491	5,164,683	247,290,030
Gross decrease, by adjustment, in the book value of stocks	547,699,398,027	344,034,098,887	277,924,355,673	101,069,969,489	0
Loss on options	<u>56,343,629</u>	<u>128,387,575</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total disbursements	<u>\$562,564,816,107</u>	<u>\$355,136,083,090</u>	<u>\$289,790,260,664</u>	<u>\$115,048,959,728</u>	<u>\$ 12,135,674,935</u>
Amount of ledger assets at end of current year	<u>\$162,816,111,800</u>	<u>\$144,736,815,196</u>	<u>\$119,422,344,012</u>	<u>\$152,503,846,007</u>	<u>\$171,879,545,490</u>

6. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Fund's market conduct activities affecting participants to determine compliance with applicable statutes and regulations and the operating rules of the Fund. The scope of the examiner's review was limited as described in the Scope of Examination. (See item 2 of this report)

Based upon the sample reviewed, no significant findings were noted.

7. SUMMARY AND CONCLUSIONS

This report contains the following recommendation:

<u>Item</u>	<u>Description</u>	<u>Page No.</u>
A	The examiner recommends that the Fund ensure that all officers and trustees complete the Code of Ethics Acknowledgement form on an annual basis	7

APPOINTMENT NO. 22382

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, HOWARD MILLS, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

MARK MCLEOD

as a proper person to examine into the affairs of the

COLLEGE RETIREMENT EQUITIES FUND

and to make a report to me in writing of the condition of the said

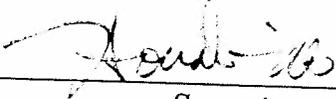
FUND

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York

this 1st day of June, 2005

HOWARD MILLS
Superintendent of Insurance


Superintendent

