



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

CONDITION:

DECEMBER 31, 2008

DATE OF REPORT:

JANUARY 22, 2010

STATE OF NEW YORK INSURANCE DEPARTMENT

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OF THE

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EXAMINER:

MARC TSE

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

Andrew M. Cuomo  
Governor

James J. Wynn  
Superintendent

February 9, 2011

Honorable James J. Wynn  
Superintendent of Insurance  
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 30316, dated April 2, 2009 and annexed hereto, an examination has been made into the affairs of 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. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2004. This examination covers the period from January 1, 2005 through December 31, 2008. 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, and securities lending. 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, 2008 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 corrective actions taken by the Fund with respect to the recommendation contained in the prior report on examination. The results of the examiner's review are contained in item 5 of this report.

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.

## 2. 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, 2008, the members of the CREF Board of Overseers were as follows:

| <u>Name and Residence</u>                    | <u>Principal Business Affiliation</u>   | <u>Year First Elected</u> |
|--|---|---------------------------|
| William G. Bowen*<br>Princeton, NJ           | President Emeritus<br>The Andrew W. Mellon Foundation<br>Founding Chairman<br>Ithaca Harbors, Inc.                                    | 1995                      |
| Roger W. Ferguson<br>Washington, DC          | President and Chief Executive Officer<br>Teachers Insurance and Annuity Association of<br>America<br>College Retirement Equities Fund | 2008                      |
| Stanley O. Ikenberry*<br>Urbana, IL          | President<br>Board of Overseers<br>Regent Professor and President Emeritus<br>University of Illinois                                  | 1998                      |
| Cleve I. Killingsworth*<br>Chestnut Hill, MA | Chairman, President and Chief Executive Officer<br>Blue Cross Blue Shield of Massachusetts  | 2007                      |
| Michael S. McPherson*<br>Chicago, IL         | President<br>The Spencer Foundation   | 2005                      |

| <u>Name and Residence</u>              | <u>Principal Business Affiliation</u>   | <u>Year First Elected</u> |
|--|---|---------------------------|
| Samuel O. Thier *<br>Chestnut Hill, MA | Professor of Medicine and Health Care Policy<br>Emeritus (as of 1/1/08)<br>Harvard Medical School<br>Massachusetts General Hospital | 2003                      |
| Alair A. Townsend*<br>New York, NY     | Columnist<br>Crain's New York Business  | 2000                      |

\* Not affiliated with CREF or TIAA.

#### 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. If the president of the members or any three members shall so determine, the annual policyholders meeting may be held at a different date, time or place, provided notice thereof shall be given to all policyholders in person or by mail or telegraph at least ten and not more than fifty days in advance of any such meeting.

The Fund's constitution and by-laws provide 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 by-laws 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, 2008, the board of trustees consisted of ten members. The ten 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> |
|---------------------------------------|---|---------------------------|
| Forrest C. Berkley*<br>Wayland, MA    | Former Partner and Head of Global Product Management<br>GMO   | 2006                      |
| Nancy A. Eckl*<br>Bedford, TX         | Former Vice President<br>American Beacon Advisors, Inc.   | 2007                      |
| Eugene Flood, Jr.*<br>Chapel Hill, NC | President and Chief Executive Officer<br>Smith Breeden Associates, Inc.   | 2005                      |
| Michael A. Forrester*<br>Boston, MA   | Chief Operating Officer<br>Copper Rock Capital Partners   | 2007                      |
| Howell E. Jackson*<br>Newton, MA      | Professor<br>Harvard Law School   | 2005                      |
| Nancy L. Jacob*<br>Vancouver, WA      | President, Founder and Managing Principal<br>NLJ Advisers, Inc.   | 1979                      |
| Bridget A. Macaskill*<br>New York, NY | Principal<br>BAM Consulting   | 2003                      |
| James M. Poterba*<br>Belmont, MA      | Director, President and Chief Executive Officer<br>National Bureau of Economic Research<br>Professor, Head of the Economics Department<br>Massachusetts Institute of Technology | 2006                      |
| Maceo K. Sloan*<br>Durham, NC         | Chairman and Chief Executive Officer<br>NCM Capital Management Group  | 1991                      |
| Laura T. Starks*<br>Austin, TX        | Professor<br>University of Texas at Austin  | 2006                      |

\* Not affiliated with CREF or TIAA

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, 2008:

| <u>Name</u>            | <u>Title</u>  |
|------------------------|---|
| Roger W. Ferguson, Jr. | President and Chief Executive Officer   |
| Mary E. Beams          | Executive Vice President  |
| Georganne C. Proctor   | Executive Vice President, Chief Financial Officer<br>and Principal Accounting Officer |
| Scott C. Evans         | Executive Vice President  |
| I. Steven Goldstein    | Executive Vice President  |
| Erwin Martens          | Executive Vice President  |
| Dermot J. O'Brien      | Executive Vice President  |
| Cara L. Schnaper       | Executive Vice President  |
| Bertram L. Scott       | Executive Vice President  |
| Edward D. Van Dolsen   | Executive Vice President  |
| Stephen Gruppo         | Senior Managing Director  |
| William J. Mostyn III  | Vice President and Corporate Secretary  |
| Phillip G. Goff        | Treasurer   |
| Richard S. Biegen      | Chief Compliance Officer  |

Arti Jurakhan was the designated consumer services officer per Section 216.4(c) of Department Regulation No. 64 for the examination period until October 7, 2008. Thomas Linton replaced Ms. Jurakhan as the designated consumer services officer from the same date until April 30, 2009. Rebecca Buckingham was designated the consumer services officer on the same date replacing Thomas Linton.

George W. Madison resigned on September 30, 2008 as Executive Vice President and General Counsel. Brandon Becker was appointed on March 2, 2009 to replace George W. Madison. Steven Gruppo was approved as Executive Vice President on February 12, 2009, and Erwin W. Martens was removed from the Executive and Principal Officers list.

### 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, 2008, 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.

### 3. FINANCIAL STATEMENTS

Effective fiscal year 2007, the Department changed the content and format of annual statements for retirement systems and pension funds. The new statement presents pension plan funding issues in a more appropriate manner than before, and is based on Generally Accepted Accounting Principles, rather than Statutory Accounting Principles.

The following statements show the assets and liabilities as of December 31, 2008, and the changes in net assets for the years 2006 to 2008 as extracted from the Fund's filed annual statements. These financial statements have been subjected to a limited audit or review as indicated in the Scope of Examination. (See item 1 of this report)

#### A. STATEMENT OF ASSETS AND LIABILITIES AS OF DECEMBER 31, 2008 (All CREF Accounts Consolidated (in '000s))

##### Assets

|                                       |                      |
|---------------------------------------|----------------------|
| Portfolio investments, at cost:       |                      |
| Unaffiliated issuers                  | \$187,096,602        |
| Affiliated issuers                    | <u>86,985</u>        |
| Total portfolio investments, at cost  | <u>\$187,183,587</u> |
| Portfolio investments, at value:      |                      |
| Unaffiliated issuers                  | \$149,168,627        |
| Affiliated issuers                    | <u>33,820</u>        |
| Total portfolio investments, at value | <u>\$149,202,447</u> |
| <br>                                  |                      |
| Cash                                  | 425,747              |
| Cash – foreign                        | 48,504               |
| Dividends and interest receivable     | 384,570              |
| Receivable from securities sold       | 529,805              |
| Amounts due from TIAA                 | 67,986               |
| Other assets                          | <u>8,720</u>         |
| <br>                                  |                      |
| Total assets                          | <u>\$150,666,779</u> |

Liabilities

|  |                      |
|--|----------------------|
| Payable for collateral for securities loaned | \$ 11,233,870        |
| Amount due to investment advisor             | 1,749                |
| Accumulation withdrawals payable             | 2,439                |
| Payable for securities purchased             | 1,079,518            |
| Other liabilities                            | <u>1,112</u>         |
| Total liabilities                            | \$ <u>12,318,688</u> |

Net Assets

|                   |                       |
|-------------------|-----------------------|
| Accumulation fund | \$127,410,118         |
| Annuity fund      | <u>10,937,973</u>     |
| Total Net Assets  | \$ <u>138,348,091</u> |

**B STATEMENT OF CHANGES IN NET ASSETS**  
**(All CREF Accounts Consolidated in '000s)**

|  | <u>2006</u>           | <u>2007</u>           | <u>2008</u>            |
|--|-----------------------|-----------------------|------------------------|
| <u>From Operations:</u>  |                       |                       |                        |
| Net investment income  | \$ 3,137,558          | \$ 3,765,787          | \$ 3,882,053           |
| Net realized gain (loss) on total investments                                | 15,108,713            | 19,564,885            | (12,349,846)           |
| Net change in unrealized appreciation<br>(depreciation) on total investments | <u>7,259,205</u>      | <u>(7,115,839)</u>    | <u>(62,223,557)</u>    |
| Net increase (decrease) in net assets resulting<br>from operations           | <u>\$ 25,505,476</u>  | <u>\$ 16,214,833</u>  | <u>\$ (70,691,450)</u> |
| <u>From Participants:</u>  |                       |                       |                        |
| Premiums   | \$ 9,074,521          | \$ 9,479,259          | \$ 20,328,990          |
| Net transfers from (to) TIAA   | (299,098)             | (331,775)             | 0                      |
| Net transfers from (to) other CREF accounts<br>and affiliated mutual funds   | (2,112,076)           | (2,586,985)           | 0                      |
| Annuity payments   | (2,257,352)           | (2,534,875)           | (2,408,791)            |
| Withdrawals and death benefits   | <u>(6,399,081)</u>    | <u>(7,714,951)</u>    | <u>(19,887,060)</u>    |
| Net (decrease) in net assets resulting<br>from participant transactions      | <u>\$ (1,993,086)</u> | <u>\$ (3,689,327)</u> | <u>\$ (1,966,861)</u>  |
| Net increase (decrease) in net assets  | \$ 23,512,390         | \$ 12,525,506         | \$ (72,658,311)        |
| <u>Net Assets:</u>   |                       |                       |                        |
| Beginning of year  | <u>174,968,506</u>    | <u>198,480,896</u>    | <u>211,006,402</u>     |
| End of year  | <u>\$198,480,896</u>  | <u>\$211,006,402</u>  | <u>\$138,348,091</u>   |

The examiner's review of bank reconciliations and other documentation that CREF provided in response to an examination request revealed that the documents were not prepared by the Fund because the responses and/or information were on State Street Bank's ('SSB') (the Fund's custodian's) letterhead. The Fund, in its response to the examiner's inquiry, confirmed that the bank reconciliations were prepared by SSB. The examiner noted that CREF has a third party administrative service agreement with SSB that permitted SSB to prepare the bank

reconciliations. Upon the request of the examiner, CREF provided further documentation regarding the internal reconciliation process of bank reconciliations.

The examiner recommends that CREF personnel perform and document a regular review of bank reconciliations prepared by SSB, and that such documentation include signoffs by TIAA personnel.

#### 4. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Company'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 to a review of participants' complaints and a review of issued deferred and immediate annuity contracts.

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

## 5. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following is the recommendation contained in the prior report on examination and the subsequent actions taken by the Company in response to the citation:

| <u>Item</u> | <u>Description</u>  |
|-------------|---|
| A           | <p>The Fund failed to ensure that all officers and trustees completed the Code of Ethics Acknowledgement form on an annual basis.</p> <p>The Fund has procedures in place to ensure that all officers and trustees complete the Code of Ethics Acknowledgement form on an annual basis.</p> |

6. SUMMARY AND CONCLUSIONS

Following is the recommendation contained in this report:

| <u>Item</u> | <u>Description</u>   | <u>Page No.</u> |
|-------------|--|-----------------|
| A           | The examiner recommends that CREF personnel perform and document a regular review of bank reconciliations prepared by SSB, and that such documentation include signoffs by TIAA personnel. | 12 – 13         |

Respectfully submitted,

\_\_\_\_\_/s/  
Marc Tse  
Associate Insurance Examiner

STATE OF NEW YORK     )  
  )SS:  
COUNTY OF NEW YORK    )

Marc Tse, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

\_\_\_\_\_/s/  
Marc Tse

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_

APPOINTMENT NO. 30316

**STATE OF NEW YORK**  
**INSURANCE DEPARTMENT**

I, ERIC R. DINALLO, Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:

**MARC TSE**

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

**COMPANY**

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 2nd day of April, 2009



ERIC R. DINALLO

Superintendent of Insurance

A handwritten signature in black ink that reads "Eric Dinallo".

Superintendent