



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

CONDITION:

DECEMBER 31, 2013

DATE OF REPORT:

MARCH 13, 2015

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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EXAMINER:

COURTNEY WILLIAMS

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

July 19, 2016

Honorable Maria T. Vullo
Superintendent of Financial Services
New York, New York 10004

Madam:

In accordance with instructions contained in Appointment No. 31195, dated May 6, 2014, and annexed hereto, an examination has been made into the condition and 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, NY 10017.

Wherever “Department” appears in this report, it refers to the New York State Department of Financial Services.

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

1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2008. This examination covers the period from January 1, 2009, through December 31, 2013. 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 member benefit 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 actuarial liabilities. The limited scope examination also consisted of a review of how the Fund conducts its business and fulfills its contractual obligations to members. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2013, but prior to the date of this report (i.e., the completion date of the examination).

The examiner utilized such 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
- Member benefits
- Growth of Fund

The Fund was audited annually, for the years 2009 through 2013 by the accounting firm PricewaterhouseCoopers LLP. The Fund received an unqualified opinion in all applicable years. Certain audit workpapers of the accounting firm were reviewed and relied upon in conjunction with this examination.

The examiner reviewed the corrective actions taken by The Fund with respect to the recommendation contained in the prior report on examination. The result of the examiner's review is 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 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.

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

In 1988, CREF registered under the Investment Company Act of 1940 (“the 1940 Act”) as an open-ended diversified management company and filed a registration statement with the Securities and Exchange Commission for certain of its variable annuity certificates. The registration statement was declared effective on April 30, 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. Since then, six additional CREF accounts have been registered and launched.

B. Management

As a not-for-profit corporation, CREF does not have shareholders. Instead, it has members who hold membership interests. CREF’s constitution provides that it shall consist of seven members, known individually as “overseers,” and collectively as the “CREF Board of Overseers.” 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 CREF Board of Overseers shall call an annual meeting each year, to be held on the second Tuesday of June, for the purpose of electing or reelecting members to fill vacancies, to elect a president and secretary, 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. If the chief executive officer or any three members shall so determine, the annual meeting of the CREF Board of Overseers may be held on a different date, as shall be specified in the notice of the meeting.

As of December 31, 2013, 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> |
|--|---|---------------------------|
| Lawrence S. Bacow Brookline, MA | Retired President Tufts University | 2013 |
| Molly C. Broad Washington, DC | President American Council on Education | 2009 |
| Scott S. Cowen New Orleans, LA | President Tulane University | 2010 |
| Roger W. Ferguson, Jr. Washington, DC | Chief Executive Officer and President Teachers Insurance and Annuity Association of America | 2008 |
| Cleve L. Killingsworth Hemlock, NY | Faculty Member Harvard School of Public Health | 2007 |
| Michael S. McPherson Chicago, IL | President and Director Spencer Foundation | 2005 |
| Alair A. Townsend New York, NY | Columnist Crain's New York Business | 2000 |

Board of Trustees

CREF's constitution provides that the general management of the property, business and affairs of CREF 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. CREF's participants vote for and elect its trustees. This power was ceded to the Fund's participants by the board of trustees as a condition of the Fund's registration as an investment company under the 1940 Investment Act. All trustees shall be elected 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, 2013, the board of trustees consisted of 10 members. The 10 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 Berkley Concord, MA | Former Partner GMO (formerly, Grantham, Mayo, Van Otterloo & Co.) | 2006 |
| Nancy A. Eckl Bedford, TX | Former Vice President American Beacon Advisors, Inc. | 2007 |
| Michael A. Forrester Boston, MA | Chief Operating Officer Copper Rock Capital Partners | 2007 |
| Howell F. Jackson Cambridge, MA | Professor of Law Harvard Law School | 2005 |
| Nancy L. Jacob Edmonds, WA | Principal NL Jacob Consultant | 1979 |
| Thomas J. Kenny Santa Barbara, CA | Former Partner Goldman Sachs Asset Management | 2011 |
| Bridget A. Macaskill New York, NY | Chief Executive Officer and President First Eagle Investment Management | 2003 |
| James M. Poterba Belmont, MA | Mitsui Professor of Economics Massachusetts Institute of Technology | 2006 |
| Maceo K. Sloan Durham NC | Chairman and Chief Executive Officer NCM Capital Management | 1993 |
| Laura T. Starks Austin, TX | Associate Dean for Research McCombs School of Business, University of Texas | 2006 |

The following is a listing of the executive and principal officers of the Fund as of December 31, 2013:

Executive Officers

| <u>Name</u> | <u>Title</u> |
|----------------------|---|
| Roger W. Ferguson | President and Chief Executive Officer |
| Robert G. Leary | Executive Vice President |
| Virginia M. Wilson | Executive Vice President, Chief Financial Officer and Principal Accounting Officer |
| Stephen Gruppo | Executive Vice President |
| Carol Deckbar | Executive Vice President |
| Brandon Becker | Executive Vice President and Chief Legal Officer |
| Ronald R. Pressman | Executive Vice President |
| Otha T. Spriggs, III | Executive Vice President |
| Edward D. Van Dolsen | Executive Vice President |
| Constance Weaver | Executive Vice President |
| Richard S. Biegen | Chief Compliance Officer |

Principal Officers

| | |
|--------------------|--|
| Phil Goff | Treasurer |
| Phillip T. Rollock | Senior Managing Director and Corporate Secretary |

C. Territory and Plan of Operation

CREF has participating annuity certificate holders residing in 50 states, Canada and 33 foreign countries. CREF files annual statements to state or government officials in 16 states, and 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 where the Fund 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 the Fund, 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 a long-term rate of return mainly through capital appreciation and investment income by investing primarily in a broadly diversified portfolio of common stock;
2. The CREF Global Equities Account which offers a long-term rate of return through capital appreciation and income through a broadly diversified investment portfolio of domestic and foreign common stock;
3. The CREF Growth Account which offers a long-term rate of return mainly through capital appreciation, primarily from a diversified portfolio of common stocks that present the opportunity for exceptional growth;
4. The CREF Equity Index Account which offers a long-term rate of return through a diversified portfolio selected to track the overall market for common stocks publicly traded in the United States, as represented by a broad stock market index;
5. The CREF Bond Market Account which offers a long term rate of return primarily through high current income consistent with preserving capital;
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, and fixed income securities whose returns are designed to track a specific inflation index over the life of the bond;
7. The CREF Money Market Account which offers high current income consistent with maintaining liquidity and preserving capital; and
8. The CREF Social Choice Fund which offers a long-term rate of return that reflects the investment performance of the financial market while 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 (“GAAP”), rather than Statutory Accounting Principles (“SAP”).

The following statements show the assets and liabilities as of December 31, 2013, and the changes in net assets for the years 2009 to 2013 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 2 of this report)

A. STATEMENT OF NET ASSETS AS OF DECEMBER 31, 2013 (All CREF Accounts Consolidated (in ‘000s))

Assets

| | |
|--|----------------------|
| Portfolio investments, at value: | |
| Unaffiliated issuers | \$235,199,141 |
| Affiliated issuers | <u>906,289</u> |
| Total portfolio investments, at value | <u>\$236,105,430</u> |
| Cash | 456,749 |
| Cash – foreign | 31,554 |
| Dividends and interest receivable | 370,286 |
| Receivable from securities transactions | 528,483 |
| Receivable for delayed delivery securities | 973,801 |
| Due from affiliates | 10,371 |
| Receivable for variation margin on open future contracts | 803 |
| Swap premiums paid | 30 |
| Other assets | <u>18,616</u> |
| Total assets | <u>\$238,496,123</u> |

Liabilities

| | |
|--|--------------------------|
| Payable for collateral for securities loaned | \$ 6,927,544 |
| Payable for securities transactions | 396,882 |
| Payable for delayed delivery securities | 4,250,054 |
| Due to affiliates | 126,885 |
| Swap premiums received | 327 |
| Unrealized depreciation on swap agreements | 473 |
| Other liabilities | <u>15,804</u> |
| Total liabilities | \$ <u>11,717,969</u> |

Total net assets \$226,778,154

Components of net assets

| | |
|----------------------|--------------------------|
| Accumulation fund | \$211,793,917 |
| Annuity fund | <u>14,984,237</u> |
| Total net assets | <u>\$226,778,154</u> |

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

| | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> |
|--|----------------------|----------------------|------------------------|-----------------------|------------------------|
| <u>From Operations:</u> | | | | | |
| Net investment income | \$ 2,809,907 | \$ 2,896,939 | \$ 3,314,154 | \$ 3,590,377 | \$ 3,200,449 |
| Net realized gain (loss) on total investments | (16,785,082) | 5,252,225 | 9,561,582 | 7,156,017 | 18,234,066 |
| Net change in unrealized appreciation (depreciation) on total investments | <u>49,156,451</u> | <u>13,843,777</u> | <u>(16,705,555)</u> | <u>14,233,747</u> | <u>20,952,683</u> |
| Net increase (decrease) in net assets resulting from operations | <u>\$ 35,181,276</u> | <u>\$ 21,992,941</u> | <u>\$ (3,829,819)</u> | <u>\$ 24,980,141</u> | <u>\$ 42,387,198</u> |
| <u>From Participants:</u> | | | | | |
| Premiums | \$ 15,184,372 | \$ 17,256,218 | \$ 16,675,191 | \$ 13,958,084 | \$ 14,722,507 |
| Net transfer between CREF Accounts | 0 | 1 | 0 | 0 | 0 |
| Annuity payments | (1,520,111) | (1,174,903) | (1,482,004) | (1,359,485) | (1,419,041) |
| Withdrawals and death benefits | <u>(13,577,323)</u> | <u>(21,038,693)</u> | <u>(22,063,986)</u> | <u>(20,886,471)</u> | <u>(25,556,030)</u> |
| Net (decrease) in net assets resulting from participant transactions | <u>\$ 86,938</u> | <u>(4,957,377)</u> | <u>\$ (6,870,799)</u> | <u>\$ (8,287,872)</u> | <u>\$ (12,252,564)</u> |
| Net increase (decrease) in net assets | <u>\$ 35,268,214</u> | <u>\$ 17,035,564</u> | <u>\$ (10,700,618)</u> | <u>\$ 16,692,269</u> | <u>\$ 30,134,634</u> |
| <u>Net Assets:</u> | | | | | |
| Beginning of year | <u>\$138,348,091</u> | <u>\$173,616,305</u> | <u>\$190,651,869</u> | <u>\$179,951,251</u> | <u>\$196,643,520</u> |
| End of year | <u>\$173,616,305</u> | <u>\$190,651,869</u> | <u>\$179,951,251</u> | <u>\$196,643,520</u> | <u>\$226,778,154</u> |

4. TREATMENT OF PARTICIPANTS

The examiner reviewed a sample of various types of retirement benefits to participants and beneficiaries. 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 Fund:

| <u>Item</u> | <u>Description</u> |
|-------------|--|
| A | <p>The examiner recommended that CREF personnel perform and document a regular review of bank reconciliations prepared by SSB, and that such documentation include signoffs by TIAA personnel.</p> <p>CREF provided documentary evidence that cash and custody reconciliations are prepared by State Street Bank. A review of these reconciliations is performed by a staff member of TIAA. Both preparer and peer reviewer are required to signoff upon completing their review. Cash and custody reconciliations are reviewed for reasonableness, aged items, and to ensure that the correct balances are used in the reconciliations prepared by State Street bank.</p> |

Respectfully submitted,

_____/s/
Courtney Williams
Associate Insurance Examiner

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

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

_____/s/
Courtney Williams

Subscribed and sworn to before me

This _____ day of _____

APPOINTMENT NO. 31195

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, BENJAMIN M. LAWSKY, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

COURTNEY WILLIAMS

as a proper person to examine the affairs of the

COLLEGE RETIREMENT EQUITIES FUND

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

FUND

with such other information as he shall deem requisite.

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

this 6th day of May, 2014

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:


MICHAEL MAFFEI

ASSISTANT DEPUTY SUPERINTENDENT
AND CHIEF OF THE LIFE BUREAU

