

Ratings and Rankings

# Ratings and Rankings:

What They Can  
Tell You About  
Financial Companies



**TIAA**  
**CREF**



# Ratings & Rankings

When you're saving and investing for the future, you want to rest assured that your money is in the hands of a solid, reputable organization — in other words, that your money is going to be there when you need it. You probably also want to know how these assets are performing, relative to the risk level you're comfortable with for meeting your goals. Ratings of financial companies and investment funds can help answer both of these questions.

## WHY RATINGS ARE IMPORTANT

Ratings of insurance companies can give you a quickly definable, objective, and reliable way to measure the financial strength and credit-worthiness of the entire organization with which you are considering doing business.

Rankings of investment funds like variable annuities and mutual funds give a measure of a particular investment fund's performance over time, relative to similar investments in its class. These rankings usually incorporate consideration of risk in conjunction with these financial returns.

Some agencies rate insurance companies, while others rank investment funds. The criteria each uses also differ.

## RATING INSURANCE COMPANIES

Insurance company ratings tell you about the financial health of the overall organizations that issue different types of insurance policies and contracts. These ratings measure a company's overall strength, evaluate its ability to pay dividends or meet potential liabilities, and assess its future business prospects.

Ratings provide evidence from an objective third-party source of an organization's financial strength and stability.

Insurance company ratings are determined by independent rating agencies staffed by financial analysts. The agency determines what rating to give a company by examining the company's finances, and usually by visiting the organization and interviewing its executives as well.

The four leading independent ratings agencies for insurance companies are:

- **A.M. Best Co.**
- **Standard & Poor's Corp.**
- **Moody's Investors Service, Inc.**
- **Duff & Phelps Credit Rating Co.**

### **RANKING INVESTMENT FUNDS: THE MORNINGSTAR SYSTEM**

Morningstar, Inc., an independent service that ranks mutual funds and variable annuities, has a five-star classification system that is based on performance balanced with risk.

The benchmark Morningstar uses to assess this risk/return ratio is the performance of a theoretically risk-free investment — the 90-day Treasury Bill, which is fully backed by the U.S. government.

Morningstar measures individual investment funds' performance and risk, then calculates risk-adjusted rankings for three-, five- and ten-year periods. Its overall star ranking is a weighted average of these three time periods. Morningstar awards its five-star ranking to the top 10% in each of three investment classes. The funds in the next 22.5 percentile receive four stars, and the middle 35% earn three stars. Those in the next lower 22.5 percentile receive two stars, and the bottom 10% only get one star. Morningstar rankings are updated each month.

## TIAA AND THE CREF ACCOUNTS ARE RATED BY DIFFERENT COMPANIES

TIAA is an insurance company and CREF is an investment company, so they are structured differently and make different types of investments and investment decisions. They are also analyzed by different organizations, using industry-specific criteria.

TIAA is rated on the basis of its merits as an insurance company. TIAA's ratings do not apply to CREF or the TIAA Real Estate Account.

The CREF accounts are ranked by Morningstar, Inc., on the basis of their comparative performances, risk levels and expenses, relative to other accounts in their classes.



### TIAA'S TRIPLE-A RATINGS

Since TIAA was first rated in 1989, we have always received the highest possible ratings for our stability, claims-paying ability, sound investments and financial strength from all four of the major ratings agencies.

We are one of only a handful of life insurance companies — out of almost 2,000 rated — that currently hold the highest possible ratings from

all four leading independent ratings agencies. Ratings agencies cite a number of reasons for granting TIAA their highest ratings:

- **The quality of our investment portfolio**
- **The strength of our reserve levels**
- **The security of our liability structure**
- **The fact that over two million participants make their decisions to stay with us individually, rather than by employer mandate**

## WHAT RATINGS AGENCIES

### SAY ABOUT TIAA:

"TIAA earnings benefit from the substantial scale of its operations, its low-cost operational structure, and its stable liabilities.

"TIAA's operating and administrative expenses are exceptionally low and compare favorably with mutual fund companies, which typically have lower cost infrastructures than insurance companies — and with which it also competes."

— *Best's Rating Report, 1997*  
Rating: A++ (Superior)

"The nature of TIAA's liabilities minimizes liquidity risk and allows the company to take a long-term investment perspective."

— *Duff & Phelps Credit Rating Co.*  
*Claims-Paying Ability Summary, 1997*  
Rating: AAA (Triple-A)

"The advantages of TIAA's distribution network are reflected in its low costs."

— *Moody's Investors Service*  
*Global Credit Research*  
*In-Depth Analysis, August 1997*  
Rating: Aaa

"TIAA maintains a firm grasp on all aspects of its operations. The company has been able to thrive in a downright hostile investment environment of the early 1990s."

— *Standard & Poor's Insurance*  
*Rating Analysis, 1996*  
Rating: AAA (Superior)

## MORNINGSTAR RANKINGS AND THE CREF ACCOUNTS

TIAA-CREF began listing its variable accounts with Morningstar in 1993 to give participants greater access to performance data, and enable them to compare our accounts to other variable annuities.

Morningstar divides its variable annuity account universe into just three broad categories: domestic equity (stock), international equity and fixed-income (bond) accounts. It is important to note that these categories lump together very different types of accounts with very different investment styles and objectives.

### ■ Domestic Equity Accounts

- CREF Stock
- CREF Equity Index
- CREF Growth
- CREF Social Choice

### ■ International Equity Accounts

- CREF Global Equities

### ■ Fixed-Income Accounts

- CREF Bond Market

Morningstar ranks mutual funds and variable annuity accounts separately, and lists the TIAA-CREF variable accounts in its monthly report, *Variable Annuity/Life Performance*.

## KEEPING THE STARS IN PERSPECTIVE

The Morningstar system favors “all-weather” accounts, which perform the most consistently over time in bull and bear markets alike. In essence, it assumes that each fund ranked is the only investment that an individual owns.

As this is seldom the case, it may not be necessary to have only four- and five-star accounts in an investment portfolio.

Because most funds buy and sell holdings each month, star rankings are also likely to change from month to month. When Morningstar perceives a fund has increased its risk level — for example, by buying foreign stocks — its star ranking is likely to fall, even if the fund has continued to perform well.

A less than five-star ranking does not necessarily indicate a “bad” fund. Morningstar itself states that an overreliance on the stars can get in the way of building a sophisticated global portfolio. A less than five-star fund may serve an important diversification role in an investor’s overall asset holdings. And following the stars too closely — that is, buying and selling a fund based on a single month’s ranking — can also lead an investor to buy high and sell low.

#### WHAT MORNINGSTAR

#### SAYS ABOUT TIAA-CREF:

“TIAA-CREF sets the standard in the financial services industry.

“It is cheaper than any other VA (variable annuity) policy, and is even competitive with the cheapest mutual fund complexes, though it offers far more benefits.”

— *Morningstar Principia* Variable Annuities/Life, April 30, 1998.

## WHY AREN'T ALL OF THE TIAA-CREF ACCOUNTS RANKED BY MORNINGSTAR?

Morningstar requires three years of performance data, so our newest accounts — the TIAA Real Estate Account, the CREF Inflation-Linked Bond Account, and the six new TIAA-CREF Mutual Funds — do not yet carry rankings.

The CREF Money Market Account is not ranked because Morningstar does not rank money market accounts, considering this kind of investment to be “risk-free.” (The CREF Money Market Account is neither insured nor guaranteed by the U.S. government.)

Morningstar is also a source for comparative information about expenses for mutual funds and variable annuities. CREF has been consistently cited for its low expenses by Morningstar. According to Morningstar’s data, CREF’s 0.31% average fund expense was less than half that charged by comparable funds.\*

## ACCESSING RATINGS REPORTS

You can get ratings reports for TIAA directly from the ratings agencies, or from our Internet website. The latest Morningstar rankings are listed in *Barron’s* and other financial publications, and are also available on our Internet website at [www.tiaa-cref.org](http://www.tiaa-cref.org).

*\*Of the 4,784 variable annuity funds tracked by Morningstar, the average fund had total fees combining annual expenses of 0.82% plus an insurance expense of 1.27%. Source: Morningstar, Inc., for periods ending 6/30/98.*



**FIND OUT MORE**

If you have further questions about ratings and the TIAA-CREF accounts, or would like to speak to one of our retirement planning specialists, please call:

**1 800 842-2776**

Monday to Friday, 8 a.m. to 11 p.m. ET  
Saturday and Sunday, 9 a.m. to 6 p.m. ET

You can also visit us on the Internet at

**[www.tiaa-cref.org](http://www.tiaa-cref.org)**

*TIAA-CREF Individual and Institutional Services, Inc., distributes CREF certificates and interests in the TIAA Real Estate Account. This booklet must be accompanied or preceded by current CREF and TIAA Real Estate Account prospectuses. For additional copies, call 1 800 842-2733, ext. 5509. TIAA-CREF Investment Management serves as investment manager to CREF.*

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