

DELAWARE DEPARTMENT OF INSURANCE

MARKET CONDUCT EXAMINATION REPORT

Teachers Insurance & Annuity Association of America

**NAIC #69345
730 Third Avenue
New York, NY 10017**

As of

December 31, 2016

Trinidad Navarro
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
Teachers Insurance & Annuity Association of America
AS OF
December 31, 2016

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.



In Witness Whereof, I have hereunto set my hand
and affixed the official seal of this Department at the
City of Dover, this 22 day of January, 2019.



Trinidad Navarro
Insurance Commissioner

Trinidad Navarro
Commissioner



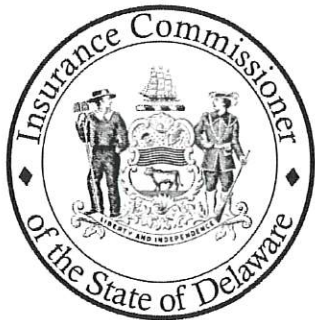
Delaware Department of Insurance

I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2016 on

Teachers Insurance & Annuity Association of America

is a true and correct copy of the document filed with this Department.

Attest By: 



In Witness Whereof, I have hereunto set my hand
and affixed the official seal of this Department at the
City of Dover, this 22 day of January, 2019.



Trinidad Navarro
Insurance Commissioner

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The Honorable Trinidad Navarro
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner Navarro:

In compliance with the instructions contained in the Exam Authority Number 69345-ANN-16-596, and pursuant to statutory provisions including 18 *Del. C.* §§318-322, a market conduct examination has been conducted of the affairs and practices of:

Teachers Insurance & Annuity Association of America NAIC #69345

The examination was performed as of December 31, 2016.

The off-site examination was performed at the offices of the Delaware Department of Insurance, hereinafter referred to as the Department or DDOI, or other suitable locations.

The report of examination herein is respectfully submitted.

EXECUTIVE SUMMARY

According to the 2016 Annual Statement for the State of Delaware, Teachers Insurance and Annuity Association (TIAA) reported direct business life insurance premiums in the amount of \$1,048,694 and annuity considerations in the amount of \$39,922,928. As of the 2016 Annual Statement, Teachers Insurance and Annuity Association reported direct business life insurance premiums in the amount of \$283,064,301 and annuity considerations in the amount of \$14,905,755,312 for all states, territories, and Canada.

The examination was announced as part of a series of examinations on companies in the Annuity marketplace in Delaware. The examination focused on the Company's annuity and life insurance business in the following areas of operation: Company Operations and Management; Complaint Handling; Marketing and Sales; Producer Licensing; Policyholder Services; and Underwriting and Rating. This effort was conducted to gauge the Company's practices in suitability, replacement, and surrender transactions.

The only exception was noted in the area of Underwriting and Rating:

- 1 Exception – Individual Variable Annuities - Replacements
18 *Del. Admin. C.* §1204 - 7.1.2.2 - Duties of Insurers That Use Agents or Brokers.

Evidence of a written communication to the existing insurer regarding the replacement could not be established.

DETAILS OF CODES IN VIOLATION:

As the single violation is repeated in multiple sections of the report, the administrative code associated with the violation is shown below for ease of reference.

18 *Del. Admin. C.* §1204 - 7.1.2.2 - Duties of Insurers That Use Agents or Brokers.

Each insurer that uses an agent of broker in a life insurance or annuity sale shall:

7.1.2 Where a replacement is involved:

7.1.2.2 Send to each existing insurer a written communication advising of the replacement or proposed replacement of the policy. The communication should include the information obtained pursuant to section 7.1.2.1 above and a Summary or Ledger Statement describing the proposed new policy. This written communication shall be made within 7 working days of the date the application is received in the replacing insurer's home office, or the date the proposed life insurance policy or annuity Policy is issued, whichever is sooner.

SCOPE OF EXAMINATION

The Market Conduct Examination was conducted pursuant to the authority granted by 18 *Del. C.* §§ 318-322 and covered the experience period of January 1, 2014, through December 31, 2016, unless otherwise noted. The purpose of the examination was to determine compliance by the Company with Delaware annuity suitability, replacement, and surrender laws and regulations related to the sale and marketing of individual cash value life insurance and individual variable annuities.

The examination was a targeted market conduct examination of the Company's life insurance and annuity business in the following areas of operation: Company Operations and Management; Complaint Handling; Marketing and Sales; Producer Licensing Policyholder Services; and Underwriting and Rating.

METHODOLOGY

This examination was performed in accordance with Market Regulation standards established by the Department and examination procedures suggested by the NAIC. While examiners report on the errors found in individual files, the examiners also focus on general business practices of the Company.

The Company was requested to identify the universe of files for each segment of the review. Based on the universe sizes identified, random sampling was utilized to select the files reviewed for this examination.

Delaware Market Conduct Examination Reports generally note only those items to which the Department, after review, takes exception. An exception is any instance of Company activity that does not comply with an insurance statute or regulation. Exceptions contained in the Report may result in imposition of penalties. Generally, practices, procedures, or files that were reviewed by Department examiners during the course of an examination may not be referenced in the Report if no improprieties were noted. However, the Examination Report may include management recommendations addressing areas of concern noted by the Department, but for which no statutory violation was identified. This enables Company management to review these areas of concern in order to determine the potential impact upon Company operations or future compliance.

Throughout the course of the examination, Company officials were provided status memoranda, which referenced specific policy numbers with citation to each section of law violated. Additional information was requested to clarify apparent violations. An exit conference was conducted with Company officials to discuss the various types of exceptions identified during the examination and to review written summaries of the exceptions noted.

COMPANY HISTORY AND PROFILE

In 1917, the Carnegie Foundation for the Advancement of Teaching (the Foundation) initiated the formation of an organization to provide pensions and insurance for teachers and employees of private educational institutions. The Foundation organized the Teacher Insurance and Annuity Association of America as a legal reserve stock life insurance company under Section 70 of the New York Insurance Law (now Section 1113). The Association was incorporated on March 4, 1918 and commenced business on May 17, 1918. A plan was initiated to make the Association independent of the Foundation with respect to its finances in 1935. An act of the New York State Legislature creating the “Trustees of T.I.A.A. Stock” (the Trustees) became law on June 3, 1937, and the Foundation transferred the Association stock to the Trustees in 1938. Part of the plan also included a proposal by the Association that the Foundation make an endowment grant to it of \$6,700,000 which would obviate any further support for its overhead expenses. The Foundation voted to accept the Association’s proposal and transferred \$2,700,000 to the Association by December 31, 1937. The balance of the endowment was transferred to the Association by the end of 1938. Effective November 17, 1989, the name of the Trustees of T.I.A.A. Stock was changed to TIAA Board of Overseers.

Although the Association had been formed as a New York domestic stock life insurance company, the Association was exempt from federal taxation since its founding in 1918. Effective January 1, 1998, the Association lost its exemption from federal income taxation pursuant to Section 1042 of the Taxpayers Relief Act of 1997. TIAA's charter still obligates TIAA to operate on a not-for-profit basis.

TIAA is a leading provider of retirement services in the academic, research, medical and cultural fields managing retirement assets on behalf of 5 million individuals at more than 16,000 institutions nationwide. TIAA’s mission is “to aid and strengthen” the institutions it serves and to provide financial products that best meet their special needs. The Company’s retirement plans offer a range of options to help individuals and institutions meet their retirement plan administration and savings goals as well as income and wealth protection needs.

TIAA is an organization comprised of several distinct corporate entities. TIAA is organized as a stock life insurance company domiciled in the State of New York which operates on a not-for-profit basis. TIAA provides record keeping services and funding vehicles, fixed annuities, a stable value annuity, and variable annuities for employer sponsored retirement plans, the majority of which are 403(b) plans. TIAA no longer sells life insurance. TIAA-CREF Life Insurance Company is a wholly-owned subsidiary of TIAA.

COMPANY OPERATIONS AND MANAGEMENT

The Company provided the requested information documenting its management and operational procedures in areas for which it conducts business in the State of Delaware, including:

- Company History and Profile
- Company Organization
- Internal Audit & Compliance
- Antifraud Program Compliance
- Managing General Agents (MGAs), General Agents (GAs), and Third-Party Administrators (TPAs)
- Company Records and Records Retention Policies and Procedures
- A statement that the records of Teachers Insurance & Annuity Association of America are adequate, accessible, consistent, and orderly and comply with Delaware record retention requirements.
- Copies of the Annual Statements for 2014, 2015, and 2016

The documents were reviewed to determine compliance with Delaware laws and regulations and NAIC Standards.

No exceptions were noted.

COMPLAINTS HANDLING

The Company provided a list of 105 consumer complaints received during the experience period. No complaints were reported by the Delaware Department of Insurance. A random sample of 50 complaint files was requested, received and reviewed. The complaint files and complaint logs were reviewed for compliance with Delaware statutes and regulations including, but not limited to, 18 *Del. C.* § 2304 (17) and 18 *Del. C.* § 2304 (26).

No exceptions were noted.

MARKETING AND SALES

The Company provided a list of 153 pieces of advertising materials utilized in Delaware during the examination period. The advertising materials may have included: Letters, Direct Mailers, Brochures, Presentations, Radio and Television Scripts, Cards, Illustrations, Product Guides, Product Manuals, and the Company's Web Page. A sample of 79 pieces of advertising materials was requested, received and reviewed. The materials were reviewed to ascertain compliance with 18 *Del. C.* § 2303 - Unfair Methods of Competition and Unfair or Deceptive Acts or Practices and 18 *Del. C.* § 2304 - Unfair methods of competition and unfair or deceptive acts or practices defined.

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No exceptions were noted.

PRODUCER LICENSING

The Company provided a list of 2,455 producers appointed or authorized to conduct business in Delaware at any time during the examination period. A random sample of 114 producers was compared to departmental records of producers to verify compliance with Delaware licensing and appointment statutes and regulations. For examination purposes, producer licensing exceptions found in other sections of the exam report are addressed in those respective sections.

No exceptions were noted.

POLICYHOLDER SERVICES

(A) Individual Cash Value Life Insurance Contracts – Surrendered

The Company identified a universe of 17 Individual cash value life insurance policies surrendered during the experience period. The entire population of 17 policy files was requested, received, and reviewed. The files were reviewed to determine compliance with contract provisions, surrender laws and regulations, and proper processing of any cash surrender value payment.

No exceptions were noted.

(B) Individual Variable Annuity Contracts – Surrendered

The Company identified a universe of 375 individual variable annuity contracts surrendered during the experience period. A random sample of 25 was selected for review. The files were requested, received, and reviewed. The files were reviewed to determine compliance with contract provisions, surrender laws and regulations, and proper processing of any surrender cash value payment.

No exceptions were noted

UNDERWRITING AND RATING

(A) Individual Cash Value Life Policies – New Issue

The Company identified a universe of 9 Individual cash value life insurance policies issued during the experience period. The entire population of 9 policy files were

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requested, received, and reviewed. The files were reviewed to determine compliance with Delaware underwriting and issuance statutes and regulations.

No exceptions were noted.

(B) Individual Variable Annuities – New Issue

The Company identified a universe of 1689 individual variable annuities new issue insurance policies issued during the experience period. A random sample of 105 policy files was requested, received, and reviewed. The files were reviewed to determine compliance with Delaware underwriting and issuance statutes and regulations.

No exceptions were noted.

(C) Individual Variable Annuities - Replacements

The Company identified a universe of 30 Individual variable annuity contracts replaced during the experience period. The entire population of 30 files were requested, received and reviewed. The files were reviewed to determine compliance with Delaware underwriting, issuance, and replacement statutes and regulations.

One exception was noted.

1 Exception - 18 Del. Admin. C. §1204 - 7.1.2.2 - Duties of Insurers That Use Agents or Brokers.

Evidence of a written communication to the existing insurer regarding the replacement could not be established.

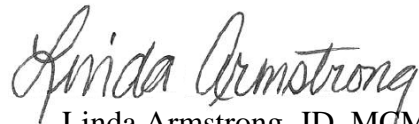
Recommendation: It is recommended the Company review its procedures to ensure the written communication advising the existing insurer of the replacement is made within seven working days of the date the application is received in the replacing insurer's home office in compliance with 18 Del. Admin. C. §1204 - 7.1.2.2.

CONCLUSION

The recommendation made below identifies corrective measures the Department finds necessary as a result of the exception noted in the Report. Location in the Report is referenced in parenthesis.

1. It is recommended the Company review its procedures to ensure the written communication advising the existing insurer of the replacement is made within seven working days of the date the application is received in the replacing insurer's home office in compliance with 18 *Del. Admin. C.* §1204 - 7.1.2.2. (Underwriting and Rating - Individual Variable Annuities – Replacements)

The examination was conducted by Shelly Schuman, Joseph Krug, Linda Armstrong, Steve Misenheimer, James Hartsfield, and Pete Salvatore. This examination report is respectfully submitted.



Linda Armstrong, JD, MQM
Examiner-in-Charge
Market Conduct
Delaware Department of Insurance