Your Money

If You Bought In to TIAA Based on Reputation, Check Your Accounts

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By TARA SIEGEL BERNARD NOV. 13, 2017

Joel Thurtell switched to Vanguard after he was disappointed with the cost of his investments with TIAA. “I had this idea that they weren’t in it for the money,” he said. Credit Laura McDermott for The New York Times

For years, TIAA has nurtured a perception among its clients that it is different from a typical profit-seeking financial services firm.

Its literature and advertising touted its “mission-based approach” and “nonprofit heritage,” leading many of its customers — typically professors, private-school teachers, hospital employees and similar workers — to believe TIAA took more benevolent approach.

But now, some of TIAA’s business practices are being called into question, after several legal filings and a whistle-blower complaint accused the company of pushing its salespeople to promote its own products and services, which generate higher fees, according to a New York

Times article published last month. The whistle-blower also asserted that TIAA advisers had been told to exploit customer fears.

In response, the New York attorney general has subpoenaed TIAA and has sought information related to its sales practices.

That has led some who hold accounts at TIAA to take a closer look at their own investments. As the largest administrator of retirement accounts known as 403(b) plans, TIAA hold $341 billion in assets — 40 percent of the market, according to the data analytics firm Cerulli. These accounts are similar to 401(k)'s but used largely by workers in education, health care, religious institutions and other nonprofits.

"I can see how the advertising/marketing wording might lead someone to infer TIAA acts in the interest of participants," said Richard Shafer, a former TIAA executive who managed its services on the West Coast before leaving the company in 2005. "Not so."

"They are a business, with goals and objectives for the benefit of TIAA," added Mr. Shafer, executive director of Well and Good, an adviser to retirement plans. "If TIAA's goals and objectives happen to align with a professor's, great. Caveat emptor."

Chad Peterson, a spokesman for TIAA, said that as a result of the questions raised by The Times, it has begun "a thorough review to ensure its actions and sales practices are aligned with our mission and values."

If you're holding TIAA products, there is no need to make any rash decisions — in fact, you may be in a 403(b) plan with low-cost, diversified investments — but there are several groups that should carefully scrutinize their holdings in the wake of these allegations:

Variable Annuity Account Holders

Many of TIAA's retirement plans are anchored by its CREF variable annuities, which act like mutual funds but can later be annuitized, or transformed into a stream of income in retirement. But some consultants and advisers say it is not worth paying extra to save in this type of product, especially over many years, because it doesn't provide much more than the chance to buy a stream of income later — something many workers may not want anyway.

"There is really no quantifiable added value in these CREF variable annuities during accumulation stage compared to lower cost mutual funds," said John Hare, a retirement plan consultant in Brentwood, Tenn., who studied the products. "A retirement plan sponsor needs to question whether paying higher expenses throughout a person's entire working career for the 'opportunity' to purchase a single premium annuity justifies this additional overall cost."

Those offerings stand in contrast to some of TIAA's own mutual funds, including its well-regarded "target-date'' funds, which become more conservative as an investor approaches retirement. The target-date offerings that use index funds, cost as low as 0.1 percent of assets for some investors.

403(b) Plan-Holders

The quality and cost of the investments in TIAA's 403(b) accounts vary widely, according to plan consultants, who say that much depends on the size of the plan and the employer. Larger employers often have more competitive offerings, with lower-cost investments on their menus, and may include a mix of products from TIAA's competitors like Vanguard.

Other workers, however, are squirreling their hard-earned savings into 403(b) plans that are largely stocked with more expensive funds and variable annuities.

Brian Fisher, a private-school teacher in New Hampshire, was one of them. The cost of his 403(b) holdings — three different CREF variable annuities — ballooned by nearly half in 2015. The cost of his CREF Global Stock account, for instance, increased to .66 percent of assets annually, from .45 percent.

That reflected TIAA's decision to increase fees in 2015 on such CREF accounts by roughly 50 percent for people in smaller retirement plans and individual retirement accounts, while its largest customers saw fees decline by about 19 percent. While TIAA is not unique in charging smaller plans more, the change came as a surprise to many.

Investors With TIAA Advisers

Workers with 403(b) accounts should also be aware of how TIAA consultants — who come to their workplace to educate employees about their plan rules and investments — are compensated. Their bonuses are calculated, in part, on how much money they bring into employer plans. The consultants also receive compensation for referring you to other parts of TIAA's business, including its advisers.

Just months after Joel Thurtell lost his wife to Alzheimer's about two years ago, he received a pitch from a TIAA financial adviser. He decided to take the offer because his late wife, a doctor and professor, had held a large portion of her retirement savings at TIAA during her career — and they had always believed that TIAA was a superior option.

But he began to question his decision after calculating his total costs, which he said amounted to more than 1.4 percent of his assets annually, to oversee a collection of 13 funds. He ultimately moved to Vanguard, where he pays about 0.37 percent of assets for a similar service.

"I had this idea that they weren't in it for the money," said Mr. Thurtell, 72, a retired newspaper reporter.

TIAA said that for the range of support provided, it believes the service is competitively priced.

Employers Operating TIAA Plans

Ultimately, the employers sponsoring 403(b) plans are responsible — as the plan's fiduciary steward — for choosing the provider and assembling a collection of reasonably priced, prudent investment options.

That point was underscored last year, when about a dozen lawsuits were filed against well-known universities, alleging that the institutions had failed to monitor excessive fees. Some of TIAA's products were singled out in the suits, including its CREF Stock account, which the suit said cost more and underperformed its peers.

But employers must also pay close attention to what else the fees may be covering. Mr. Shafer, the plan consultant, offered an example: If the employer allows deductions from the plan's money to pay for TIAA representatives to educate plan participants, they must ensure those advisers are acting in the best interest of workers.

TIAA Traditional Account Holders

One of TIAA's most popular fixed annuities — the TIAA Traditional — attracts workers with the promise of paying a competitive guaranteed interest rate on contributions. But many people don't realize that some versions of the product lock up their money, only allowing withdrawals to be taken in installments over roughly ten years — a condition that critics say the company hasn't always clearly explained.

"I have probably spoken to hundreds of teachers who have money in the illiquid version of the TIAA Traditional," said Douglas Lynam, director of educator retirement services at LongView Asset Management in Santa Fe, N.M. "Yet very few teachers are aware of the withdrawal restrictions."

(TIAA said those restrictions are outlined in numerous places.)

By locking the money up, TIAA can invest it in longer-term illiquid assets that pay higher returns than shorter-term investments.

Given its higher rate of interest, some financial planners say the TIAA Traditional can serve a helpful role within the bond side of an investor's portfolio — as long as customers grasp the terms. But understanding the fine print and restrictions can be a challenge.

Its inner workings are mind-numbingly complicated and vary slightly across the nine versions it comes in. Customers also need to trust that TIAA will continue to pay a competitive interest rate, since its board of trustees determines what to pay and can essentially change those rates at any time.

"TIAA Traditional is bewilderingly complex and dealing with TIAA is based on trust rather than a straightforward contractual agreement," said Tomas Dvorak, professor of economics at Union College and a member of its retirement plan committee, which helps oversee employees' 403(b) plans administered by Fidelity and TIAA.

And some customers have reported having difficulty getting answers. Jody Newman, a certified financial planner in Tiburon, Calif., embarked on a yearlong odyssey to find out how much her client might receive if he annuitized his income, held in three different versions of the Traditional. She ‘‘never got to the bottom of it,’’ she said.

She also wanted to ensure her client’s lifetime annuity payments would never decrease, which is how it generally works with so-called immediate annuities, which retirees buy when they want a guaranteed stream of income.

TIAA said its Traditional product, when in payout mode, provides a guaranteed minimum payment and strives to pay more than that amount; it said it has only had to lower payments from that extra amount four times since 1949.

But when Ms. Newman’s client asked TIAA how many times its monthly annuity payments have declined over the past 25 years, the client was told that access to that information has been “historically restricted.”

“Everything is so complex and opaque with TIAA,” she said, “that it is hard to be sure of anything.”