

July 12, 2021

## **An important update from Doug Chittenden Head of Client Relationships**

I am writing to you about a topic we first discussed with many of our clients several years ago when press reports raised questions about our wealth advisory sales practices. We took the matter seriously and conducted a broad and comprehensive internal review. As a result, we identified and acted upon opportunities to improve, enhanced our training, controls and disclosures and modified our advisor compensation.

Today, we are pleased to have resolved regulatory investigations into allegations around these sales practices with both the New York Attorney General and the Securities and Exchange Commission, who have announced settlements with TIAA-CREF Individual & Institutional Services (TC Services), TIAA's registered broker-dealer and investment adviser.

The settlements cover controls, disclosures and communications relating to recommendations made between January 2012 and March 2018 to individual clients to open TIAA Portfolio Advisor managed accounts with assets from TIAA-administered retirement plans.

We regret the times that we did not live up to our clients' expectations of us. We will be communicating directly with the approximately 20,000 Portfolio Advisor clients affected by the settlement and addressing any questions or concerns they have. Relationship managers will also contact and provide details to those institutional clients with individuals expected to receive a reimbursement.

The payments to be made in the settlements total \$97 million, which includes a \$9 million SEC civil penalty, plus reimbursement of a portion of the Portfolio Advisor account fees and interest on those fees. It's important to note that the entire \$97 million will be returned to eligible clients.

As for the settlements themselves, they include findings that at times during the January 2012 to March 2018 period, TC Services:

- Did not correctly or adequately describe advisor compensation incentives and conflicts of interest;
- Provided training that confused some advisors and clients that advisors' Portfolio Advisor recommendations were being made under a fiduciary standard, when our controls only required a suitability standard; and
- Did not always provide complete, accurate fee and performance comparisons between investing in Portfolio Advisor managed accounts and retaining and rebalancing assets in employer-sponsored plans.

As we continuously look to better serve our mutual clients with the utmost care, we have made significant enhancements in our wealth advisory services, both before and since investigations began, and the settlements explicitly recognize two of our most important improvements. They point to how TC Services has:

- Voluntarily elevated all managed account recommendations to an investment advisory service under the fiduciary standard of care, a decision that was not required by regulations and that exceeds investment industry standards for broker-dealers; and

- Modified the advisor compensation plan so that advisors no longer receive differential compensation for managed accounts.

Additionally, TC Services has:

- Increased training and oversight, and further strengthened an existing conflicts management program with a Conflicts of Interest Officer role responsible for ensuring that conflicts related to advice are identified, disclosed and mitigated;
- Enhanced sales processes and introduced a new client engagement model; and
- Augmented technology and processes to increase supervision of advisors and transactions.

TC Services also now provides individual clients with enhanced disclosures early in the financial planning process so they understand how their advisors are compensated, how the planning process works, which services are offered as a broker-dealer and which are advisory, and how fee differentials should be considered as part of advice recommendations. As part of the settlements, TC Services will also provide clients with an illustration of the impact that managed account fees have on investment returns over time and explain to clients their in-plan options.

We believe our advisory services help individual clients meet their holistic investment needs, including low-cost access to discretionary asset management services. We also believe our wealth management advisors made recommendations that they thought were in their clients' best interests. And after the improvements we have made, we are confident that our advisors will continue to provide the high-caliber service that will assist clients in achieving their retirement and other financial goals. We are also proud to offer services to help clients manage their assets in plan, offering a self-directed approach and guiding them through the resources that are available to support their investment efforts.

TIAA remains dedicated to helping the nearly five million participants we serve create secure retirements and long-term financial success as we have for more than 100 years. We greatly value the partnership we share with our mutual clients and we will make the ongoing improvements necessary to continue delivering on our mission of serving them.

I know you may have additional questions about this matter. We are here to address any questions and provide additional information that would be helpful. Your consultant relations director will be contacting you to assist in any way.



Doug Chittenden  
Head of Client Relationships

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