



**Roger W. Ferguson, Jr.**  
**Remarks to Foreign Policy Association Financial Services Dinner**  
**February 18, 2010**  
(As Prepared)

### **Advancing the Greater Good**

On behalf of TIAA-CREF, thank you for presenting us with the Corporate Social Responsibility Award. And congratulations to tonight's other recipients.

At TIAA-CREF, we strive to be an organization that recognizes and advances the greater good. Tonight, I'd like to tell you about two ways we're doing that. First, through our commitment to socially responsible investing. And second, through our efforts to address the inadequacies of America's retirement system, which is leaving many people short of where they need to be to enjoy lifelong financial security.

#### **Socially Responsible Investing at TIAA-CREF**

Let me begin by discussing TIAA-CREF's approach to socially responsible investing. It's based on the knowledge that many of our clients want their investments to yield both positive financial returns and positive social gains.

Socially responsible investing at TIAA-CREF relies on a three-pronged strategy: social screening, shareholder advocacy, and impact investing.

Our socially screened funds consider companies' environmental, social, and governance records – including action on human rights, ethics, and labor and product standards throughout the supply chain.

We're not new to this area. Our CREF Social Choice variable annuity account was launched in 1990, and is the largest comprehensively screened investment vehicle for individual investors in the United States.<sup>i</sup> The ranking is based on assets under management among mutual funds and variable annuities that screen across multiple environmental, social, and governance criteria.

In 2008, we diversified the Social Choice account to include international exposure, and today international investments represent about 13 percent of the \$8.67 billion portfolio.<sup>ii</sup> This allows TIAA-CREF investors to position themselves for growth in international markets, while ensuring that their values are reflected in the global arena.

The second part of our responsible investing strategy is shareholder advocacy, which has particular resonance now, in the wake of accounting scandals and the financial crisis.

We recently issued a paper outlining our perspective on corporate governance.<sup>iii</sup> The essence of it is that large institutional investors have a special responsibility to be actively involved in board issues and hold management accountable for performance over the long term.

Executive teams should be allowed to manage their companies. In fact, we've abstained from voting on measures we thought were too prescriptive. But investors must be involved in making sure boards and managers set the right priorities and adhere to them.

Our corporate governance team is active both domestically and internationally. We recently had to make a decision with regard to companies in our portfolio that have business relationships with the government of Sudan. For three years, our trustees, executives, and corporate governance team worked to encourage these companies to recognize the genocide in Sudan and take action to ameliorate it.<sup>iv</sup>

Last year, we announced that we were going to intensify discussions with a handful of companies. One company – PETRONAS – was receptive and continues to work with us to find solutions. Four other companies were unreceptive, so at the beginning of this year we announced our decision to sell our holdings in those companies.

We did not arrive at the decision lightly. Divestiture is a very rare action to take. But when companies do not feel the same urgency to address a problem that we do, and other avenues prove fruitless, we have to make a decision that reflects the long-term financial interests, and the values, of our investors.

The third pillar of our socially responsible investing strategy is impact investing – an important component of which is microfinance. Our Global Microfinance Investment Program met its target of investing \$100 million in international microfinance projects 18 months ahead of schedule – and now we're looking for ways to expand on that commitment.<sup>v</sup> We believe microfinance remains one of the more effective tools to promote economic development in many parts of the world.

In each of these areas – investment screening, shareholder advocacy, and impact investing – we are uniting our clients' desire for financial returns with their values. It is one of the ways we keep our trust with the public.

### **Promoting Retirement Security**

Another way is by taking the lead in efforts to improve Americans' retirement security.

We help millions of Americans get to and through retirement by offering products that not only help them with the potential for wealth accumulation, but guarantee a stream of income that can support them until the end of their lives.<sup>vi</sup>

Yet for many Americans, the future is uncertain.

According to research from McKinsey, the average American family will face a savings gap of \$250,000 at retirement.<sup>vii</sup>

And Social Security is enduring increasing stress. You may have seen recent reports that the system barely turned in a surplus last year, as a result of economic conditions.<sup>viii</sup> In 2016, the Trustees expect Social Security to begin paying out more than it takes in.<sup>ix</sup>

This patchwork system is not stable, and people are not secure.

As Jon mentioned in his introduction, I have been speaking regularly about the need for a holistic retirement system – one that has five key features:

- First: Universal participation and adequate funding. Starting early and saving 11-14 percent of income – about double today’s average contribution rate – should yield enough savings to replace 70 percent of income in retirement.<sup>x</sup>
- Second: Offering people a range of investment options without overwhelming them – 15-20 options is a good number.
- Third: Making available objective, non-commissioned advice – so that individuals can get informed guidance and feel confident that their advisor has their interest at heart.
- Fourth: Offering vehicles to save for health care expenses in retirement, which studies show could total between \$200,000 and \$800,000 for couples over 65 who do not have an employer sponsored health plan.<sup>xi</sup>
- And fifth: guaranteed lifetime income.<sup>xii</sup>

Lifetime income is often overlooked in today’s retirement planning. Individuals see how much money is in their accounts, but do they know how much income security that money will afford them? Will it support them throughout a retirement that can last 30 or more years?

I was heartened to hear President Obama address the need for retirement security prior to the State of the Union. I think the president was absolutely right when he said Americans deserve retirement security “whether or not you’re rich.”<sup>xiii</sup>

TIAA-CREF will continue to press the case for building a holistic retirement system that provides security for all Americans.

## **Conclusion**

Let me close by saying how seriously we at TIAA-CREF take our responsibility to be good corporate citizens. Tonight I’ve discussed two ways we are meeting that responsibility: through a long-term commitment to socially responsible investing, and a leadership role in helping more Americans get to and through retirement securely.

We receive support in these endeavors from TIAA-CREF participants – men and women in the academic, medical, research, and cultural fields who have a deep sense of what it means to serve the greater good.

With their support, we will continue to set the right priorities and strive to make the right decisions.

Thank you for recognizing our efforts.

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<sup>i</sup> As of 12/31/2008: \$6,890.56 million (12/31/2008) and over 430,000 investors. Source: Social Investment Forum, 2007 Report on Socially Responsible Investing Trends in the United States. Based on assets under management among mutual funds and variable annuities that screen across multiple environmental, social and governance criteria (versus those that apply only product-specific screens such as alcohol and tobacco; among all mutual funds and variable annuity accounts categorized as "socially and environmentally screened," CREF Social Choice was the third largest). \$8,670 million represents 12/31/09 assets ([http://finweb.ops.tiaa-cref.org/ras/social\\_choice.php](http://finweb.ops.tiaa-cref.org/ras/social_choice.php)).

<sup>ii</sup> TIAA-CREF SRI brochure, 2009 update ([http://www.tiaa-cref.org/about/press/about\\_us/releases/pdf/sri\\_brochure.pdf](http://www.tiaa-cref.org/about/press/about_us/releases/pdf/sri_brochure.pdf))

<sup>iii</sup> TIAA-CREF paper, "Responsible Investing and Corporate Governance," released 02/02/10 ([http://www.tiaa-cref.org/about/press/about\\_us/releases/pressrelease313.html](http://www.tiaa-cref.org/about/press/about_us/releases/pressrelease313.html))

<sup>iv</sup> TIAA-CREF Statement on Former Holdings in Companies with Ties to Sudan ([http://www.tiaa-cref.org/about/press/about\\_us/releases/pressrelease313.html](http://www.tiaa-cref.org/about/press/about_us/releases/pressrelease313.html))

<sup>v</sup> TIAA-CREF SRI brochure, 2009 update ([http://www.tiaa-cref.org/about/press/about\\_us/releases/pdf/sri\\_brochure.pdf](http://www.tiaa-cref.org/about/press/about_us/releases/pdf/sri_brochure.pdf))

<sup>vi</sup> Guarantees are based upon TIAA's claims-paying ability.

<sup>vii</sup> "Restoring Americans' Financial Security: A Shared Responsibility," McKinsey & Company, October 19, 2009.

<sup>viii</sup> USA Today, "Rash of Retirements Pushes Social Security to Brink," (and other news sources). Social Security's inflows surpassed outflows in 2009 by only \$3 billion, a \$60 billion decline from 2008.

<sup>ix</sup> Social Security Trustees Report, May 12, 2009: (<http://www.ssa.gov/OACT/TRSUM/index.html>)

<sup>x</sup> Hammond, P. Brett, and David P. Richardson. "Retirement Saving Adequacy and Individual Investment Risk Management Using the Asset/Salary Ratio." Pension Research Council Working Paper WP2009-13, The Wharton School, University of Pennsylvania. September 2009.

<sup>xi</sup> Employee Benefit Research Institute, June 2009.

<sup>xii</sup> Lifetime income is a guarantee subject to the claims-paying ability of the issuing insurance company.

<sup>xiii</sup> January 26, 2010: TIAA-CREF release, "TIAA-CREF Lauds President Obama's Call for Helping Americans Save for a Secure Retirement," ([http://www.tiaa-cref.org/about/press/about\\_us/releases/pressrelease317.html](http://www.tiaa-cref.org/about/press/about_us/releases/pressrelease317.html))

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