Case 9

Pensions for America's Educators: TIAA-CREF, One of the Wealthiest Pension Funds in the World

Carnegie Foundation for the Advancement of Teaching, 1918

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Background. The early part of the twentieth century occasioned rigorous arguments in North America and Europe over the nature of the state and the responsibilities of states to their citizens. The established system of poor relief in Great Britain and the United States came into question, and a movement soon arose to replace poor relief with a system of social insurance and pensions. Germany first began to institute national social insurance programs in the 1880s.[140] Great Britain enacted old age pension insurance legislation in 1908, preceding passage in the United States of the Social Security Act in 1935 by twenty-eight years. A few states began their own minimal social insurance programs in the 1920s.[141]

Andrew Carnegie weighed in on the debate with his wallet on behalf of college and university teachers. Carnegie's involvement began with a private pension list he kept of faculty and other individuals whose contributions to the public he deemed worthy of lifetime financial security; Carnegie would make regular pension payments out of his pocket to those on his list.[142]

After meeting Henry Pritchett and sharing his ideas for a more substantial pension program for college faculty, Carnegie created the Carnegie Foundation for the Advancement of Teaching in 1905. The Foundation was given the primary charge of securing financial independence for higher education faculty members. In his Letter of Gift, Carnegie wrote that he "had reached the conclusion that the least rewarded of all the professions is that of the teacher in our higher education institutions.[143] The Foundation's first objective would be to remedy the disparity between the great value conferred on society by higher education faculty and the miserly financial benefit society gave faculty in return. In addition, however, Carnegie hoped that the Foundation would promote efficiency in higher education more broadly. He noted that, at the front end, potential faculty members chose other, more lucrative professions, and at career end, professors no longer really able to teach effectively were forced to continue to work because they were financially strained.[144] The President of Bowdoin College, in line with Carnegie's likely intention, predicted that the pensions would expedite faculty retirement and improve recruitment at the same time.[145]

Strategy. To govern the Foundation and carry out his intentions, Carnegie appointed a board of twenty-five individuals, twenty-two of whom were higher education administrators. He empowered the trustees to interpret his purposes and to change the direction of the Foundation as they determined appropriate.[146] Carnegie's Letter of Gift indicated that sectarian schools would be excluded from his Foundation's pensioning, a gesture aimed at prompting higher education institutions with exclusive religious associations to become more inclusive. Carnegie also stipulated that tax-supported state schools should not participate, although his exclusion of state school involvement was less absolute. This exclusion was apparently prompted by Pritchett, who then sought to reinforce the exclusion by the Foundation trustees in a three-year dispute with state-supported higher education institutions. In *Pensions for Professors*, Theron Schlabach argues that the policy of excluding state schools from the pension system, changed in 1908 with an additional gift from Carnegie to the Foundation to fund state school pensions, was a campaign by Pritchett to ensure the dominance of private universities in the Northeast even though the policy was clearly inconsistent with Carnegie's previous giving precedents and philosophies.[147]

In 1907, Carnegie suggested to Pritchett that the Foundation provide life insurance for faculty members, but he learned that the Foundation was not properly incorporated to issue life insurance policies. Over the next few years, the Foundation studied pension and life insurance systems and considered the optimal configuration for such a system. Erroneous forecasts of pension costs and age spans prompted Pritchett and the Foundation to begin considering alternatives to its non-contributory pension system. In the Foundation's Annual Report in 1912, Pritchett discussed the merits and deficiencies of different types of contributory and non-contributory pensions. In 1916, he included in the report an essay entitled "Fundamentals of a Pension System."[148] Finally, the Foundation created the Teachers Insurance and Annuity Association of America (TIAA), which was incorporated in the State of New York as a stock company in 1918, and funded by a $1 million grant from the Carnegie Corporation.[149] TIAA would receive more than $7 million in grants from the Corporation over the next twenty-four years.[150] In addition, higher education institutions made financial contributions to TIAA for the privilege of becoming members.[151]

Impact. Initially, with the feeling that securities investments were risky and therefore inappropriate investments for insurance company assets, TIAA limited its investments to government and railroad bonds. This strategy proved fortuitous during the stock market crash of 1929 and the Great Depression of the 1930s, as assets grew from $10 million in 1929 to $100 million in 1939. During the 1940s however, inflation emerged as a new risk to the company's assets, and the S&P 500 stock market index more than doubled during the 1940s. TIAA commissioned a risk analysis study of investment classes between 1890 and 1950, and the study concluded that a blend of stocks and bonds would provide the optimum investment mix in reducing the risks of inflation and securities devaluation. To implement these proposals, in 1952 TIAA created the College Retirement Equities Fund (CREF), the world's first variable annuity. Since then, TIAA-CREF has created additional variable annuities, including funds focusing on international investment and real estate.[152]

In 2004, TIAA-CREF had a total of over $343 billion in assets under management. It was second on *Fortune*'s list of the largest U.S. mutual life and health insurers. More than three million individuals and 15,000 member institutions have been served by TIAA-CREF.[153]

Notes

140. Ann Shola Orloff, *The Politics of Pensions: A Comparative Analysis of Britain, Canada and the United States, 1880–1940* (Madison: University of Wisconsin Press, 1993), 3–10.
141. Orloff, *Politics of Pensions*, 13.
142. Stephen C. Wheatley, *The Politics of Philanthropy: Abraham Flexner and Medical Education* (Madison: University of Wisconsin Press, 1988), 43.
143. "Carnegie Millions for College Pensions," *New York Times*, 4/28/1905, 1.
144. Theron F. Schlabach, *Pensions for Professors* (Madison: State Historical Society for Wisconsin, 1963), 19.
145. Ibid.
146. Ibid., 15.
147. Ibid.
148. Howard J. Savage, *Fruit of an Impulse: Forty-Five Years of the Carnegie Foundation, 1905–1950* (New York: Harcourt, Brace, 1953), 114.
149. Ibid.
150. Robert M. Lester, *A Thirty Year Catalog of Grants* (New York: Carnegie Corporation, 1942), 144–45.
151. "Company History," *TIAA-CREF Web Center*, http://www.tiaacref.org/newsroom/history.html.
152. "Company History," *TIAA-CREF Web Center*, http://www.tiaacref.org/newsroom/history.html.
153. "Facts and Figures," TIAA-CREF, *Annual Report,* 2004, 57.