

Congress passes Economic Stabilization Package

Information for retirement plan sponsors from TIAA-CREF

Today the U.S. House of Representatives passed, by a vote of 263 to 171, a revised version of the Emergency Economic Stabilization Act (passed by the Senate on Wednesday evening). Like the legislation that failed to pass the House on Monday, the revised bill authorizes the government to spend up to \$700 billion to purchase troubled assets from financial institutions. The bill, which also includes several tax- and benefits-related provisions, has been signed into law by the President.

This communication includes:

1. A description of the new bill's provisions
2. Answers to questions that TIAA-CREF participants may raise in response to the current financial situation or the upcoming third quarter reports

1. The economic stabilization act

Key new provisions:

- **Temporary increase in deposit insurance coverage.** The bill would temporarily increase FDIC protection for bank, savings and loan and federally insured credit union deposits from \$100,000 to \$250,000 on insured deposits. The increased coverage ends on Dec. 31, 2009.
- **Alternative minimum tax (AMT) adjustments.** The AMT, an extra tax some people have to pay on top of the regular income tax, was originally intended to prevent those with very high incomes from using special benefits to pay little or no tax. Since then, the AMT has gradually applied to a greater number of taxpayers at lower income levels and who don't claim numerous deductions or special tax benefits. The bill will increase the income threshold and exemption amounts at which people are affected by the AMT. It will also allow personal credits against the AMT.
- **Qualified tuition deduction.** The Economic Growth and Tax Relief Reconciliation Act of 2001 created a tax deduction for qualified higher education expenses for people within certain limits of adjusted gross income (AGI), but it expired on Dec. 31, 2007. The bill now extends it through 2009.
- **Midwestern disaster area tax relief.** The bill provides tax relief for victims of severe weather-related disasters in Arkansas, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska and Wisconsin. These include FEMA-declared disasters involving floods, severe storms, and tornadoes that happened between May 20 and Aug. 1, 2008. Of particular interest to TIAA-CREF institutional clients are provisions in the bill that affect both home purchases and loans involving withdrawals from qualified 401(k) and 403(b) plans or an IRA.
- **IRA rollovers.** The Pension Protection Act of 2006 allowed taxpayers to make tax-free contributions from their IRA plans to qualified charitable organizations.

This tax benefit expired on Dec. 31, 2007, but the new bill extends it through 2009. (It affects only distributions made after Dec. 31, 2007.)

Economic Stabilization

The legislation also seeks to stabilize the financial markets. Provisions include:

- **Purchase of troubled assets from financial institutions.** The secretary of the Treasury can purchase "troubled assets" from financial institutions. The bill does not mandate how the asset purchase program will operate; instead, the secretary has 45 days from enactment of the law to issue criteria for choosing troubled assets and guidelines for pricing and purchasing them as well as selecting asset managers. Also, the secretary must buy the assets at the lowest price available and maximize return on assets to the government.
- **Funding limits.** The bill authorizes a total of \$700 billion for the asset-purchase program, subject to additional reviews and approvals, with an initial outlay of \$250 billion. Another \$100 billion will be made available if the President certifies that it's needed. For any funds beyond \$350 billion, the President must notify Congress, and Congress has 15 days to disapprove by enacting a Joint Resolution.
- **Recoupment.** Five years after the bill is enacted, the President must submit to Congress a proposal for recouping any losses incurred under the asset purchase program from those institutions that benefited from the program. This could take the form of some sort of tax or fee on the financial industry as a whole.
- **Insurance program.** If the Treasury purchases troubled assets, it must establish a program to guarantee mortgage-backed securities issued before March 18, 2008 -- but it does not have to guarantee any assets directly. Instead, financial institutions that participate in this insurance program would pay risk-based premiums into a Troubled Assets Insurance Fund.
- **Ownership stake for taxpayers.** Financial firms that take advantage of government rescue funds would have to grant the government warrants for shares of stock, so that taxpayers could benefit if the companies return to profitability. If the government has not recovered its money through asset sales within five years, the President would have to submit a legislative proposal to impose a fee on the financial industry.
- **Oversight.** The bill employs several ways to oversee the Treasury secretary's actions, including an Oversight Board (comprising the heads of the Federal Reserve, Federal Housing Finance Administration, Securities and Exchange Commission, Department of Housing and Urban Development, as well as the Treasury secretary); the inspector general; a Congressional oversight panel; and judicial review.
- **Homeowner assistance.** As part of the asset-purchase program, the Treasury secretary must develop a plan to maximize assistance to homeowners and minimize foreclosures. This plan must also encourage mortgage servicers, or

companies that service large mortgage pools, to participate in the federal Hope for Homeowners program, which assists homeowners who can no longer make their mortgage payments.

- **Limits on executive compensation.** The bill establishes standards on executive compensation that apply to financial firms that participate in the program. The standards: (1) Seek to prevent compensation that encourages or rewards excessive risk taking; (2) require the recovery of incentive compensation based on meeting certain measures, if such measures are later found to have not been met; and (3) prohibit "golden parachutes" for top executives at a financial institution that participates in the program while the Treasury holds an equity interest in the institution.

2. Answers to Potential Employee Questions

Q: How can I find out if troubled assets are held in TIAA-CREF's portfolios?

TIAA's fixed-income mutual funds, variable annuity accounts and the TIAA General Account have had, and have maintained, low exposures to sub-prime securities and other types of fixed-income securities that have been the focus of investor concern. For more information, please visit www.tiaa-cref.org.

Q: Are TIAA-CREF accounts FDIC-insured?

No. The Federal Deposit Insurance Corporation insures deposits at member banks, but insurance companies like TIAA and investment companies like CREF are not eligible for membership in the FDIC.

Q: What safeguards apply to my TIAA Traditional Annuity account?

The contract that you have with TIAA guarantees each dollar contributed to the TIAA Traditional Annuity account by you or your employer. It also guarantees a minimum rate of interest and provides the potential for additional amounts of interest. TIAA's Board of Trustees determines if and when these additional amounts are declared.* TIAA's Board of Trustees have declared additional amounts each year for 60 consecutive years – since Harry Truman was president – although there is no guarantee that additional amounts will be declared in future years.

TIAA guarantees repayment of principal and payment of the returns called for in the contract, depending on TIAA's claims-paying ability. The payments are backed by the financial strength of TIAA's General Account. (Past interest rates are not indicative of future interest rates.) Participants can view their balances in the TIAA Traditional Annuity by checking their last quarterly statement, or for more current information, by [logging in to their account](#), or by calling **1 800 842-2776**.

*Additional amounts when declared remain in effect for the "declaration year" that begins each March 1 for accumulating annuities and January 1, for payout annuities. Additional amounts are not guaranteed for future years.

Q: Can I rely on the overall safety and stability of the TIAA Traditional Annuity?

The TIAA Traditional Annuity remains on strong financial footing. Reflecting our stability, soundness and overall financial strength, TIAA is one of just three U.S. insurance companies to receive the highest ratings from all four of the major ratings agencies: A.M. Best: A++ as of 9/2008; Fitch Ratings: AAA as of 8/2008; Moody's: Aaa as of 7/2008; S&P: AAA as of 8/2008. **These insurance company ratings apply to**

TIAA Traditional, not to our variable annuities and mutual funds.

Q: Are my CREF and TIAA-CREF Mutual Fund assets protected?

Unlike the TIAA Traditional Annuity, these are investment funds and accounts, so they are not guaranteed. The investments vary from one fund or account to another. They consist of stocks, bonds, real estate properties or money market securities. The amount of money in the CREF accounts and Mutual Funds rises and falls each day as the value of those investments changes in the marketplace. In order to minimize the effect that any one investment can have on a single fund or account, each fund or account holds many investments. When one investment loses value, that loss can be offset by another investment's rising value.

Q: How has the TIAA Real Estate Account been affected by the mortgage crisis?

Like other investments, the TIAA Real Estate Account is affected by conditions in the overall economy and in the financial markets. The difficult U.S. job market in 2008 has reduced the demand in the office, industrial and real estate sectors of the commercial real estate market. In addition, real estate values have been affected by tightening credit conditions. In light of the current economic environment, it is not surprising to see some decline in the performance of the commercial real estate asset class as a whole, and total returns for the TIAA Real Estate Account reflect that trend. Thus far, the effect has been relatively moderate, with a year-to-date return of -1.12%.

Please note that most of the account's holdings are in directly-owned properties, with a small percentage held in money market assets and securities such as Real Estate Investment Trusts (REITs). Of course, past performance does not guarantee future results.

Q: Where can I get a review by portfolio managers of the performance of the TIAA and CREF annuity accounts?

There is a lot of information on the TIAA-CREF website – www.tiaa-cref.org – including more detailed information on TIAA-CREF's portfolios. As always, we recommend that participants establish diversified retirement portfolios based on their goals and situation, and that they maintain a consistent, disciplined approach over the long term. If you would like to review your portfolio with a TIAA-CREF Consultant, please call us at **800 842-2776**.

TIAA-CREF is here to help. Please call your Managing Consultant, or **1 888 842-7782**, if you have questions or need additional information about the stabilization package, services to help you meet compliance needs, or our funds and accounts.

We will continue to monitor developments in Washington and on Wall Street and keep you informed of any major developments.

More information about TIAA-CREF is available at www.tiaa-cref.org.

Sincerely,

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