

# Understanding and Managing TIAA Traditional Annuity Liquidity Constraints

*A Comprehensive, Evidence-Based Guide to Payout Options and Access Rules*

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## Introduction: A Unique Retirement Vehicle

The TIAA Traditional Annuity represents one of the most distinctive retirement savings vehicles available to American workers, particularly those in higher education, research, healthcare, and nonprofit sectors. Founded in 1918 through a \$1 million endowment from Andrew Carnegie and the Carnegie Foundation for the Advancement of Teaching, TIAA (Teachers Insurance and Annuity Association) was established specifically to address the retirement security needs of educators.<sup>1</sup> What began as a modest nonprofit pension provider has grown into a Fortune 100 financial services organization managing over \$1.2 trillion in assets and serving approximately 5 million participants across more than 15,000 institutions.<sup>2</sup>

For many academics and nonprofit professionals - particularly those approaching retirement - TIAA Traditional often constitutes the largest single holding in their retirement portfolio. Yet despite its century-long presence in the retirement landscape, the TIAA Traditional Annuity remains one of the most misunderstood financial products available. It is not a bond fund, nor is it a standard money market account. Rather, it is a guaranteed insurance contract backed by TIAA's General Account, and it operates unlike almost any other asset class.<sup>3</sup>

This article provides an examination of TIAA Traditional, explaining its structure, the rationale for its unique features, and a technical roadmap for navigating its liquidity constraints.

## What Makes TIAA Traditional Unique

### The General Account Structure

TIAA Traditional is a fixed annuity product issued by Teachers Insurance and Annuity Association of America. Unlike variable annuities that fluctuate with market performance, TIAA

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<sup>1</sup> Carnegie Corporation of New York, n.d.; Encyclopedia.com, n.d.

<sup>2</sup> TIAA, 2025a

<sup>3</sup> TIAA, 2025b

Traditional provides guaranteed principal protection with a minimum crediting rate, plus the potential for additional amounts declared annually by TIAA's Board of Trustees.<sup>4</sup>

The product's strength derives from TIAA's General Account, which as of September 2025 held approximately \$358.8 billion in total assets.<sup>5</sup> The General Account invests in a diversified portfolio that includes approximately 85% fixed income investments and 15% in alternative investments such as real estate equity, timber, farmland, infrastructure, and private equity.<sup>6</sup> This diversified, long-term investment approach enables TIAA to offer crediting rates that have historically exceeded those of comparable guaranteed products.<sup>7</sup>

TIAA employs a "vintage" interest rate system, meaning that contributions made at different times may earn different crediting rates based on when the funds were deposited.<sup>8</sup> This approach reflects the varying yields of the underlying investments supporting those contributions. Interest rates are declared annually, remaining in effect from March 1 through the following February for accumulating annuities.<sup>9</sup>

## Financial Strength and Ratings

TIAA is among the most highly rated insurance companies in the United States. As of 2025, TIAA is one of only three insurance groups in the country to hold the highest available ratings from all four major rating agencies: A.M. Best (A++, affirmed July 2025), Fitch Ratings (AAA, affirmed August 2025), Standard & Poor's (AA+, affirmed August 2025), and Moody's Investors Service (Aa1, affirmed May 2025) (TIAA, 2025c). These ratings reflect TIAA's exceptional capital adequacy, with a risk-based capital ratio of 485% as of year-end 2024.<sup>10</sup>

It is important to note that while TIAA was originally organized as a tax-exempt nonprofit, a 1997 tax bill removed this exemption. TIAA is now organized as a nonprofit organization, the TIAA Board of Governors, with taxable subsidiaries; all profits are returned to policyholders rather than outside shareholders.<sup>11</sup>

## Understanding TIAA Contract Types

The single most critical factor in managing TIAA Traditional is understanding which contract type governs your holdings. TIAA offers several contract structures, each with different liquidity rules and guaranteed minimum interest rates. Most participants hold their TIAA Traditional balances in one or more of the following contract types:

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<sup>4</sup> TIAA, 2025b

<sup>5</sup> TIAA, 2025c

<sup>6</sup> TIAA, 2024a

<sup>7</sup> TIAA, 2025i

<sup>8</sup> TIAA, 2025b

<sup>9</sup> TIAA, 2024b

<sup>10</sup> Fitch Ratings, 2025

<sup>11</sup> Bernard, 1997

## Retirement Annuity (RA) and Group Retirement Annuity (GRA)

These "legacy" contracts represent the classic TIAA structure, common among long-tenured faculty and staff who have been contributing for decades. Many institutions have frozen these contracts to new contributions, though existing balances remain in place (e.g., Duke University Human Resources, 2024).

- **Guaranteed Minimum Rate:** 3% during the accumulation phase.<sup>12</sup>
- **Liquidity Status:** Highly restricted.<sup>13</sup>
- **Withdrawal Method:** For RA contracts, lump-sum withdrawals from TIAA Traditional are not available. Subject to employer plan terms, all withdrawals and transfers must be paid in 10 annual installments over nine years and one day via the Transfer Payout Annuity (TPA).<sup>14</sup>
- **GRA Exception:** For GRA contracts, lump-sum withdrawals may be available within 120 days after termination of employment, subject to a 2.5% surrender charge.<sup>15</sup>

## Retirement Choice (RC)

The Retirement Choice contract is the modern standard for many university plans. It offers somewhat greater liquidity than legacy contracts but with a variable guaranteed minimum rate.

- **Guaranteed Minimum Rate:** Between 1% and 3%, determined annually based on the 5-year Constant Maturity Treasury rate.<sup>16</sup>
- **Liquidity Status:** Moderately restricted.<sup>17</sup>
- **Withdrawal Method:** Withdrawals and transfers from TIAA Traditional must be paid in 84 monthly installments (7 years). Lump-sum withdrawals may be available within 120 days after termination of employment, subject to a 2.5% surrender charge.<sup>18</sup>

## Supplemental Contracts: SRA, GSRA, and RCP

Supplemental Retirement Annuities (SRA), Group Supplemental Retirement Annuities (GSRA), and Retirement Choice Plus (RCP) contracts are typically used for voluntary employee contributions or specific rollover accounts.

- **Guaranteed Minimum Rate:** 3% for SRA/GSRA; 1-3% (variable) for RCP.<sup>19</sup>
- **Liquidity Status:** Fully liquid.<sup>20</sup>

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<sup>12</sup> TIAA, n.d.

<sup>13</sup> TIAA. (2025j).

<sup>14</sup> (TIAA, 2025d).

<sup>15</sup> (TIAA, 2025d).

<sup>16</sup> (TIAA, 2025e).

<sup>17</sup> TIAA. (2025j).

<sup>18</sup> (TIAA, 2025e).

<sup>19</sup> (TIAA, n.d.).

<sup>20</sup> TIAA. (2025j).

- **Trade-off:** These contracts generally offer lower crediting rates than their illiquid counterparts - typically 0.25% to 0.75% less - reflecting the cost of providing full liquidity.<sup>21</sup>

## Contract Comparison Summary

Contract Type	Guaranteed Minimum	Liquidity	Withdrawal Method
RA (Retirement Annuity)	3%	Highly Restricted	10 annual installments (TPA)
GRA (Group Retirement Annuity)	3%	Highly Restricted	10 annual installments; 2.5% surrender option within 120 days
RC (Retirement Choice)	1-3%	Moderately Restricted	84 monthly installments (7 years)
SRA/GSRA	3%	Fully Liquid	No restrictions
RCP (Retirement Choice Plus)	1-3%	Fully Liquid	No restrictions

Sources: Please refer to the text, above.

## Methods for Accessing TIAA Traditional Funds

### The Transfer Payout Annuity (TPA)

For participants holding substantial assets in RA or GRA contracts, the Transfer Payout Annuity is the primary mechanism for accessing TIAA Traditional funds. The TPA is not a lifetime annuitization; rather, it is a systematic liquidation of your account over a specified period.<sup>22</sup>

#### How the TPA Works:

1. You request to transfer a specific dollar amount (or the entire balance) out of TIAA Traditional.
2. TIAA creates a new Transfer Payout Annuity contract. Each year, approximately 10% of the value (plus any earnings) is transferred to your designated destination - either other funds within your TIAA plan or an external rollover IRA.
3. During the payout period, the remaining balance continues to earn interest at a guaranteed minimum of 2.5% for RA/GRA contracts, plus any additional amounts declared by the Board.<sup>23</sup>
4. Once the TPA is established, it generally cannot be revoked, though you may be able to convert the remaining balance to a lifetime annuity.<sup>24</sup>

<sup>21</sup> v

<sup>22</sup> (TIAA, 2025f).

<sup>23</sup> (TIAA, n.d.).

<sup>24</sup> (TIAA, 2025f).

**Strategic Planning Insight:** Because the TPA requires a multi-year payout period, initiating a TPA well before you need the funds can be advantageous. For example, a 62-year-old planning to retire at 67 might initiate a TPA immediately; by retirement, half the balance would already be liquid. This "starting the clock early" approach provides flexibility without sacrificing the benefits of remaining invested in TIAA Traditional.

## Interest-Only Payments

For retirees who do not need to draw down principal but desire regular income, TIAA offers an Interest-Only Payment option for RA and GRA contracts. This option allows you to receive only the interest credited to your account while keeping your principal intact.<sup>25</sup>

### Key Parameters:

- **Age Requirement:** You must be between age 55 and one year prior to your Required Minimum Distribution (RMD) applicable age.<sup>26</sup>
- **Minimum Balance:** Generally requires an accumulation of at least \$10,000.<sup>27</sup>
- **Flexibility:** You can transition from Interest-Only payments to a Transfer Payout Annuity or lifetime annuitization, but you generally cannot simply "turn off" the Interest-Only option without selecting an alternative payout method.<sup>28</sup>

This option can serve as an excellent "bridge" strategy for retirees who have stopped working but are waiting to maximize Social Security benefits by delaying claims until age 70.

## Lifetime Annuitization

TIAA Traditional is fundamentally designed to be converted into lifetime income. When you annuitize, you exchange your accumulated balance for a guaranteed stream of payments that continues for as long as you live - or for your life and that of a designated annuity partner.

**The Role of Mortality Credits:** Academic research on annuities consistently demonstrates the value of "mortality credits" - the mechanism by which insurance companies can offer higher lifetime income than individuals could safely generate on their own. Those who die earlier than average effectively subsidize payments to those who live longer, allowing the insurance company to offer payouts that exceed what a self-managed withdrawal strategy could sustain.<sup>29</sup> A Wharton Financial Institutions Center study concluded that self-insuring against longevity risk requires saving 25% to 40% more than with an annuity because of the absence of risk-pooling and mortality credits.<sup>30</sup>

**The TIAA Loyalty Bonus:** For long-term holders of TIAA Traditional who choose to annuitize, TIAA may provide a "Loyalty Bonus" - an additional amount of lifetime income based on how

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<sup>25</sup> (TIAA, 2025g).

<sup>26</sup> (TIAA, 2025g)

<sup>27</sup> (University of Michigan HR, 2025)

<sup>28</sup> (TIAA SPD, n.d.)

<sup>29</sup> Medical Economics, 2024; Center for Retirement Research, 2023

<sup>30</sup> Medical Economics, 2024

long the participant has been investing in TIAA Traditional. According to TIAA, participants who have contributed consistently over time have received, on average, a 22.4% higher initial lifetime income payment compared to those who deposited a lump sum immediately before annuitizing.<sup>31</sup> The Loyalty Bonus reflects unused contingency reserves being returned to long-term participants.<sup>32</sup> However, it is important to understand that the Loyalty Bonus is discretionary and determined annually by TIAA's Board of Trustees - it is not guaranteed.<sup>33</sup>

#### **When to Consider Annuitization:**

1. **Insufficient Guaranteed Income:** If Social Security and any pension income do not cover your essential fixed expenses (housing, healthcare, food), annuitizing a portion of TIAA Traditional can create a guaranteed income floor.
2. **Portfolio Risk Management:** Annuitized income can function as a "bond proxy," potentially allowing you to hold a higher allocation to equities in the remainder of your portfolio since your income floor is secured.

**Important Caution: Annuitization is irrevocable.** Once you convert your balance to lifetime income, you cannot recover the principal or change to a different option.<sup>34</sup> Therefore, many financial professionals recommend partial annuitization rather than annuitizing 100% of your TIAA Traditional balance, preserving some liquid assets for unexpected needs and legacy goals.

## **TIAA Traditional in an Evidence-Based Portfolio Context**

Modern portfolio theory and evidence-based investing principles generally favor broadly diversified, low-cost investment vehicles. This typically leads advisors to recommend index funds and exchange-traded funds over higher-cost actively managed products, including many variable annuities.

However, TIAA Traditional merits special consideration as an exception to general anti-annuity sentiment for several reasons:

- **Principal Protection:** Unlike bond funds, TIAA Traditional provides a contractual guarantee that your balance will never decline due to interest rate fluctuations or market conditions.<sup>35</sup>
- **Competitive Returns:** TIAA Traditional has historically paid more than its guaranteed minimum rate every year since 1948.<sup>36</sup> Current crediting rates often exceed comparable investment-grade bond fund yields while providing zero principal fluctuation.<sup>37</sup>

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<sup>31</sup> TIAA, 2025h

<sup>32</sup> TIAA, 2021

<sup>33</sup> S&A Financial Services, n.d

<sup>34</sup> TIAA, 2025h

<sup>35</sup> TIAA Retirement Check, n.d.

<sup>36</sup> TIAA, 2024c

<sup>37</sup> TIAA, 2024c

- **Diversification Benefits:** The General Account's allocation to real assets (real estate, timber, farmland) provides exposure to asset classes not readily available in typical retail investment products.<sup>38</sup>
- **Low Cost:** Because TIAA operates without public shareholders and with relatively low distribution costs, expense ratios are minimal compared to commercial insurance products.<sup>39</sup>

From this perspective, TIAA Traditional can serve as the "safe" anchor of a retirement portfolio - replacing the role that Treasury bonds or stable value funds might otherwise play - while allowing the investor to take appropriate equity risk elsewhere.

## Practical Recommendations

1. **Identify Your Contract Types:** Review your quarterly TIAA statements to determine exactly which contract codes (RA, GRA, RC, RCP, SRA, GSRA) govern your holdings. Each has different liquidity rules that will affect your retirement income planning.
2. **Map Your Liquidity Timeline:** If you hold RA or GRA contracts, plan your exit strategy years before you need the funds. Consider initiating a TPA well ahead of retirement to "start the clock" on the 10-year payout period.
3. **Evaluate the Interest-Only Option:** If you are between age 55 and your RMD age, Interest-Only payments may provide a useful bridge income while preserving your principal.
4. **Consider Partial Annuitization:** If your guaranteed income from Social Security and pensions does not cover essential expenses, annuitizing a portion of your TIAA Traditional can close that gap while maintaining liquidity elsewhere.
5. **Consult a Qualified Advisor:** Given the complexity of TIAA Traditional's contract structures and the irrevocability of some decisions, consider working with a fee-only financial advisor who has specific experience with TIAA products.

## Conclusion

TIAA Traditional represents a unique financial instrument that combines insurance guarantees with competitive investment returns. While its liquidity constraints can feel restrictive, these constraints are the price for the product's distinctive benefits: guaranteed principal, competitive crediting rates, and access to mortality credits through lifetime annuitization.

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<sup>38</sup> TIAA, 2024d

<sup>39</sup> TIAA Retirement plan expenses, n.d.

By understanding the specific rules governing your contract types and planning proactively, you can harness the security that TIAA Traditional offers while maintaining the flexibility needed for a successful retirement. The key is education, planning, and a clear-eyed assessment of your individual needs for guaranteed income versus portfolio liquidity.

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