

## CONVERSATIONS WITH MIKE MILKEN



### **Roger Ferguson**

President and CEO, TIAA

*September 10, 2020*

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**Mike Milken: Roger, thank you for joining me today.**

Roger Ferguson: Mike, thanks so much for inviting me. I'm looking forward to it.

**TIAA, founded in 1918; more than a trillion in assets; five million individuals dependent on you; more than 15,000 institutions; more than 200 offices in 24 countries; No. 1 manager of farmland assets in the world; among the top five commercial real-estate managers in the world. All of these things, Roger, and yet too many people listening to this podcast are not familiar with TIAA. What is TIAA's mission?**

Thank you for asking your question. We are a company that was started the 102 years ago. Andrew Carnegie was on the board of a Cornell University up in Ithaca, New York, and he looked around and saw on that campus faculty members who could not afford to retire with dignity. Many of them had to work literally almost to the last day and many of them were retiring, but in the poverty. He had this vision of creating, a retirement company focused on the higher-education sector and ultimately the not-for-profit sector. We are very proud to continue to have that as the central part of who we are. Now over time we've grown and become more diversified in providing product services, solutions and advice, all aimed at getting people, as we say, safely to and through retirement. Most importantly, we're not a publicly traded company. We do not have public shareholders, so

the money that we make above reasonable expenses all goes either directly or indirectly to support the retirement of the individuals who ultimately trust us with their lifetime income. So that's a bit of who we are and it's a good place to start.

**I'd like to just take a short walk through your background. Harvard B.A., J.D., Ph.D., law firm Davis Polk in the early eighties, McKinsey, worked at the Fed in Washington, Swiss RE and then TIAA. So a very impressive career and challenges everywhere we turn. You were telling me when we were talking that you were reading a book on the 1918 pandemic and you were learning a personal connection.**

My grandfather told me the story about how he and my grandmother met. They were both young adults in 1918, and in both cases they lost their first spouses. They both were victims of the pandemic in 1918, 1919. And what I didn't realize is that there was a very active match-making that went on back then to get these young widows and widowers together. And my grandmother and grandfather were part of that matchmaking process. So I heard from him a little bit about the 1918, 1919 pandemic, and lo and behold, here we are now in 2020 living through the next version. And so a little bit of a personal linkage back to a hundred years ago, and I learned just a bit about how people tried to overcome that. And now we'll see – let's hope that we get a chance to relatively quickly overcome this pandemic as well.

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**I want to think about the financial crisis of 2008, 2009. When there's a crisis, how do people respond? They call up – the pensioners are worried about pensions. Are they going to have money for their retirement? And then once again, here with the coronavirus and COVID-19 pandemic, once again, I'm sure when the stock market went down 30 percent in a month, that people were calling up, wondering what about my retirement? Is it safe? How did you navigate that period? And did the financial crisis when you left the Fed of 2008, 2009, 2010, prepare you and the organization for what occurred here that was compressed into one month?**

To some degree individuals and organizations all learn from prior experience and at the same time, every crisis is new and has its own unique components to it. One of the things I've learned through the various crises I've been associated with going back to 9/11 and the Asian crisis, is in the absence of accurate information, people will make

things up. And during a moment of crisis, they probably make up the most extreme outcomes. And so in order to overcome that, clarity of communication, factual information, calling it directly and honestly as one sees it, is really important. We were very active in 2008, 2009, even more so in this crisis in putting out information; being very clear about who we are, what we stand for, how we see things unfolding. And that has been recognized by many who've observed.

Secondly for sure, recognizing that people are going to be concerned. And so it's not just factual information, but also pick on our phone centers and our face-to-face advice, bringing frankly something that people don't expect in financial services firm, which has an element of empathy. We understand that these are trying times. We understand that

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for many people, money is a mysterious item. Some people have what is described as a fear of failure around matters of finance. And so having an empathetic tone, not just the factual tone, is very, very important.

Third thing that we certainly have always known and continues to be true, is with respect to our participants as we call them, they're invested for the long term; they are saving money for their retirement life, for the long term. And so reminding them that markets can be very, very volatile, but unless their risk appetite has changed or their long-term goals have changed, it's important for them to not take precipitous action

based on the emotions of the moment. And so our participants that we serve, knowing that they are really thinking over a 20- or 30-year retirement, it's important not to take immediate short-term actions because of the anxieties around the marketplace.

And, you know as well as I do that retail investors often tend to get out of the markets close to the bottom and they don't get back in, and they missed the big upturn. And lo and behold in this crisis, we've seen a dramatic turnaround, in markets. And as we speak here, August 18th, August 19, markets have rebounded and yesterday just hit new highs. And so, our ability to calm people, get them focused on the long term is really important; encouraging them to stay the course if in fact their risk appetite and their long-term plans haven't changed. And those are some of the things that are sort of consistent through crises.

The final point that you make, this would have been highly unusual in that it had a health angle associated with it, and the speed with which markets moved, I think, has been

quite breathtaking. This may have been the shortest bear market in history and one of those rapid trough to peak – I don't know if it's peaked –, but a trough to return that we've seen in the history of markets. That is a lesson for all of us, how quickly with the action of central banks and others that the markets can turn themselves around.

**Your experience at the Fed serves you well here, and the sophistication that the government has today and how to respond, the tools to respond, is no surprise. How do you pass it forward? How does the leadership at TIAA pass it forward to the next leadership?**

Great question. And I'm going to expand a little bit to talk not just about mentors, but role models, because I've had the good fortune of having both great mentors and great role models. One of my role models was indeed a guy named Andrew Brimmer. In 1966, Lyndon Johnson nominated Andrew Brimmer to be the first Black governor of the Federal Reserve. And it really struck me on two different dimensions. First was the obvious racial dimension; here is a black man, a Ph.D., son of sharecroppers and lo and behold he gets to be a governor of the Federal Reserve and became a phenomenal role model for me. And then later in life, a bit of a mentor. But the other thing that influenced me was the discovery of the Federal Reserve.

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I didn't know what the Fed was until 1966 and growing up in a household where we talked about interest rates, suddenly I discovered, ‘Oh, here’s, the government institution actually says then very important interest rate. And so that led me on a journey towards being interested in the Fed and financial policy.

So how do I try to pay it forward here? By trying to emulate the kinds of great people I've seen around me. I hope that I come across in my organization as being a clear expert in what we do, able to lead with a clarity, a vision and communicate clearly what we want to do; obviously show fortitude during the course of a crisis as this one is, but also try to add a bit of empathy because I've seen empathy in other great leaders or the role models around me and it's made all the difference.

And so another approach I use to so call pay it forward is to try to be as open, as accessible as possible, and to try to model the ability to lead a great organization with this huge responsibility that we have, but hopefully do it in a human and humane way, living our values of worrying a great deal about our people. So, that's the second

approach that I try to use as you say, to pay it forward. And hopefully, all of this ends up in creating a more cohesive organization, an organization in which our associates know that they are valued just as our clients and our participants are valued as well.

When I think about a couple of comments you've made here, a word you've commented on a few times today and that is empathy. And I was financing this financial institution, and we were sitting there discussing how do you collect past due when people aren't paying on time? And I had a young person who graduated No. 1 from Harvard Business School. And, I asked him, 'what background do you think is the best

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to collect?' He told me aggressiveness; aggressiveness and data.' And then we asked the person that ran this division and his comment was 'empathy.' The people that are most successful he told me in getting people to collect, get them on a program, are people that if we were going to quote President Clinton, 'feel your pain,' understand it. And it's amazing what empathy can do.

When we think of the crises that have occurred here and the crises that you've seen in your own life at these different points in history, as a Fed governor, how did you cope with the media, politicians,

government leaders, administration's changing, and obviously people having strong views as to what the Fed would be, and challenging of the independence of the Fed?

Important question. A couple of things to recognize. One is the last point you made, which is the Fed was created and intended to be independent from any part of the administration. And the reason of course is that the founders understood that elected officials have an incentive perhaps to not take away the punch bowl, so to speak, when the party gets going, letting potentially overheat because the cost of inflation is often down the road. So they wanted to put monetary policy in the hands of an independent government agency. And so one of the ways to cope is to recognize that there's a value to that independence and that the Fed is independent for a reason.

The second thing to recognize when you're a Fed governor, is that in spite of the principle of independence, everyone's going to be tempted to give advice. And so, a way to deal with it is to listen closely, make no promises, take on points of view, and then go and do your own research and come to your own conclusion.

The third thing to recognize is the respect for the independence effect comes and goes. We talk about the desire of some people in the administration to influence Fed policy today. If you look back to the history of the Fed, this is not the first time that's occurred. Certainly Lyndon Johnson tried to put pressure on Chairman William McChesney Martin of his generation, but to keep interest rates low as Johnson was dealing with both so-called guns-and-butter. In history, it's well known that Richard Nixon seemed to put a lot of pressure on Arthur Burns to keep interest rates low, as well.

And so this is not an ahistoric moment that we're dealing with. But the guiding principle that in a well-functioning democracy, an independent central bank is pivotal to financial stability has proven to be time and time again, very important. And finally, seeing the notion of independent central banks evolve with America, so to speak. The Bank of England, for example, within the last 10 or 15, 20 years, I think, became an independent central bank. And so this is not an old, old thought, it's a thought that's being revalidated, almost every year. The way to deal with the questions about the Fed's independence is to recall why it's the case? Of all institutions, trust and confidence in the U.S. economy depends very much on everyone seeing that we have an independent central bank, and those of us who have been blessed to be governors there should stand up for that very, very important principle.

**Roger, another area we've talked about, particularly with the dual crisis that's occurred in the world today of not only the pandemic is this crisis of equality, racism. For years now at the Milken**

**Institute we have been hosting the ESG activities, and it's something that's here to stay and growing in momentum – E for environment, S for the social responsibilities, G for governance – and is dominating the thoughts of many organizations today. Talk to us a little bit about TIAA's role in this effort?**

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**“Over the last decade or so CEOs have tended to sort of try to keep their head down, to try to stay just a little bit below the line of sight, below the line of fire. Lately, there's been a pendulum swing. I certainly think these times have called for CEOs and other corporate bosses to stand up and be counted.”**

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We were one of the first to put a major emphasis on ESG matters, and we've been doing that consistently for a long period of time. We really understand that good performance is totally tied to and highly correlated with issues around ESG. There is no trade-off between good ESG performance and good equity and good corporate performance. We got into this space because we are designed to serve those in the not-for-profit sector with a focus on higher education, private K-to-12, healthcare, etc. The individuals who go into those jobs are very mission driven; they tend to be some of the first to focus in on these questions of ES and G. And so, we were listening to our participant base when we got into this topic of ES and G. We have a long history of quiet engagement, and so

we're pleased to be a leader in the question of ESG when it comes to long-term investing. And frankly, we're pleased to see that other asset managers have come along with us now on this journey. We think that overall it will make for better outcomes in society. And it's quite consistent with really good financial and investment performance and good returns as well.

**Let me maybe move, if I could, in a little different direction. You've served on a number of boards – Alphabet, General Mills, my IFF [International Flavors & Fragrances] – among others. How do you choose what board to go on and how have you seen the board leadership and the CEO interacting with the board during both the pandemic crisis and concern with equality? How have the companies reacted? What do you see as your responsibility as a board member?**

As an active CEO, obviously I'm quite limited in the number of boards I can be involved with. So I've chosen based on two things. One is the position of the company in society,

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and in all honesty, my ability to do both contribute and to learn. In terms of what I've seen during both the health crisis and the social equity crisis, is that in all cases companies have decided to step up.

I've observed over the last decade or so CEOs have tended to sort of try to keep their head down, to try to stay just a little bit below the line of sight, below the line of fire. Here what I've seen is in almost every case, CEOs have stepped up to be leaders in talking about the importance of social justice, for example. They have been very focused on how to communicate in

their own companies and in their own communities around issues of equity.

A prime example obviously is General Mills, headquartered in Minneapolis. Minneapolis was one of the hotspots of this police interaction with the African-American community in a way that proved to be quite tragic, and I'm really proud of the fact that our CEO from General Mills was one of the active leaders in that community, bringing together the Fortune 100 company CEOs to make a strong statement opposed to racism. It's been, I think, a chance for CEOs to understand that they actually do have a role in some of these very important and potentially contentious social issues. There's been a pendulum swing back from CEOs I think being a little timid to maybe being sort of a little braver around these topics.

And the role of the board is to coach, to counsel, to monitor frankly, and to support when the CEO maybe takes a step out from his or her comfort zone, because I think shareholders' long-term interest, certainly it's also quite consistent with companies, that take a stand for doing what they think is right and doing these contentious issues.

It goes back to the ESG discussion, but I think there's really in moments of this kind of national crisis and expectation that corporate leaders, as well as civic leaders, as well as religious leaders, as well as political leaders, will also define their voice and speak out a bit more. I've been proud to see in all the companies I've involved with that their CEOs have taken a stand in favor of doing the right thing. It will be interesting to

see if this is a beginning of a sea change where corporate leaders are more vocal; don't know if that's going to occur, but I certainly think these times have called for CEOs and other corporate bosses to stand up and be counted. I know you and I both feel that this incredible pandemic in the U.S. has shown both strength and resilience, but has also shown also some of the weaknesses. It has had a devastating impact on communities of

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color. It has had a devastating impact on many households. No one should doubt that we are both quite aware of how serious this pandemic is for many people around the world, and how devastating it's been for many, many millions of Americans.

**For me, Roger, I was headed home from Johannesburg from a medical conference. And I just felt in February that a large cloud was about to encircle the earth. And I was constantly thinking about people at the lowest end of the socioeconomics. How much damage would there be? One year worth of damage? Would it be a decade? Would it be decades? You said we've been through this before and the world will be different. And to quote 'Will the world we choose to rebuild be different?' I have definitely seen the country at its best and its worst. But even in its worst, it's the best. What do you see when you look at America today? What gives you hope looking forward?**

Let me start with a point that you made. Without a doubt, for all the issues, challenges, imperfections, like you I'm highly patriotic about America. I would not want to have been born or bred any place else. And I say that as an Africa-American with all of the racism and the issues that that Black people have dealt with in this country for hundreds of years. So I'm proudly an American. The question I did raise, what kind of America are we going to rebuild? As America moves into the middle part of the 21st century, we are still confronting a number of inequities that go way back to the founding of this country. And



so we have to rebuild with a more inclusive capitalism, and I emphasize both of those words. We should be proud with capitalism, because capitalism I still believe is the best system in terms of generating wealth and taking people out of poverty. But we've got to put a focus on making that much more inclusive because, what we've seen since the beginning of the seventies is that America, while still a strong capitalist system has become a system of increasing inequality.

When we look at this pandemic, we see that Black people are, I think, three times more likely than whites to come down with COVID-19. They're six times more likely to be hospitalized and they're twice as likely to suffer a fatality because of it. And so we really

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have to let this set of crises drive us towards a much more inclusive, much more equal society as we go forward. It doesn't seem right or appropriate that we should have in America, one of the richest, countries in the world, health disparities and health outcomes where our infant mortality rate is far from the best.

And so what I'm hoping for Michael, is that when we turn our attention towards rebuilding America, we really put a focus in on what kind of inclusive capitalist system we want to build. We've talked about ESG as an important, guiding principle for asset

managers. Thinking about that more broadly is going to be very important. I will be the first to say that I don't have a monopoly on wisdom in terms of how we rebuild, what will be built etc. But I do think we should all have a guiding principle that we want to recognize that the essence of this country is capitalism. Yet we want to drive it in a way that makes it much more inclusive so that as we go forward with crises – and there will be crises – the impact of those crises will not be so heavily defined by the color of one's skin. We all have to get our heads around what we want to be built, but recognize that what we rebuild has to take account what hasn't worked, and how do we rectify those things that haven't worked as well as we'd all aspire for them to work.

**So Roger, those insights you've given us are powerful. What most people don't realize that you have pointed out in these inequality issues, is of all the developed countries in the world, all of them, the U.S. has the highest percentage of its adult population with a net worth under \$10,000, almost in the range of 30 percent. For so many families, they're one disease away from being financially wiped out or not being able to pay their mortgage payments or whatever it might be. And this dichotomy that you spoke about, this is our challenge. But for the free enterprise system to succeed, both you and I are going to work hard to make sure it's up to that challenge.**

Roger, I want to thank you for joining me. I want you to give our best to your entire family; we wish you good health and for the five million people that are sleeping well tonight; it's because you've been able to stay the course at TIAA for them and have weathered what I see book ending your career from 2008 to today, sitting through probably the two greatest financial challenges we've had in the last 20 to 30 years.

Mike, thank you so much for giving me a chance to have this wide-ranging conversation. I wish you and your family exactly the same, continued great health. And frankly, I look for the chance to be able to come and meet you in person and have this conversation face to face as soon as we can get out of this crisis. And finally, I will say thank you for saying those nice words about TIAA. We have been in existence for 102 years. I'm glad you took a moment to recognize who we are and what makes us different.

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