



COMPREHENSIVE ANNUAL FINANCIAL REPORT

Employees' Retirement System

For the Fiscal Year Ended June 30, 2020

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Norfolk, VA 23510
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www.norfolk.gov/retirement

TABLE OF CONTENTS

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TABLE OF CONTENTS

Introductory Section

| | |
|---|---|
| Certificate of Achievement | 1 |
| Letter of Transmittal | 2 |
| The Board of Trustees | 7 |
| Consultants and Professional Services | 8 |
| Investment Managers | 8 |
| Organizational Chart | 9 |

Financial Section

| | |
|---|----|
| Independent Auditors' Report | 10 |
| Management's Discussion and Analysis | 13 |
| Basic Financial Statements: | |
| Statement of Plan Fiduciary Net Position | 17 |
| Statement of Changes in Plan Fiduciary Net Position | 18 |
| Notes to Financial Statements | 19 |
| Required Supplementary Information: | |
| Schedule of Changes in Net Pension Liability and Related Ratios | 31 |
| Schedule of Employer's Net Pension Liability and Related Ratios | 32 |
| Schedule of Employer's Contributions | 32 |
| Schedule of Investment Returns | 33 |
| Notes to Required Supplementary Information | 34 |
| Other Supplementary Information: | |
| Schedule of Administrative Expenses | 35 |
| Schedule of Investment Expenses | 36 |

Investment Section

| | |
|--|----|
| Investment Performance, Policy, Statistics and Activity..... | 37 |
| Asset Allocation by Asset Class | 38 |
| Investment Managers and Investment Assignments | 39 |
| Asset Allocation Comparison | 39 |
| Target Asset Allocation | 40 |
| Investment Performance Summary | 41 |
| Schedule of Broker Commissions..... | 42 |
| List of Largest Assets | 42 |

Actuarial Section

| | |
|--|----|
| Actuary's Certification Letter | 43 |
| Summary of Actuarial Assumptions and Methods | 46 |
| Schedule of Active Member Valuation Data..... | 51 |
| Schedule of Retirees and Beneficiaries Added to and Removed from Rolls | 52 |
| Schedule of Funded Liabilities by Type | 53 |
| Analysis of Financial Experience | 54 |
| Summary of Benefit and Contribution Provisions | 55 |

Statistical Section

| | |
|---|----|
| Schedule of Additions by Source and Deductions by Type..... | 60 |
| Schedule of Benefit Payments by Type..... | 61 |
| Schedule of Retired Members by Type of Benefit | 62 |
| Schedule of Average Benefit Payments | 64 |

TABLE OF CONTENTS

Compliance Section

| | |
|---|----|
| Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards..... | 67 |
|---|----|

Introductory Section (Unaudited)

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Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Employees' Retirement System
of the City of Norfolk, Virginia**

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2019

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December 11, 2020

Letter of Transmittal

The Board of Trustees
Employees' Retirement System of the City of Norfolk
Norfolk, Virginia 23510

It is with great pleasure that I present the Comprehensive Annual Financial Report (CAFR) for the Employees' Retirement System of the City of Norfolk (the System) for fiscal year ended June 30, 2020. The System is a Pension Trust Fund included in the financial statements of the City of Norfolk, Virginia.

The System administration is responsible for the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures. All disclosures necessary to enable the reader to gain an understanding of the System's financial activities have been included to present fairly the System net position and changes therein of the System in accordance with U.S. generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB).

The System is a single-employer contributory defined benefit plan that covers substantially all employees of the City of Norfolk, excluding Constitutional Officers and School Board employees who are covered by the Virginia Retirement System. Although the System presents separate financial statements, it is also included as a Pension Trust Fund, fiduciary fund type in the City of Norfolk's CAFR.

Management's Discussion and Analysis (MD&A), as required by GAAP, is included in the financial section of this report. The MD&A provides a narrative overview and analysis of the financial status of the System for the year ended June 30, 2020 (see pages 13 through 16).

System History

The System operates a defined benefit pension plan that was established by Section 37 of the Code of the City of Norfolk, Virginia (Code), and began operations as of January 1, 1942. Section 37 of the Code, as amended from time to time, established the authority under which the City of Norfolk's obligation to contribute to the plan is set forth. A single fund is used for all participants, and there is no segregation of assets for individual classes of employees or for City and employee contributions.

Benefit Provisions

The System provides normal and early service retirement benefits, as well as death and disability benefits. All benefits vest after five years of creditable service effective January 1, 1997. Ad hoc cost-of-living adjustments are provided at the discretion of the City Council. The benefit provisions of the plan are determined by Section 37 of the Code.

INTRODUCTORY SECTION

Letter of Transmittal (Continued)

Effective January 8, 2015, all System members pay contributions on a salary reduction of 5% of earnable compensation, except for City Council members hired before October 5, 2010. Upon vesting, member contributions become an asset of the System to be used to pay benefits under the System. In the event of death or departure prior to retirement or vesting, member contributions, including accrued interest, shall be refunded. Interest was accrued at the rate of 0.94% during the fiscal year ended June 30, 2020.

The Retirement Office staff provides counseling to all benefit applicants and to others requesting counseling. All forms and retirement planning information are available in the Employees' Retirement Office, 810 Union Street, Suite 309, Norfolk, Virginia 23510.

Accounting System and Internal Control

Financial statements included in this report are the responsibility of the System staff and have been prepared in accordance with the U.S. GAAP. The fiscal year 2020 financial statements have been audited by CliftonLarsonAllen LLP in conjunction with the City of Norfolk's annual audit.

The accrual basis of accounting is used to record assets, liabilities, additions and deductions of the System. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. In developing the accounting system, consideration was given to the adequacy of internal accounting controls. These were designed with the concept of reasonable rather than absolute assurance recognizing that the cost of a control should not exceed the benefits likely to be derived and that the calculation of costs and benefits requires estimates and judgments by management. A continuing effort is being made toward improving the controls to provide reasonable assurance of proper recording of financial transactions in all material respects.

Funded Status and Net Pension Liability

The System's funding objective is to meet long-term benefit payments through investment returns on trust fund assets and annual employer and employee contributions. The advantage of a well-funded plan is that participants are confident that sufficient assets are available for the payment of current and future member benefits. An annual actuarial valuation of the System provides information for both the actuarially determined contributions, as well as the actuarially determined total pension liability. The actuarial valuation used for this report period was completed with payroll data as of June 30, 2020. Information from this report is included in the Actuarial Section.

The City of Norfolk's commitment to provide a financially sound retirement plan for its employees is illustrated within this report. "The Schedule of Employer's Net Pension Liability and Related Ratios" found in the Required Supplementary Information of the Financial Section, reports plan fiduciary net position as a percentage of the total pension liability, which provides one indication of the System's funded status.

The "Schedule of Employer's Contributions" includes historical trend information about the actuarially determined contributions (ADC) of the employer and the contributions made by the employer in relation to the ADC. As of June 30, 2020, the System's funded ratio is 77.4%, a slight decrease from 78.5% as of June 30, 2019. This funded ratio does not include any market movements since June 30, 2020. The next planned valuation will reflect market conditions through June 30, 2021.

INTRODUCTORY SECTION

Letter of Transmittal (Continued)

Investments

The Board of Trustees (Trustees) for the Employees' Retirement System formally amended and adopted a written Statement of Investment Policy on February 3, 2016, that includes the guidelines and objectives for the investments of the System. The policy is reviewed annually, and changes are made as warranted. The System has an asset allocation target of 55% Global Equities; 30% Fixed Income; 7.5% Real Estate and 7.5% Master Limited Partnerships.

The Trustees are empowered to invest the System's assets utilizing the "Prudent Person" standard and to take appropriate action regarding the investment, management and custodianship of plan assets. The investment responsibilities include establishing reasonable investment objectives, developing investment policy guidelines, selecting investment managers, and evaluating performance results to assure adherence to guidelines and the achievement of objectives. Each investment manager must adhere to the guidelines established by the Trustees for investment asset quality, diversification, liquidity and risk. Both annual and longer term (3 to 10 years) goals for investment returns are established for each manager. Attainment of these goals weighs heavily in terms of whether a manager's contract is renewed. Typically, managers who fall below the Board's minimum objectives over the longer term are replaced.

The Board of Trustees recognizes that the objective of a sound and prudent investment policy is to generate total returns consistent with its risk tolerance and return requirements. The Board of Trustees has carefully exercised its responsibility by prudently diversifying the System's assets.

The System has converted the majority of its portfolio to a passive investment structure. With the exception of the PIMCO fixed income securities, real estate funds managed by JP Morgan and UBS Trumbull, and master limited partnerships managed by Harvest Fund Advisors and Tortoise Capital Advisors, all of the System's investments were consolidated into a passive approach with State Street Global Advisors in 2008. It is the intent of the Board to maintain the current structure for the portfolio and to review potential updates in the future.

The investment results of each manager, as well as the result for the total fund are monitored by an independent pension investment advisory firm who reports its findings to the Board monthly. The pension investment consultant interacts with the System staff; prepares recommendations on investment policies, investment management structure, and asset allocation. The consultant also monitors and evaluates the performance of the investment managers and effectiveness of the custodian.

Current Economic Condition

Fiscal year 2020 saw significant market volatility in global markets. The year started off with U.S. global markets outperforming international markets (quarter 3 2019: S&P 500 +1.7% vs. MSCI ACWI ex US -1.8%) as slowing global economic growth, global trade issues/supply chain concerns, and Brexit negotiations drove market sentiment. The U.S. - China trade dispute became a war of words that added to equity market volatility and drove emerging markets lower (MSCI Emerging Markets Index down 4.2%), but the U.S. Federal Reserve cutting rates twice in the quarter helped support U.S. equity markets. Quarter 4 2019 saw positive U.S. - China discussions and trade deal possibilities that drove markets into positive territory. International markets, small capitalization stocks, and value-oriented equities that had trailed growth equities posted stronger returns. With China tackling a never heard of coronavirus disease 2019 (COVID-19) virus outbreak later in the year and the subsequent spreading of

INTRODUCTORY SECTION

Letter of Transmittal (Continued)

that virus to the U.S. and other countries, quarter 1 2020 became a historical watershed in the U.S. and global equity markets. For the quarter 1 2020, the S&P 500 index was down almost 20% and the MSCI ACWI IMI index was down 22.4%. The effective closing down of the U.S. economy via shelter in place orders caused historic fundamental economic downturns. As more than 70% of the US GDP comes from consumer consumption, such a shutdown hurt most companies and businesses across the board, from retailing to manufacturing. The U.S. government responded with unprecedented stimulus packages (i.e. Coronavirus Aid, Relief, and Economic Security ("CARES") Act) to stabilize the economy, providing all forms of consumer support (i.e. stimulus checks, extended and larger unemployment benefits) as well as corporate monetary support (Paycheck Protection Program (PPP) funding for large and small businesses). The Federal Reserve also added significant liquidity to support traditional areas like banks, U.S. treasuries, mortgages as well as less traditional areas like corporate bonds, asset backed securities, and ETFs. Even with such stimulus, U.S. gross domestic product (GDP) contracted 33% in quarter 2 on an annual basis and unemployment stood at about 11%. However, quarter 2 2020 saw equity markets bounce back (S&P 500 +20.5%) as certain states started to reopen after being relatively closed.

While technology, healthcare, and some consumer staples companies have mostly navigated the market uncertainty, the Energy sector continues to see challenges given slower world economic growth with lower consumption and manufacturing needs. This sector was hurt further with a Saudi Arabia and Russia oil pricing war that sent oil and ancillary commodities down considerably during quarter 2 2020.

Given all this uncertainty and market volatility, fixed income was a safe haven for much of the market. With the bulk of the U.S. Aggregate Bond Index being composed of U.S. Treasuries, the index returned 3.1% for quarter 1 2020 and 8.7% for the one-year ending June 30, 2020, as the 10-year Treasury Bond hit 0.5% in yield at one point during these volatile trading days. Unfortunately, most fixed income managers are not as highly invested in lower yielding treasury bonds (an investment outlook that has added significant outperformance relative to the benchmark in the long-term), but was a significant headwind for active fixed income managers over the last year. In general, there was significant divergence of some of these key indices versus a diversified investment portfolio. While many of the popular market indices, namely S&P 500, have bounced back strong albeit via a very rocky path, these indices are being driven by a narrow part of the market, namely large or mega-cap growth technology stocks. The top 5 stocks in the Russell 1000 Growth index represented 18% of the index at the beginning of 2020 and represented 28% at the end of quarter 2 2020. The performance difference between the Russell 1000 Growth and the Russell 1000 Value indices is 13.5 percentage points (27.8% vs 14.3%) for the year. This dispersion, a clear large capitalization growth market bias, as well as strong government bond performance presented significant challenges for diversified multi-cap, multi-style, diversified asset-class based portfolios.

A hypothetical portfolio of 60% MSCI ACWI IMI and 40% Bloomberg Barclays US Aggregate would have returned 4.20% for the trailing one-year ending June 30, 2019. The System's portfolio detracted from the traditional 60/40 portfolio returns mainly due to the MLP and Real Estate allocations. Including these MLP and Real Estate allocations, the Strategy Index posted a 1.3% trailing one-year return. The System's MLP Composite returned -37.44% for the year as energy fell strongly and the Real Estate composite returned 0.65% for the same time-period, trailing both equity and fixed income returns for the fiscal year. The System's MLPs managers outperformed the median MLP manager universe, while real estate continues to trail mainly due to performance in the retail portion of one of the manager's portfolio before COVID-19 and further because of COVID-19 related social distancing requirements and stay at home initiatives.

INTRODUCTORY SECTION

Letter of Transmittal (Continued)

Looking forward from June 30, 2020, elevated volatility should continue as uncertainty on how to address COVID-19, how to slow further COVID-19 infections and whether a proven vaccine will be available soon will continue to dominate investors' views; added to those concerns is the 2020 U.S. Presidential election as well as whether large cap tech remains the leader in equity markets. Despite these heightened uncertainties, pockets of relative value continue to present attractive opportunities in various sectors and economies globally. The question remains when will the market shift to some of these holdings instead of or in addition to large cap technology.

Professional Services

The professional consultants who are contracted by the Board of Trustees to perform services that are essential to the effective and efficient operation of the System are listed on page 8. An independent audit was conducted by CliftonLarsonAllen LLP, and a copy of their Independent Auditors' report on the financial statements is found on pages 10-12.

A certification letter from the actuary, Cheiron, is also included as part of this CAFR on pages 43-45. State Street Bank and Trust is the System's custodian.

Certificate of Achievement

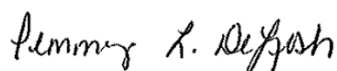
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Employees' Retirement System for the City of Norfolk for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2019. This was the fifteenth year that the System has achieved this prestigious award. The award is valid for a period of one year only. To be awarded a Certificate of Achievement, an entity must publish an easily readable and efficiently organized CAFR. We believe that this report continues to meet the requirements and it will be submitted to the GFOA again this year.

Acknowledgements

The compilation of this report reflects the combined effort of the System's staff under the leadership of the Board of Trustees.

On behalf of the Board of Trustees, I would like to take this opportunity to express our sincere gratitude to the staff, the advisors and to the many people who have worked so diligently to help ensure the successful operation of the System.

Sincerely,



Penny L. DeLosh
Executive Director

INTRODUCTORY SECTION

The Board of Trustees

| Member | Position | Appointment Date |
|-------------------------------|---|-------------------|
| Stephanie Adler Calliott, CFP | Chair | January 9, 2007 |
| Yvonne T. Allmond | Vice-Chair | October 30, 2007 |
| Lawrence A. Bernert III, CFA | Member | October 30, 2007 |
| Kenneth W. Crowder | Member | February 3, 2009 |
| Daryl Howard | Member representing the City's Public Safety | January 29, 2019 |
| James Izard, II | Member | June 11, 2019 |
| Arthur M. Eason, III | Member | November 25, 2014 |
| Christina (Tina) Talley | Member representing the City's General Employees | May 27, 2020 |
| Catheryn Whitesell | Ex-officio Trustee representing the City Manager | N/A |
| Christine A. Garczynski | Ex-officio Trustee as the Director of Finance | N/A |

The members of the Board are appointed and serve pursuant to Chapter 37 of the Norfolk City Code, which provides for ten (10) members.

The Ex-officio Trustees serve by virtue of their position with the City of Norfolk.

INTRODUCTORY SECTION

Consultants and Professional Services

Legal Advisor

Bernard Pishko, City Attorney
Andrew Fox, Deputy City Attorney

Medical Examiners

Dr. Anthony C. Cetrone
Dr. Keith H. Newby

Actuary

Cheiron
McLean, VA

Custodian

State Street Bank and Trust
Kansas City, MO

Consultants

AndCo Consulting
St. Louis, MO

Independent Auditor

CliftonLarsonAllen LLP
Arlington, VA

Investment Managers

See pages 39 and 42 of the Investment Section for Manager Assignments and a Schedule of Broker Commissions

Domestic Equity

State Street Global Advisors
Boston, MA

International

State Street Global Advisors
Boston, MA

Fixed Income

State Street Global Advisors
Boston, MA

Pacific Investment Management Company
Newport Beach, CA

Real Estate

J.P. Morgan Chase Bank
New York, NY

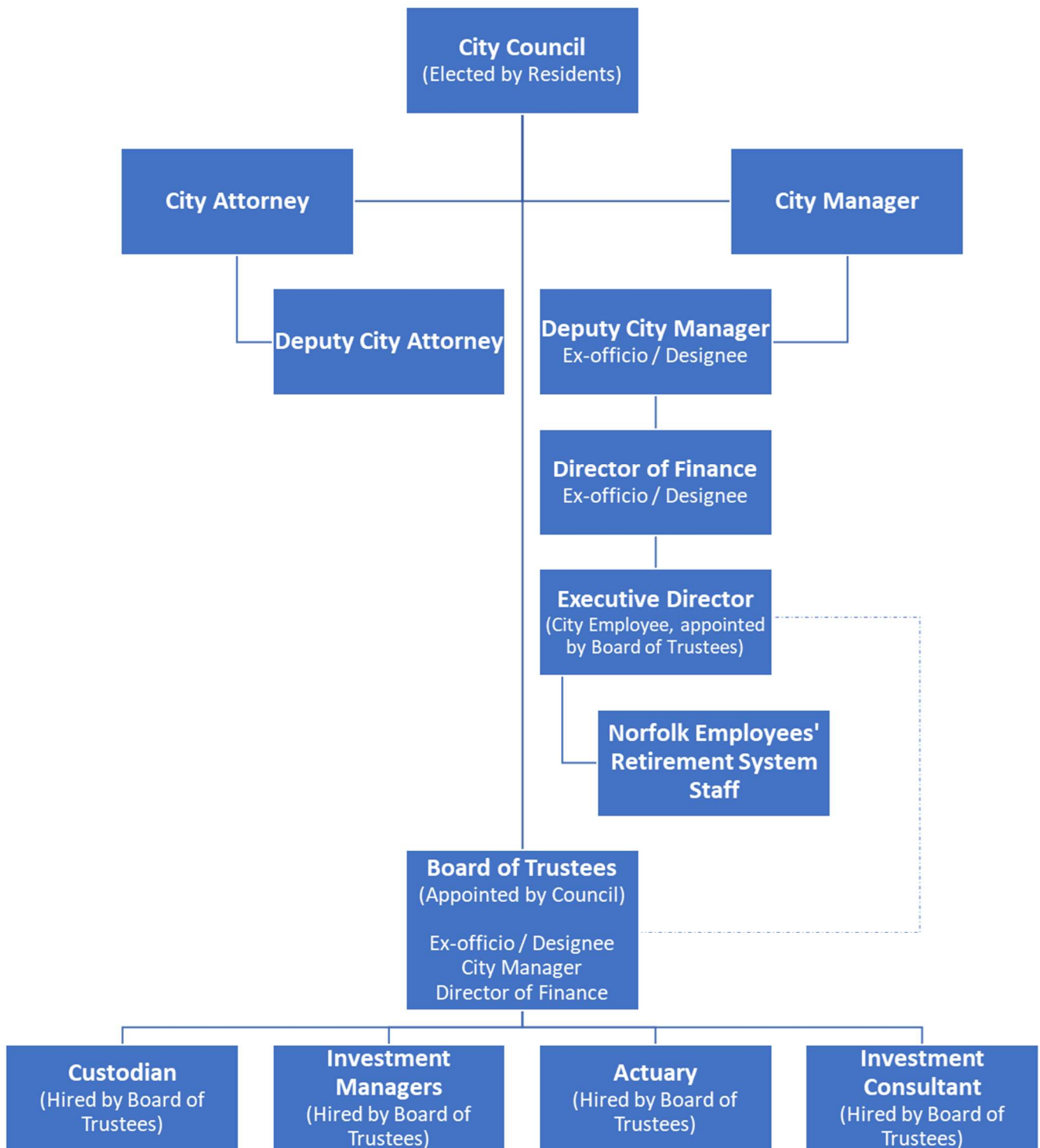
UBS Trumbull
Hartford, CT

Master Limited Partnership

Harvest Fund Advisors LLC
New York, NY
Wayne, PA

Tortoise Capital Advisors
Hartford, CT
Leawood, KS

ORGANIZATIONAL CHART



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Financial Section

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CLA (CliftonLarsonAllen LLP)
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Employees' Retirement System of the City of Norfolk
Norfolk, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Employees' Retirement System of the City of Norfolk (the System), a fiduciary fund of the City of Norfolk, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Board of Trustees
Employees' Retirement System of the City of Norfolk

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2020, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 13-16, the schedule of changes in net pension liability and related ratios on page 31, the schedule of employer's net pension liability and related ratios and the schedule of employer's contributions on page 32, the schedule of the investment returns on page 33, and the notes to the required supplementary information on page 34 to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The schedule of administrative expenses, schedule of investment expense, introductory section, investment section, actuarial section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of administrative expenses and the schedule of investment expenses are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of administrative expenses and the schedule of investment expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section, investment section, actuarial section, and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Board of Trustees
Employees' Retirement System of the City of Norfolk

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2020, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Arlington, Virginia
November 30, 2020

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Our discussion and analysis of the financial performance of the Employees' Retirement System of the City of Norfolk (the System) provides an overview of financial activities for the fiscal years ended June 30, 2020 and 2019. Please read Management's Discussion and Analysis in conjunction with the basic financial statements and the related notes thereto, which follows this discussion.

FINANCIAL HIGHLIGHTS

- System assets exceeded liabilities at the close of fiscal years 2020 and 2019 by \$1.044 billion and \$1.084 billion, respectively (reported as Plan Net Position Restricted For Pensions). Total Plan assets are held in trust to meet future benefit obligations.
- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. The net position as a percentage of the total pension liability was 73.5% and 77.6%, for June 30, 2020 and June 30, 2019, respectively.
- Total additions decreased over the prior year by \$48 million or approximately 46.8%. This was mainly driven by a decrease in investment income.
- Total deductions increased over the prior year by \$1.1 million or approximately 1.2%. This was mainly driven by an increase in benefit payments.

THE STATEMENT OF PLAN FIDUCIARY NET POSITION AND THE STATEMENT OF CHANGES IN PLAN FIDUCIARY NET POSITION

This CAFR consists of two financial statements: The Statement of Plan Fiduciary Net Position and the Statement of Changes in Plan Fiduciary Net Position. These financial statements report information about the System as a whole and about its financial condition. These financial statements include all assets and liabilities that are due and payable using an economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all additions and deductions are accounted for regardless of when cash is received or paid.

The Statement of Plan Fiduciary Net Position presents all of the System's assets and liabilities, with the difference reported as plan net position restricted for pensions. Over time, increases and decreases in plan net position restricted for pensions measure whether the System's assets available for benefits is improving or deteriorating. The Statement of Changes in Plan Fiduciary Net Position presents how the System's plan net position restricted for pensions, changed during the most recent fiscal year. These two financial statements should be reviewed along with the unaudited required supplementary information and the other supplementary information, to determine financial strength of the System and to understand changes over time in the funded status of the System.

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS

**Employees' Retirement System of the City of Norfolk
Summary of Plan Fiduciary Net Position
As of June 30, 2020 and 2019**

| | 2020 In '000 \$ | 2019 In '000 \$ | 2020-2019 Percentage Change |
|--|---------------------|---------------------|-----------------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 5,972 | \$ 16,434 | -63.7% |
| Receivables | 73,573 | 74,514 | -1.3% |
| Investments | 1,101,052 | 1,148,800 | -4.2% |
| Total Assets | \$ 1,180,597 | \$ 1,239,748 | -4.8% |
| LIABILITIES | | | |
| Accounts payable and accrued expenses | \$ 2,284 | \$ 2,629 | -13.1% |
| Due to brokers for securities purchased | 134,223 | 152,871 | -12.2% |
| Total Liabilities | \$ 136,507 | \$ 155,500 | -12.2% |
| Plan Net Position Restricted for Pensions | \$ 1,044,090 | \$ 1,084,248 | -3.7% |

Total assets as of June 30, 2020 and 2019 were \$1.18 billion and \$1.24 billion, respectively, and were comprised of cash and cash equivalents, receivables and investments. Total assets decreased by \$59 million or 4.8% for the fiscal year 2020, due to decreases in cash equivalents held.

Total liabilities as of June 30, 2020 and 2019 were \$137 million and \$156 million, respectively, and were comprised of payables to brokers for securities purchased, accounts payables and accrued expenses. Total liabilities decreased by \$19 million or 12.2% for the fiscal year 2020, primarily due to a decrease in payables due to brokers for securities purchased.

System assets exceeded liabilities at the close of fiscal years 2020 and 2019 by \$1.044 billion and \$1.084 billion, respectively. In fiscal year 2020, plan net position restricted for pensions decreased by \$40 million or 3.7% from the previous fiscal year. Decreases in receivables due from brokers for securities sold and investment income were offset by payables due to brokers for securities purchased.

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS

Employees' Retirement System of the City of Norfolk Summary of Changes in Plan Fiduciary Net Position For the Fiscal Years Ended June 30, 2020 and 2019

| | 2020 In '000 \$ | 2019 In '000 \$ | 2020-2019 Percentage Change |
|--|---------------------|---------------------|-----------------------------------|
| ADDITIONS | | | |
| Investment Income, net | \$ 5,736 | \$ 55,313 | -89.6% |
| Employer Contributions | 38,494 | 37,079 | 3.8% |
| Employee Contributions | 9,838 | 9,673 | 1.7% |
| Other Income | 372 | 336 | 10.7% |
| Total Additions | \$ 54,440 | \$ 102,401 | -46.8% |
| DEDUCTIONS | | | |
| Benefit Payments | \$ 93,078 | \$ 91,999 | 1.2% |
| Refunds of Contributions | 920 | 867 | 6.1% |
| Administrative Expenses | 600 | 617 | -2.8% |
| Total Deductions | \$ 94,598 | \$ 93,483 | 1.2% |
| Net Increase/(Decrease) | \$ (40,158) | \$ 8,918 | -550.3% |
| Plan Net Position Restricted for Pensions | | | |
| Beginning of the Year | \$ 1,084,248 | \$ 1,075,330 | |
| End of the Year | \$ 1,044,090 | \$ 1,084,248 | -3.7% |

ADDITIONS TO PLAN NET POSITION

The funds needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investments. Contributions and net investment income for fiscal years 2020 and 2019 totaled \$54 million and \$102 million, respectively.

Additions decreased for fiscal year 2020 by \$48 million from the prior year, due primarily to lower investment income. The total portfolio returned 0.75% for the fiscal year ended June 30, 2020, versus 5.5% for the prior fiscal year. The System's target return is 7.0%.

MANAGEMENT'S DISCUSSION AND ANALYSIS (concluded)

DEDUCTIONS FROM PLAN NET POSITION

The deductions from plan net position restricted for pensions include pension payments to retirees and beneficiaries, refunds of voluntary contributions to retired members, refunds of mandatory contributions to non-vested members and the cost of administering the System. Total deductions for fiscal year 2020 were \$95 million, an increase of 1.2% over fiscal year 2019 deductions.

Pension benefit payments increased by \$1.1 million in fiscal year 2020 or 1.2%, from the previous fiscal year. The increase in pension benefits payments is a result of turnover in the retirement population. See Page 52 for details on changes to the beneficiary population. Administrative expenses for the fiscal years ended June 30, 2020 and 2019 were \$600 thousand and \$617 thousand, respectively.

RETIREMENT SYSTEM AS A WHOLE

Plan fiduciary net position restricted for pensions decreased in fiscal year 2020 over fiscal year 2019. The System's plan net position restricted for pensions as a percentage of the total pension liability was 73.5% and 77.6% as of June 30, 2020 and 2019, respectively.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

The annual financial report is designed to provide citizens, taxpayers, plan participants, and the marketplace's credit analysts with an overview of the System's finances and the prudent exercise of the Board's oversight. Any questions regarding this report or requests for additional financial information should be directed to the Employees' Retirement System of the City of Norfolk, 810 Union Street, Suite 309, Norfolk, Virginia 23510, or via email to retirement@norfolk.gov. This report, along with previous years financial reports, can be found at www.norfolk.gov/retirement.

FINANCIAL SECTION

Employees' Retirement System of the City of Norfolk
(A Pension Trust Fund of Norfolk, Virginia)
Statement of Plan Fiduciary Net Position
As of June 30, 2020

| | |
|--|---------------------|
| Assets: | In '000 \$ |
| Cash and Cash Equivalents | \$ 5,972 |
| Receivables: | |
| Accrued Investment Income | 936 |
| Accounts Receivable – Other | 2 |
| Due from Brokers for Securities Sold | 72,635 |
| Total Receivables | \$ 73,573 |
| Investments: | |
| Government Issues | 74,137 |
| Fixed Income Securities | 117,707 |
| Futures/Options/Swaps | (160) |
| Equity Securities | 51,946 |
| Commingled Funds: | |
| Equity | 586,648 |
| Fixed Income | 189,329 |
| Real Estate | 81,445 |
| Total Commingled Funds | 857,422 |
| Total Investments | 1,101,052 |
| Total Assets | \$ 1,180,597 |
| Liabilities: | |
| Accounts Payable and Accrued Expenses | \$ 2,284 |
| Due to Brokers for Securities Purchased | 134,223 |
| Total Liabilities | \$ 136,507 |
| Plan Net Position Restricted for Pensions | \$ 1,044,090 |

See accompanying notes to financial statements.

FINANCIAL SECTION

**Employees' Retirement System of the City of Norfolk
(A Pension Trust Fund of Norfolk, Virginia)
Statement of Changes in Plan Fiduciary Net Position
Year Ended June 30, 2020**

| | |
|---|----------------------------|
| Additions: | In '000 \$ |
| Investment Income: | |
| Net Appreciation in Fair Value of Investments | \$ (4,773) |
| Interest | 4,311 |
| Dividends | 6,455 |
| Other Income | 1,919 |
| | <u>7,912</u> |
| Less: Investment Expenses | <u>(2,176)</u> |
| Net Investment Income | \$ 5,736 |
| | |
| Employer Contributions | 38,494 |
| Employee Contributions | 9,838 |
| Purchase of Service | 357 |
| Other Income | 15 |
| Total Additions | <u>\$ 54,440</u> |
| | |
| Deductions: | |
| Benefits Paid Directly to Participants | (87,695) |
| Beneficiary Payments | (5,383) |
| Refunds of Contributions | (920) |
| Administrative Expenses | (600) |
| Total Deductions | <u>\$ (94,598)</u> |
| | |
| Net Decrease | \$ (40,158) |
| | |
| Plan Net Position Restricted for Pensions: | |
| Beginning of the Year | \$ 1,084,248 |
| End of the Year | <u>\$ 1,044,090</u> |

See accompanying notes to financial statements.

FINANCIAL SECTION

Notes to Financial Statements

Employees' Retirement System of the City of Norfolk (A Pension Trust Fund of Norfolk, Virginia)

For the Year Ended June 30, 2020

Note 1. Organization and Summary of Significant Accounting Policies

Reporting entity: The Employees' Retirement System of the City of Norfolk (the System) is the administrator of a single-employer contributory defined benefit plan that covers substantially all employees of the City of Norfolk (the City), excluding School Board and Constitutional Officer employees covered by the Virginia Retirement System, as authorized by Section 143(a) of the City Charter. The System was established and placed under the management of the Board of Trustees for the System for the purpose of providing retirement allowances and death benefits as authorized by the provisions of Chapter 37 of the Norfolk City Code. Effective January 8, 2015, all System members pay contributions on a salary reduction basis in the amount of five percent (5%) of earnable compensation, except for City Council members hired before October 5, 2010. City Council members hired before October 5, 2010, do not pay member contributions. Effective December 13, 2011, all employees hired on or after December 13, 2011, are required to meet the employee contributions and vesting requirement of five years to be eligible to receive benefits under the System.

The System has a ten-member Board of Trustees appointed by the City Council of the City of Norfolk, including the City Manager and Director of Finance as ex-officio trustees. The System meets the definition of a Fiduciary Fund of the City of Norfolk under applicable accounting standards and as a result, the System's financial statements are incorporated into the Comprehensive Annual Financial Report (CAFR) of the City of Norfolk. These financial statements are those of the System and not of the City of Norfolk as a whole. The City of Norfolk makes contributions that in addition to employee contributions and investment earnings provide funding for pension benefits and administrative costs.

Basis of accounting: The financial statements of the System are prepared using the accrual basis of accounting as required under the provisions of Governmental Accounting Standards Board ("GASB") No. 67, Financial Reporting for Pension Plans ("GASB 67"). Employer contributions are recognized when received by the Plan. Benefits and refunds are recognized when paid in accordance with the terms of the Plan.

Cash and cash equivalents: Cash equivalents consist of short-term investments with maturities of three months or less. Short-term investments are recorded at fair value.

Investment valuation method: Investments are reported at fair value in accordance with GASB 72, Fair Value Measurement and Application. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Net appreciation or depreciation in fair value of investments is reflected in the Statement of Changes in Plan Fiduciary Net Position and includes realized gains and losses on investments purchased and sold and the change in appreciation or depreciation from one period to the next. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Acquisition costs are included in the cost of investments purchased, and sales are recorded net of selling expenses. Purchases and sales of securities traded, but not yet settled at year-end are recorded as due to brokers for securities purchased and due from brokers for securities sold, respectively.

FINANCIAL SECTION

Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies, concluded:

Estimates: The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, deferred inflows, and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in plan net position during the reporting period. Actual results could differ from those estimates.

Note 2. Description of the Plan

The System is the administrator of a single-employer, contributory, defined benefit plan that covers substantially all employees of the City of Norfolk, Virginia, excluding the School Board and the Constitutional Officer employees who are covered by the Virginia Retirement System. Although the System presents separate financial statements, it is also included in the City of Norfolk's CAFR as a pension trust fund. The types of employees covered and current membership as of June 30, 2020, consists of the following:

Retirees and Beneficiaries receiving benefits:

| | |
|---------------|-------|
| General | 2,879 |
| Public Safety | 1,333 |

Vested former members entitled to but not yet receiving benefits:

| | |
|---------------|-------|
| General | 1,049 |
| Public Safety | 315 |

Active plan members:

| | |
|---------------|---------------------|
| General | 2,927 |
| Public Safety | <u>1,244</u> |
| Total* | <u>9,747</u> |

* Includes three-hundred and sixty-seven (367) members due a refund of mandatory member contributions. See Note 4 for more details. Includes forty-three (43) members currently in the Deferred Retirement Option Program (DROP) and forty-two (42) members currently on leave of absence, twenty (20) of which are vested.

The System provides retirement benefits, as well as death and disability benefits. All benefits vest after five (5) years of creditable service. Creditable service includes membership service and allowable military service. Employee eligibility requirements are as follows:

Retirement (for employees who became members prior to July 1, 1980): Normal service retirement age is the earlier of age 60 or after completion of 30 years of credited service for general employees, and the earlier of age 55 or after the completion of 25 years of credited service for public safety employees. The normal service retirement benefit per annum for general employees is equal to 2.0% of average final compensation (average of the three highest years of compensation) times years of creditable service, with service limited to 35 years. Public safety employees accrue benefits at 2.5% of average final compensation times years of creditable service, not to exceed 65% of average final compensation. Mandatory retirement is age 65 for public safety employees. There is no mandatory retirement age for general employees.

FINANCIAL SECTION

Notes to Financial Statements

Note 2. Description of the Plan, concluded:

Retirement (for employees who became members on or after July 1, 1980): Normal service retirement age is the earlier of age 60 or after completion of 30 years of credited service for general employees, and age 55 or after the completion of 25 years of credited service for public safety employees. The normal service retirement benefit per annum for general employees is equal to 1.75% of average final compensation times years of creditable service, with service limited to 35 years. Public safety employees accrue benefits at 2.5% of average final compensation times years of creditable service, not to exceed 65% of average final compensation. Mandatory retirement is age 65 for public safety employees. There is no mandatory retirement age for general employees.

Retirement (for employees who became members on or after July 1, 2018): Normal service retirement age is the earlier of the retirement age as defined under the Social Security Act (42 U.S.C.46 et seq. and amended) with at least five (5) years of creditable service or the age at which the sum of creditable service years and age equals ninety (90) for general employees, and age sixty (60) with five (5) years of creditable service or age fifty (50) years with 25 years of creditable service for public safety employees. The normal service retirement benefit per annum for general employees is equal to 1.75% of average final compensation times years of creditable service, with service limited to 35 years. Public safety employees accrue benefits at 2.5% of average final compensation times years of creditable service, not to exceed 65% of average final compensation. Mandatory retirement is age 65 for public safety employees. There is no mandatory retirement age for general employees.

Effective January 1, 2015, the City Council adopted Ordinance Number 45,566 that established a Deferred Retirement Option Program (DROP) for policemen and firemen eligible for normal service retirement. Eligible members may elect to participate for a maximum of four years, deferring receipt of a reduced retirement benefit of seventy percent (70%) while continuing employment with the City without loss of any other employee benefits.

Upon the member's election to participate in the DROP, the amount of creditable service and the average final compensation becomes frozen for purposes of determining pension benefits. The participant is considered retired for all purposes related to the System and does not accrue additional retirement benefits, except for ad hoc one-time cost-of-living supplements, often commonly referred to as "COLAs", if applicable.

The DROP participant's monthly pension is held in lieu of being paid to the participant. Upon termination of employment, the participant will receive the DROP balance and will begin receiving the monthly pension benefit. The participant's DROP balance is not credited with investment gains and losses.

As of June 30, 2019, the DROP liability is \$2.8 million and is not recognized as due and payable in the Statement of Plan Fiduciary Net Position since it represents accumulated liabilities of active employees within the Deferred Retirement Option Program (DROP).

Ad hoc COLAs are provided at the discretion of the City Council. Participants should refer to the Plan document for a complete description of these provisions. There was no ad hoc COLA provided in the fiscal year ended June 30, 2020.

The Employees' Retirement System is established by Chapter 37 of the Code of the City of Norfolk, Virginia, 1979, as amended 1997. The benefit provisions of the System are also determined by this Code section.

FINANCIAL SECTION

Notes to Financial Statements

Note 3. Net Pension Liability

The components of the net pension liability of the System at June 30, 2020, were as follows:

| | |
|---|-----------------------|
| | <u>In '000 \$</u> |
| Total Pension Liability | \$ 1,421,028 |
| Plan Fiduciary Net Position | <u>\$ (1,044,090)</u> |
| Net Pension Liability | <u>\$ 376,938</u> |
| Plan Fiduciary Net Position as a percentage of the Total Pension Liability | 73.5% |

Note 4. Actuarial Assumptions and Contributions Made

Significant assumptions used to calculate contribution requirements are the same as those used to calculate the actuarial accrued liability. Normal cost is funded on a current basis. Periodic contributions for normal cost are based on the level percentage-of-payroll method. The funding strategy for normal cost should provide sufficient resources to pay employee pension benefits on a timely basis.

Section 37 of the Code of the City of Norfolk, Virginia 1979, as amended 1997, establishes the authority under which the employer's obligation to contribute to the Plan is established or may be amended. Contribution requirements are actuarially determined at the end of each fiscal year and paid by the City of Norfolk in the ensuing year. The employer contribution was made by the City totaling \$38.5 million in July 2019, in accordance with the actuarially determined contribution requirements stated above.

Effective January 8, 2015, all System members (with the exception of City Council members hired before October 5, 2010) are required to make mandatory contributions on a salary reduction basis in the amount of five (5) percent of earnable compensation. These contributions accumulate thereafter with interest equivalent to the 12-month commercial deposit (CD) instrument as established by the Board of Trustees at the beginning of each fiscal year until the member is fully vested in benefits under the Plan. Upon vesting, members' mandatory contributions become an asset of the System to be used to pay benefits under the System. Such contributions are refundable to members who terminate before becoming vested for retirement benefits. Mandatory employee contributions totaled \$9.8 million for the year ended June 30, 2020. The System paid approximately \$920 thousand in refundable contributions in the year ended June 30, 2020, and approximately \$932 thousand in refundable contributions are payable as of June 30, 2020 to members that have left City employment and have not elected their refund of mandatory contributions.

The funding objective of the Employees' Retirement System is to:

- A) fully fund the normal cost contribution for the current year determined under the funding method, and
- B) liquidate the unfunded accrued liability based on a level percent of payroll over a closed amortization period of 20 years.

FINANCIAL SECTION

Notes to Financial Statements

Note 4. Actuarial Assumptions and Contributions Made, continued:

The actuarial assumptions for the June 30, 2020, actuarial valuation, were as follows:

| | |
|--|--|
| Actuarial Cost Method | Entry Age Normal Cost Method |
| Amortization Method | Level Percent Closed, 20-Year Layers |
| Amortization Growth Rate | 3% |
| Asset Valuation Method | 3-Year Smoothed Value |
| Inflation | 3% |
| Salary Increases - General Employees | Average of 5.12% over a 30-year-career; based on rates that vary by year of service and are compounded annually |
| Salary Increases - Public Safety Employees | Average of 6.19% over a 30-year-career; based on rates that vary by year of service and are compounded annually |
| Investment Rate of Return | 7% |
| Mortality | 100% of RP-2014 Disability Mortality adjusted back to 2006 using MP-2014 and brought forward to 2016 using MP-2016 and generational improvements of 0.75% per year (ages < 86) thereafter for disabled lives |

Rate of return: The annual money-weighted rate of return, net of investment expenses, as of June 30, 2020, was 0.58%. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

The long-term expected rate of return on System investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Plan's target asset allocation as of June 30, 2020, are summarized in the following table:

| Asset Class | 30-Year 2020 Long-Term Expected Real Rate of Return |
|-----------------------------|--|
| Private Core Real Estate | 4.75% |
| Master Limited Partnerships | 6.50% |
| Core Fixed Income | 1.00% |
| Core Plus Income | 1.50% |
| Equity (ACWI IMI) | 5.15% |

FINANCIAL SECTION

Notes to Financial Statements

Note 4. Actuarial Assumptions and Contributions Made, concluded:

Discount rate: The discount rate, as of June 30, 2020, used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contributions rate and that City contributions will be made in accordance with the funding policy assumption adopted by the Board. That policy includes contributions equal to the employer portion of the Entry Age normal cost for members as of the valuation date plus an amortization payment on the unfunded actuarial liability (UAL). The UAL is based on an actuarial value of the assets that smooths investment gains and losses over three years and a measurement of the actuarial liability. The initial UAL is being amortized over a closed 20-year period. Future annual changes to the UAL due to plan changes, assumption changes, gains and losses will be amortized over their own closed 20-year periods. All rates are developed using a level percent of pay amortization method with a 3% per year increase. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future payments and pay administrative expenses. The GASB 67 depletion schedule was prepared for the next 99 years. Projected benefit payments are discounted at the long-term expected return of 7.00% (net of investment expenses). The single equivalent rate used, for purposes of GASB 67, to determine the Total Pension Liability as of June 30, 2020, was 7.00%.

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability of the System, calculated using the discount rate of 7.00%, compared to the System's net pension liability if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

| | | <u>In '000 Dollars</u> | |
|--------------------------------|---------------------------|-------------------------------------|---------------------------|
| | 1% Decrease (6.00%) | Current Discount Rate (7.00%) | 1% Increase (8.00%) |
| System's Net Pension Liability | \$531,455 | \$376,938 | \$246,205 |

The actuarial assumptions above are based on the results of an experience study performed in 2017, which covered the period from July 1, 2011 to June 30, 2016, and the presumption that the System will continue indefinitely. Were the System to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial accrued liability. Experience studies are typically conducted every five years with the next one scheduled for 2022.

Note 5. Deposits and Investments

Deposits: The carrying amount of the System's deposits with financial institutions was \$444 thousand as of June 30, 2020. These bank balances were covered by Federal depository insurance or commercial insurance or collateralized in accordance with the Virginia Security for Public Deposits Act Regulations of the Code of Virginia. Under the Act, banks holding public deposits in excess of the amounts insured by the Federal Deposit Insurance Corporation must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Virginia Security for Public Deposits Act and for notifying local governments of compliance by banks. Cash equivalents amounting to \$5.5 million consists of short-term investment funds and certificates of deposit.

FINANCIAL SECTION

Notes to Financial Statements

Note 5. Deposits and Investments, continued:

Investments: The Board of Trustees of the System has full power to invest and reinvest the trust funds in accordance with Section 51.1-124.30 of the Code of Virginia (1950), as amended. This section requires the Board to discharge its duties solely in the interest of the beneficiaries and to invest the assets with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Board must also diversify such instruments to minimize the risk of large losses unless under the circumstances, it is clearly prudent not to do so. The following was the Board's adopted asset allocation policy as of June 30, 2020:

| Asset Class | Target Allocation |
|-----------------------------|-------------------|
| Fixed Income | 30.0% |
| Equities | 55.0% |
| Real Estate | 7.5% |
| Master Limited Partnerships | 7.5% |

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Equity and fixed income investments are not insured and are registered in the name of the System and held by State Street Bank as custodian. The System's policy is that all securities purchased by or for the System be properly and clearly labeled as an asset of the System and held in safekeeping by a third-party custodial bank or institution in compliance with Section 2.2-4515 of the Code of Virginia.

Interest rate risk: The System has outlined a policy on duration to help manage its interest rate risk. The Investment Policy Statement outlines "duration" as the weighted average effective duration of each Account's fixed income portfolio, including cash equivalents. The Policy states that the duration of the fixed income portfolio shall be within +/- two years relative to the Barclays Capital Aggregate Bond Index.

Segmented Time Distribution:

| June 30, 2020 Investment Type | In '000 Dollars Fair Value | Investment Maturity - In '000 Dollars | | | | | | N/A |
|----------------------------------|-------------------------------|---------------------------------------|------------------|------------------|------------------|-------------------|-------------------|-----|
| | | Less 1 Yr | 1 - 3 Yrs | 3 - 6 Yrs | 6 - 10 Yrs | 10 Yrs + | | |
| Asset Backed Securities | \$ 2,524 | \$ - | \$ 205 | \$ 443 | \$ 255 | \$ 1,621 | \$ - | |
| Bank Loans | \$ 11 | \$ - | \$ 11 | \$ - | \$ - | \$ - | \$ - | |
| Corporate Bonds | \$ 43,989 | \$ 1,612 | \$ 13,145 | \$ 17,189 | \$ 7,533 | \$ 4,510 | \$ - | |
| Mortgage Backed Securities | \$ 68,423 | \$ - | \$ 1,191 | \$ 604 | \$ 85 | \$ 66,543 | \$ - | |
| Municipals | \$ 2,760 | \$ - | \$ - | \$ - | \$ - | \$ 2,760 | \$ - | |
| Futures/Options/Swaps | \$ (160) | \$ 1,012 | \$ (1,179) | \$ (412) | \$ (17) | \$ 436 | \$ - | |
| Government Issues | \$ 74,137 | \$ 2,812 | \$ 3,217 | \$ 25,989 | \$ 12,296 | \$ 29,823 | \$ - | |
| Common Stock | \$ 19,243 | na | na | na | na | na | \$ 19,243 | |
| Equity Funds | \$ 586,648 | na | na | na | na | na | \$ 586,648 | |
| Master Limited Partnerships | \$ 65,924 | na | na | na | na | na | \$ 65,924 | |
| Domestic Equity Funds | \$ 1,490 | na | na | na | na | na | \$ 1,490 | |
| Fixed Income Funds | \$ 189,329 | na | na | na | na | na | \$ 189,329 | |
| Real Estate Funds | \$ 46,734 | na | na | na | na | na | \$ 46,734 | |
| Totals | \$ 1,101,052 | \$ 5,436 | \$ 16,590 | \$ 43,813 | \$ 20,152 | \$ 105,693 | \$ 909,368 | |

FINANCIAL SECTION

Notes to Financial Statements

Note 5. Deposits and Investments, continued:

Foreign currency risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The System does not have a formal policy; however, the System manages its exposure to fair value loss by requiring its international securities investment managers to maintain diversified portfolios by issuer to limit foreign currency and security risk. The System's exposure to foreign currency risk is presented on the following table.

| June 30, 2020 | Market Value |
|--------------------|-----------------|
| Australian Dollar | \$ 12 |
| Canadian Dollar | \$ 27 |
| Danish Krone | \$ 0 |
| Euro Currency | \$ 1,885 |
| Japanese Yen | \$ 0 |
| Mexican Peso | \$ 376 |
| New Zealand Dollar | \$ 19 |
| Pound Sterling | \$ 331 |
| South African Rand | \$ 0 |
| Totals | \$ 2,650 |

All values in '000s (thousands)

Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System's formal policy governing credit risk is that securities rated below investment grade by two of the three primary rating agencies, Moody's Investors Service, Inc. (Moody's), Standard and Poor's Global Ratings (S&P), and Fitch Ratings (Fitch) are not permitted without the written permission of the Board. PIMCO has been given the authority by the Board to invest 20% of its portfolio in below investment grade securities.

The System invests in certain derivatives including real estate mortgage investment conduits, collateralized mortgage obligations, futures, and swaps. Those securities are included in reported investments. Investments in derivatives with a local cost of \$7,931,881 and a local market value of \$7,840,061 were held at June 30, 2020. The System's rated debt investments as of June 30, 2020 were rated by S&P's and/or an equivalent national rating organization and the ratings are presented below using the S&P's credit quality rating scale.

FINANCIAL SECTION

Notes to Financial Statements

S&P Credit Quality Rating Scale

| Fair Quality Rating | In '000 Dollars Total | In '000 Dollars | | | | | | | | | | Fixed Income/Equity Real Estate Funds |
|---------------------|--------------------------|------------------|----------------------------|-------------------|-------------------------|--------------|------------------|-----------------|------------------|-----------------------------|-----------------------|---------------------------------------|
| | | Corporate Bonds | Mortgage Backed Securities | Equity Funds | Asset Backed Securities | Bank Loans | Govt. Issues | Municipals | Common Stock | Master Limited Partnerships | Futures/Options/Swaps | |
| AAA | \$ 3,836 | \$ - | \$ 2,426 | \$ - | \$ 1,399 | \$ 11 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| AA+ | \$ 135,156 | 576 | 65,678 | - | 884 | - | 68,018 | - | - | - | - | - |
| AA | \$ 784 | - | - | - | - | - | 219 | 565 | - | - | - | - |
| AA- | \$ - | - | - | - | - | - | - | - | - | - | - | - |
| A+ | \$ 2,671 | - | - | - | - | - | 2,671 | - | - | - | - | - |
| A | \$ 832 | - | 2 | - | - | - | - | 830 | - | - | - | - |
| A- | \$ 10,552 | 8,105 | 4 | - | - | - | 1,078 | 1,365 | - | - | - | - |
| BBB+ | \$ 9,626 | 9,626 | - | - | - | - | - | - | - | - | - | - |
| BBB | \$ 10,450 | 10,435 | 8 | - | 7 | - | - | - | - | - | - | - |
| BBB- | \$ 9,259 | 9,259 | - | - | - | - | - | - | - | - | - | - |
| BB+ | \$ 1,553 | 1,553 | - | - | - | - | - | - | - | - | - | - |
| BB | \$ 549 | 541 | 8 | - | - | - | - | - | - | - | - | - |
| BB- | \$ 207 | 207 | - | - | - | - | - | - | - | - | - | - |
| B+ and below | \$ 2,243 | 1,712 | 297 | - | 234 | - | - | - | - | - | - | - |
| NR | \$ 913,334 | 1,975 | - | 586,648 | - | - | 2,151 | - | 20,733 | 65,924 | (160) | 236,063 |
| Totals | \$ 1,101,052 | \$ 43,989 | \$ 68,423 | \$ 586,648 | \$ 2,524 | \$ 11 | \$ 74,137 | \$ 2,760 | \$ 20,733 | \$ 65,924 | \$ (160) | \$ 236,063 |

FINANCIAL SECTION

Notes to Financial Statements

Note 5. Deposits and Investments, concluded:

Concentration of credit risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a System's investment in a single issuer. The System's formal policy governing concentration of credit risk is that securities rated below investment grade by two of the three primary rating agencies, Moody's, S&P and Fitch, are not permitted. No more than 20% of each account's fixed income portfolio, including cash equivalents, shall be invested in bonds rated below Baa (1, 2 and 3) or BBB (+ or -). Upon written request from the manager, the Board will consider allowing more than 20% in these ratings and the purchase of bonds rated below Baa3 or BBB-.

The following table presents the fair value of investments that represent 5% or more of the System's net position at June 30, 2020:

| Investment | In '000 Dollars Amount |
|-------------------------------|---------------------------|
| SSGA MSCI ACWI IMI Index Fund | \$586,648 |
| SSGA Bond Market Index Fund | \$158,733 |

Note 6. Transactions with the City of Norfolk

The System reimburses the City for all administrative costs related to the System's operations. The costs reimbursed for the year ended June 30, 2020, were \$600 thousand.

Note 7. Income Tax Status

The Internal Revenue Service has ruled in a determination letter dated September 29, 2016, that the System qualifies under Section 401-1(b)(3) of the Internal Revenue Code and is, therefore, not subject to tax under present income tax laws. The System operates pursuant to City Code. Instances of non-compliance with City Code are addressed when discovered. As of June 30, 2020, there are no such instances expected to have a material impact to the financial statements.

FINANCIAL SECTION

Notes to Financial Statements

Note 8. GASB 72 Fair Value Measurements and Application

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The System has the following recurring fair value measurements as of June 30, 2020:

| | In '000 Dollars June 30, 2020 | Quoted Prices In Active Markets for Identical Assets (Level 1) – In '000 \$ | Significant Other Observable Inputs (Level 2) – In '000 \$ |
|--|-------------------------------------|--|--|
| Cash Equivalents: | | | |
| Short-Term | \$2,308 | | \$2,308 |
| Short-Term Fund | 3,099 | | 3,099 |
| Total Cash Equivalents | <u>\$5,407</u> | <u>\$0</u> | <u>\$5,407</u> |
| Fixed income securities | | | |
| Government Issues | 74,137 | | 74,137 |
| Corporate bonds | 43,989 | | 43,989 |
| Futures/Options/Swaps | (160) | 35 | (195) |
| Municipals | 2,760 | | 2,760 |
| Asset-backed securities | 2,524 | | 2,524 |
| Bank Loans | 11 | | 11 |
| Mortgage-backed securities | 68,423 | | 68,423 |
| Total Fixed income securities | <u>\$191,684</u> | <u>\$35</u> | <u>\$191,649</u> |
| Equity securities | | | |
| Common stock | 19,243 | 19,243 | |
| Master limited partnerships | 65,924 | 65,924 | |
| Other equity securities | 1,490 | 1,495 | (5) |
| Total equity securities | <u>\$86,657</u> | <u>\$86,662</u> | <u>\$(5)</u> |
| Comingled Securities | | | |
| Fixed Income Fund | 30,596 | | 30,596 |
| | <u>\$30,596</u> | | <u>\$30,596</u> |
| Investments measured at the net asset value (NAV) | | | |
| Equity funds | 586,648 | | |
| Fixed income funds | 158,733 | | |
| Real estate funds | 46,734 | | |
| Total investments measured at the NAV | <u>\$792,115</u> | | |
| Total investments (excludes cash) | <u><u>\$1,106,459</u></u> | | |

FINANCIAL SECTION

Notes to Financial Statements

Note 8. GASB 72 Fair Value Measurements and Application, concluded:

In accordance with the authoritative guidance on fair value measurements and disclosures under U.S. GAAP, the Funds disclose the fair values of their investments in a hierarchy that prioritized the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to valuations based upon unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to valuations based upon unobservable inputs that are significant to the valuation (level 3 measurements). The guidance established three levels of the fair value hierarchy as follows:

Level 1 - Quoted prices in active markets for identical assets. Equity securities are priced using an exchange traded price or a broker quote in an active market.

Level 2 - Inputs other than quoted prices that are observable for the asset, including quoted prices for similar investments based on interest rates, credit risk and alike factors. The United States treasury and fixed income securities are priced using pricing models based on a compilation of primarily observable market information or a broker quote in a non-active market for an identical or similar security. The certificate of deposit is valued based on discounted cash flows using current interest rates at the stated maturity. The short-term investment fund trades daily without restriction at \$100 per unit. The fixed income fund can be redeemed within 3-7 days with 1-day notice.

Level 3 - Unobservable inputs for the assets, including the Fund's own assumptions for determining fair value. There are no Level 3 investments as of June 30, 2020.

Portfolio investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The remaining commingled funds are reported at net asset value (NAV), as a practical expedient for fair value, based on the fair market values of the underlying securities in the respective fund.

1. Equity Funds. This type includes an investment in an equity fund with an investment objective to track the performance of the MSCI ACWI IMI index over the long-term. These investments can be redeemed semi-monthly with semi-monthly notice.
2. Fixed Income Funds. This type includes an investment in a fund with an investment objective to track the performance of the Barclay's U.S. Aggregate Bond Index over the long term. This investment can be redeemed within 1-15 days, depending on trade size with 1-day notice.
3. Real estate funds. This type includes 2 investments in real estate funds that invest in U.S. real estate. These funds compare themselves to the NCREIF Fund Index - Open-End Diversifies Core Equity (NFI-ODCE) benchmark. These investments can be redeemed quarterly with 45-60 days' notice.

See accompanying independent auditor's report.

FINANCIAL SECTION

Required Supplemental Information (Unaudited)

| Schedule of Changes in Net Pension Liability and Related Ratios Last 10 Fiscal Years | | In '000 Dollars | | | | | |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | June 30, 2020 | June 30, 2019 | June 30, 2018 | June 30, 2017 | June 30, 2016 | June 30, 2015 | June 30, 2014 |
| Total Pension Liability | | | | | | | |
| Service Cost | \$ 26,978 | \$ 26,372 | \$ 25,146 | \$ 26,310 | \$ 25,919 | \$ 25,467 | \$ 24,579 |
| Interest | 96,458 | 94,853 | 92,517 | 86,974 | 84,711 | 82,839 | 80,203 |
| Change in Benefits | \$ - | \$ - | 11,698 | 590 | 568 | 353 | 20,689 |
| Change in Assumptions | \$ - | (7,031) | 16,606 | 53,197 | (6,509) | - | - |
| Differences between Expected and Actual Experience | (6,398) | (8,189) | (1,598) | (2,543) | (2,666) | (2,471) | (10,654) |
| Benefit Payments, Including Refunds of Member Contributions | (93,998) | (92,866) | (85,933) | (83,977) | (80,784) | (79,031) | (77,065) |
| Net Change in total Pension Liability | \$ 23,040 | \$ 13,139 | \$ 58,436 | \$ 80,551 | \$ 21,239 | \$ 27,157 | \$ 37,752 |
| Total Pension Liability - Beginning | \$ 1,397,988 | \$ 1,384,849 | \$ 1,326,413 | \$ 1,245,862 | \$ 1,224,623 | \$ 1,197,466 | \$ 1,159,714 |
| Total Pension Liability - Ending (a) | \$ 1,421,028 | \$ 1,397,988 | \$ 1,384,849 | \$ 1,326,413 | \$ 1,245,862 | \$ 1,224,623 | \$ 1,197,466 |
| Plan Fiduciary Net Position | | | | | | | |
| Contributions - Employer | \$ 38,494 | \$ 37,079 | \$ 35,494 | \$ 33,457 | \$ 30,761 | \$ 34,932 | \$ 42,330 |
| Contributions - Employee | 10,210 | 10,009 | 9,858 | 9,450 | 8,735 | 4,915 | 1,672 |
| Net Investment Income | 5,736 | 55,313 | 72,663 | 111,228 | 3,278 | 16,597 | 157,292 |
| Benefit Payments, Including Refunds of Member Contributions | (93,998) | (92,866) | (85,933) | (83,977) | (80,784) | (79,032) | (77,065) |
| Administrative Expenses | (600) | (617) | (764) | (668) | (672) | (387) | (413) |
| Net Change in Plan Fiduciary Net Position | \$ (40,158) | \$ 8,918 | \$ 31,318 | \$ 69,490 | \$ (38,682) | \$ (22,975) | \$ 123,816 |
| Plan Fiduciary Net Position - Beginning | \$ 1,084,248 | \$ 1,075,330 | \$ 1,044,012 | \$ 974,522 | \$ 1,013,204 | \$ 1,036,179 | \$ 912,363 |
| Plan Fiduciary Net Position - Ending (b) | \$ 1,044,090 | \$ 1,084,248 | \$ 1,075,330 | \$ 1,044,012 | \$ 974,522 | \$ 1,013,204 | \$ 1,036,179 |
| Plan Net Pension Liability - Ending (a) - (b) | \$ 376,938 | \$ 313,740 | \$ 309,519 | \$ 282,401 | \$ 271,340 | \$ 211,419 | \$ 161,287 |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 73.5% | 77.6% | 77.7% | 78.7% | 78.2% | 82.7% | 86.5% |
| Covered Payroll | \$ 197,405 | \$ 195,358 | \$ 191,549 | \$ 188,066 | \$ 175,679 | \$ 178,468 | \$ 177,561 |

The schedule is intended to show information for 10 years. Since 2014 was the first fiscal year for presentation, no other data are available. However, additional years will be included as they become available.

See accompanying independent auditor's report.

FINANCIAL SECTION

Required Supplement Information (Unaudited)

Schedule of Employer's Net Pension Liability and Related Ratios Last 10 Fiscal Years

| In '000 Dollars | | | | | | |
|-----------------|-------------------------|-----------------------------|-----------------------|--|-----------------|---|
| Fiscal Year | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability | Plan Fiduciary Net Position as a Percentage of Total Pension Liability | Covered Payroll | Plan Net Pension Liability as a Percentage of Covered Payroll |
| 2020 | \$1,421,028 | \$1,044,090 | \$376,938 | 73.5% | 197,405 | 190.95% |
| 2019 | 1,397,988 | 1,084,248 | 313,740 | 77.6% | 195,358 | 160.6% |
| 2018 | 1,384,849 | 1,075,330 | 309,519 | 77.7% | 191,549 | 161.6% |
| 2017 | 1,326,413 | 1,044,012 | 282,401 | 78.7% | 188,066 | 150.2% |
| 2016 | 1,245,862 | 974,522 | 271,340 | 78.2% | 175,679 | 154.5% |
| 2015 | 1,224,623 | 1,013,204 | 211,419 | 82.7% | 178,468 | 118.5% |
| 2014 | 1,197,466 | 1,036,179 | 161,287 | 86.5% | 177,561 | 90.8% |
| 2013 | N/A | N/A | N/A | N/A | N/A | N/A |
| 2012 | N/A | N/A | N/A | N/A | N/A | N/A |
| 2011 | N/A | N/A | N/A | N/A | N/A | N/A |

N/A - Information for fiscal years prior to the adoption of GASB 67 is not available in this format.

Schedule of Employer's Contributions Last 10 Fiscal Years

| In '000 Dollars | | | | | |
|-----------------|---------------------|---------------|----------------------------------|--------------------|---|
| Fiscal Year | Contribution (ADC)* | Contribution* | Contribution Deficiency (Excess) | Covered Payroll*** | Contribution as a Percentage of Covered Payroll |
| 2020 | \$38,494 | \$38,494 | \$ - | \$197,405 | 19.50% |
| 2019 | 37,079 | 37,079 | - | 195,358 | 18.98% |
| 2018 | 35,494 | 35,494 | - | 191,549 | 18.5% |
| 2017 | 33,457 | 33,457 | - | 188,066 | 17.8% |
| 2016 | 30,761 | 30,761 | - | 175,679 | 17.5% |
| 2015 | 38,264 | 34,932 | 3,331 | 178,468 | 19.6% |
| 2014 | 42,330 | 42,330 | - | 177,561 | 23.8% |
| 2013 | 41,466 | 41,466 | - | 184,062 | 22.5% |
| 2012 | 42,828 | 42,828 | - | 167,593 | 25.6% |
| 2011 | 35,515 | 35,515 | - | 170,922 | 20.8% |

*The actuarially determined contribution and the employer contributions were adjusted for years prior to 2014 to retrospectively apply the timing of recognition under GASB 34.

**The actuarially determination of the ADC is based on a projection of covered payroll for the period for which the ADC will apply. The covered payroll was provided by the actuary.

See accompanying independent auditor's report.

FINANCIAL SECTION

Required Supplementary Information (Unaudited)

Schedule of Investment Returns

| <u>Fiscal Year</u> | <u>Money-Weighted Rate of Return</u> |
|------------------------|--|
| 2020 | 0.58% |
| 2019 | 8.91% |
| 2018 | 7.16% |
| 2017 | 11.64% |
| 2016 | 0.39% |
| 2015 | 1.97% |
| 2014 | 17.36% |
| 2013 | N/A |
| 2012 | N/A |
| 2011 | N/A |

N/A - Information for fiscal years prior to the adoption of GASB 67 is not available in this format.

See accompanying independent auditor's report.

FINANCIAL SECTION

Notes to Required Supplementary Information (Unaudited)

Changes in Benefits. Additional liabilities derived as a result of a 5% pay increase to members for purposes of paying 5% member contributions; Voluntary Incentive Program; and new Deferred Retirement Option Program for public safety members.

Methods and assumptions used in calculations of actuarially determined contributions. The actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule.

| | |
|--|---|
| Actuarial Cost Method | Entry Age Normal Cost Method |
| Amortization Method | Level Percent Closed, 20-Years Layers |
| Asset Valuation Method | 3-Year smoothed Value |
| Investment Rate of Return | 7% |
| Amortization growth Rate | 3% |
| Inflation | 3% |
| Salary Increases - General Employees | Average of 5.12% over a 30-year-career; based on rates that vary by year of service and are compounded annually |
| Salary Increases - Public Safety Employees | Average of 6.19% over a 30-year-career; based on rates that vary by year of service and are compounded annually |
| Mortality | 108% of RP-2014 adjusted back to 2006 using MP-2014 and brought forward to 2016 using MP-2016 and generational improvements of 0.75% per year (ages < 86) thereafter for healthy lives; and 100% of RP-2014 Disability Mortality adjusted back to 2006 using MP-2014 and brought forward to 2016 using MP-2016 and generational improvements of 0.75% per year (ages < 86) thereafter for disabled lives |

See accompanying independent auditor's report.

FINANCIAL SECTION

Other Supplementary Information

Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)

Schedule of Administrative Expenses

Year Ended June 30, 2020

| Personnel Services: | In '000 Dollars |
|--|------------------------|
| Staff Salaries | \$ 313 |
| Benefits | 120 |
| Total Personnel Services | \$ 433 |
| Professional Services: | |
| Actuarial Fees | \$ 68 |
| Medical Examinations | 3 |
| Legal Fees | 25 |
| Audit Fees | 23 |
| Total Professional Services | \$ 119 |
| Communication: | |
| Travel and Training | \$ 9 |
| Postage and Shipping | 5 |
| Total Communication | \$ 14 |
| Miscellaneous: | |
| Supplies and Equipment | \$ 15 |
| Other | 19 |
| Total Miscellaneous | \$ 34 |
| Total Administrative Expenses | \$ 600 |

See accompanying independent auditor's report.

FINANCIAL SECTION

Other Supplementary Information

Employees' Retirement System of the City of Norfolk

(A Pension Trust Fund of Norfolk, Virginia)

Schedule of Investment Expenses

Year Ended June 30, 2020

| Investment Manager Fees | In '000 Dollars |
|---|------------------------|
| Manager Fees | \$ 1,884 |
| Custody and Investment Consultant Fees: | |
| Investment Consultant Fees | \$ 208 |
| Custody Fees | 84 |
| Total Custody and Investment Consultant Fees | \$ 292 |
| Total Investment Expenses | \$ 2,176 |

See accompanying independent auditor's report.

Investment Section (Unaudited)

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Investment Performance, Policy, Statistics, and Activity

This section was prepared by AndCo Consulting LLC, investment consultant to the System, and a Securities and Exchange Commission registered investment adviser under the Investment Advisers Act of 1940.

In the investment of public funds, adequate funding of employee retirement benefits at a reasonable and affordable cost is a paramount concern. An appropriate balance must be struck between risks taken and return sought to ensure the long-term health of the System. The System has adopted an investment policy that works to control the extent of the downside risk to which assets are exposed while maximizing the potential for long-term increase in the value of the assets.

Investment Objectives

The Board of Trustees for the Employees' Retirement System has adopted investment policies and guidelines, which outline the System's investment goals and objectives. The Statement of Investment Policy contains a statement of investment goals and objectives, general investment principles, and guidelines. The general investment goals of the System are broad in nature. The primary objectives are to efficiently allocate and manage the assets dedicated to the payment of Plan benefits and administrative expenses. The following goals, consistent with the above-described purpose, are adopted:

- The overall goal of the System's investment portfolio is to provide a retirement benefit for the employees of the City of Norfolk, Virginia. This will be accomplished through a carefully planned and executed long-term investment program.
- The total portfolio over the long term will be expected to earn a return that equals or exceeds:
 1. The rate of inflation, as measured by the Consumer Price Index, plus 2.5% per year.
 2. The return of a target policy index ("Target Policy") comprised of 62.5% MSCI AC World IMI (Net), 37.5% Barclays Capital Aggregate Bond Index.
 3. The return of a Strategy Index; such index being comprised of the return of the various broad market benchmarks assigned to each manager or other indices representing each asset class, each weighted to reflect the target asset allocation.
 4. The actuarially assumed investment rate of return.
 5. For the aggregate Global Equity, Fixed Income, Real Estate, and Master Limited Partnership components of the Fund: the return of the MSCI AC World IMI (Net), Barclays Capital Aggregate Bond, NCREIF – ODCE, and Alerian MLP Total Return indices, respectively.

Asset Allocation

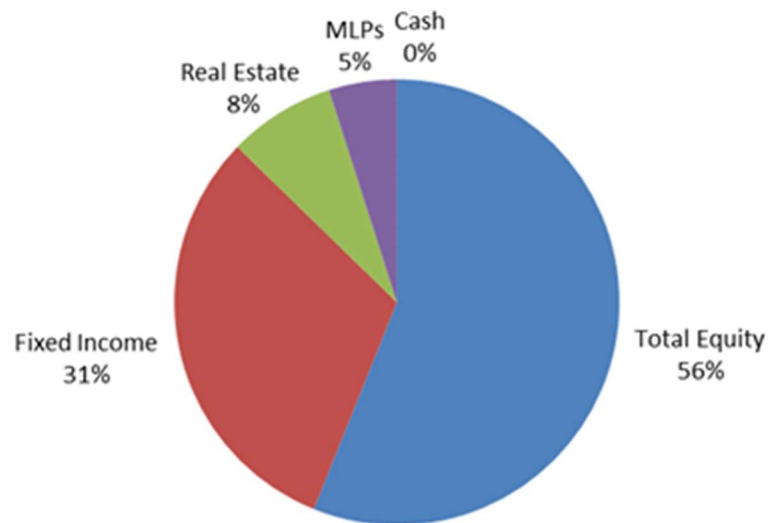
The System adopts and implements an asset allocation policy that is predicated on several factors, including:

- Historical and expected long-term capital market risk and return behavior;
- Projected assets, liabilities, benefit payments, and contributions provided by System's actuary;
- An assessment of future economic conditions, including inflation and interest rate levels; and
- The specific investment objectives set forth in the Statement of Investment Policy.

INVESTMENT SECTION

The System will be diversified both by asset class (e.g., common stocks, bonds, cash) and within asset classes (e.g., within common stocks by economic sector, industry, quality, and market capitalization). The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the total System.

Asset Allocation by Asset Class as of June 30, 2020



| | | |
|--|----|------------------|
| Total Equity | \$ | 586,648 |
| Fixed Income | | 326,130 |
| Real Estate | | 81,445 |
| MLPs | | 51,617 |
| Cash and Equivalents (excludes cash held by managers) | | 16 |
| Total | \$ | <u>1,045,856</u> |

All values in '000s (thousands)

INVESTMENT SECTION

Asset Allocation as of June 30, 2020 (concluded)

| | |
|---|---------------------------|
| Total net assets market value | \$1,045,856 |
| Adjustments to Reconcile Statement of Plan Asset Investments Total: | |
| Total Cash and Cash Equivalents | (5,527) |
| Accrued Investment Income | (936) |
| Due from Brokers for Securities Sold | (72,635) |
| Tax Refund Receivable | (2) |
| Interest Payable | 17 |
| Due to Brokers for Securities Purchased | 134,223 |
| Unrealized Appreciation (Depreciation): on Payables | <u>56</u> |
| Total Investments Reconciled to the Statement of Plan Fiduciary Net Position (See page 17) | <u><u>\$1,101,052</u></u> |

Investment Managers and Investment Assignments as of June 30, 2020

| | Market Value | % of Portfolio |
|--|---------------------------|-----------------------|
| SSGA MSCI ACWI IMI Index Fund | \$586,648 | 56.09% |
| PIMCO Total Return | 167,397 | 16.01% |
| SSGA Bond Market Index | 158,733 | 15.18% |
| JP Morgan Asset Management Strategic Property Fund | 42,877 | 4.10% |
| UBS Trumbull Property Fund | 38,568 | 3.69% |
| Tortoise Capital Advisors | 25,145 | 2.40% |
| Harvest MLP | 26,472 | 2.53% |
| Cash Holding Account | 16 | 0.00% |
| Total* | <u><u>\$1,045,856</u></u> | <u><u>100.00%</u></u> |

*See reconciliation of Statement of Plan Assets above.
All values in '000s (thousands)

Asset Allocation Comparison as of June 30, 2020

| | Equity Commitment | Fixed Income Commitment | Total Other * |
|-------------------------|------------------------------|------------------------------------|--------------------------|
| Total Fund | 56.1% | 31.2% | 12.7% |
| Median All Public Plans | 54.8% | 30.0% | 20.6% |

*Includes cash and alternative asset classes such as real estate, private equity, and hedge funds. Medians do not sum to 100% as not all plan sponsors are exposed to each asset class.

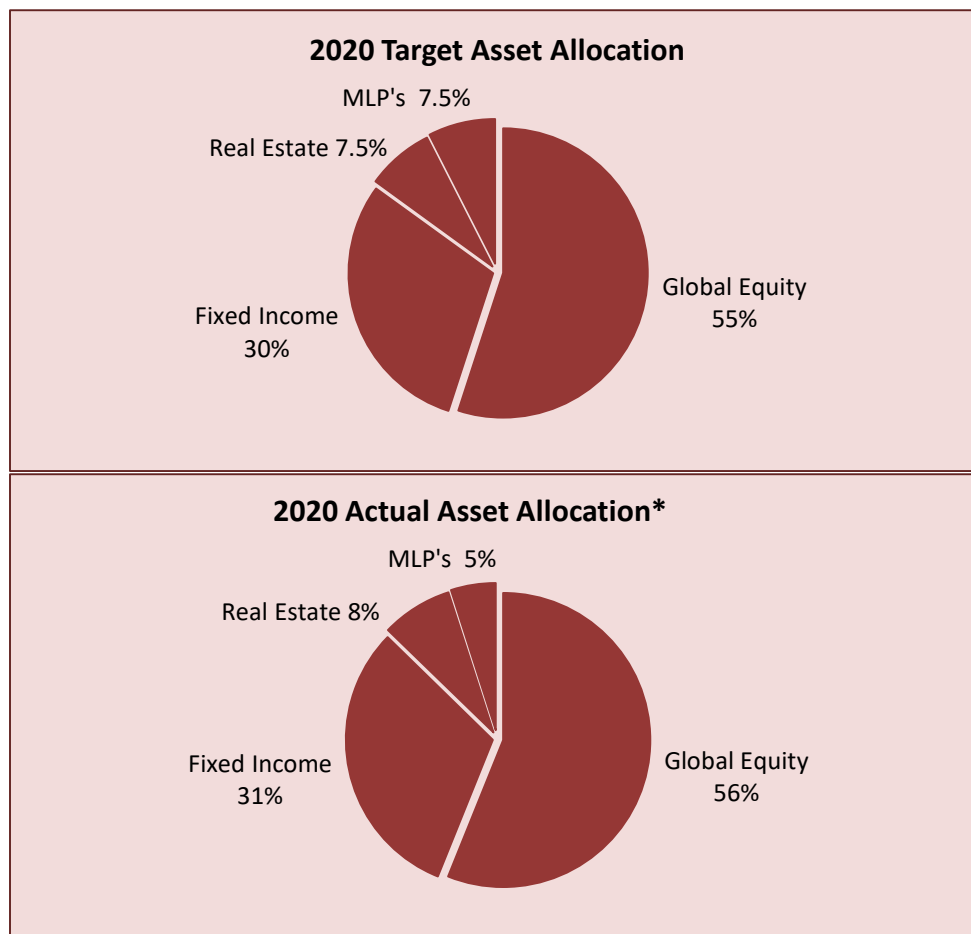
INVESTMENT SECTION

Target Asset Allocation

The target asset allocation for the investment portfolio is determined by the Board of Trustees to facilitate the achievement of the investment program's long-term investment objectives within the established risk parameters. Due to the fact the allocation of funds between asset classes may be the single most important determinant of the investment performance over the long run, the System's assets shall be divided into the following asset classes:

| Asset Class | Minimum Percentage | Maximum Percentage | Target Percentage |
|--------------|--------------------|--------------------|-------------------|
| Equities | 45% | 65% | 55% |
| Fixed Income | 25% | 40% | 30% |
| Real Estate | 5% | 10% | 7.5% |
| MLPs | 5% | 10% | 7.5% |

Formal asset allocation studies will be conducted at least every five years, with annual evaluations of the validity of the adopted asset allocation based on updated return projections. Any change in capital market assumptions or liabilities will require consideration of revision to the asset allocation policy.



* Note that cash is included in Fixed Income Commitment. "Other" includes alternative investments and real estate.

INVESTMENT SECTION

Investment Performance Summary

For the Periods Ended June 30, 2020

| Account | 1 Year | 2 Years | 3 Years | 5 Years |
|--|---------------|---------------|---------------|---------------|
| Total Equity | 1.64 | 3.32 | 6.01 | 6.71 |
| <i>Total Equity Policy Index*</i> | 1.17 | 2.85 | 5.55 | 6.22 |
| Fixed Income | | | | |
| PIMCO Total Return | 8.67 | 8.15 | 5.69 | 4.71 |
| <i>Bloomberg Barclays US Aggregate</i> | 8.74 | 8.30 | 5.32 | 4.30 |
| SSGA Bond Market Index | 8.77 | 8.33 | 5.35 | 4.32 |
| <i>Bloomberg Barclays US Aggregate</i> | 8.74 | 8.30 | 5.32 | 4.30 |
| Total Fixed Income | 8.73 | 8.21 | 5.51 | 4.50 |
| <i>Bloomberg Barclays US Aggregate</i> | 8.74 | 8.30 | 5.32 | 4.30 |
| Real Estate | | | | |
| JP Morgan Strategic Property Fund | 2.26 | 3.79 | 5.14 | 6.87 |
| <i>NCREIF Fund Index - ODCE [M]</i> | 1.33 | 3.37 | 4.72 | 6.35 |
| UBS Trumbull Property Fund | -1.06 | -0.51 | 2.15 | 4.48 |
| <i>NCREIF Fund Index - ODCE [M]</i> | 1.33 | 3.37 | 4.72 | 6.35 |
| Total Real Estate | 0.65 | 1.68 | 3.68 | 5.74 |
| <i>NCREIF Fund Index – ODCE [M]</i> | 1.33 | 3.37 | 4.72 | 6.35 |
| MLPs | | | | |
| Harvest MLP | -36.14 | -19.29 | -13.01 | -11.16 |
| <i>Alerian MLP</i> | -41.43 | -22.29 | -16.79 | -12.85 |
| Tortoise Capital Advisors | -38.69 | -20.91 | -14.64 | -11.34 |
| <i>Alerian MLP</i> | -41.43 | -22.29 | -16.79 | -12.85 |
| Total MLP | -37.44 | -20.11 | -13.83 | -11.24 |
| <i>Alerian MLP</i> | -41.43 | -22.29 | -16.79 | -12.85 |
| Total Fund Composite | 0.75 | 3.11 | 4.48 | 5.12 |
| <i>Total Fund Policy Index**</i> | 4.56 | 5.36 | 5.83 | 5.82 |
| <i>Total Fund Strategy Index***</i> | 1.30 | 3.58 | 4.46 | 4.95 |

*Total Equity Policy Index = 100% MSCI AC World IMI (Net).

**Total Fund Policy Index = 62.5% MSCI AC World IMI (Net) and 37.5% Barclays Aggregate.

***Total Fund Strategy Index = 55% MSCI AC World IMI (Net), 30% Barclays Aggregate, 7.5% NCREIF ODCE (VW) (Net), and 7.5% Alerian MLP.

Investment returns are time-weighted returns based on market value and gross of investment management fees. The investment returns shown elsewhere in this report are net of all expenses paid by the System (investment management fees, custody and consultant fees, and administrative expenses).

INVESTMENT SECTION

Schedule of Broker Commissions

Broker selection is the responsibility of individual investment managers. Transactions and commission costs are monitored by State Street Bank (the custodian), the investment consultant, and System staff. Commissions paid in Fiscal Year 2020:

| | Shares Traded | Base Commission | Commission Cost/Share |
|--------------------|-------------------|-----------------|-----------------------|
| Broker Commissions | 4,872,007,270.412 | \$45,494.28 | \$0.00001 |

List of Largest Assets as of June 30, 2020

Ten Largest Stock Holdings within the Domestic Equity (Commingled) Funds (by fair market value)

| Stock | Shares | Fair Value |
|---------------------------|--------|-------------|
| Apple Inc | 48,130 | \$17,557.93 |
| Microsoft Corp | 79,483 | \$16,175.62 |
| Amazon.com Inc | 4,655 | \$12,841.00 |
| Facebook Inc | 6,675 | \$9,449.85 |
| Alphabet Inc | 26,463 | \$6,009.00 |
| Alibaba Group Holding Ltd | 20,665 | \$4,457.42 |
| Johnson & Johnson | 28,982 | \$4,075.73 |
| Tencent Holdings LTD | 63,049 | \$4,056.16 |
| Nestle SA | 18,766 | \$3,625.08 |
| Procter & Gamble Co | 32,736 | \$3,620.59 |

All values in '000s (thousands)

Ten Largest Bond Holdings (by fair market value)

| Bonds | Interest Rate | Maturity Date | Par Value | Fair Value |
|-------------------|---------------|---------------|-----------|-------------|
| PIMCO Short-Term* | NA | NA | \$3,286 | \$30,595.93 |
| FNMA Pool | 3.5000 | 8/13/2050 | \$24,600 | \$25,864.19 |
| FNMA Pool | 3.0000 | 9/14/2050 | \$11,400 | \$11,970.46 |
| US Treasury | 4.3750 | 11/15/2039 | \$7,500 | \$11,793.15 |
| FNMA Pool | 4.0000 | 7/14/2050 | \$9,100 | \$9,643.36 |
| US Treasury | 4.2500 | 5/15/2039 | \$6,000 | \$9,270.24 |
| FNMA Pool | 2.5000 | 8/13/2050 | \$7,700 | \$8,014.78 |
| US Treasury | 3.0000 | 8/15/2039 | \$4,200 | \$6,689.34 |
| US Treasury | 2.3750 | 7/31/2024 | \$6,000 | \$6,371.04 |
| FNMA Pool | 4.0000 | 8/13/2050 | \$5,000 | \$5,301.25 |

*These holdings represent investments in PIMCO's sector funds. Holdings for the sector funds and a complete list of portfolio holdings are available upon request.

All values in '000s (thousands)

Actuarial Section (Unaudited)

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Actuary's Certification Letter

October 9, 2020

The Board of Trustees
Employees' Retirement System
of the City of Norfolk
Norfolk, Virginia 23510

The Members of the Board:

The purpose of this letter is to provide the certification for the Actuarial Section of the Comprehensive Annual Financial Report (CAFR) for the Employees' Retirement System of the City of Norfolk (System) with respect to pension benefits.

Actuarial Valuation Used for Funding Purposes

Actuarial valuations of the Employees' Retirement System of the City of Norfolk are performed annually. The results of the latest actuarial valuation of the System, which we have prepared as of June 30, 2020, are summarized in this letter. Please refer to that valuation report for additional information related to the System.

The valuation reflects the benefits in effect on the valuation date and was prepared on the basis of the data submitted by the City of Norfolk and the actuarial assumptions as adopted by the Board of Trustees of the Employees' Retirement System, including a valuation interest rate assumption of 7% per annum, compounded annually. The actuarial cost method, the Entry Age Normal Cost Method, and the actuarial assumptions used for funding purposes are the same as those used for financial reporting purposes.

We prepared the following schedules for inclusion in the Actuarial Section of the CAFR based on the June 30, 2020 actuarial valuation.

- Summary of Actuarial Assumptions and Methods
- Schedule of Active Member Valuation Data
- Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
- Schedule of Funded Liabilities by Type
- Analysis of Financial Experience
- Summary of Benefits and Contribution Provisions

The financing objective of the Employees' Retirement System is to:

- a) fully fund the normal cost contribution for the current year determined under the funding method; and

Actuary's Certification Letter

The Board of Trustees

October 9, 2020

Page 2

- b) amortize the June 30, 2017 unfunded actuarial liability over a closed 20-year period and to create additional, closed 20-year periods for annual UAL changes that arise. In performing the amortization calculation, payments are assumed to increase by 3% per annum. City contributions are assumed to occur on the July 1 following the valuation date to be made on the basis of the rates developed in the valuation applied to actual covered payroll (including DROP payroll) of the City during the previous October.

In accordance with the above, the City's contribution appropriated for the fiscal year ended June 30, 2020 (and to be paid July 1, 2020) was determined based on the results of the June 30, 2019 valuation. In accordance with this policy, the City contributed \$40,698,000 on July 1, 2020.

The results of the June 30, 2020 valuation determine the contribution appropriation for the fiscal year ending June 30, 2021 (to be paid July 1, 2021), which will be presented in our valuation report subject to your approval.

As of June 30, 2020, the System's actuarial liability was 77.4% funded based on the Actuarial Value of Assets. The actuarial liability was also 73.5% funded based on the Market Value of Assets.

Included in the valuation report are contribution and funding progress schedules prepared by the actuary.

Actuarial Valuation Used for Financial Reporting Purposes

For financial reporting purposes, the Total Pension Liability is based on the June 30, 2020 actuarial valuation. Please refer to the GASB 67/68 report for additional information related to the financial reporting of the System. We prepared the following schedules for inclusion in the Financial Section of the CAFR based on the June 30, 2020 valuation report.

- Change in Net Pension Liability
- Sensitivity of Net Pension Liability to Changes in Discount Rate
- Schedule of Changes in Net Pension Liability and Related Ratios
- Schedule of Employer Contributions



Actuary's Certification Letter

The Board of Trustees
October 9, 2020
Page 3

Reliance on the Information Provided by the City and Compliance with ASOPs and GAAP

In preparing our valuations and schedules for the CAFR, we relied on information (some oral and some written) supplied by the City of Norfolk. This information includes, but is not limited to, the plan provisions, employee data and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice #23.

The current actuarial assumptions used for valuation purposes were adopted by the Board of Trustees and were first effective for the June 30, 2017 Actuarial Valuation. The most recent study of the System's experience, used in developing the current actuarial assumptions, was based on a period from July 2011 to June 2016. In our opinion, the actuarial assumptions used in the valuation are reasonable. Included in the valuation report is a schedule that presents an outline of the actuarial assumptions and methods used to prepare the actuarial valuation results. Future valuation reports may differ significantly from the current results presented in this letter due to such factors as the following: plan experience differing from that anticipated by the assumptions; changes in assumptions; and changes in plan provisions or applicable law.

This certification letter and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. The schedules provided for financial reporting purposes have been prepared in accordance with our understanding of generally accepted actuarial principles as promulgated by the GASB. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter. This letter does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

This letter was prepared for the City of Norfolk Employees' Retirement System for the purposes described herein and for the use by the plan auditor in completing an audit related to the matters herein. Other users of this letter are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any such other users.

Respectfully submitted,
Cheiron



Fiona E. Liston, FSA, EA, MAAA
Principal Consulting Actuary



Kevin J. Woodrich, FSA, EA, MAAA
Principal Consulting Actuary



SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Actuarial Assumptions

Interest Rate:

7% per annum, compounded annually (originally adopted as of June 30, 2012).

Mortality:

Pre-Retirement: 108% of RP-2014 adjusted back to 2006 using MP-2014 and brought forward to 2016 using MP-2016 and generational improvements of 0.75% per year (ages < 86) thereafter*

Healthy Annuitants: 108% of RP-2014 adjusted back to 2006 using MP-2014 and brought forward to 2016 using MP-2016 and generational improvements of 0.75% per year (ages < 86) thereafter

Disableds: 100% of RP-2014 Disability Mortality adjusted back to 2006 using MP-2014 and brought forward to 2016 using MP-2016 and generational improvements of 0.75% per year (ages < 86) thereafter

* 5% of deaths are assumed to be accidental for general employees;
60% of deaths are assumed to be accidental for firefighters and police.

Salary Increase:

Annual rates of salary increases are as follows:

| Service | General | Firefighters and Police |
|---------|---------|-------------------------|
| 0 | 6.60 % | 9.69 % |
| 1 | 6.45 | 6.60 |
| 2 | 6.30 | 6.60 |
| 3 | 6.14 | 6.60 |
| 4 | 5.99 | 6.60 |
| 5 | 5.83 | 6.60 |
| 10 | 5.34 | 6.60 |
| 15 | 5.18 | 6.60 |
| 20 | 4.74 | 5.68 |
| 25 | 4.23 | 5.06 |
| 30 | 3.71 | 5.06 |

The table above includes an annual inflation rate of 3.00%.

ACTUARIAL SECTION

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Withdrawal:

| Service | General | Firefighters and Police |
|---------|---------|-------------------------|
| 0 | 19.00 % | 10.00 % |
| 1 | 17.00 | 9.00 |
| 2 | 15.00 | 8.00 |
| 3 | 13.00 | 7.00 |
| 4 | 11.00 | 6.00 |
| 5 | 9.50 | 5.00 |
| 10 | 4.70 | 2.80 |
| 15 | 3.00 | 1.00 |
| 20 | 2.50 | 1.00 |
| 25 | 1.00 | 1.00 |
| 30 | 1.00 | 1.00 |

Disability:

| Age | General* | | Firefighters and Police** |
|-----|----------|--------|---------------------------|
| | Male | Female | Unisex |
| 20 | 0.06% | 0.05% | 0.04% |
| 25 | 0.07 | 0.05 | 0.06 |
| 30 | 0.08 | 0.06 | 0.08 |
| 35 | 0.13 | 0.10 | 0.11 |
| 40 | 0.20 | 0.15 | 0.22 |
| 45 | 0.31 | 0.23 | 0.40 |
| 50 | 0.46 | 0.35 | 0.67 |
| 54 | 0.59 | 0.45 | 0.90 |
| 55 | 0.63 | 0.48 | 0.96 |
| 59 | 0.92 | 0.70 | 1.26 |

* 25% of General disabilities are assumed to be accidental.

** 70% of Firefighters & Police disabilities are assumed to be accidental.

ACTUARIAL SECTION

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Retirement:

General:

| Age | Hired Before July 1, 2018 | Hired On or After July 1, 2018 | | |
|-----|------------------------------|--------------------------------|---------------------------|---------------------------|
| | | Social Security NRA 65 | Social Security NRA 66 | Social Security NRA 67 |
| 50 | 7.50 % | 7.50 % | 7.50 | 7.50 % |
| 51 | 7.50 | 7.50 | | 7.50 |
| 52 | 7.50 | 7.50 | 7.50 | 7.50 |
| 53 | 7.50 | 7.50 | 7.50 | 7.50 |
| 54 | 7.50 | 7.50 | 7.50 | 7.50 |
| 55 | 7.50 | 7.50 | 7.50 | 7.50 |
| 56 | 7.50 | 7.50 | 7.50 | 7.50 |
| 57 | 7.50 | 7.50 | 7.50 | 7.50 |
| 58 | 7.50 | 7.50 | 7.50 | 7.50 |
| 59 | 7.50 | 7.50 | 7.50 | 7.50 |
| 60 | 15.00 | 7.50 | 7.50 | 7.50 |
| 61 | 15.00 | 7.50 | 7.50 | 7.50 |
| 62 | 15.00 | 7.50 | 7.50 | 7.50 |
| 63 | 15.00 | 7.50 | 7.50 | 7.50 |
| 64 | 15.00 | 7.50 | 7.50 | 7.50 |
| 65 | 25.00 | 25.00 | 7.50 | 7.50 |
| 66 | 15.00 | 15.00 | | 7.50 |
| 67 | 15.00 | 15.00 | 25.00 | 25.00 |
| 68 | 15.00 | 15.00 | 15.00 | 15.00 |
| 69 | 15.00 | 15.00 | 15.00 | 15.00 |
| 70 | 100.00 | 100.00 | 15.00 | 100.00 |
| | | | 100.00 | |

For those hired on or after July 1, 2018, the retirement rate at first year of eligibility (earlier of Social Security Normal Retirement Age as shown above or "Rule of 90") is 25%. In subsequent years, the rate of retirement is 15% per year until age 70 (100% retirement rate).

ACTUARIAL SECTION

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Firefighters and Police Officers:

For those eligible for the Deferred Retirement Option Program (DROP):

| Service | Rate of Retirement |
|-----------|--------------------|
| 20 | 2.50 % |
| 21 | 3.00 |
| 22 | 3.50 |
| 23 | 4.00 |
| 24 | 15.00 |
| 25 | 30.00 |
| 26 | 30.00 |
| 27 and up | 30.00 |

For those not eligible for the Deferred Retirement Option Program (DROP):

| Service | Rate of Retirement |
|-----------|--------------------|
| 20 | 2.50 % |
| 21 | 3.00 |
| 22 | 3.50 |
| 23 | 4.00 |
| 24 | 15.00 |
| 25 | 20.00 |
| 26 | 20.00 |
| 27 and up | 20.00 |

In lieu of the rates above, any active participant at least age 65 is assumed to retire immediately.

NOTE: Rates apply to each member based on eligibility requirements as defined in the Summary of Benefit and Contribution Provisions.

Future Expenses:

Administrative expenses are assumed to be 0.35% of payroll. The assumed interest rate is net of the anticipated investment expenses of the Employees' Retirement System.

Loading or Contingency Reserves:

A load of 1.00% for General employees and 1.15% for Firefighters and Police is applied to retirement benefits for active employees to account for unused sick leave balances at time of retirement.

Marital Status:

65% of the General employees and 75% percent of the Firefighters and Police are assumed to be married, with males three years older than females.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (concluded)

DROP Election:

All Firefighters and Police who are eligible to elect DROP are assumed to do so in lieu of retirement.

Rationale for Economic and Demographic Assumptions:

Assumptions were set by the Board of Trustees based on recommendations made by Cheiron as a result of an experience study covering the period from July 1, 2011 through June 30, 2016.

Methods

Actuarial Cost Method:

Entry Age Normal Cost Method. The unfunded actuarial liability (UAL) as of June 30, 2017 is being amortized over a closed 20-year period. Future annual changes in the UAL are amortized over their own, closed 20-year periods calculated as follows: The UAL is adjusted for one year, by increasing it at the assumed interest rate and reducing it by the portion of the City's scheduled contribution not attributable to the value of additional benefits earned (i.e. normal cost) or administrative expenses. The resulting projected UAL is then amortized over a 20-year period and turned into a rate by using the anticipated payroll for the plan year commencing one year after the valuation date. All rates are developed using a level-percent of pay amortization method with a 3% per annum increase in the payments.

City contributions assumed to occur on the July 1 following the valuation date to be made on the basis of the rates developed in this valuation applied to actual covered payroll (including DROP payroll) of the City during the previous October.

Asset Valuation Method:

The actuarial value of assets is determined by first calculating the expected actuarial value of assets based on last year's valuation interest rate, last year's actuarial value of assets, and the net cash flow (contributions less benefit payments) of the System over the year prior to the valuation. One-third of the market value of assets less the expected actuarial value of assets is then added to the expected actuarial value of assets to determine the valuation assets.

ACTUARIAL SECTION

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Census and Assets:

The valuation was based on members of the System as of June 30, 2020 and does not take into account future members. All census data were supplied by the Executive Secretary of the System and were subject to reasonable consistency checks. Asset data were supplied by the Executive Secretary and the accountants of the System.

General Employees:

| Valuation as of June 30 | Number of Active Members | Valuation Payroll (\$ in Thousands) | Average Salary | Percent Increase (Decrease) in Average |
|----------------------------|--------------------------------|---|-------------------|---|
| 2020 | 2,591 ¹ | \$ 130,005 | \$ 50,176 | 2.2% |
| 2019 | 2,599 | 127,569 | 49,084 | 1.6 |
| 2018 | 2,689 | 129,910 | 48,312 | 2.4 |
| 2017 | 2,727 | 128,708 | 47,198 | 1.9 |
| 2016 | 2,741 | 126,900 | 46,297 | 1.5 |
| 2015 | 2,704 | 123,366 | 45,624 | 3.8 |
| 2014 | 2,709 | 119,079 | 43,957 | 1.8 |
| 2013 | 2,787 | 120,324 | 43,173 | 2.1 |

¹ Excludes 34 members on leave of absence and 302 participants due a refund on June 30, 2020.

Firefighters and Police Officers:

| Valuation as of June 30 | Number of Active Members | Valuation Payroll (\$ in Thousands) | Average Salary | Percent Increase (Decrease) in Average |
|----------------------------|--------------------------------|---|-------------------|---|
| 2020 | 1,171 ¹ | \$ 71,415 | \$ 60,986 | 2.0% |
| 2019 | 1,187 | 70,942 | 59,766 | 1.8 |
| 2018 | 1,216 | 71,415 | 58,729 | 4.8 |
| 2017 | 1,219 | 68,343 | 56,065 | 4.9 |
| 2016 | 1,238 | 66,136 | 53,422 | 2.8 |
| 2015 | 1,207 | 64,346 | 53,310 | 2.5 |
| 2014 | 1,216 | 63,219 | 51,989 | 3.4 |
| 2013 | 1,268 | 63,737 | 50,266 | (0.2) |

¹ Excludes 8 members on leave of absence and 65 participants due a refund on June 30, 2020. Includes 43 members currently in the Deferred Retirement Option Program (DROP).

Total:

| Valuation as of June 30 | Number of Active Members | Valuation Payroll (\$ in Thousands) | Average Salary | Percent Increase (Decrease) in Average |
|----------------------------|--------------------------------|---|-------------------|---|
| 2020 | 3,762 ¹ | \$ 201,420 | \$ 53,541 | 2.1% |
| 2019 | 3,786 | 198,511 | 52,433 | 1.7 |
| 2018 | 3,905 | 201,325 | 51,556 | 3.2 |
| 2017 | 3,946 | 197,051 | 49,937 | 2.9 |
| 2016 | 3,979 | 193,036 | 48,514 | 1.1 |
| 2015 | 3,911 | 187,712 | 47,996 | 3.3 |
| 2014 | 3,925 | 182,298 | 46,445 | 2.3 |
| 2013 | 4,055 | 184,061 | 45,391 | 1.1 |

¹ Excludes 42 members on leave of absence and 367 participants due a refund on June 30, 2020. Includes 43 members currently in the Deferred Retirement Option Program (DROP).

ACTUARIAL SECTION

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

| Year Ended June 30 | Added to Rolls | | Removed from Rolls | | On Rolls at Year-End | | Average Allowance | % Increase Average Allowance |
|--------------------------|----------------|------------------------------------|--------------------|------------------------------------|----------------------|------------------------------------|----------------------|------------------------------------|
| | No. | Annual Allowance (\$ Thous.) | No. | Annual Allowance (\$ Thous.) | No. | Annual Allowance (\$ Thous.) | | |
| 2020 | 208 | \$ 4,946 | 115 | \$1,606 | 4,212 | \$93,400 | \$22,175 | 1.4% |
| 2019 | 216 | 4,972 | 91 | 1,295 | 4,119 | 90,060 | 21,865 | 1.1% |
| 2018 | 201 | 4,876 | 120 | 1,543 | 3,994 | 86,383 | 21,628 | 1.9% |
| 2017 | 176 | 3,449 | 100 | 1,272 | 3,913 | 83,051 | 21,224 | 0.7% |
| 2016 | 159 | 3,369 | 82 | 1,047 | 3,837 | 80,874 | 21,077 | 0.9% |
| 2015 | 158 | 2,605 | 116 | 1,374 | 3,760 | 78,552 | 20,891 | 0.5% |
| 2014 | 221 | 4,477 | 108 | 1,154 | 3,718 | 77,321 | 20,796 | 1.3% |
| 2013 | 164 | 3,077 | 106 | 1,317 | 3,605 | 73,998 | 20,526 | 0.8% |

Note: The amount added to the rolls includes additions and deletions due to COLAs, supplements, workers' compensation in addition to the annual allowance for new retirees.

ACTUARIAL SECTION

SCHEDULE OF FUNDED LIABILITIES BY TYPE

The System's funding objective is to meet long-term benefit obligations through contributions that remain approximately level from year to year as a percentage of the members' payroll. If the contributions to the System are level in concept and soundly executed, the System will pay promised benefits when due; thus, providing the ultimate test of financial soundness. Testing for level contribution rates is the long-term test.

A short condition test is one means of checking a plan's progress under its funding program. In a short condition test, the System's present assets (cash and investments) are compared with: (1) active member contributions, (2) the liabilities for future benefits to present retired lives, and (3) the employer-provided portion of liabilities for service already rendered by active members. In a plan that has been following the discipline of level percent of payroll financing, the active member contribution balances (Liability (1)), the liabilities for future benefits to present retired members (Liability (2)) will be fully covered by present assets, except in rare circumstances. In addition, the liabilities for service already rendered by active members (Liability (3)) will be at least partially covered by the remainder of present assets.

The relationship between accrued liabilities and net assets of the System for fiscal years ended June 30, 2013 through June 30, 2020 are presented as follows:

| \$ in Thousands | | | | | | | |
|------------------------|------------------------------------|--|---|--------------------------------------|--|------------|------------|
| Valuation Date | (1) | (2) | (3) | Reported Assets^(A) | Portion of Accrued Liabilities Covered by Reported Assets | | |
| | Active Member Contributions | Retirees, Vested Terms, Beneficiaries | Active Members (Employer Financed Portion) | | (1) | (2) | (3) |
| 2020 | \$ 40,701 | \$ 1,001,938 | \$ 378,389 | \$1,100,046 | 100.0% | 100.0% | 15.2% |
| 2019 | 34,844 | 979,721 | 383,423 | 1,097,451 | 100.0% | 100.0% | 21.6% |
| 2018 ^(B) | 29,427 | 950,489 | 397,973 | 1,074,892 | 100.0% | 100.0% | 23.9% |
| 2017 ^(C) | 21,937 | 921,087 | 392,802 | 1,043,620 | 100.0% | 100.0% | 25.6% |
| 2016 | 15,493 | 877,143 | 361,774 | 1,048,346 | 100.0% | 100.0% | 43.0% |
| 2015 | 8,425 | 850,742 | 365,456 | 1,038,059 | 100.0% | 100.0% | 49.0% |
| 2014 ^(D) | 3,451 | 816,288 | 377,728 | 1,011,523 | 100.0% | 100.0% | 50.8% |
| 2013 | 1,780 | 782,860 | 375,074 | 954,499 | 100.0% | 100.0% | 45.3% |

(A) Reported assets are actuarial value of assets. If assets were market value of assets, the results would be different.

(B) Retirees and beneficiaries receiving a benefit as of June 30, 2014 were granted a permanent 2.0% supplemental benefit increase on their annual benefit up to \$36,000 effective July 2018.

(C) Reported assets for 2017 do not include the receivable employer contribution. Reported assets prior to 2017 included these amounts.

(D) 81 members retired under the Voluntary Retirement Incentive Program (VRIP) between July 1, 2013 and June 30, 2014.

ACTUARIAL SECTION

ANALYSIS OF FINANCIAL EXPERIENCE

| Gain or (Loss) for Year Ending June 30, (\$ in thousands) | | | | |
|--|-----------------|-----------------|--------------|--------------|
| Type of Activity | 2017 | 2018 | 2019 | 2020 |
| Investment income | \$ 196 | \$ 219 | \$ (6,601) | \$ (27,978) |
| Combined liability experience | <u>2,568</u> | <u>1,594</u> | <u>9,342</u> | <u>6,398</u> |
| Gain (loss) during year from financial experience | 2,764 | 1,813 | 2,741 | (21,580) |
| Non-recurring items | <u>(54,510)</u> | <u>(11,758)</u> | <u>0</u> | <u>0</u> |
| Composite gain (loss) during year | \$ (51,746) | \$ (9,945) | \$ 2,741 | \$ (21,580) |

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS

The following is intended to summarize the key benefits valued in this valuation. Members of the System and other parties should not rely on this summary as a substitute for or interpretation of the laws and ordinances of the Norfolk City Code covering this retirement plan.

Membership

Any permanent regular full-time employee entering the service of the City of Norfolk is required to become a member of the Retirement System. Upon entering the System, members are classified according to their occupational group, either as general employees, firefighters, police officers, or paramedics.

Paramedics, formerly members of the General Employees Group, were reclassified as members of firefighters and police effective June 9, 1992. Per City Code Sec. 37-61(n) any member serving on the council of the City of Norfolk on or after July 1, 2001 shall have a normal service retirement allowance of 2.5% of his average final compensation multiplied by the number of his years of creditable service up to a number of years of creditable service which would allow his normal retirement allowance to equal up to sixty-five (65) percent of his average final compensation. The normal service retirement age of any member serving on the council on or after July 1, 2001 shall be fifty-five (55) years or the age at which twenty-five (25) years of creditable service has been completed, whichever comes first.

For each full calendar year beginning on or after January 1, 1997, any permanent part-time employees shall be members of and entitled to benefits in proportion to which their annual hours bear to that of full-time employees.

A member, who was a Norfolk Community Services Board employee on June 30, 2012, who became a City employee on July 1, 2012, began participating in this retirement plan on such date. Prior service for these employees was credited towards benefit eligibility only. Lastly, these employees were exempt from the member's mandatory contributions applicable to anyone hired on or after October 5, 2010 until January 8, 2015.

Benefits

Normal Service Retirement Allowance

Eligibility:

Employees Hired Before July 1, 2018

For General Employees, the earlier of age 60 or 30 years of creditable service.

For Firefighters, Police Officers and Paramedics, the earlier of age 55 or 25 years of creditable service. Mandatory retirement is age 65 for Firefighters and Police Officers.

Employees Hired On or After July 1, 2018

For General Employees, the earlier of the retirement age as defined under the Social Security Act (42 U.S.C §416) or the age at which the combination of a participant's age and service sums to at least 90.

For Firefighters, Police Officers and Paramedics, the earlier of age 60 or age 50 with 25 years of creditable service. Mandatory retirement is age 65 for Firefighters and Police Officers.

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (continued)

Amount:

Employees Hired Before July 1, 1980

For General Employees, the pension earned is 2% of average final compensation for each year of creditable service.

Effective January 1, 1997, for General Employees, the maximum number of years of creditable service is the greater of 35 years or the number of years of service as of December 31, 1996.

For Firefighters, Police Officers and Paramedics, the pension earned is 2.5% of average final compensation for each year of creditable service up to a maximum of 65% of average final compensation.

Employees Hired Between July 1, 1980 and June 30, 2018

For General Employees, the pension earned is 1.75% of average final compensation for each year of creditable service up to a maximum of 35 years.

For Firefighters, Police Officers and Paramedics, the pension earned is 2.5% of average final compensation for each year of creditable service up to a maximum of 65% of average final compensation.

“Average Final Compensation” means the average annual earnable compensation for the three years of creditable service that produces the highest average. Creditable service consists of membership service plus 100% of accumulated unused sick leave for all employees except Firefighters. For Firefighters, 46% of unused sick leave accumulated prior to July 1, 1985, and 100% of unused sick leave accumulated on and after July 1, 1985 is included.

Employees Hired On or After July 1, 2018

For General Employees, the pension earned is 1.75% of average final compensation for each year of creditable service up to a maximum of 35 years.

For Firefighters, Police Officers and Paramedics, the pension earned is 2.5% of average final compensation for each year of creditable service up to a maximum of 65% of average final compensation.

“Average Final Compensation” means the average annual earnable compensation for the five years of creditable service which produces the highest average. Creditable service consists of membership service plus 100% of accumulated unused sick leave for all employees except Firefighters. For Firefighters, 46% of unused sick leave accumulated prior to July 1, 1985, and 100% of unused sick leave accumulated on and after July 1, 1985 is included.

Early Service Retirement Allowance

Eligibility:

Within five years of eligibility for normal service retirement.

Amount:

Accrued service retirement allowance deferred to normal service retirement age. A member may elect to receive an immediate benefit equal to the accrued service retirement allowance reduced by $\frac{1}{4}$ of 1% for each month commencement date precedes the normal retirement date for general employees, and $\frac{1}{2}$ of 1% for each month commencement date precedes the normal retirement date for firefighters, police officers and paramedics.

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (continued)

Vested Allowance

Eligibility:

Five years of creditable service.

Amount:

Accrued service retirement allowance deferred to normal retirement age. If not eligible for retirement, a member may elect to leave their contributions made prior to July 1, 1972, with interest, if any, in the System until normal service retirement date.

Ordinary Disability Retirement Allowance

Eligibility:

Five years of creditable service and total and permanent disability not due to an accident in the performance of duty.

Amount:

Accrued service retirement allowance with a minimum of 25% of average final compensation. The minimum cannot exceed the normal service retirement allowance based on average final compensation and creditable service projected to normal service retirement date.

Accidental Disability Retirement Allowance

Eligibility:

Total and permanent disability as a result of an accident in the performance of duty, regardless of length of service. Applications must be filed within six years from date of accident.

The disability of a firefighter, police officer, sheriff or deputy sheriff caused by hypertension, heart disease, or respiratory disease is presumed to have been suffered in the line of duty unless the contrary is shown by medical evidence.

Amount:

The amount payable is 66⅔% of average final compensation.

Ordinary Death Benefit

Eligibility:

Death in active service due to causes not the result of an accident in the performance of duty. Benefits are paid to a designated beneficiary or estate.

Amount:

All contributions, if any, made by the member with interest credited are paid, if the member was not vested at the time of death. If the member had one year of creditable service if he became a member prior to July 1, 1979, and five years of creditable service if he became a member on or after July 1, 1979, a lump-sum benefit equal to 50% of their earnable compensation during the year immediately preceding their death is payable. If the member was eligible for early or normal service retirement and the designated beneficiary for the lump sum death benefit is the spouse, the spouse may elect to receive in lieu of the lump sum death benefit, a monthly pension payable until death or remarriage. The spousal monthly benefit is equal to one-half of the retirement allowance that would have been payable to the member had the member retired and immediately commenced payment. If the spouse dies or remarries before the youngest unmarried child attains age 18, the pension shall continue to the date that all the children have died, married, or attained age 18; whichever occurs first. If the spouse was receiving benefits on or before June 30, 1978, payments shall continue after remarriage with no further payments after death.

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (continued)

Accidental Death Benefit

Eligibility:

Death in active service resulting from an accident in the performance of duty within six years from the date of the accident. The death of a firefighter, police officer, sheriff or deputy sheriff caused by hypertension, heart disease, or respiratory disease in the case of firefighters is presumed to have been suffered in the line of duty, unless the contrary is shown by medical evidence.

Amount:

Fifty percent of average final compensation is payable to spouse until death or remarriage. If there is no spouse or if spouse dies or remarries, benefit is payable to children under age 18 or dependent parents. In addition, all contributions, if any, made by the member with interest credited are paid to their designated recipient or estate, if the member was not vested. If there is no spouse, a lump-sum benefit equal to 50% of their earnable compensation during the year immediately preceding their death is payable.

Offset on Account of Workers' Compensation:

All benefits paid under the provisions of any workers' compensation act or any similar law to any member or beneficiary, or to the dependents of any member or beneficiary on account of any disability or death are in such manner as the Board determines, offset against any benefits provided from City contributions to the Employees' Retirement System.

Death Benefit after Retirement

Eligibility:

Death of a member receiving retirement allowance payments who completed five years of creditable service if they became a member after July 1, 1979, or of a spouse receiving an accidental death benefit.

Amount:

Lump sum equal to one-half of the average final compensation on which the retirement allowance of the deceased retired member or spouse was based. The lump sum is payable to the surviving spouse, to unmarried children under age 18, or unmarried children over age 18 who are physically or mentally unable to make a living.

In the case of a retired member who dies and leaves a surviving spouse, the spouse may elect to receive, in lieu of the lump-sum death benefit, a monthly benefit payable until death or remarriage, which is equal to one-half of the retirement allowance, which the deceased member was receiving at the time of their death, provided the member had not made an optional election. If the spouse dies or remarries before the youngest unmarried child attains age 18, the pension will continue to the date that all the children have died, married, or attained age 18, whichever occurs first. If the spouse was receiving payments on or before June 30, 1978, payments shall continue after remarriage with no further payments after death.

Return of Contributions

Eligibility:

Termination of membership prior to death.

Amount:

If not eligible for a retirement allowance, all contributions with not less than one-half of interest credited. If eligible for normal or early service, ordinary disability, accidental disability, or vested retirement allowance, their contributions, if any, with interest credited. The member may elect, prior to the commencement of their retirement allowance, to receive an annuity that is the actuarial equivalent of their accumulated contributions.

ACTUARIAL SECTION

SUMMARY OF BENEFIT AND CONTRIBUTION PROVISIONS (continued)

Normal and Optional Forms of Benefits:

| Normal Life | Life Annuity |
|-------------|--|
| Option A | A reduced pension with the provision that at death the reduced pension will be continued throughout the life of the designated beneficiary. |
| Option B | A reduced pension with the provision that at death, one-half of the reduced pension will be continued throughout the life of the designated beneficiary. |
| Option C | A reduced pension with the provision that at death some other benefit approved by the Board of Trustees will be payable. |

Contributions

| | |
|------------|---|
| By Members | 5% of pay for anyone hired on or after October 5, 2010. Effective January 8, 2015, all members (except City Council members hired before October 5, 2010) will be required to contribute 5% of pay. |
| By City | Annual contributions actuarially computed to be required to cover the cost of benefits of the System. |

Only City contributions will continue to be made throughout the DROP period for any eligible participant who has elected to participate in DROP.

Deferred Retirement Option Program (DROP)

Eligibility:

Any police officer or fireman member in service who attains his or her Normal Retirement Age may elect to participate.

Amount:

The DROP period may be elected by the police officer or fireman member but shall not exceed four years. During the DROP period, 70% of the participant's monthly retirement allowance shall be paid to the DROP account. No interest shall accrue on this account during the DROP period. At the end of the DROP period, the participant will receive a lump sum of the DROP account and shall begin receiving his or her full monthly benefit payment as a retired member.

Only City contributions will continue to be made throughout the DROP period.

Changes in Plan Provisions

None.

Statistical Section (Unaudited)

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STATISTICAL SECTION

About the Statistical Section

This section provides the reader with detailed information about the economic and demographic trends experienced over the past eight years in the System.

Schedule of Additions by Source and Deductions by Type displays the changes in plan net assets as a result of payments made to and by the System.

Schedule of Benefit Payments by Type identifies the type of payments made to beneficiaries and former employees.

Schedule of Retired Members by Type of Benefit identifies the range of benefit payments made to retirees sorted by plan and type of retirement for the current fiscal year.

Schedule of Average Benefit Payments presents the average monthly benefit paid as of June 30, 2020.

STATISTICAL SECTION

Schedule of Additions by Source and Deductions by Type (\$ in Thousands)

Schedule of Additions by Source

| Fiscal Year Ended June 30 | Employee Contributions | Employer Contributions | % of Covered Payroll | Total Net Investment Income (Loss) | Additions |
|------------------------------|---------------------------|---------------------------|-------------------------|--|-----------|
| 2020 | \$ 10,209 | \$ 38,494 | 19.50 % | \$ 5,737 | \$ 54,440 |
| 2019 | 10,009 | 37,079 | 18.98 | 55,313 | 102,401 |
| 2018 | 9,858 | 35,494 | 18.53 | 72,663 | 118,015 |
| 2017 | 9,450 | 33,457 | 17.79 | 111,228 | 154,135 |
| 2016 | 9,038 | 30,761 | 17.51 | 3,278 | 43,078 |
| 2015 | 4,915 | 34,932 | 21.44 | 16,596 | 56,443 |
| 2014 | 1,672 | 42,330 | 23.84 | 157,292 | 201,294 |
| 2013 | 1,007 | 41,466 | 25.11 | 100,594 | 143,067 |

Schedule of Deductions by Type

| Fiscal Year Ended June 30 | Benefit Payments | Refund of Contributions | Lump-Sum Death Benefits | Administrative Expenses | Total Deductions |
|------------------------------|---------------------|----------------------------|----------------------------|----------------------------|------------------|
| 2020 | \$ 92,858 | \$ 920 | \$ 220 | \$ 600 | \$ 94,598 |
| 2019 | 91,829 | 867 | 170 | 617 | 93,483 |
| 2018 | 84,453 | 1,229 | 251 | 764 | 86,697 |
| 2017 | 83,049 | 762 | 166 | 668 | 84,645 |
| 2016 | 80,553 | 305 | 231 | 672 | 81,761 |
| 2015 | 78,914 | 3 | 115 | 386 | 79,418 |
| 2014 | 76,785 | 4 | 276 | 413 | 77,478 |
| 2013 | 74,037 | 6 | 153 | 541 | 74,737 |

Total Change in Net Assets

| Fiscal Year Ended June 30 | Total Change in Net Assets |
|------------------------------|----------------------------|
| 2020 | \$ (40,158) |
| 2019 | 8,918 |
| 2018 | 31,318 |
| 2017 | 69,490 |
| 2016 | (38,683) |
| 2015 | (22,975) |
| 2014 | 123,816 |
| 2013 | 68,330 |

Contributions were made in accordance with the actuarially determined contribution requirement.

STATISTICAL SECTION

Schedule of Benefit Payments by Type Annual Allowances Scheduled to be Paid in Ensuing Fiscal Year (\$ in Thousands)

General

| As of June 30 | Service Retired Members | Contingent Annuitants | Disabled Annuitants | Total |
|---------------|-------------------------|-----------------------|---------------------|-----------|
| 2020 | \$ 45,553 | \$ 3,244 | \$ 2,699 | \$ 51,496 |
| 2019 | 44,336 | 3,048 | 2,514 | 49,898 |
| 2018 | 42,210 | 3,006 | 2,632 | 47,848 |
| 2017 | 40,489 | 2,834 | 2,612 | 45,935 |
| 2016 | 38,726 | 2,746 | 2,711 | 44,183 |
| 2015 | 37,388 | 2,716 | 2,737 | 42,841 |
| 2014 | 36,643 | 2,651 | 2,788 | 42,082 |
| 2013 | 34,407 | 2,647 | 2,871 | 39,925 |

Firefighters and Police

| As of June 30 | Service Retired Members | Contingent Annuitants | Disabled Annuitants | Total |
|---------------|-------------------------|-----------------------|---------------------|-----------|
| 2020 | \$ 35,488 | \$ 2,840 | \$ 3,577 | \$ 41,905 |
| 2019 | 34,315 | 2,660 | 3,187 | 40,162 |
| 2018 | 32,359 | 2,636 | 3,540 | 38,535 |
| 2017 | 31,743 | 2,206 | 3,167 | 37,116 |
| 2016 | 31,308 | 2,127 | 3,256 | 36,691 |
| 2015 | 30,606 | 2,106 | 2,999 | 35,711 |
| 2014 | 30,346 | 1,944 | 2,949 | 35,239 |
| 2013 | 29,227 | 1,901 | 2,945 | 34,073 |

Total

| As of June 30 | Service Retired Members | Contingent Annuitants | Disabled Annuitants | Total* |
|---------------|-------------------------|-----------------------|---------------------|-----------|
| 2020 | \$ 81,041 | \$ 6,084 | \$ 6,276 | \$ 93,401 |
| 2019 | 78,651 | 5,708 | 5,701 | 90,060 |
| 2018 | 74,569 | 5,642 | 6,172 | 86,383 |
| 2017 | 72,232 | 5,040 | 5,779 | 83,051 |
| 2016 | 70,034 | 4,873 | 5,967 | 80,874 |
| 2015 | 67,994 | 4,822 | 5,736 | 78,552 |
| 2014 | 66,989 | 4,595 | 5,737 | 77,321 |
| 2013 | 63,634 | 4,546 | 5,816 | 73,998 |

* Reflects monthly benefits in pay status, multiplied by 12. Not intended to agree with actual payouts in the prior year as shown on the previous page.

STATISTICAL SECTION

Schedule of Retired Members by Type of Benefit as of June 30, 2020

| General | | | | | | | | | | | | | | | | | | | |
|---------------------------|--------------------|--------------------|----|---|-----|----|-------|-----|---|-----|----|----|----|----|----|----|----|------------------|-------|
| Amount of Monthly Benefit | Number of Retirees | Type of Retirement | | | | | | | | | | | | | | | | Option Selected* | |
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 1 | 2 |
| Deferred** | 1,065 | | | | | | | | | | | | | | | | | | |
| \$1-\$300 | 290 | 75 | 3 | 0 | 16 | 0 | 88 | 32 | 0 | 40 | 0 | 0 | 0 | 31 | 4 | 1 | 0 | 109 | 123 |
| \$301-\$600 | 483 | 118 | 5 | 0 | 52 | 5 | 142 | 62 | 0 | 63 | 0 | 0 | 0 | 20 | 15 | 0 | 1 | 163 | 218 |
| \$601-\$900 | 355 | 62 | 3 | 0 | 41 | 5 | 135 | 65 | 0 | 30 | 0 | 0 | 0 | 4 | 10 | 0 | 0 | 109 | 170 |
| \$901-\$1,200 | 314 | 36 | 2 | 0 | 25 | 8 | 154 | 75 | 0 | 10 | 0 | 0 | 0 | 2 | 2 | 0 | 0 | 101 | 156 |
| \$1,201-\$1,500 | 267 | 18 | 3 | 0 | 11 | 15 | 136 | 68 | 0 | 8 | 0 | 1 | 0 | 1 | 5 | 0 | 1 | 99 | 136 |
| \$1,501-\$1,800 | 225 | 10 | 1 | 1 | 11 | 11 | 114 | 76 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 99 | 115 |
| \$1,801-\$2,100 | 206 | 5 | 0 | 0 | 6 | 8 | 144 | 42 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 80 | 121 |
| \$2,101-\$2,400 | 151 | 2 | 1 | 0 | 2 | 4 | 109 | 31 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 67 | 79 |
| \$2,401-\$2,700 | 160 | 1 | 0 | 0 | 4 | 1 | 133 | 20 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 63 | 93 |
| \$2,701-\$3,000 | 112 | 1 | 0 | 0 | 2 | 2 | 97 | 10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 52 | 60 |
| Over \$3,000 | 316 | 1 | 0 | 0 | 3 | 2 | 294 | 15 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 106 | 208 |
| Totals | 3,944 | 329 | 18 | 1 | 173 | 61 | 1,546 | 496 | 0 | 156 | 0 | 1 | 0 | 58 | 37 | 1 | 2 | 1,048 | 1,479 |

| Firefighters and Police | | | | | | | | | | | | | | | | | | | |
|---------------------------|--------------------|--------------------|---|---|----|-----|-----|-----|---|----|----|----|----|----|----|----|----|------------------|-----|
| Amount of Monthly Benefit | Number of Retirees | Type of Retirement | | | | | | | | | | | | | | | | Option Selected* | |
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 1 | 2 |
| Deferred** | 362 | | | | | | | | | | | | | | | | | | |
| \$1-\$300 | 15 | 2 | 0 | 0 | 2 | 1 | 3 | 2 | 0 | 5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3 | 5 |
| \$301-\$600 | 91 | 25 | 0 | 0 | 10 | 12 | 19 | 3 | 0 | 20 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 18 | 34 |
| \$601-\$900 | 80 | 18 | 0 | 0 | 8 | 11 | 23 | 16 | 0 | 2 | 0 | 0 | 1 | 0 | 1 | 0 | 0 | 11 | 26 |
| \$901-\$1,200 | 72 | 10 | 1 | 1 | 10 | 10 | 26 | 10 | 0 | 1 | 0 | 0 | 1 | 0 | 1 | 0 | 1 | 10 | 25 |
| \$1,201-\$1,500 | 72 | 2 | 1 | 3 | 9 | 8 | 33 | 11 | 0 | 2 | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 11 | 25 |
| \$1,501-\$1,800 | 62 | 4 | 1 | 2 | 3 | 14 | 28 | 8 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 0 | 0 | 11 | 25 |
| \$1,801-\$2,100 | 74 | 2 | 0 | 1 | 5 | 6 | 42 | 18 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 19 | 41 |
| \$2,101-\$2,400 | 81 | 2 | 0 | 0 | 2 | 19 | 45 | 11 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 1 | 24 | 52 |
| \$2,401-\$2,700 | 94 | 0 | 0 | 1 | 2 | 11 | 66 | 10 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4 | 27 | 65 |
| \$2,701-\$3,000 | 106 | 1 | 0 | 0 | 0 | 14 | 75 | 12 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 3 | 34 | 71 |
| Over \$3,000 | 586 | 1 | 1 | 0 | 2 | 22 | 533 | 20 | 0 | 0 | 2 | 2 | 2 | 0 | 0 | 0 | 1 | 151 | 433 |
| Totals | 1,695 | 67 | 4 | 8 | 53 | 128 | 893 | 121 | 0 | 30 | 5 | 4 | 5 | 0 | 5 | 0 | 10 | 319 | 802 |

| Total | | | | | | | | | | | | | | | | | | | |
|---------------------------|--------------------|--------------------|----|---|-----|-----|-------|-----|---|-----|----|----|----|----|----|----|----|------------------|-------|
| Amount of Monthly Benefit | Number of Retirees | Type of Retirement | | | | | | | | | | | | | | | | Option Selected* | |
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 1 | 2 |
| Deferred** | 1,427 | | | | | | | | | | | | | | | | | | |
| \$1-\$300 | 305 | 77 | 3 | 0 | 18 | 1 | 91 | 34 | 0 | 45 | 0 | 0 | 0 | 31 | 4 | 1 | 0 | 112 | 128 |
| \$301-\$600 | 574 | 143 | 5 | 0 | 62 | 17 | 161 | 65 | 0 | 83 | 1 | 1 | 0 | 20 | 15 | 0 | 1 | 181 | 252 |
| \$601-\$900 | 435 | 80 | 3 | 0 | 49 | 16 | 158 | 81 | 0 | 32 | 0 | 0 | 1 | 4 | 11 | 0 | 0 | 120 | 196 |
| \$901-\$1,200 | 386 | 46 | 3 | 1 | 35 | 18 | 180 | 85 | 0 | 11 | 0 | 0 | 1 | 2 | 3 | 0 | 1 | 111 | 181 |
| \$1,201-\$1,500 | 339 | 20 | 4 | 3 | 20 | 23 | 169 | 79 | 0 | 10 | 1 | 2 | 1 | 1 | 5 | 0 | 1 | 110 | 161 |
| \$1,501-\$1,800 | 287 | 14 | 2 | 3 | 14 | 25 | 142 | 84 | 0 | 1 | 0 | 0 | 0 | 0 | 2 | 0 | 0 | 110 | 140 |
| \$1,801-\$2,100 | 280 | 7 | 0 | 1 | 11 | 14 | 186 | 60 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 99 | 162 |
| \$2,101-\$2,400 | 232 | 4 | 1 | 0 | 4 | 23 | 154 | 42 | 0 | 2 | 0 | 0 | 0 | 0 | 1 | 0 | 1 | 91 | 131 |
| \$2,401-\$2,700 | 254 | 1 | 0 | 1 | 6 | 12 | 199 | 30 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 4 | 90 | 158 |
| \$2,701-\$3,000 | 218 | 2 | 0 | 0 | 2 | 16 | 172 | 22 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 3 | 86 | 131 |
| Over \$3,000 | 902 | 2 | 1 | 0 | 5 | 24 | 827 | 35 | 0 | 1 | 2 | 2 | 2 | 0 | 0 | 0 | 1 | 257 | 641 |
| Totals | 5,639 | 396 | 22 | 9 | 226 | 189 | 2,439 | 617 | 0 | 186 | 5 | 5 | 5 | 58 | 42 | 1 | 12 | 1,367 | 2,281 |

* Beneficiaries were excluded.

Type of Retirement:

- | | | | |
|---------------------------|-----------------------------|------------------------------------|----------------------------------|
| 1 = Resigned | 6 = Normal Retirement | 11 = Accidental Disability (Heart) | 16 = Early Retirement (Deferred) |
| 2 = Ordinary Death | 7 = Early Retirement | 12 = Accidental Disability (Lung) | |
| 3 = Accidental Death | 8 = Inactive Vested | 13 = Terminated | |
| 4 = Ordinary Disability | 9 = Vested Interest Service | 14 = Dismissed | |
| 5 = Accidental Disability | 10 = Compulsory Service | 15 = From Perm to Ineligible | |

Assumed Option Selected (based on marital status in data provided):

- 1 = Straight Life Annuity
2 = Joint and 50% Survivor

** Deferred Future Benefits - Terminated employees entitled to benefits but not yet receiving them. Includes 43 participants currently in DROP and 42 vested participants on Leave of Absence.

STATISTICAL SECTION

Schedule of Retired Members by Type of Benefit as of June 30, 2020

| Amount of Monthly Benefit | Number of Retirees | General | | | Option Selected* | |
|---------------------------|--------------------|-------------------------|-----------------------|---------------------|------------------|------------|
| | | Type of Retirement | | | | |
| | | Service Retired Members | Contingent Annuitants | Disabled Annuitants | 1 | 2 |
| Deferred** | 1,065 | | | | | |
| \$1-\$300 | 290 | 227 | 58 | 5 | 109 | 123 |
| \$301-\$600 | 483 | 346 | 102 | 35 | 163 | 218 |
| \$601-\$900 | 355 | 247 | 76 | 32 | 109 | 170 |
| \$901-\$1,200 | 314 | 225 | 57 | 32 | 101 | 156 |
| \$1,201-\$1,500 | 267 | 211 | 32 | 24 | 99 | 136 |
| \$1,501-\$1,800 | 225 | 192 | 11 | 22 | 99 | 115 |
| \$1,801-\$2,100 | 206 | 187 | 5 | 14 | 80 | 121 |
| \$2,101-\$2,400 | 151 | 140 | 5 | 6 | 67 | 79 |
| \$2,401-\$2,700 | 160 | 152 | 4 | 4 | 63 | 93 |
| \$2,701-\$3,000 | 112 | 108 | 0 | 4 | 52 | 60 |
| Over \$3,000 | <u>316</u> | <u>309</u> | <u>2</u> | <u>5</u> | <u>106</u> | <u>208</u> |
| Totals | 3,944 | 2,344 | 352 | 183 | 1,048 | 1,479 |

| Amount of Monthly Benefit | Number of Retirees | Firefighters and Police | | | Option Selected* | |
|---------------------------|--------------------|-------------------------|-----------------------|---------------------|------------------|------------|
| | | Type of Retirement | | | | |
| | | Service Retired Members | Contingent Annuitants | Disabled Annuitants | 1 | 2 |
| Deferred** | 362 | | | | | |
| \$1-\$300 | 15 | 8 | 7 | 0 | 3 | 5 |
| \$301-\$600 | 91 | 46 | 39 | 6 | 18 | 34 |
| \$601-\$900 | 80 | 31 | 43 | 6 | 11 | 26 |
| \$901-\$1,200 | 72 | 24 | 37 | 11 | 10 | 25 |
| \$1,201-\$1,500 | 72 | 23 | 36 | 13 | 11 | 25 |
| \$1,501-\$1,800 | 62 | 24 | 26 | 12 | 11 | 25 |
| \$1,801-\$2,100 | 74 | 49 | 14 | 11 | 19 | 41 |
| \$2,101-\$2,400 | 81 | 55 | 5 | 21 | 24 | 52 |
| \$2,401-\$2,700 | 94 | 79 | 2 | 13 | 27 | 65 |
| \$2,701-\$3,000 | 106 | 91 | 1 | 14 | 34 | 71 |
| Over \$3,000 | <u>586</u> | <u>556</u> | <u>2</u> | <u>28</u> | <u>151</u> | <u>433</u> |
| Totals | 1,695 | 986 | 212 | 135 | 319 | 802 |

| Amount of Monthly Benefit | Number of Retirees | Total | | | Option Selected* | |
|---------------------------|--------------------|-------------------------|-----------------------|---------------------|------------------|------------|
| | | Type of Retirement | | | | |
| | | Service Retired Members | Contingent Annuitants | Disabled Annuitants | 1 | 2 |
| Deferred** | 1,427 | | | | | |
| \$1-\$300 | 305 | 235 | 65 | 5 | 112 | 128 |
| \$301-\$600 | 574 | 392 | 141 | 41 | 181 | 252 |
| \$601-\$900 | 435 | 278 | 119 | 38 | 120 | 196 |
| \$901-\$1,200 | 386 | 249 | 94 | 43 | 111 | 181 |
| \$1,201-\$1,500 | 339 | 234 | 68 | 37 | 110 | 161 |
| \$1,501-\$1,800 | 287 | 216 | 37 | 34 | 110 | 140 |
| \$1,801-\$2,100 | 280 | 236 | 19 | 25 | 99 | 162 |
| \$2,101-\$2,400 | 232 | 195 | 10 | 27 | 91 | 131 |
| \$2,401-\$2,700 | 254 | 231 | 6 | 17 | 90 | 158 |
| \$2,701-\$3,000 | 218 | 199 | 1 | 18 | 86 | 131 |
| Over \$3,000 | <u>902</u> | <u>865</u> | <u>4</u> | <u>33</u> | <u>257</u> | <u>641</u> |
| Totals | 5,639 | 3,330 | 564 | 318 | 1,367 | 2,281 |

* Beneficiaries were excluded.

Assumed Option Selected (based on marital status in data provided):

- 1 = Straight Life Annuity
- 2 = Joint and 50% Survivor

** Deferred Future Benefits - Terminated employees entitled to benefits but not yet receiving them. Includes 43 participants currently in DROP and 20 vested participants on Leave of Absence.

STATISTICAL SECTION

Schedule of Average Benefit Payments (Excludes Beneficiaries)

| Retirement Effective Dates | General | | | | | | |
|--------------------------------------|---------------------------|----------|----------|----------|----------|----------|----------|
| | Years of Credited Service | | | | | | |
| | 0-5 | 5-10 | 10-15 | 15-20 | 20-25 | 25-30 | 30+ |
| July 1, 2013 to June 30, 2014 | | | | | | | |
| Average Monthly Benefit | \$114 | \$345 | \$778 | \$1,135 | \$1,649 | \$1,899 | \$2,946 |
| Average - Average Final Compensation | \$39,457 | \$30,127 | \$37,923 | \$44,376 | \$49,961 | \$45,918 | \$54,633 |
| Number of Active Retirees | 7 | 24 | 24 | 16 | 8 | 22 | 43 |
| July 1, 2014 to June 30, 2015 | | | | | | | |
| Average Monthly Benefit | \$139 | \$450 | \$569 | \$1,234 | \$1,969 | \$1,953 | \$2,818 |
| Average - Average Final Compensation | \$61,708 | \$38,405 | \$29,002 | \$45,912 | \$58,217 | \$48,997 | \$52,277 |
| Number of Active Retirees | 5 | 21 | 25 | 17 | 9 | 10 | 14 |
| July 1, 2015 to June 30, 2016 | | | | | | | |
| Average Monthly Benefit | \$935 | \$457 | \$659 | \$1,085 | \$2,195 | \$2,281 | \$2,848 |
| Average - Average Final Compensation | \$38,208 | \$32,308 | \$32,684 | \$38,054 | \$63,423 | \$59,285 | \$53,827 |
| Number of Active Retirees | 5 | 19 | 24 | 20 | 13 | 10 | 25 |
| July 1, 2016 to June 30, 2017 | | | | | | | |
| Average Monthly Benefit | \$270 | \$571 | \$640 | \$965 | \$1,463 | \$2,088 | \$3,054 |
| Average - Average Final Compensation | \$43,399 | \$50,394 | \$36,621 | \$39,541 | \$46,424 | \$53,418 | \$58,273 |
| Number of Active Retirees | 3 | 15 | 22 | 18 | 9 | 11 | 39 |
| July 1, 2017 to June 30, 2018 | | | | | | | |
| Average Monthly Benefit | \$691 | \$360 | \$1,001 | \$1,174 | \$1,597 | \$2,234 | \$2,787 |
| Average - Average Final Compensation | \$35,823 | \$30,306 | \$44,856 | \$31,132 | \$52,172 | \$56,091 | \$48,896 |
| Number of Active Retirees | 3 | 22 | 17 | 14 | 6 | 9 | 33 |
| July 1, 2018 to June 30, 2019 | | | | | | | |
| Average Monthly Benefit | \$36 | \$550 | \$802 | \$989 | \$1,849 | \$2,236 | \$3,509 |
| Average - Average Final Compensation | \$14,108 | \$60,989 | \$43,219 | \$39,312 | \$56,549 | \$56,339 | \$66,854 |
| Number of Active Retirees | 1 | 18 | 25 | 11 | 23 | 12 | 40 |
| July 1, 2019 to June 30, 2020 | | | | | | | |
| Average Monthly Benefit | \$107 | \$597 | \$773 | \$1,062 | \$1,815 | \$1,894 | \$3,370 |
| Average - Average Final Compensation | \$40,374 | \$58,894 | \$37,608 | \$42,071 | \$56,313 | \$47,098 | \$67,004 |
| Number of Active Retirees | 2 | 22 | 20 | 24 | 25 | 10 | 34 |

STATISTICAL SECTION

Schedule of Average Benefit Payments (Excludes Beneficiaries)

| Retirement Effective Dates | Firefighters and Police | | | | | | |
|--------------------------------------|---------------------------|----------|----------|----------|----------|----------|----------|
| | Years of Credited Service | | | | | | |
| | 0-5 | 5-10 | 10-15 | 15-20 | 20-25 | 25-30 | 30+ |
| July 1, 2013 to June 30, 2014 | | | | | | | |
| Average Monthly Benefit | \$0 | \$460 | \$663 | \$1,684 | \$2,759 | \$3,500 | \$4,489 |
| Average - Average Final Compensation | \$0 | \$33,116 | \$34,047 | \$43,775 | \$55,911 | \$63,219 | \$79,759 |
| Number of Active Retirees | 0 | 1 | 5 | 2 | 5 | 21 | 10 |
| July 1, 2014 to June 30, 2015 | | | | | | | |
| Average Monthly Benefit | \$0 | \$388 | \$1,138 | \$2,237 | \$2,352 | \$3,474 | \$4,579 |
| Average - Average Final Compensation | \$0 | \$33,444 | \$40,545 | \$52,631 | \$55,798 | \$63,888 | \$83,414 |
| Number of Active Retirees | 0 | 1 | 6 | 1 | 7 | 10 | 4 |
| July 1, 2015 to June 30, 2016 | | | | | | | |
| Average Monthly Benefit | \$0 | \$1,628 | \$1,288 | \$2,156 | \$2,425 | \$3,458 | \$3,067 |
| Average - Average Final Compensation | \$0 | \$24,525 | \$42,561 | \$50,251 | \$59,754 | \$61,384 | \$55,898 |
| Number of Active Retirees | 0 | 5 | 5 | 4 | 8 | 16 | 2 |
| July 1, 2016 to June 30, 2017 | | | | | | | |
| Average Monthly Benefit | \$0 | \$449 | \$1,223 | \$833 | \$2,174 | \$3,711 | \$3,735 |
| Average - Average Final Compensation | \$0 | \$34,298 | \$39,947 | \$25,000 | \$58,733 | \$67,571 | \$68,581 |
| Number of Active Retirees | 0 | 2 | 5 | 1 | 5 | 8 | 12 |
| July 1, 2017 to June 30, 2018 | | | | | | | |
| Average Monthly Benefit | \$0 | \$504 | \$1,304 | \$1,503 | \$3,004 | \$3,191 | \$3,743 |
| Average - Average Final Compensation | \$0 | \$40,922 | \$43,877 | \$45,437 | \$37,217 | \$58,129 | \$67,369 |
| Number of Active Retirees | 0 | 1 | 7 | 3 | 5 | 9 | 3 |
| July 1, 2018 to June 30, 2019 | | | | | | | |
| Average Monthly Benefit | \$0 | \$534 | \$883 | \$1,990 | \$2,928 | \$3,766 | \$3,797 |
| Average - Average Final Compensation | \$0 | \$39,414 | \$39,007 | \$53,816 | \$62,537 | \$68,921 | \$71,894 |
| Number of Active Retirees | 0 | 2 | 5 | 7 | 9 | 18 | 24 |
| July 1, 2019 to June 30, 2020 | | | | | | | |
| Average Monthly Benefit | \$0 | \$426 | \$1,334 | \$1,778 | \$3,065 | \$3,788 | \$4,771 |
| Average - Average Final Compensation | \$0 | \$39,280 | \$43,344 | \$54,551 | \$65,293 | \$71,892 | \$85,519 |
| Number of Active Retirees | 0 | 3 | 4 | 2 | 9 | 16 | 7 |

STATISTICAL SECTION

Schedule of Average Benefit Payments (Excludes Beneficiaries)

| Retirement Effective Dates | Total | | | | | | |
|--------------------------------------|---------------------------|----------|----------|----------|----------|----------|----------|
| | Years of Credited Service | | | | | | |
| | 0-5 | 5-10 | 10-15 | 15-20 | 20-25 | 25-30 | 30+ |
| July 1, 2013 to June 30, 2014 | | | | | | | |
| Average Monthly Benefit | \$114 | \$349 | \$758 | \$1,196 | \$2,076 | \$2,681 | \$3,237 |
| Average - Average Final Compensation | \$39,457 | \$30,246 | \$37,255 | \$44,309 | \$52,249 | \$54,368 | \$59,374 |
| Number of Active Retirees | 7 | 25 | 29 | 18 | 13 | 43 | 53 |
| July 1, 2014 to June 30, 2015 | | | | | | | |
| Average Monthly Benefit | \$139 | \$447 | \$679 | \$1,290 | \$2,137 | \$2,714 | \$3,209 |
| Average - Average Final Compensation | \$61,708 | \$38,179 | \$31,236 | \$46,285 | \$57,158 | \$56,443 | \$59,197 |
| Number of Active Retirees | 5 | 22 | 31 | 18 | 16 | 20 | 18 |
| July 1, 2015 to June 30, 2016 | | | | | | | |
| Average Monthly Benefit | \$935 | \$701 | \$767 | \$1,264 | \$2,283 | \$3,005 | \$2,865 |
| Average - Average Final Compensation | \$38,208 | \$30,687 | \$34,387 | \$40,087 | \$62,026 | \$60,577 | \$53,981 |
| Number of Active Retirees | 5 | 24 | 29 | 24 | 21 | 26 | 27 |
| July 1, 2016 to June 30, 2017 | | | | | | | |
| Average Monthly Benefit | \$270 | \$557 | \$748 | \$958 | \$1,717 | \$2,771 | \$3,214 |
| Average - Average Final Compensation | \$43,399 | \$48,501 | \$37,237 | \$38,776 | \$50,820 | \$59,377 | \$60,698 |
| Number of Active Retirees | 3 | 17 | 27 | 19 | 14 | 19 | 51 |
| July 1, 2017 to June 30, 2018 | | | | | | | |
| Average Monthly Benefit | \$691 | \$366 | \$1,089 | \$1,232 | \$2,236 | \$2,713 | \$2,867 |
| Average - Average Final Compensation | \$35,823 | \$30,767 | \$44,571 | \$33,656 | \$45,374 | \$57,110 | \$50,435 |
| Number of Active Retirees | 3 | 23 | 24 | 17 | 11 | 18 | 36 |
| July 1, 2018 to June 30, 2019 | | | | | | | |
| Average Monthly Benefit | \$36 | \$549 | \$815 | \$1,379 | \$2,152 | \$3,154 | \$3,617 |
| Average - Average Final Compensation | \$14,108 | \$58,832 | \$42,517 | \$44,953 | \$58,233 | \$63,888 | \$68,744 |
| Number of Active Retirees | 1 | 20 | 30 | 18 | 32 | 30 | 64 |
| July 1, 2019 to June 30, 2020 | | | | | | | |
| Average Monthly Benefit | \$107 | \$577 | \$866 | \$1,117 | \$2,146 | \$3,059 | \$3,609 |
| Average - Average Final Compensation | \$40,374 | \$56,540 | \$38,564 | \$43,031 | \$58,690 | \$62,355 | \$70,165 |
| Number of Active Retirees | 2 | 25 | 24 | 26 | 34 | 26 | 41 |

Compliance Section

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Employees' Retirement System of the City of Norfolk
Norfolk, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Employees' Retirement System of the City of Norfolk (the System), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated November 30, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Trustees
Employees' Retirement System of the City of Norfolk

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Arlington, Virginia
November 30, 2020