

2020

# Popular Annual Financial Report



City of Norfolk

Employees' Retirement System

For Fiscal Year 2020

# Message to Our Readers

We are pleased to present the Popular Annual Financial Report (PAFR) for the City of Norfolk Employees' Retirement System's (NERS or the System) fiscal year ended June 30, 2020. This publication is for the benefit of our membership, but also for our many stakeholders and leaders who are interested in the financial condition of NERS.

The information provided in this report is a snapshot, written in an easier-to-digest format, of the System, services, financial results, and investment performance, all of which are reported in more detail in the System's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2020. It is more condensed than the CAFR, but it still contains the most important statistics of your retirement plan.

NERS continues to deliver retirement income security to its members. The retirement staff is dedicated to serving all of our active members, retirees, and beneficiaries. We are working to ensure that we are leveraging our resources to develop innovative, and more efficient ways of communicating and managing the retirement plan.

We would like to extend our thanks to The Board of Trustees, who strive every year for excellence and works to keep NERS fiscally strong for years to come. This vigilance means NERS will also continue to serve as an economic driver through retiree spending, as a recruitment tool for a quality public workforce, and in helping our retirees maintain financial self-sufficiency as they grow older.

We hope you will find this publication helpful and informative. If you find yourself wanting to know more, please read the City of Norfolk Employees' Retirement System's CAFR on the City's Retirement website at [www.norfolk.gov/retirement](http://www.norfolk.gov/retirement).

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# Introduction

This report is a summary of the fiscal year 2020 CAFR (Comprehensive Annual Financial Report). The CAFR was prepared in accordance with Generally Accepted Accounting Principles (GAAP), but the PAFR includes only selected information from the CAFR. The PAFR has been email blasted to all active employees and is available on our website at [www.norfolk.gov/retirement](http://www.norfolk.gov/retirement). For a detailed copy of our CAFR, please visit our website at [www.norfolk.gov/retirement](http://www.norfolk.gov/retirement).

# 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, also establishes the City of Norfolk's obligation to contribute to the plan. 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.

NERS is funded through a combination of member contributions, employer (City of Norfolk) contributions and investment earnings. Effective January 8, 2015, all System members pay contributions of 5 percent 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 vesting, member contributions, including accrued interest, shall be refunded. Interest was accrued at the rate of 0.94 percent during the fiscal year ended June 30, 2020.

The types of employees covered by the System consists of retirees and beneficiaries, vested former members entitled to but not yet receiving benefits and active plan members. On June 30, 2020, the membership consisted of 4,212 retirees and beneficiaries, 4,171 active members and 1,364 vested former members.

# Financial Statements

- The statement of fiduciary net position presents the plan's assets and liabilities and the net position restricted for pensions at June 30, 2020. The assets comprise cash and cash equivalents, receivables, mainly from investments sold and fair value of investments. Liabilities are comprised of payables, which are mainly for management fees and administrative expenses.
- System assets were greater than liabilities by \$1.044 billion in 2020 as compared to \$1.084 billion in 2019, which is identified in the Summary of Plan Fiduciary Net Position table. Total plan assets are held in trust to pay future benefits.
- 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 percent and 77.6 percent, at June 30, 2020 and June 30, 2019, respectively.
- Total additions decreased over the prior year by \$48 million or approximately 46.8 percent. This was mainly driven by a decrease in actual investment returns due to the volatile markets brought on by COVID-19.
- Total deductions increased over the prior year by \$1.1 million or approximately 1.2 percent. This was mainly driven by an increase in benefit payments.

## Summary of Plan Fiduciary Net Position As of June 30, 2020, and 2019

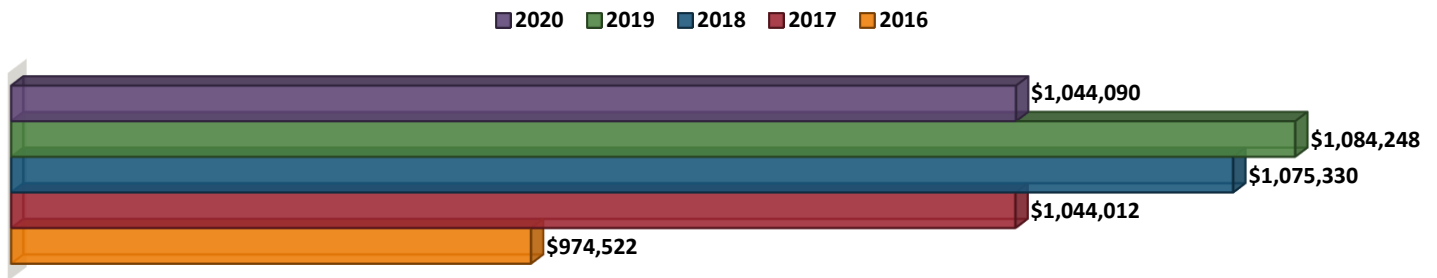
	2020	2019
	In '000 \$	In '000 \$
<b>Assets:</b>		
Cash and Cash Equivalents	\$ 5,972	\$ 16,434
Receivables	73,573	74,514
Investments	1,101,052	1,148,800
<b>Total Assets</b>	<b>\$ 1,180,597</b>	<b>\$ 1,239,748</b>
<b>Liabilities:</b>		
Accounts Payable and Accrued Expenses	\$ 2,284	\$ 2,629
Due to Brokers for Securities Purchased	134,223	152,871
<b>Total Liabilities</b>	<b>\$ 136,507</b>	<b>\$ 155,500</b>
<b>Net Plan Position Restricted for Pension</b>	<b>\$ 1,044,090</b>	<b>\$ 1,084,248</b>

## Summary of Changes in Plan Fiduciary Net Position As of June 30, 2020, and 2019

	2020	2019
	In '000 \$	In '000 \$
<b>Additions:</b>		
Net Investment Income	\$ 5,736	\$ 55,313
Employer Contributions	38,494	37,079
Employee Contributions	9,838	9,673
Other Income	372	336
<b>Total Additions</b>	<b>\$ 54,440</b>	<b>\$ 102,401</b>
<b>Deductions:</b>		
Benefit Payments	\$ 93,078	\$ 91,999
Refunds of Contributions	920	867
Administrative Expenses	600	617
<b>Total Deductions</b>	<b>\$ 94,598</b>	<b>\$ 93,483</b>
<b>Net Increase/(Decrease)</b>	<b>\$ (40,158)</b>	<b>\$ 8,918</b>
<b>Plan Net Position Restricted for Pensions</b>		
Beginning of the Year	\$ 1,084,248	\$ 1,075,330
End of Year	\$ 1,044,090	\$ 1,084,248

# Financial Statements (continued)

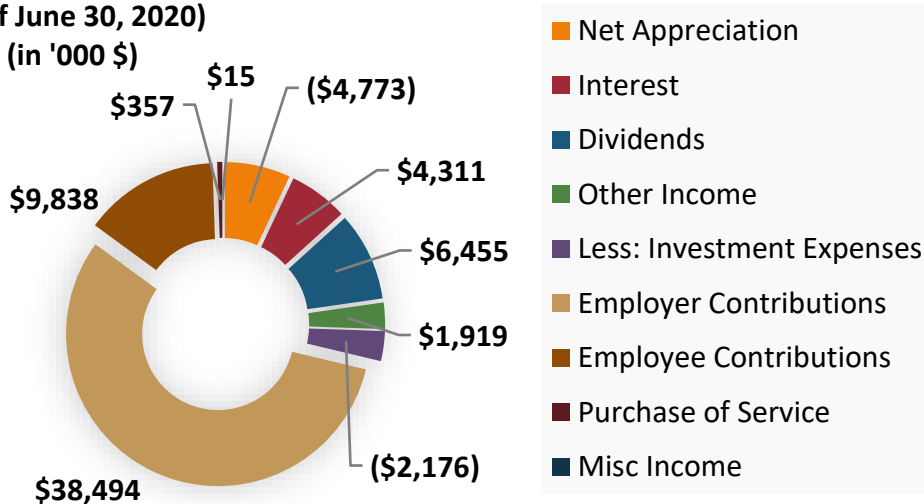
## Fiduciary Net Position for the Past Five Years As of June 30



## Income & Expenses

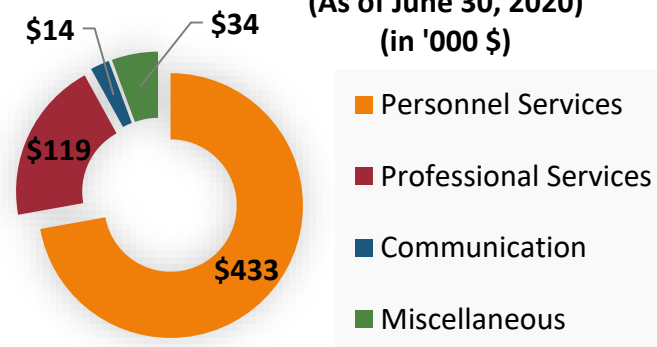
### Income

(As of June 30, 2020)  
(in '000 \$)



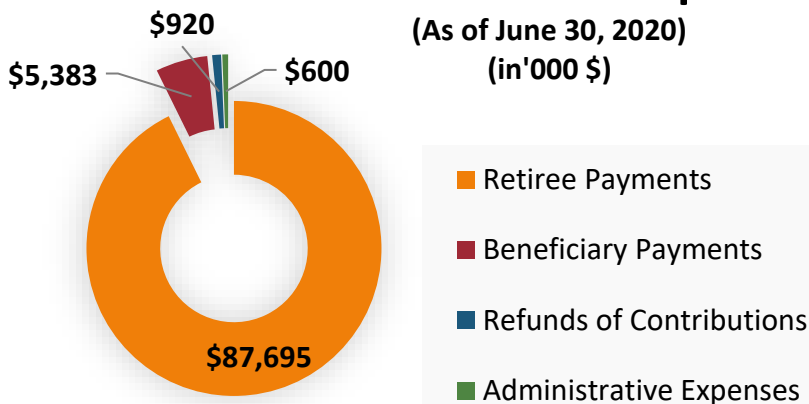
### Administrative Expenses

(As of June 30, 2020)  
(in '000 \$)



### Pension Benefit Expenses

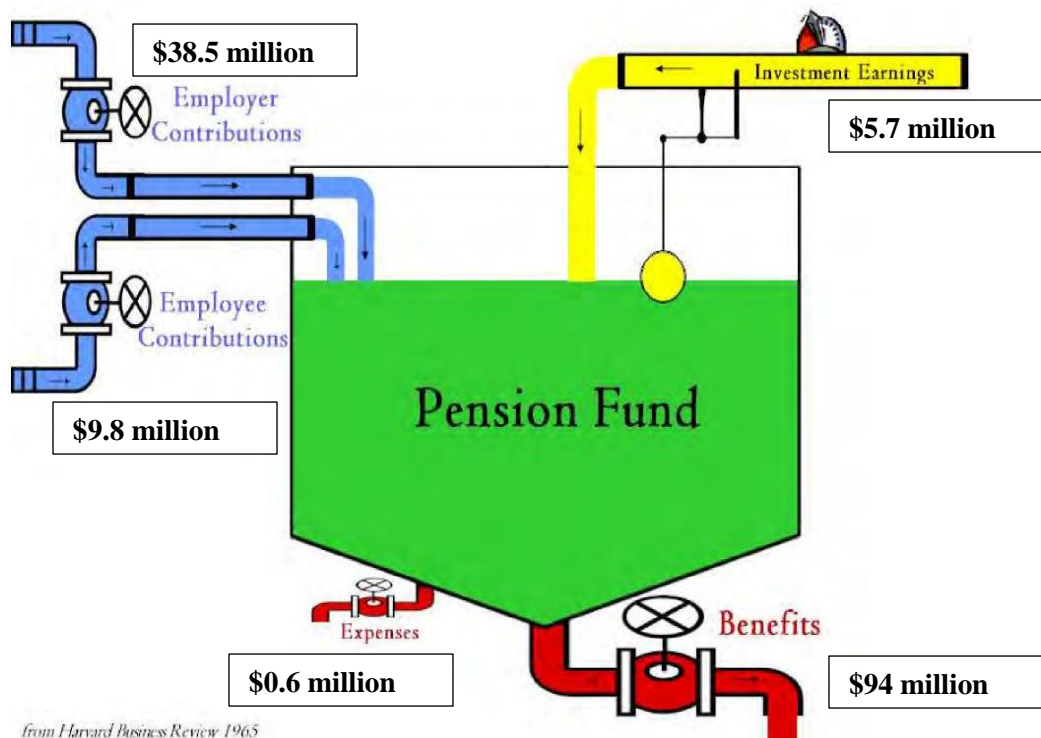
(As of June 30, 2020)  
(in '000 \$)



# Funded Status

One measure of a pension fund's health is its funded status. To determine the funded status, we compare the assets available to the benefits we must pay. One factor to keep in mind is that all benefits the System is obligated to pay are not due and payable immediately. The System's funding objective is to pay long-term benefits through contributions (and investment return on such contributions) that remain relatively level from year to year. The amount contributed is a percentage of the salaries earned by members. Using this methodology, members and employers each pay for retirement service accrued by active members in any given year. To ensure responsible financing of benefits, NERS is constantly evaluating the plan's assets relative to the value of the liabilities. The System receives an annual actuarial valuation indicating the contribution rates required to fund the System on an actuarial basis, and the City makes the contributions in accordance with that report.

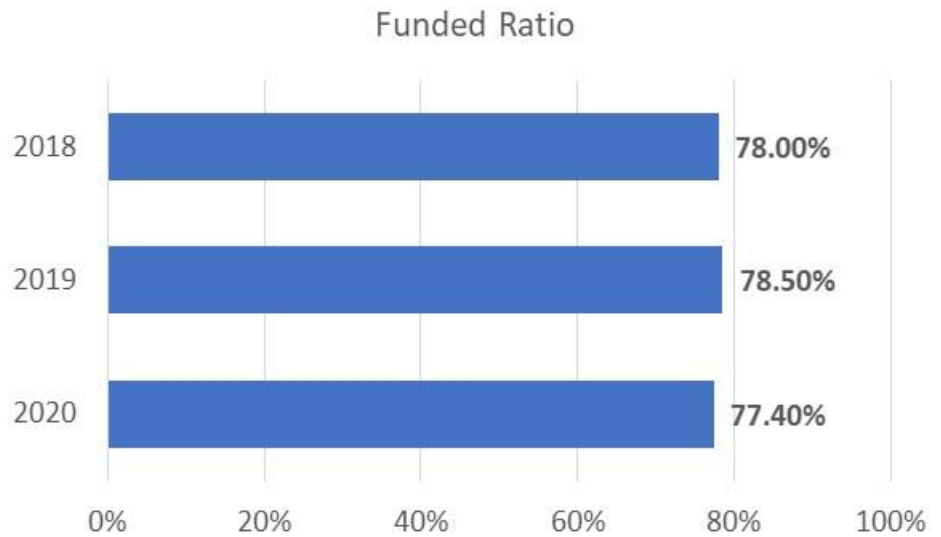
The System's funding objective is to meet long-term benefit obligations through contributions and investment income. This is depicted in the graphic below with fiscal year 2020 information.



## Funded Status (continued)

The funded ratio decreased to 77.4 percent as of June 30, 2020, compared to a funding ratio of 78.5 percent as of June 30, 2019. The funded ratio of NERS has been relatively stable during the volatile market cycle, but the reduction as of June 30, 2020 is attributable to lower-than-expected investment returns due to COVID-19. While the System's funded ratio has fluctuated during various periods, the conservative nature of NERS' investment strategy has metered the impact investment losses have had on the overall funded ratio of the System. Below is a chart showing the historical funding levels of NERS over the last three fiscal years.

The System's funded status:  
**77.4%** as of June 30, 2020



## Investments

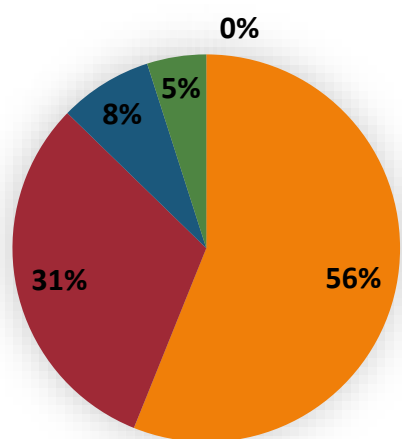
The investment program is designed to generate a long-term return that meets the System's objectives while minimizing risk. This structure and administration of the portfolio is defined by the prudent person standard. The standard states that the Board may invest the System's funds in every type of investment which persons of prudence, discretion, and intelligence acquire or retain for their own account under similar circumstances. By establishing a well-diversified investment portfolio, the System has strengthened control over the fund's risk and return parameters.



# Investments (continued)

Asset allocation is the most significant factor influencing the risk and return of the investment program. To establish an appropriate long-term asset allocation strategy, the Board evaluates expected return and risk for each of the major asset types (stocks, bonds, private markets). These asset classes are then combined in the most efficient manner possible to construct a portfolio that matches the risk and return needs of the System. The Board reviews capital market expectations and asset allocation routinely. In addition, the Board employs a disciplined rebalancing policy to manage market volatility and to ensure the portfolio's exposures are consistent with the System's long-term asset targets. The following charts shows the asset mix at June 30, 2020.

**Asset Allocation Mix**  
(As of June 30, 2020)



- Total Equity
- Fixed Income
- Real Estate
- Master Limited Partnerships
- Cash and Equivalents

**Investment Summary**  
(In '000 \$)

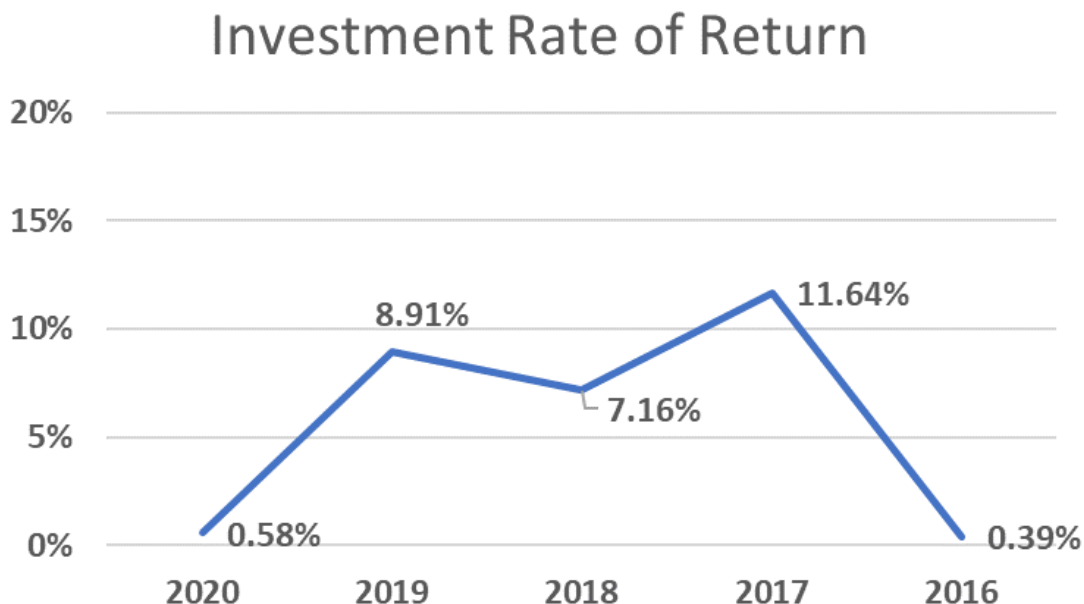
	<b>2020</b>
	<b>Fair Value</b>
Total Equity	\$ 586,648
Fixed Income	326,130
Real Estate	81,445
Master Limited Partnerships	51,617
Cash and Equivalents	16
<b>Total Investments</b>	<b>\$ 1,045,856</b>



# Investments (continued)

Fiscal year 2020 saw significant market volatility in global markets. The year started off with U.S. global markets outperforming international markets as slowing global economic growth, global trade issues/supply chain concerns, and Brexit negotiations drove market sentiment. Quarter 4 2019 saw positive U.S. - China discussions and trade deal possibilities that drove markets into positive territory. With China tackling a never heard of coronavirus disease 2019 (COVID-19) virus outbreak later in the year and the subsequent spreading of that virus to the U.S. and other countries, Quarter 1 2020 became a historical watershed in the U.S. and global equity markets. Given all this uncertainty and market volatility, fixed income was a haven for much of the market. The System's Master Limited Partnerships (MLP) 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 portfolios before COVID-19 and further because of COVID-19 related social distancing requirements and stay at home initiatives. 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 proven vaccines will be widely available will continue to dominate investors' views; added to those concerns is the 2020 U.S. Presidential election and transition, 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 chart below illustrates NERS' portfolio performance over the last five fiscal years. The fund's fiscal year 2020 rate of return is 0.58 percent versus the long-term actuarial objective of 7.0 percent.



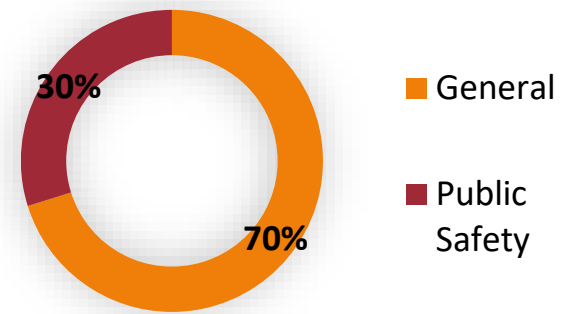
# System Membership

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.

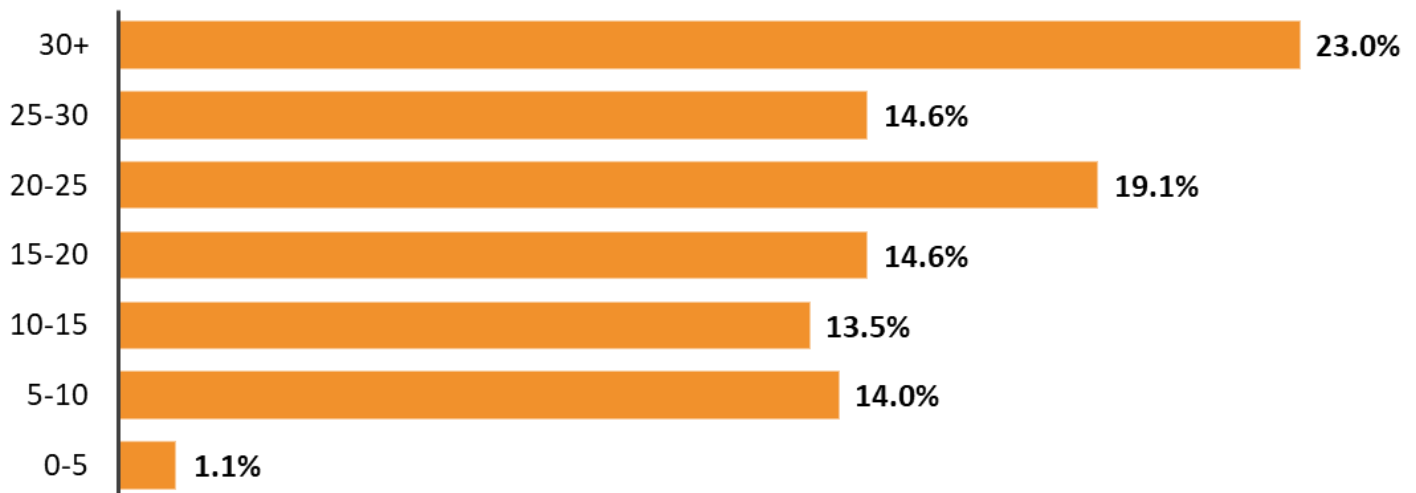
## Plan Membership

	<b>2020</b>	<b>2019</b>
Active Plan Members	4,171	4,323
Vested Former Employee Members	1,364	1,333
Retirees and Beneficiaries	4,212	4,119
<b>Total Plan Membership</b>	<b>9,747</b>	<b>9,775</b>

## Active Membership by Type (As of June 30, 2020)



## Years of Service at Retirement (As of June 30, 2020)



# Benefits and Services

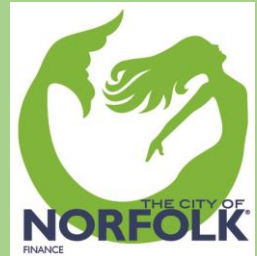
## Benefits and Services Provided

- Members are vested after five years of service and are eligible for benefits at the early or normal service retirement date.
- Normal service retirement and early service retirement benefits are available for members who attain the age and service requirements.
- The System provides retirement benefits, as well as death and disability benefits.
- Benefit Statements are provided to all active members on an annual basis.
- Counseling is provided to all plan participants.
- Presentations to introduce the City of Norfolk Employees' Retirement System to new employees are conducted during new employee orientations.

## Contacting Us

The City of Norfolk Employees' Retirement System's Fiscal Year 2020 PAFR offers a summary of information presented in the Fiscal Year 2020 CAFR. The Fiscal Year 2020 CAFR provides detailed information regarding the Pension Plan's investment performance and funding, as well as detailed demographic information for System members and employees.

Please visit the City's website at [www.norfolk.gov/retirement](http://www.norfolk.gov/retirement) to view the Fiscal Year 2020 CAFR for the City of Norfolk Employees' Retirement System. Comments, questions, or concerns? Please contact our office. We welcome all feedback.



### Contacting the Retirement Office

**Address:** 810 Union Street, Suite 309 Norfolk, Virginia 23510

**Office Hours:** 8:30 AM – 5:00 PM Monday – Friday

**Phone:** (757) 664-4738 ♦ **Fax:** (757) 664-4098