



Popular Annual Financial Report

City of Norfolk Employees' Retirement System
For The Fiscal Year Ending June 30, 2021
Norfolk, Virginia



RESPONSIBLE FINANCIAL REPORTING

This Popular Annual Financial Report (PAFR) is derived from information contained in the Norfolk Employees' Retirement System's (NERS or the System) fiscal year 2021 Annual Comprehensive Financial Report (ACFR). The ACFR was prepared in accordance with Generally Accepted Accounting Principles (GAAP), but the PAFR includes only selected information from the ACFR. The PAFR has been email blasted through a press release and is available on our website at www.norfolk.gov/retirement. For a detailed copy of our ACFR, please visit our website at www.norfolk.gov/retirement.

2020 Award for Outstanding Achievement — For the first time, NERS submitted and received the GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) for its fiscal year ended June 30, 2020. This award is a prestigious national award recognizing conformance with the highest standards of creativity, presentation, understandability and reader appeal for preparation of governmental popular reports.

WHAT IS INSIDE

- Message To Our Readers
- System History
- Financial Statements
- Expenses
- Membership Snapshot
- Closure of NERS
- Funded Status
- Investments
- System Membership
- Contributions
- Benefits and Services
- Contacting NERS

MESSAGE TO OUR READERS

The Norfolk Employees' Retirement System (NERS) continues to honor its members' public service by delivering secure retirement benefits to its members. The retirement staff is dedicated to serving all of our active members, retirees, and beneficiaries through sound financial stewardship and superior customer service.

We would like to extend our thanks to the Board of Trustees, who work diligently to keep NERS fiscally strong. 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.

Following a comprehensive review of NERS, City Council adopted a resolution on May 11, 2021, stating the City's intent to reform its pension system by closing the NERS defined benefit plan to new enrollees (both general and sworn public safety employees) and requiring participation in the Virginia Retirement System (VRS) effective January 1, 2022. For a period of one year, the City will allow currently employed NERS members the ability to select participation in VRS or to remain in NERS.

In the coming year, NERS will mark a historic milestone: January 1, 2022, is our 80th anniversary. This significant milestone is a chance to reflect on the importance of our mission and the positive impact the System has had on generations of Norfolk employees, as well as to prepare for the future legacy of NERS and the delivery of services to members.

Sincerely,

Norfolk Employees' Retirement System

SYSTEM HISTORY

The System operates a defined benefit pension plan (the Plan) that was established by Section 37 of the Code of the City of Norfolk, Virginia (the 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 System. 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.

Defined benefit plans provide recipients a retirement income for as long as they live. This differs from defined contribution plans, such as 401(k)s, where a recipient can outlive accumulated savings.

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 five (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 accrued at the rate of 0.38 percent during the fiscal year ended June 30, 2021.



FINANCIAL STATEMENTS

NERS management is responsible for the preparation and fair presentation of the financial statements. CliftonLarsonAllen LLP performed an independent audit of such financial statements and expressed an unmodified opinion thereon.

- ♦ The statement of fiduciary net position presents the System's assets and liabilities and the net position restricted for pensions at June 30, 2021. The assets comprise cash and cash equivalents, receivables, mainly from investments sold and the 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 \$1.389 billion in fiscal year 2021 as compared to \$1.044 billion in 2020, which is identified in the Summary of Plan Fiduciary Net Position table below. Total System 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 90.6 percent and 77.4 percent, at June 30, 2021 and June 30, 2020, respectively.

Employees' Retirement System of the City of Norfolk Summary of Plan Fiduciary Net Position For the Fiscal Years Ended June 30, 2021 and 2020			
	2021 In '000 \$	2020 In '000 \$	% Variance
ASSETS			
Cash and cash equivalents	\$37,958	\$5,972	535.6%
Receivables	43,015	73,573	-41.5%
Investments	1,406,545	1,101,052	27.7%
Total Assets	1,487,518	1,180,597	26.0%
LIABILITIES			
Accounts payable and accrued expenses	2,112	2,284	-7.5%
Due to brokers for securities purchased	96,537	134,223	-28.1%
Total Liabilities	98,649	136,507	-27.7%
Plan Net Position Restricted for Pensions	\$1,388,869	\$1,044,090	33.0%

FINANCIAL STATEMENTS

- ♦ Total additions increased over the prior year by \$387 million or approximately 710 percent. The increase was intensified by the significant growth of investment income and a nearly additional \$120 million contributed by the City of Norfolk from the proceeds generated by the issuance of General Obligation Bonds.
- ♦ Total deductions increased over the prior year by \$1.6 million or approximately 1.7 percent. The increase primarily reflects a rise in benefit payments.

Employees' Retirement System of the City of Norfolk Summary of Changes in Plan Fiduciary Net Position For the Fiscal Years Ended June 30, 2021 and 2020			
	2021 In '000 \$	2020 In '000 \$	% Variance
ADDITIONS			
Investment Income, net	\$270,352	\$5,736	4,613.2%
Employer Contributions	160,252	38,494	316.3%
Employee Contributions	9,712	9,838	-1.3%
Other Income	655	372	76.1%
Total Additions	440,971	54,440	710.0%
DEDUCTIONS			
Benefit Payments	94,649	93,078	1.7%
Refunds of Contributions	923	920	0.3%
Administrative Expenses	620	600	3.3%
Total Deductions	96,192	94,598	1.7%
Net Increase (Decrease)	\$344,779	(\$40,158)	958.6%
Plan Net Position Restricted for Pensions			
Beginning of the Year	\$1,044,090	\$1,084,248	-3.7%
End of the Year	\$1,388,869	\$1,044,090	33.0%

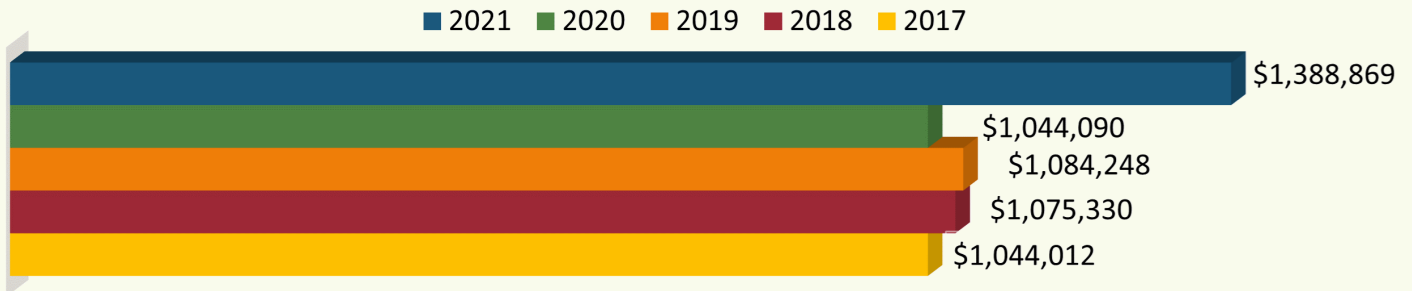
EXTRA EXPLANATIONS:

Plan Net Position: Reflects the balance of resources available to pay benefits at the end of the fiscal year.

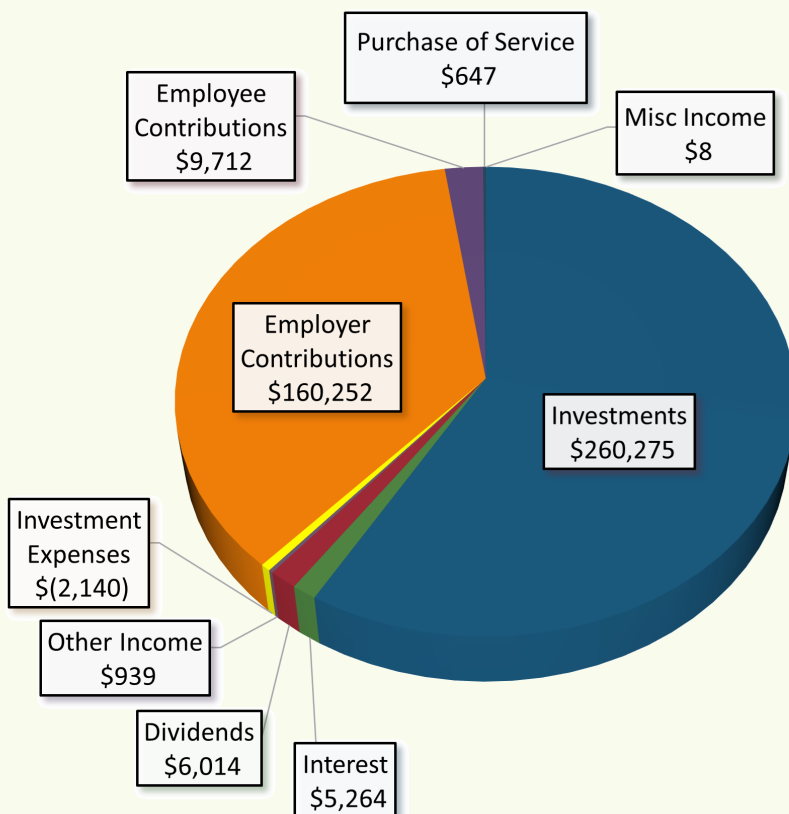
Changes in Plan Net Position: Reflects the changes in resources available to pay benefits during the fiscal year.

FINANCIAL STATEMENTS

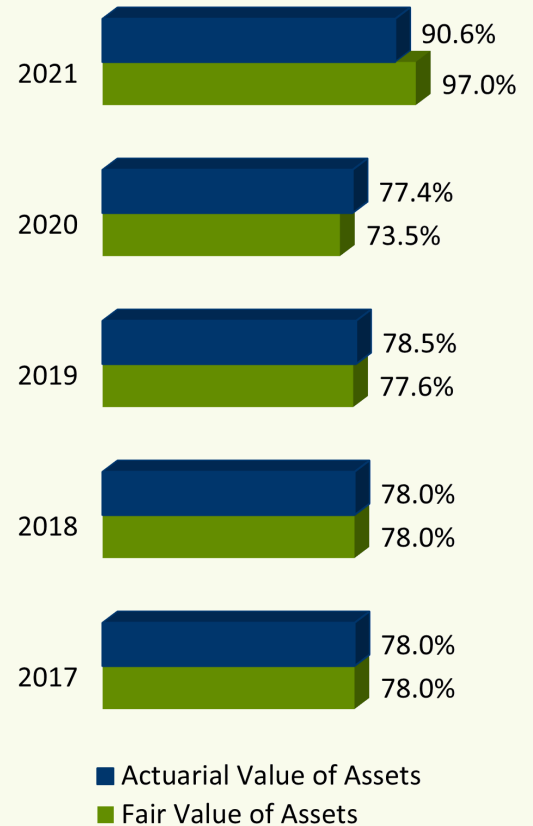
Fiduciary Net Position for the Past Five Years (As of June 30) (in '000 \$)



Income (As of June 30, 2021) (in '000 \$)

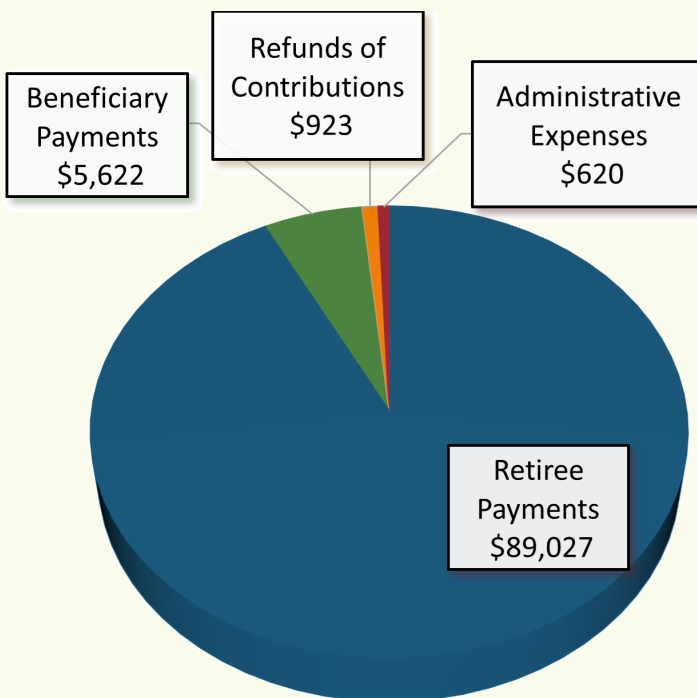


Funded Ratio (As of June 30, 2021)

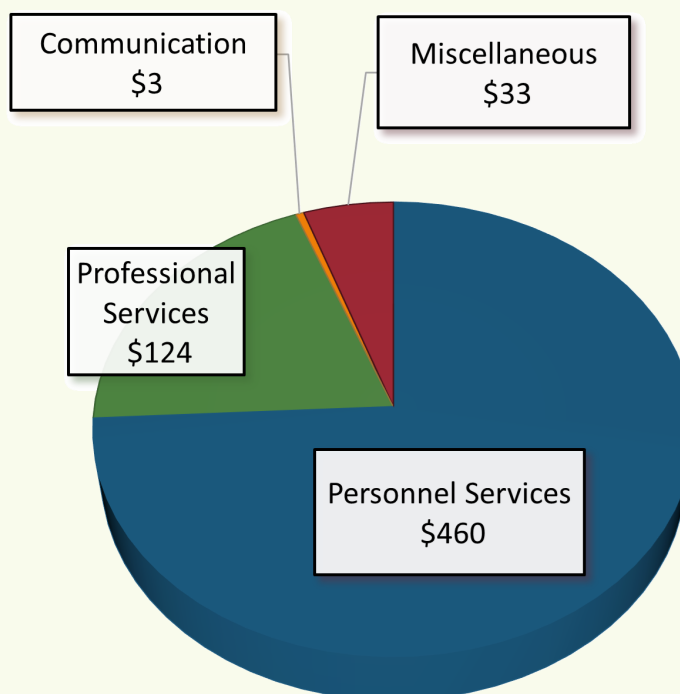


EXPENSES

Pension Benefit Expenses (As of June 30, 2021) (in '000 \$)



Administrative Expenses (As of June 30, 2021) (in '000 \$)



MEMBERSHIP SNAPSHOT

Membership in NERS is mandatory for all full-time employees. NERS serves nearly 9,500 active and retired members, including beneficiaries. 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, 2021, the membership consisted of 4,272 retirees and beneficiaries, 3,741 active members and 1,440 vested former members.



Plan Membership

For the Fiscal Years Ended June 30, 2021 and 2020

	2021	2020
Retirees and Beneficiaries Receiving Benefits	4,272	4,212
Vested Former Members Entitled to but Not Receiving Benefits	1,440	1,364
Active Plan Members	3,741	4,171
Total	9,453	9,747

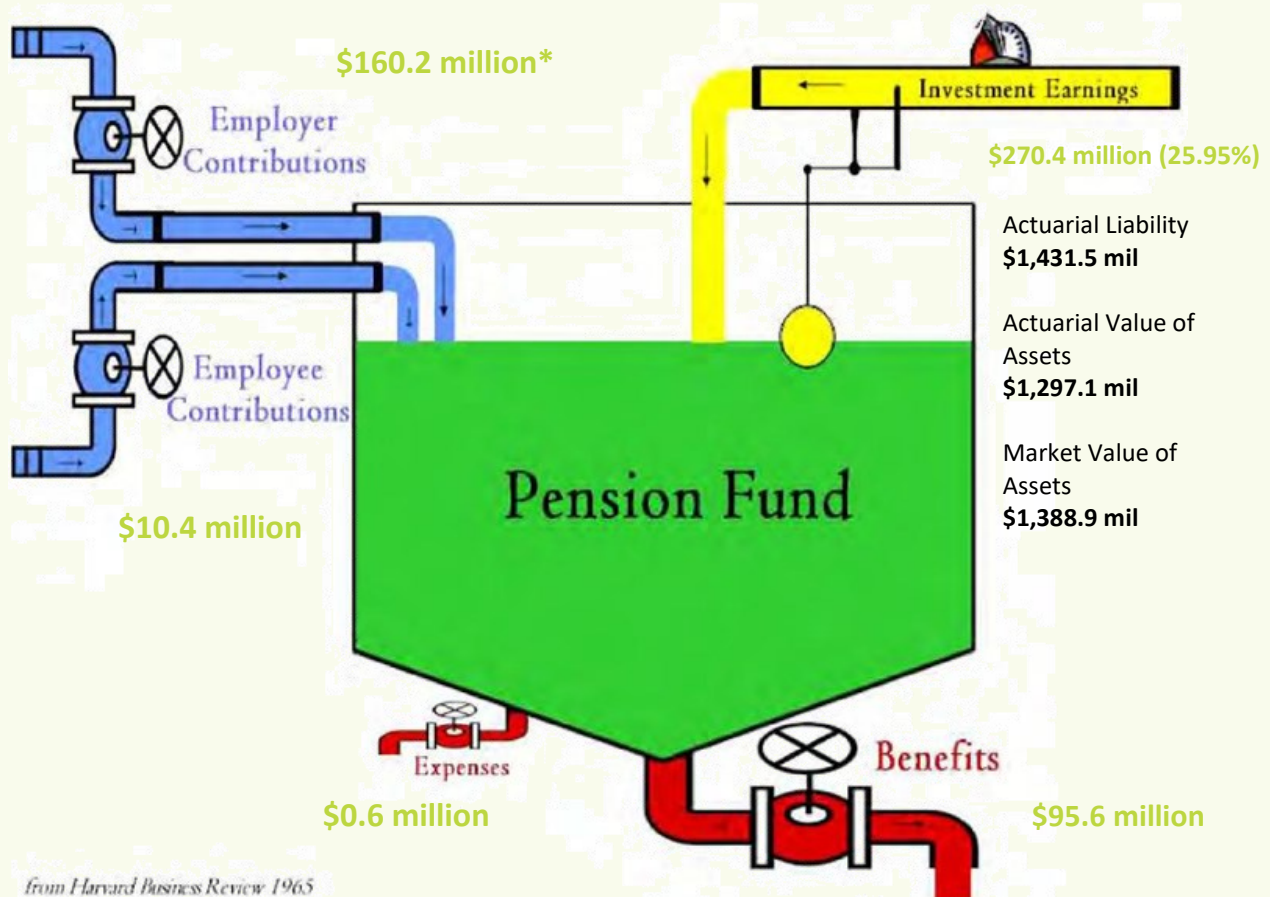
CLOSURE OF NERS

Following a comprehensive review of the current pension landscape and available options to ensure the long-term financial health and sustainability of both the City and NERS, on May 13, 2021, City Council enacted an ordinance closing NERS as of January 1, 2022. As of that date, all new hires, both general and sworn public safety employees, will participate in VRS. It is expected that required contributions to NERS will grow over the next ten years or less by between \$5 and \$10 million, as a result of the closure of NERS to new hires. Actual cost estimates will not be known until the next valuation report and will be subject to change based on actual System experience.

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 amount contributed to the System 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 System's assets relative to the value of the System's 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 is depicted in the graphic below with fiscal year 2021 information.



*Includes \$119.6 million from proceeds generated by the City's issuance of General Obligation Bonds

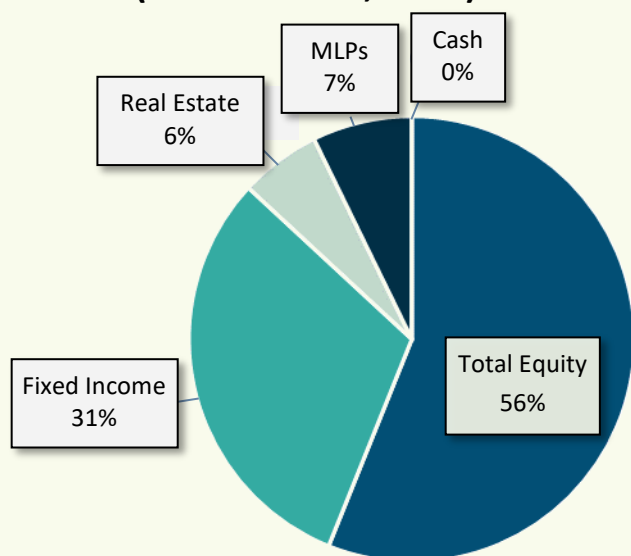
INVESTMENTS

The NERS investment program utilizes a prudent and diversified strategy to generate long-term returns for members and beneficiaries, while also seeking to minimize investment risk. The well-diversified investment portfolio that the System has developed helps to strengthen control over both financial risk and better financial returns.

The most significant factor influencing the risks and returns of the System's investment strategy is asset allocation. This is why the System strives for a diverse investment portfolio. To establish the best long-term asset allocation strategy, the Board evaluates risk and return for each major asset type, seen below. The Board routinely reviews market expectations and adjusts the allocation of assets accordingly, to create a well-balanced portfolio that creates a stable foundation for the System. This ensures that NERS investments are steady in the face of market volatility and consistent with the long-term financial targets.

The following charts show the asset allocation mix as of June 30, 2021.

**Asset Allocation Mix
(As of June 30, 2021)**



**Investment Summary
(As of June 30, 2021)**

Investment Summary (in '000 \$)

Total Equity	\$ 779,941
Fixed Income	428,087
Real Estate	81,595
Master Limited Partnerships	100,706
Cash and Equivalents*	7
*excludes cash held by managers	
Total	\$1,390,336

(Expressed in '000s)

INVESTMENTS

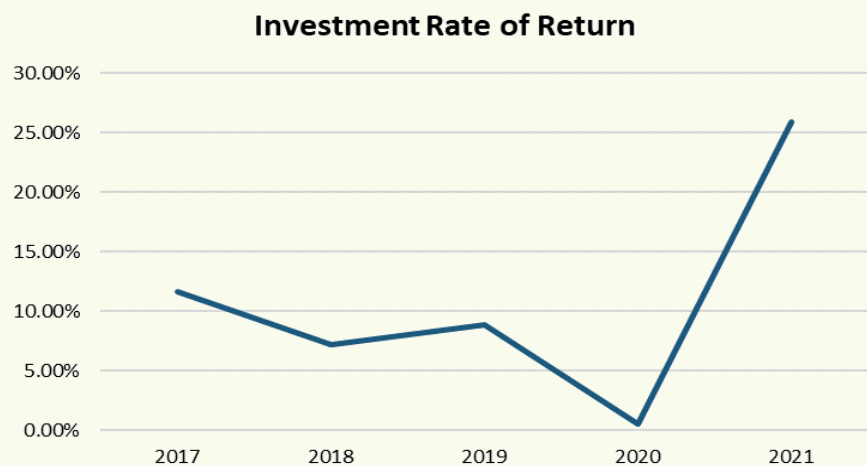
Fiscal year 2021 experienced significant positive performance across the global markets considering improving economic conditions. The U.S. economy continues to recover as widespread vaccine distribution has resulted in the reopening of many state and local economies. The recent rise in demand for goods and services has resulted in strong inflationary pressures.

The U.S. labor market continues to recover as evidenced by the decline in the unemployment rate. Recently, several states have moved to reduce or eliminate additional unemployment benefits to incentivize people to return to work. Overall, wage growth has shown signs of accelerating as employers struggle to fill job openings.

Despite leaving interest rates unchanged at their most recent meeting, the Federal Reserve did change the language of its statement suggesting that interest rates may rise sooner than anticipated.

The investment return results of each year are important to continue to provide sufficient income for benefit payments. Consider that NERS must provide approximately \$8 million in benefit payments each month. If investment income cannot cover the benefit payments, NERS must use assets to pay benefits. This sell-off of assets limits future investment income and erodes the financial foundation. Years of strong investment returns will strengthen the foundation — by making assets available for investment.

This chart illustrates NERS' portfolio performance over the last five fiscal years. The System's fiscal year 2021 rate of return is 25.85 percent versus the long-term actuarial objective of 7.0 percent.



SYSTEM MEMBERSHIP

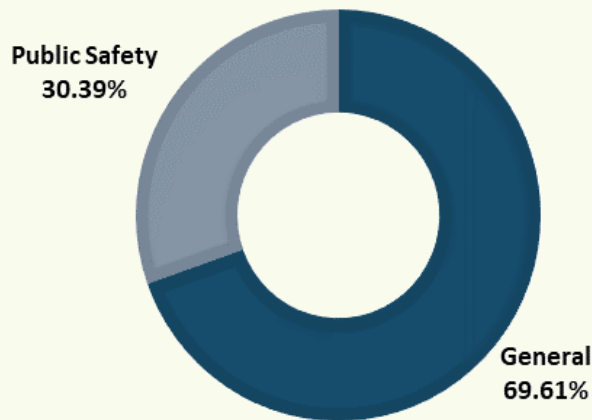
The System is the administrator of a single-employer, contributory, defined benefit plan that covers substantially all employees of the City of Norfolk, Virginia, excluding the School Board and the Constitutional Officer employees who are covered by the Virginia Retirement System.

Plan Membership (As of June 30)

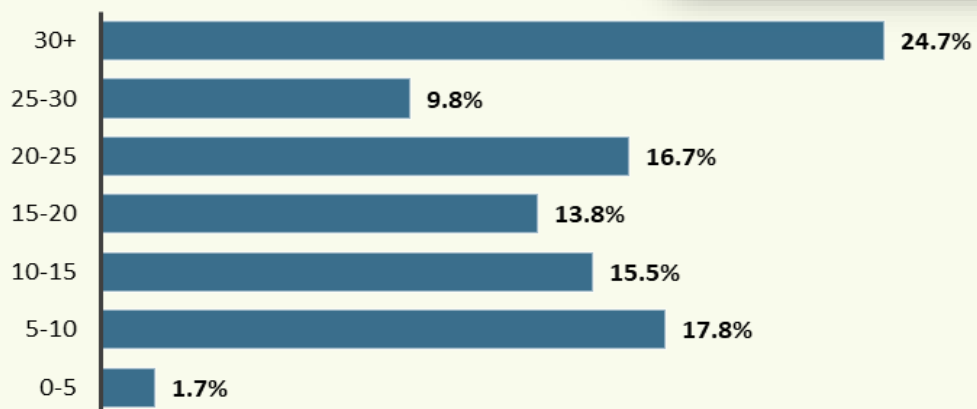
	2021	2020
Retirees and Beneficiaries	4,272	4,212
Vested Former Members	1,440	1,364
Active Plan Members	3,741	4,171
Total Plan Membership	9,453	9,747



Active Membership by Type (As of June 30, 2021)



Years of Service at Retirement (As of June 30, 2021)



CONTRIBUTIONS

Many factors influence the amount of the City's required contribution to NERS, including, without limitation, inflationary factors, changes in statutory provisions of NERS, changes in the level of benefits provided or the contribution rates of the City, increase or decrease in the number of covered employees, changes in actuarial assumptions or methods, and differences between actual and anticipated investment experience of NERS. Shown below are historical contributions.

Total Annual Contributions (in '000 \$)			
Fiscal Year	Employer Contributions	Employee Contributions	Total Annual Contribution
2017	\$33,457	\$9,450	\$42,907
2018	\$35,494	\$9,668	\$45,162
2019	\$37,079	\$9,673	\$46,752
2020	\$38,494	\$9,838	\$48,332
2021	\$160,252	\$9,712	\$169,964

BENEFITS AND SERVICES

- ◆ Members are vested after five (5) 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 to members who attain the age and/or 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 System participants.
- ◆ Presentations to introduce NERS to new employees are conducted during new employee orientations.

CONTACTING NERS

The City of Norfolk Employees' Retirement System's PAFR for fiscal year 2021 offers a summary of information presented in the fiscal year 2021 ACFR. The fiscal year 2021 ACFR provides detailed information regarding the System'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 to view the fiscal year 2021 ACFR 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

Email: retirement@norfolk.gov