

**The Employees' Retirement System
for the City of Norfolk**

**Actuarial Valuation
as of June 30, 2005**

The Sixty-Third Actuarial Valuation

November 2005



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November 16, 2005

Board of Trustees
Employees' Retirement system
City of Norfolk
Norfolk, Virginia 23510

Dear Members of the Board:

At your request, we have conducted an annual actuarial valuation of the Employees' Retirement System for the City of Norfolk as of June 30, 2005. The results of the valuation are contained in this report. The purpose of the valuation is discussed in the Foreword.

This report contains information on System assets, as well as analyses which combine asset and liability performance and projections. The report also discloses employer contribution levels, and required disclosures under the Government Accounting Standards Board Statement #25.

Your attention is called to the Foreword in which we refer to the general approach employed in the preparation of this report. We also comment on the sources and reliability of both the data and the actuarial assumptions on which our findings are based. Those comments are the basis for our certification that this report is complete and accurate to the best of our knowledge and belief. The results of this report are only applicable to the contribution for Fiscal Year Ending 2007 and rely on future plan experience conforming to the underlying assumptions. To the extent that actual plan experience deviates from the underlying assumptions, the results would vary accordingly.

I hereby certify that, to the best of my knowledge, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the applicable Actuarial Standards of Practice as promulgated by the Actuarial Standards Board.

Sincerely,
Cheiron



Fiona E. Liston, FSA
Consulting Actuary

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FOREWORD

Cheiron has performed the actuarial valuation of the Employees' Retirement System for the City of Norfolk as of June 30, 2005. The purpose of this report is to:

- 1) **Measure and disclose**, as of the valuation date, the financial condition of the System;
- 2) **Indicate trends** in the financial progress of the System;
- 3) **Determine the contribution rate** to be paid by the City for Fiscal Year 2007;
- 4) **Provide specific information** and documentation required by the Government Accounting Standards Board (GASB).

An actuarial valuation establishes and analyzes System assets and liabilities on a consistent basis, and traces the progress of both from one year to the next. It includes measurement of the System's investment performance as well as an analysis of actuarial liability gains and losses.

Section I presents a summary containing our findings and disclosing important trends experienced by the System in recent years.

Section II contains details on various asset measures, together with pertinent performance measurements.

Section III shows similar information on System liabilities, measured for actuarial, accounting, and government reporting purposes.

Section IV develops the employer contribution rate to be paid by the City effective July 1, 2006.

Section V includes the required disclosures under GASB Statement number 25.

The appendices to this report contain a summary of the System's membership at the valuation date, a summary of the major provisions of the System, and the actuarial methods and assumptions used in the valuation.

In preparing our report, we relied without audit, on information (some oral and some written) supplied by the System's staff. This information includes, but is not limited to, the plan provisions, employee data, and financial information.

The actuarial assumptions reflect our understanding of the likely future experience of the System and the assumptions as a whole represent our best estimate for the future experience of the System. The results of this report are dependent upon future experience conforming to these assumptions. To the extent that future experience deviates from the actuarial assumptions, the true cost of the System could vary from our results.

In preparing this report, we have conformed to generally accepted actuarial principals and practices which are consistent with the applicable Guides to Professional Conduct, amplifying opinions, and supporting recommendations and interpretations of the Actuarial Standards Board.

Finally, we would like to point out that this is the first valuation reported prepared by Cheiron for the City of Norfolk. The results disclosed under the heading June 30, 2004 were produced by the prior actuary and are reproduced here for comparison purposes.

SECTION I BOARD SUMMARY

General Comments

In this section, we will first discuss the trends of the System over the past decade and then show projections of the contribution rate and funding status. Please remember that these projections make certain assumptions about future investment returns, future salary increases, future inflation, and future behavior of plan participants. We cannot know what will actually happen, but these projections should provide the Board with a better understanding of the sensitivity of the System's funding to future market performances.

The City Code states that each year the Board must certify to the City Manager the amount of appropriation required for the ensuing year to meet the normal and accrued liability contributions payable by the City. The results of this valuation determine the contribution rate for the fiscal year beginning July 1, 2006. The contribution rate for General employees is determined to be 11.93%. The contribution rate for Firefighters and Police is determined to be 18.41%. The composite rate is equal to 14.29% of annual payroll.

There are two differences between this report and the previous one. First, we are reflecting the ad hoc COLA granted effective July 1, 2005. Secondly, we have changed the method used to develop the amortization of unfunded liability to reflect the move to monthly payments as opposed to the prior practice of making contributions at the end of the year.

Forecasts show that, should all assumptions be realized, the System will remain stabilized at about a fully-funded level with assets roughly equal to liabilities over the next 15 years. The City should recognize that they have survived the worst financial markets since the Great Depression emerging with a System that is

still close to being fully funded. This is something that few systems have been able to accomplish.

Recent Experience

The financial markets performed below expectation during the fiscal year ending in 2005. Likewise, the System experienced a small loss on the actuarial value of assets. The actual return on a market value basis was approximately 6.8%. On an actuarial value basis, the assets returned 7.2% compared with an assumed rate of return of 7.5%. The loss recognized for funding purposes was \$1.85 million.

On the liability side, the System's experience resulted in an actuarial gain of \$5.8 million (roughly 0.7% of the liabilities). In addition, the System granted an ad-hoc COLA of 1.0% effective July 1, 2005 for all retired participants who retired prior to June 1, 2004. The impact of this COLA was approximately \$4.0 million.

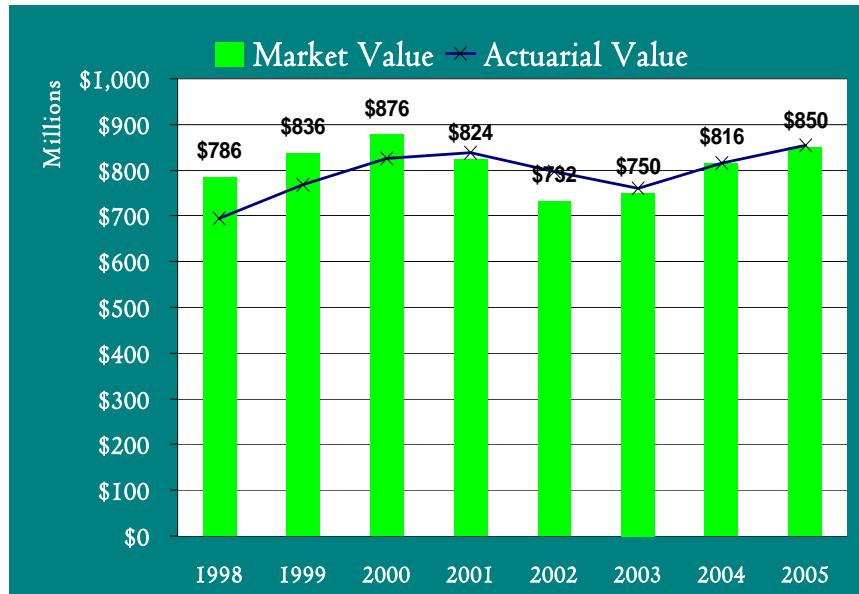
The combination of liability and investment experience over the last year produced a slight improvement in the System's funding ratio (actuarial value of assets over actuarial accrued liability) from 96.5% at June 30, 2004 to 96.6% at June 30, 2005.

Trends

It is important to take a step back from the latest results and view them in the context of the System's recent history. On the next page we present a series of graphs which display key factors in the valuations over the last ten years. After the historical review we present a few projection graphs, showing the possible condition of the System over the next 15 years under various market return scenarios.

SECTION I BOARD SUMMARY

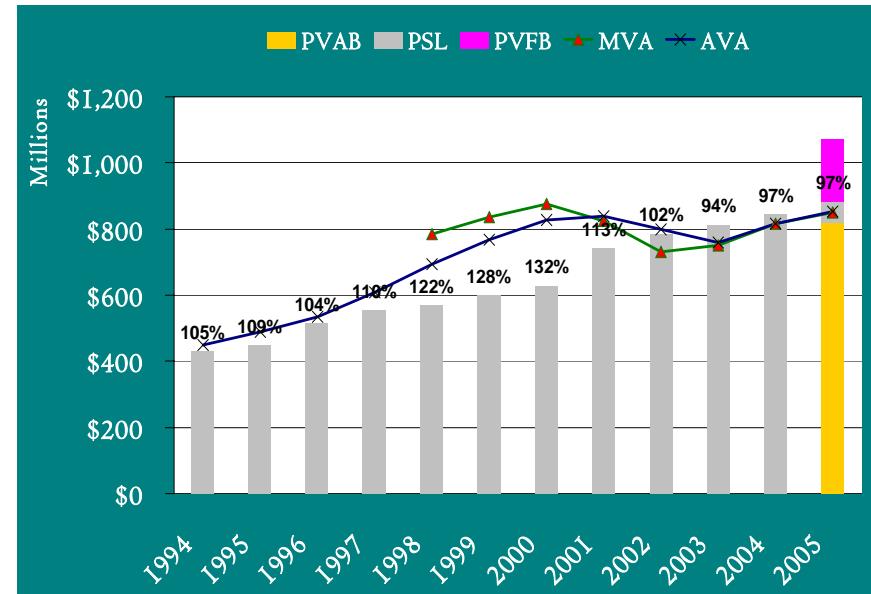
Growth in Assets



The positive growth in the Market Value of Assets (MVA) continued this year with a return of 6.8%. Due to the asset smoothing method in place, the Actuarial Value of Assets (AVA) increased slightly over the year. The Actuarial Value of Assets were reset equal to the Market Value of Assets last year (June 30, 2004.)

Over the period July 1, 1998 to June 30, 2005 the System's assets returned approximately 4.4% per year measured at market value, compared to a valuation assumption of 7.5% per year.

Assets and Liabilities

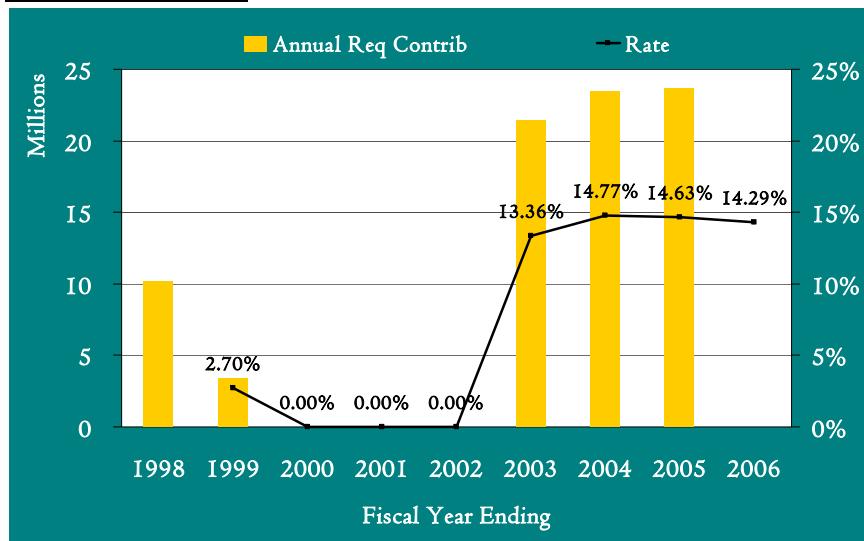


The three colored bars represent the three different measures of liability mentioned in this report. For funding purposes, the target amount is represented by the top of the gray bar. We compare the actuarial value of assets to this measure of liability in developing the funded percent. These are the percentages shown in the graph labels.

As you can see, the System had its highest funded percentage (132%) at June 30, 2000, before the market slide. The amount represented by the top of the pink bars, the Present Value of Future Benefits (PVFB), is the amount needed to provide all benefits for the current participants and their beneficiaries. The top of the yellow bars measures the benefits accrued to date.

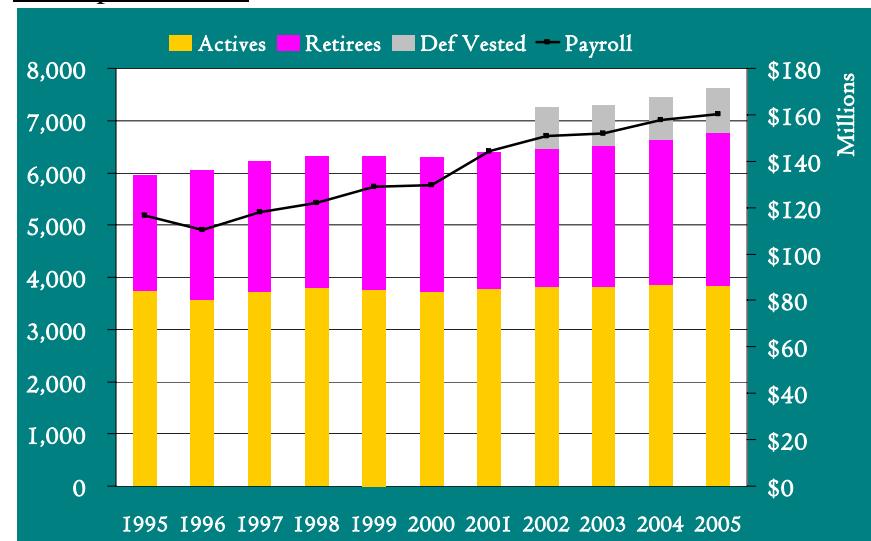
SECTION I BOARD SUMMARY

Contribution Rates



The yellow bars in this graph show the contribution dollar amounts that have been paid by the City. The black line shows this contribution as a percent of payroll (right hand scale). The City contribution rate is set by the actuarial process. Please note there is a lag in the rate. For example, the June 30, 2005 valuation determines the annual required contribution for the period July 1, 2006 to June 30, 2007.

Participant Trends



As with many funds in this country, there has been a steady growth in the number of retired members as the System has matured. There was no information available concerning the number of terminated participants who are entitled to a vested benefit in the future prior to June 30, 2002.

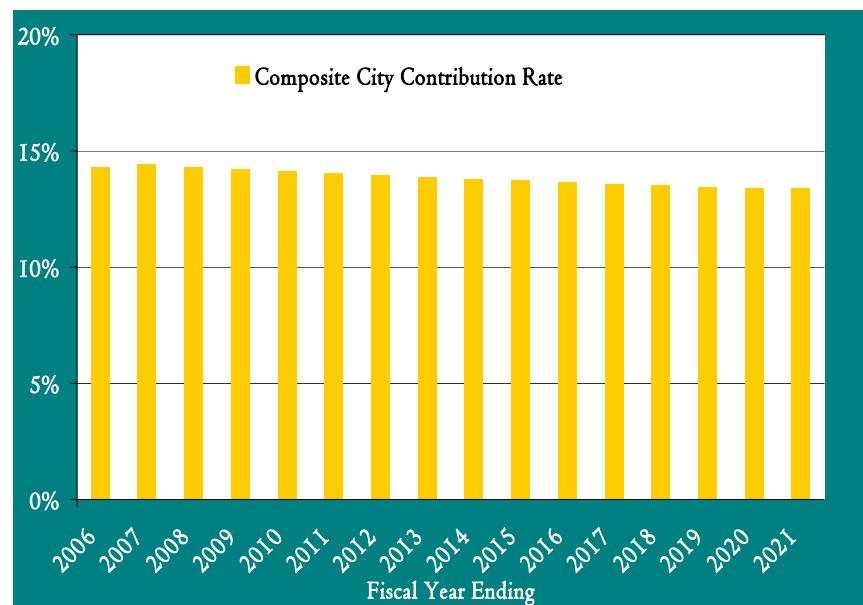
The graph also shows that the number of actives covered by the System has remained fairly stable. The black line shows historic growth in the total covered payroll of the System.

SECTION I BOARD SUMMARY

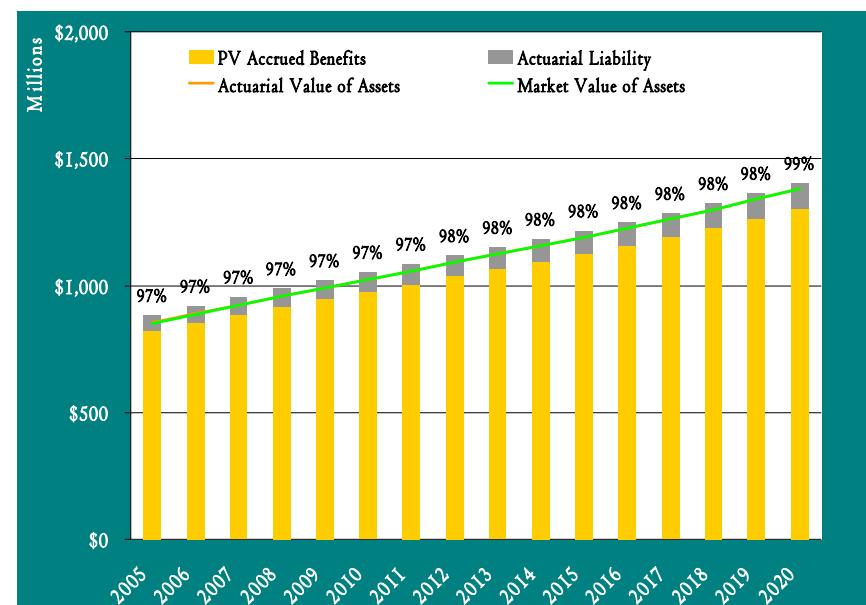
Future Outlook

Base Line Projections

The two graphs below show the expected progress of the plan over the next 15 years assuming the System's assets earn 7.5% on their *market value*. The graph on the left of the page shows that the City contribution rate will remain stable if all actuarial assumptions are met, including the 7.5% interest rate.



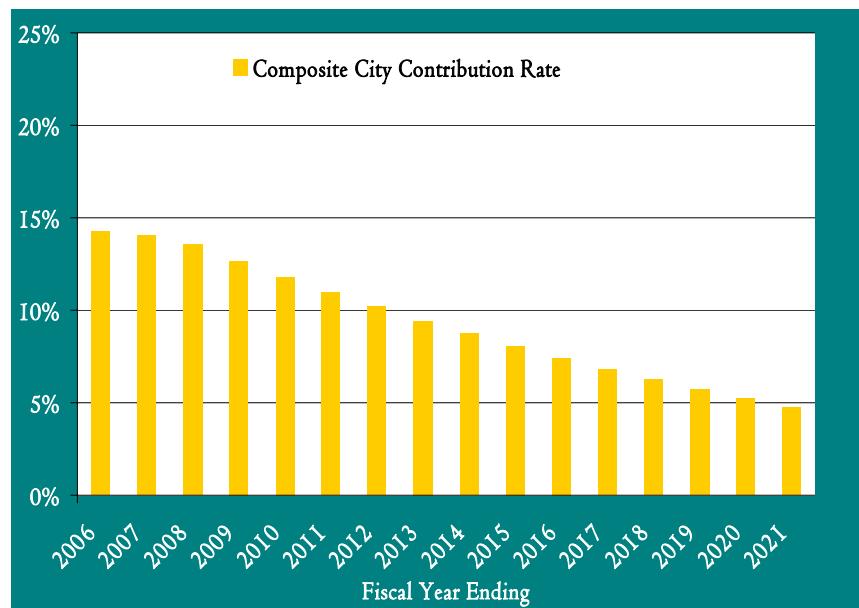
The graph below shows the projected funding status over the next 15 years. As you can see, the System's funded status is projected to remain relatively stable at the current level of 97%. This should be expected since the actuarial value of assets was reset to the market value last year, and we are projecting no investment gains or losses after June 30, 2005.



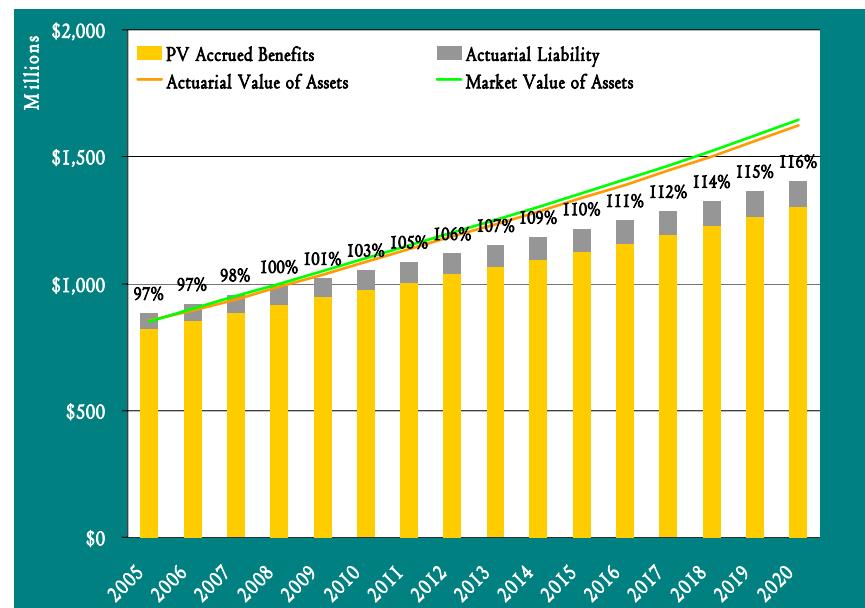
SECTION I BOARD SUMMARY

Projections With Asset Returns of 9.0%

The future funding status of this System will be largely driven by the investment earnings. Due to the size of assets, as compared to liabilities, the System is in a highly leveraged position. This means that relatively minor changes in the market returns can have significant effects on the System's status. The next two graphs show what the next 15 years would look like with a 9% annual return.



As you can see, the City's composite contribution rate would drop from its current level of 14.29% of payroll down to around 5% of payroll. The System would return to its fully funded position.

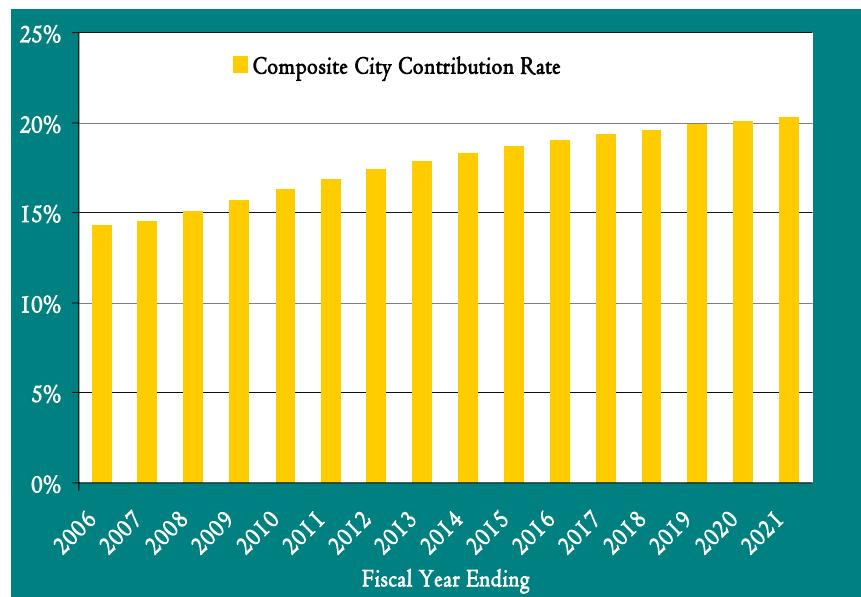


SECTION I BOARD SUMMARY

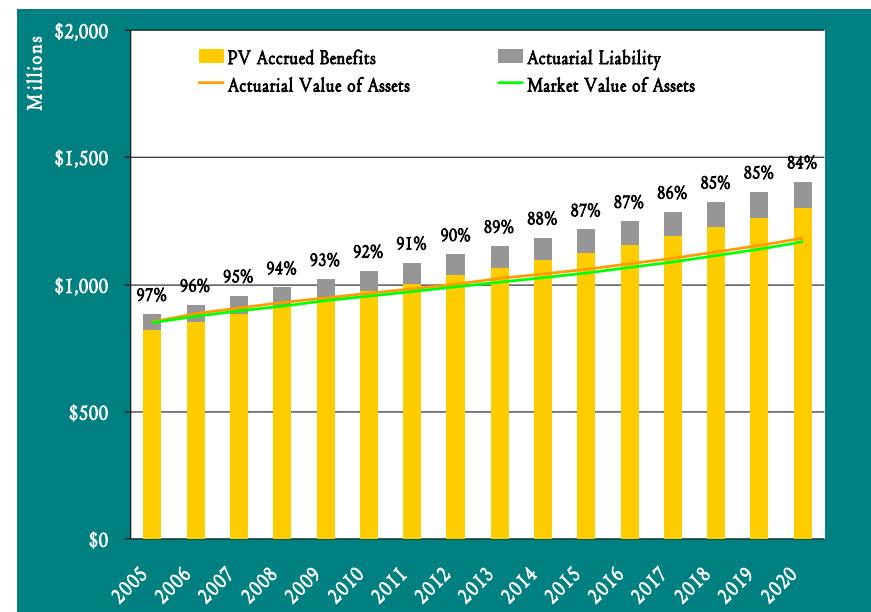
Projections With Asset Returns of 6.0%

The next two graphs show what the next 15 years would look like with a 6% annual return.

As you can see, the City's composite contribution rate would steadily increase from its current level of 14.29% of payroll to around 20% of payroll.



The System's funded level would drop to around 84% from its current level of 97% funded. There would still be no danger of benefit commitments going unmet as the fund would have over one billion dollars.



SECTION I
BOARD SUMMARY

**Employees' Retirement System
for the City of Norfolk**
Summary of Principal Plan Results
Combined

Valuation as of:	6/30/2004	6/30/2005	% Change
<u>Participant Counts</u>			
Actives	3,861	3,838	(0.6%)
Leave of Absence	28	46	64.3%
Terminated Vesteds	808	852	5.4%
In Pay Status	<u>2,782</u>	<u>2,929</u>	5.3%
Total	7,479	7,665	2.5%
Annual Salaries of Active Members	\$ 157,714,411	\$ 160,224,137	1.6%
Annual Retirement Allowances	\$ 41,670,258	\$ 45,092,784	8.2%
<u>Assets and Liabilities</u>			
Actuarial Accrued Liability	\$ 845,670,244	\$ 883,930,417	4.5%
Assets for Valuation Purposes	<u>816,120,329</u>	<u>854,146,038</u>	4.7%
Unfunded Actuarial Liability	\$ 29,549,915	\$ 29,784,379	0.8%
Funding Ratio	96.51%	96.63%	
Present Value of Accrued Benefits	NC*	\$ 819,523,593	
Market Value of Assets (including receivable contribution)	<u>816,120,329</u>	<u>850,452,889</u>	4.2%
Unfunded FASB Accrued Liability	NC	\$ (30,929,296)	
Accrued Benefit Funding Ratio	NC	103.77%	
<u>Contributions as a Percentage of Payroll</u>			
	Fiscal Year 2006	Fiscal Year 2007	
Normal Cost Contribution	12.79%	12.53%	
Unfunded Actuarial Liability Contribution	<u>1.84%</u>	<u>1.76%</u>	
Total Contribution	14.63%	14.29%	

* Not calculated. The prior actuary did not disclose the Present Value of Accrued Benefits.

SECTION I
BOARD SUMMARY

**Employees' Retirement System
for the City of Norfolk
Summary of Principal Plan Results
General Employees**

Valuation as of:	6/30/2004	6/30/2005	% Change
<u>Participant Counts</u>			
Actives	2,644	2,607	(1.4%)
Leave of Absence	17	29	70.6%
Terminated Vesteds	686	721	5.1%
In Pay Status	<u>1,953</u>	<u>2,061</u>	5.5%
Total	5,300	5,418	2.2%
Annual Salaries of Active Members	\$ 100,685,330	\$ 101,743,424	1.1%
Annual Retirement Allowances	\$ 23,982,202	\$ 26,415,874	10.1%
<u>Assets and Liabilities</u>			
Actuarial Accrued Liability	\$ 461,847,553	\$ 489,351,387	6.0%
Assets for Valuation Purposes	<u>465,925,636</u>	<u>484,570,647</u>	4.0%
Unfunded Actuarial Liability	\$ (4,078,083)	\$ 4,780,740	(217.2%)
Funding Ratio	100.88%	99.02%	
Present Value of Accrued Benefits	NC*	\$ 456,073,353	
Market Value of Assets (including receivable contribution)	<u>465,925,636</u>	<u>482,475,465</u>	3.6%
Unfunded FASB Accrued Liability	NC	\$ (26,402,112)	
Accrued Benefit Funding Ratio	NC	105.79%	
<u>Contributions as a Percentage of Payroll</u>			
	Fiscal Year 2006	Fiscal Year 2007	
Normal Cost Contribution	11.50%	11.48%	
Unfunded Actuarial Liability Contribution	(0.40%)	0.45%	
Total Contribution	11.10%	11.93%	

* Not calculated. The prior actuary did not disclose the Present Value of Accrued Benefits.

SECTION I
BOARD SUMMARY

**Employees' Retirement System
for the City of Norfolk
Summary of Principal Plan Results
Firefighters and Police**

Valuation as of:	6/30/2004	6/30/2005	% Change
<u>Participant Counts</u>			
Actives	1,217	1,231	1.2%
Leave of Absence	11	17	54.5%
Terminated Vesteds	122	131	7.4%
In Pay Status	<u>829</u>	<u>868</u>	4.7%
Total	2,179	2,247	3.1%
Annual Salaries of Active Members	\$ 57,029,081	\$ 58,480,713	2.5%
Annual Retirement Allowances	\$ 17,688,056	\$ 18,676,910	5.6%
<u>Assets and Liabilities</u>			
Actuarial Accrued Liability	\$ 383,822,691	\$ 394,579,030	2.8%
Assets for Valuation Purposes	<u>350,194,693</u>	<u>369,575,391</u>	5.5%
Unfunded Actuarial Liability	\$ 33,627,998	\$ 25,003,639	(25.6%)
Funding Ratio	91.24%	93.66%	
Present Value of Accrued Benefits	NC*	\$ 363,450,240	
Market Value of Assets (including receivable contribution)	<u>350,194,693</u>	<u>367,977,424</u>	5.1%
Unfunded FASB Accrued Liability	NC	\$ (4,527,184)	
Accrued Benefit Funding Ratio	NC	101.25%	
<u>Contributions as a Percentage of Payroll</u>			
	Fiscal Year 2006	Fiscal Year 2007	
Normal Cost Contribution	15.06%	14.35%	
Unfunded Actuarial Liability Contribution	<u>5.78%</u>	<u>4.06%</u>	
Total Contribution	20.84%	18.41%	

* Not calculated. The prior actuary did not disclose the Present Value of Accrued Benefits.

SECTION II ASSETS

Pension plan assets play a key role in the financial operation of the System and in the decisions the Trustees may make with respect to future deployment of those assets. The level of assets, the allocation of assets among asset classes, and the methodology used to measure assets will likely impact upon benefit levels, City Contributions, and the ultimate security of participants' benefits.

In this section, we present detailed information on System assets including:

- **Disclosure** of System assets at June 30, 2004 and June 30, 2005;
- Statement of the **changes** in market values during the year;
- Development of the **Actuarial Value of Assets**;
- An assessment of **investment performance**; and
- A projection of the System's expected **cashflows** for the next ten years.

Disclosure

The market value of assets represents a "snap-shot" or "cash-out" values which provide the principal basis for measuring financial performance from one year to the next. Market values, however, can fluctuate widely with corresponding swings in the marketplace. As a result, market values are usually not suitable for long range planning.

The actuarial value, or "carrying values," are market values which have been smoothed and are the actuary's best estimate of long term asset values. They are used for evaluating the System's ongoing liability to meet its obligations.

Current methods employed by this System set the actuarial value equal to the market value of assets less 66 2/3% of the investment gain (loss) during the preceding year, less 33 1/3% of the investment gain (loss) during the second preceding year. The actuarial value of assets was reset to market value of assets as of June 30, 2004. Therefore, the transition will be complete as of June 30, 2006.

The actuarial value of assets is then allocated between the General Employees' portion of the System and that covering Firefighters and Police. The allocation is performed annually based on the actual contribution and benefit payments made on behalf of each type of employee. The investment returns for the year are allocated based on the starting balance and the cashflow of each portion of the fund. Please note that the starting allocation as of July 1, 2004 was developed by the prior actuary and accepted without audit.

SECTION II
ASSETS

Statement of Assets at Market Value		
	June 30, 2004	June 30, 2005
Assets		
Cash and short-term investments	\$ 59,553,103	\$ 39,495,180
Receivables		
Contributions from the City of Norfolk	23,469,744	23,652,756
Accrued investment income	1,999,363	1,708,623
Due from broker for securities sold	<u>15,045,225</u>	<u>17,877,127</u>
Total	40,514,332	44,238,506
Investments, at fair value		
United States government securities	84,320,806	29,099,032
Corporate bonds and debentures	98,037,091	184,044,212
Common stock	105,911,057	111,747,337
Domestic equity fund	390,264,177	418,153,834
International equity funds	-	-
Domestic bond fund	60,976,451	65,095,631
Other	<u>-</u>	<u>-</u>
Total	<u>\$ 739,509,582</u>	<u>\$ 808,140,046</u>
Total Assets	\$ 839,577,017	\$ 890,873,732
Liabilities		
Accounts payable	\$ 359,403	\$ 276,267
Due to broker for securities purchases	<u>23,097,285</u>	<u>40,144,576</u>
Total Liabilities	<u>\$ 23,456,688</u>	<u>\$ 40,420,843</u>
Net Assets Available for Benefits	\$ 816,120,329	\$ 850,452,889

SECTION II
ASSETS

Changes in Market Values	
Value of Assets – June 30, 2004	\$ 816,120,329
<u>Additions</u>	
Contributions	\$ 23,652,756
Investment Income:	
Net Appreciation (Depreciation) in Fair Value of Investments	\$ 42,412,635
Interest	9,442,388
Dividends	4,052,884
Other	<u>236,022</u>
Total Investment Income	\$ 56,143,929
Investment Expenses	\$ (1,559,984)
Net Income from Investing Activities	\$ 54,583,945
Total Additions	\$ 78,236,701
<u>Deductions</u>	
Benefits Paid directly to Participants	\$ (40,805,481)
Return of Contributions	(42,918)
Beneficiary Payments	(2,514,972)
Administrative Fees	<u>(540,770)</u>
Total Deductions	\$ (43,904,141)
Total	
Net Increase (Decrease)	\$ 34,332,560
Value of Assets – June 30, 2005	\$ 850,452,889

SECTION II ASSETS

Actuarial Value of Assets

The Actuarial Value of Assets represents a “smoothed” value developed by the actuary to reduce, or eliminate, erratic results which could develop from short term fluctuations in the Market Value of Assets. For this System, the Actuarial Value has been calculated by taking the market value of assets less 66 2/3% of the investment gain (loss) during the preceding year, less 33 1/3% of the investment gain (loss) during the second preceding year. The table below illustrates the calculation of Actuarial Value of Assets for the June 30, 2005 valuation. The allocation of the Actuarial Value of Assets to the two plans can be seen on the following page.

Market Value Gain/(Loss)		
Value of Assets – June 30, 2004	\$	816,120,329
Employer Contributions	\$	23,652,756
Benefit Payments		(43,363,371)
Expected Return at 7.5%		<u>59,582,898</u>
Expected Value at June 30, 2005	\$	855,992,612
Actual Value at June 30, 2005	\$	850,452,889
Investment Gain/(Loss)	\$	(5,539,723)

Develop Excluded Gain/(Loss)		
Exclude 66-2/3% of 2004 Gain/(Loss)	\$ (5,539,723)	\$ (3,693,149)
Exclude 33-1/3% of 2003 Gain/(Loss)	N/A	N/A
Total Excluded Gain/(Loss) for AVA Calculation		\$ (3,693,149)

Actuarial Value of Assets		
Market Value of Assets – June 30, 2005	\$	850,452,889
Total Gain/(Loss) excluded		<u>(3,693,149)</u>
Actuarial Value of Assets – June 30, 2005	\$	854,146,038

SECTION II
ASSETS

Allocation of Actuarial Value of Assets as of June 30, 2005			
	General	Firefighters and Police	Total
1. Actuarial Value of Assets at June 30, 2004	\$ 465,925,636	\$ 350,194,693	\$ 816,120,329
2. Contributions (per financial statements)	10,647,072	13,005,684	23,652,756
3. Benefit Payments (allocated on the basis of 7/1/04 expected payments)	(24,956,628)	(18,406,743)	(43,363,371)
4. Investment Earnings (based on 7.2% return)	<u>32,954,567</u>	<u>24,781,757</u>	<u>57,736,324</u>
5. Actuarial Value of Assets at June 30, 2005	\$ 484,570,647	\$ 369,575,391	\$ 854,146,038
6. Market Value of Assets at June 30, 2005 (used only for disclosure purposes)	\$ 482,475,465	\$ 367,977,424	\$ 850,452,889

SECTION II ASSETS

Investment Performance

The Market Value of Assets (MVA) returned 6.77% during 2004, which is less than the assumed 7.50% return.

A return of 7.16% on the Actuarial Value of Assets (AVA) is primarily the result of the asset smoothing method being utilized for the calculation of the Actuarial Value of Assets. Since only a

portion of the gain or loss from the performance of the System is recognized in a given year, in periods of very good performance, the AVA can lag significantly behind the MVA. In a period of negative returns, the AVA does not decline as rapidly as the MVA.

Annual Rates of Return		
Year Ending June 30,	Market Value	Actuarial Value
1999	9.9%	14.7%
2000	8.8%	11.9%
2001	-2.3%	5.4%
2002	-7.6%	-0.9%
2003	5.4%	-2.5%
2004	11.2%	9.7%
2005	6.8%	7.2%

SECTION II ASSETS

Projection of System's Benefit Payments and City Contributions		
Fiscal Year Ending	Expected Benefit Payments	Expected City Contributions*
2006	\$ 49,569,000	\$ 23,831,000
2007	54,194,000	24,116,000
2008	58,285,000	24,938,000
2009	62,295,000	25,823,000
2010	66,028,000	26,538,000
2011	69,779,000	27,261,000
2012	72,978,000	28,015,000
2013	76,071,000	28,800,000
2014	78,882,000	29,620,000
2015	81,427,000	30,474,000

*Assumes payments are made uniformly throughout the year

Expected benefit payments are projected for the closed group valued at June 30, 2005. Projecting any farther than 10 years using a closed-group would not yield reliable predictions due to the omission of new hires.

Expected FY 2006 contributions are based on a 2004 valuation rate of 14.62%. Expected contributions for FY 2007 and beyond are projected based on an assumed normal cost of 12.53%, a 20-year amortization of the unfunded, and a 3.5% annual increase in the total covered payroll.

SECTION III LIABILITIES

In this section, we present detailed information on System liabilities including:

- **Disclosure** of System liabilities at June 30, 2004 and June 30, 2005;
- Statement of **changes** in these liabilities during the year; and
- A **projection** of future liabilities.

Disclosure

Several types of liabilities are calculated and presented in this report. Each type is distinguished by the people ultimately using the figures and the purpose for which they are using them.

- **Present Value of Benefits:** Used for analyzing the financial outlook of the System, this represents the amount of money needed today to fully pay off all future benefits and expenses of the System, assuming participants continue to accrue benefits.
- **Actuarial Accrued Liability:** Used for funding calculations and GASB disclosures, this liability represents the total amount of money needed to meet the future obligations of the Plan assuming that no further benefits are accrued but benefits already accrued increase due to rising pay. This method is known as the **Projected Unit Credit** method.
- **Present Value of Accrued Liabilities:** Used for communicating the current level of liabilities, this liability represents the total amount of money needed today to fully pay off the current accrued obligations of the System, assuming no future accruals of benefits. These liabilities are also required for accounting purposes (FAS 35) and used to assess whether the Plan can meet its current benefit commitments.

The following table discloses each of these liabilities for the current and prior valuations. With respect to each disclosure, a subtraction of the appropriate value of System assets yields, for each respective type, a **net surplus** or an **unfunded liability**.

SECTION III
LIABILITIES

Liabilities/Net (Surplus)/Unfunded Combined		June 30, 2004	June 30, 2005
Present Value of Benefits			
Active Participant Benefits		NC	\$ 601,703,053
Retiree Benefits		NC	441,247,800
Terminated Vested and Inactive Members		<u>NC</u>	<u>28,188,607</u>
Present Value of Benefits (PVB)		NC	\$1,071,139,460
Market Value of Assets (MVA)		NC	\$ 850,452,889
Future City Contributions		<u>NC</u>	<u>220,686,571</u>
Total Resources		NC	\$1,071,139,460
Normal Cost		\$ 20,165,076	\$ 20,077,124
Actuarial Accrued Liability			
Active Participant Benefits		\$ 424,199,282	\$ 414,494,010
Retiree Benefits		395,350,580	441,247,800
Terminated Vested and Inactive Members		<u>26,120,382</u>	<u>28,188,607</u>
Actuarial Accrued Liability (AAL)		\$ 845,670,244	\$ 883,930,417
Actuarial Value of Assets (AVA)		816,120,329	854,146,038
Net (Surplus)/Unfunded (AAL – AVA)		\$ 29,549,915	\$ 29,784,379
Present Value of Accrued Liability			
Present Value of Accrued Liability (PVAB)		NC	\$ 819,523,593
Market Value of Assets (MVA)		<u>816,120,329</u>	<u>850,452,889</u>
Net (Surplus)/Unfunded		NC	\$ (30,929,296)

SECTION III
LIABILITIES

Liabilities/Net (Surplus)/Unfunded General		June 30, 2004	June 30, 2005
Present Value of Benefits			
Active Participant Benefits	NC	\$ 310,910,561	
Retiree Benefits	NC	249,233,493	
Terminated Vested and Inactive Members	<u>NC</u>	<u>23,492,182</u>	
Present Value of Benefits (PVB)	NC	\$ 583,636,236	
Normal Cost	\$ 11,578,103	\$ 11,684,446	
Actuarial Accrued Liability			
Active Participant Benefits	\$ 220,323,877	\$ 216,625,712	
Retiree Benefits	219,682,087	249,233,493	
Terminated Vested and Inactive Members	<u>21,841,589</u>	<u>23,492,182</u>	
Actuarial Accrued Liability (AAL)	\$ 461,847,553	\$ 489,351,387	
Actuarial Value of Assets (AVA)	<u>465,925,636</u>	<u>484,570,647</u>	
Net (Surplus)/Unfunded (AAL – AVA)	\$ (4,078,083)	\$ 4,780,740	
Present Value of Accrued Liability			
Present Value of Accrued Liability (PVAB)	NC	\$ 456,073,353	

SECTION III
LIABILITIES

**Liabilities/Net (Surplus)/Unfunded
Firefighters and Police**

	June 30, 2004	June 30, 2005
Present Value of Benefits		
Active Participant Benefits	NC	\$ 290,792,492
Retiree Benefits	NC	192,014,307
Terminated Vested and Inactive Members	<u>NC</u>	<u>4,696,425</u>
Present Value of Benefits (PVB)	NC	\$ 487,503,224
 Normal Cost	 \$ 8,586,973	 \$ 8,392,678
 Actuarial Accrued Liability		
Active Participant Benefits	\$ 203,875,405	\$ 197,868,298
Retiree Benefits	175,668,493	192,014,307
Terminated Vested and Inactive Members	<u>4,278,793</u>	<u>4,696,425</u>
Actuarial Accrued Liability (AAL)	\$ 383,822,691	\$ 394,579,030
Actuarial Value of Assets (AVA)	<u>350,194,693</u>	<u>369,575,391</u>
Net (Surplus)/Unfunded (AAL – AVA)	\$ 33,627,998	\$ 25,003,639
 Present Value of Accrued Liability		
Present Value of Accrued Liability (PVAB)	NC	\$ 363,450,240

SECTION III LIABILITIES

Changes in Liabilities

Each of the Liabilities disclosed in the prior table are expected to change at each valuation. The components of that change, depending upon which liability is analyzed, can include:

- New hires since the last valuation
- Benefits accrued since the last valuation
- Plan amendments increasing benefits
- Passage of time which adds interest to the prior liability
- Benefits paid to retirees since the last valuation
- Participants retiring, terminating, or dying at rates different than expected
- A change in actuarial or investment assumptions
- A change in the actuarial funding method

Unfunded liabilities will change because of all of the above, and also due to changes in System assets resulting from:

- Employer contributions different than expected
- Investment earnings different than expected
- A change in the method used to measure plan assets

In each valuation, we report on those elements of change which are of particular significance, potentially affecting the long-term financial outlook of the System. Below we present key changes in liabilities since the last valuation.

	Present Value of Benefits	Actuarial Accrued Liability	Present Value of Accrued Liability
Liabilities 6/30/2004	NC	\$ 845,670,244	NC
Liabilities 6/30/2005	\$ 1,071,139,460	\$ 883,930,417	\$ 819,523,593
Liability Increase (Decrease)	NC	\$ 38,260,173	NC
Change Due to:			
Plan Amendment and Ad Hoc COLAs	NC	\$ 3,953,506	NC
Assumption Change	NC	0	NC
Actuarial (Gain)/Loss	NC	(5,806,560)	NC
Benefits Accumulated and Other Sources	NC	40,113,228	NC

SECTION IV CONTRIBUTIONS

In the process of evaluating the financial condition of any pension plan, the actuary analyzes the assets and liabilities to determine what level (if any) of contributions is needed to properly maintain the funding status of the System. Typically, the actuarial process will use a funding scheme that will result in a pattern of contributions that are both stable and predictable.

For this System, the funding scheme employed is the **Projected Unit Credit Cost Method**. Under the method, there are two components to the total contribution: the **normal cost rate** and the **unfunded actuarial liability rate** (UAL rate). The normal cost rate is the cost of providing the benefits each active participant is assumed to accrue during the upcoming year including all future increases in those benefits due to rising pay until assumed termination of employment.

The second part is an amortization payment to pay off the unfunded actuarial liability. The unfunded actuarial liability is the difference between the actuarial assets of the System at the valuation date and the assets the System should hold as determined by the actuarial cost method.

Actuarially Determined Rate (for GASB Disclosure)

The normal cost rate for General employees is 11.48%, and is 14.35% for Firefighters and Police. The composite rate is shown in the table below.

The UAL rate is the level percent of member payroll which, when applied to each year's payroll is sufficient to amortize the unfunded actuarial liability (UAL) over 20 years.

The table below presents and compares the actuarially determined contributions for the System for this valuation and the prior one.

Actuarially Determined Rate (For GASB Disclosure)		
	June 30, 2004	June 30, 2005
Normal Cost Rate	12.79%	12.53%
UAL Rate	<u>1.84%</u>	<u>1.76%</u>
Total City Rate	14.62%	14.29%

The decrease in the contribution rate was due to the following:

System Amendment (1.0% COLA)	0.24%
Investment returns less than assumed	0.11%
Other actuarial gains or losses (including impact of increasing payroll on accrued liability rate)	<u>-0.68%</u>
Total City Rate	-0.33%

SECTION IV
CONTRIBUTIONS

Employees' Retirement System for the City of Norfolk		
Development of Actuarially Determined Contribution Rate Composite Rate		
	June 30, 2004 (for FY 2006)	June 30, 2005 (for FY 2007)
1. Actuarial Accrued Liability		
a. Active Employees	\$ 424,199,282	\$ 414,494,010
b. Retired Members	395,350,580	441,247,800
c. Vested Terminated Members	<u>26,120,382</u>	<u>28,188,607</u>
d. Total Present Value	\$ 845,670,244	\$ 883,930,417
2. Actuarial Value of Assets	\$ 816,120,329	\$ 854,146,038
3. Unfunded Actuarial Liability (1) – (2)	\$ 29,549,915	\$ 29,784,379
4. Active Member Payroll	\$ 157,714,411	\$ 160,224,137
5. Unfunded Liability Amortization Factor	10.1945	10.5404*
10. Employer Contribution Results (GASB)		
a. Normal Cost Rate	12.79%	12.53%
b. Amortization of UAL	<u>1.84%</u>	<u>1.76%</u>
c. Total Employer Contribution Rate June 30	<u>14.62%</u>	<u>14.29%</u>

* Amortization factor changed this year to reflect policy to make monthly contributions.

SECTION V ACCOUNTING STATEMENT INFORMATION

Statement No. 35 of the Financial Accounting Standards Board requires the System to disclose certain information regarding its funded status. Statement No. 25 of the Governmental Accounting Standards Board (GASB) establishes standards for disclosure of pension information by public employee retirement systems (PERS) and governmental employers in notes to financial statements and supplementary information.

The FASB-35 disclosures provide a quasi “snap shot” view of how the plan’s assets compare to its liabilities if contributions stopped and accrued benefit claims had to be satisfied. However, due to potential legal requirements and the possibility that alternative interest rates would have to be used to determine the liabilities, these values may not be a good indication of the amount of money it would take to buy the benefits for all members if the plan were to terminate.

The GASB-25 actuarial accrued liability is the same as the actuarial liability amount calculated for funding purposes.

Both the present value of accrued benefits (FASB-35) and the actuarial accrued liability (GASB-25) are determined assuming that the plan is on going and participants continue to terminate employment, retire, etc., in accordance with the actuarial assumptions. Liabilities are discounted at the assumed valuation interest rate of 7.5% per annum.

FASB Statement No. 35 specifies that a comparison of the present value of accrued (accumulated) benefits with the market value of the assets as of the valuation date must be provided. GASB Statement No. 25 requires the actuarial accrued liability be compared with the actuarial value of assets for funding purposes. The relevant amounts as of June 30,

2005 are exhibited in Table V-1. Finally, Table V-2 reconciles the FASB-35 liabilities determined as of the prior valuation, June 30, 2004, to the liabilities as of June 30, 2005.

Tables V-3 through V-5 are exhibits to be used with the City CAFR report. Table V-3 are the Notes to Required Supplementary Information, Table V-4 is a history of gains and losses in Accrued Liability, and Table V-5 is the Solvency Test which shows the portion of Accrued Liability covered by Assets.

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-1
Accounting Statement Information
Employees' Retirement System
for the City of Norfolk

	June 30, 2004	June 30, 2005
A. FASB No. 35 Basis		
1. Present Value of Benefits Accrued and Vested to Date		
a. Members Currently Receiving Payments	NC	\$ 441,247,800
b. Vested Terminated Members	NC	28,188,607
c. Active Members	NC	<u>342,522,165</u>
d. Total PVVB	<u>\$</u> NC	<u>\$</u> 811,958,572
2. Present Value of Non-Vested Accrued Benefits for Active Members	NC	<u>7,565,021</u>
3. Total Present Value of Accrued Benefits	<u>\$</u> NC	<u>\$</u> 819,523,593
4. Assets at Market Value	816,120,329	850,452,889
5. Unfunded Present Value of Accrued Benefits, But Not Less Than Zero	<u>\$</u> NC	<u>\$</u> 0
6. Ratio of Assets to Value of Benefits (4) / (3)	NC	103.8%
B. GASB No. 25 Basis		
1. Actuarial Liabilities		
a. Members Currently Receiving Payments	\$ 393,350,580	\$ 441,247,800
b. Vested Deferred Members	25,120,382	28,188,607
c. Active Members	<u>424,199,282</u>	<u>414,494,010</u>
d. Total	<u>\$</u> 845,670,244	<u>\$</u> 883,930,417
2. Actuarial Value of Assets	816,120,329	854,146,038
3. Unfunded Actuarial Liability	<u>\$</u> 29,549,915	<u>\$</u> 29,784,379
4. Ratio of Actuarial Value of Assets to Actuarial Liability	96.5%	96.6%

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-2 Statement of Changes in Total Actuarial Present Value of All Accrued Benefits		Accumulated Benefit Obligation (FASB 35)
Actuarial Present Value of Accrued Benefits as of June 30, 2004		NC
Increase (Decrease) During Years Attributable to:		
Passage of Time		
Benefit Paid – FY 2005		
Assumption Change		
Plan Amendment (Including Ad-Hoc COLA)		
Benefits Accrued, Other Gains/Losses		
Net Increase (Decrease)		
Actuarial Present Value of Accrued Benefits as of June 30, 2005	\$ 819,523,593	

In future years, this exhibit will reconcile the growth in the PVAB from last year to this year. Absent a starting point, we are not able to complete this exhibit for FY 2005.

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-3
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	June 30, 2005
Actuarial cost method	Projected Unit Credit
Amortization method	Level Dollar Open
Amortization period	20 Years
Asset valuation method	3-Year Smoothed Market
Actuarial assumptions:	
Investment rate of return*	7.5%
Projected salary increases*	4.6%-7.6%
*Includes inflation at	3.5%

The actuarial assumptions used have been recommended by the actuary and adopted by the System's Board of Trustees based on the most recent review of the System's experience, completed in 2001.

The rate of City contributions to the System is composed of the normal cost and amortization of the unfunded actuarial accrued liability. The normal cost rate is the cost of providing the benefits each active participant is assumed to accrue during the upcoming year including all future increases in those benefits due to rising pay until assumed termination of employment. The actuarial accrued liability represents the total amount of money needed to meet the future obligations of the Plan assuming that no further benefits are accrued but benefits already accrued increase due to rising pay. The difference between this liability and the funds accumulated as of the same date is the unfunded actuarial accrued liability.

SECTION V
ACCOUNTING STATEMENT INFORMATION

Table V-4
ANALYSIS OF FINANCIAL EXPERIENCE
Gain and Loss in Accrued Liability During Years Ended June 30
Resulting from Differences Between Assumed Experience and Actual Experience

Type of Activity	<i>Gain (or Loss) for Year ending June 30,</i>		
	2003	2004	2005
Investment Income	\$ (77,783,002)	\$ (38,521,813)	\$ (1,846,575)
Combined Liability Experience	<u>16,893,154</u>	<u>12,992,366</u>	<u>5,806,560</u>
Gain (or Loss) During Year from Financial Experience	\$ (60,889,848)	\$ (25,529,447)	\$ 3,959,985
Non-Recurring Items	<u>(3,165,844)</u>	<u>49,371,898</u>	<u>(3,953,506)</u>
Composite Gain (or Loss) During Year	\$ (64,055,692)	\$ 23,842,451	\$ 6,479

Table V-5
SOLVENCY TEST
Aggregate Accrued Liabilities For

Valuation Date	(1) Active Member Contributions	(2) Retirees Vested Terms, Beneficiaries	(3) Active Members (Employer Financed Portion)	Reported Assets	Portion of Accrued Liabilities Covered by Reported Assets		
					(1)	(2)	(3)
July 1,							
2000	\$ N/A	\$ 317,658,619	\$ 310,593,786	\$ 826,438,858	100%	100%	100%
2001	N/A	351,458,128	391,145,346	838,073,790	100%	100%	100%
2002	N/A	372,747,805	411,904,507	798,070,877	100%	100%	100%
2003	N/A	397,310,521	415,925,946	760,502,908	100%	100%	94%
2004	215,208	421,470,962	423,984,074	816,120,329	100%	100%	93%
2005	198,018	469,436,407	414,470,962	854,146,038	100%	100%	93%

APPENDIX A
MEMBERSHIP INFORMATION

Summary of Membership Data as of June 30, 2005

Plan	Active Members			
	Count	Average Age	Average Service	Average Salary
General	2,607	46.6	12.3	\$ 39,027
Firefighters and Police	<u>1,231</u>	<u>40.7</u>	<u>13.9</u>	<u>47,507</u>
Total System	3,838	44.7	12.8	41,747

	Inactive Members			Average Annual Benefit
	Count	Annual Benefit		
Service Retirements				
General	1,493	\$ 22,142,323		\$ 14,831
Firefighters and Police	<u>561</u>	<u>15,118,079</u>		<u>26,948</u>
Total	2,054	\$ 37,260,402		\$ 18,140
Contingent Annuitants				
General	337	\$ 1,804,941		\$ 5,356
Firefighters and Police	<u>166</u>	<u>1,262,082</u>		<u>7,603</u>
Total	503	\$ 3,067,023		\$ 6,097
Disableds				
General	231	\$ 2,468,610		\$ 10,687
Firefighters and Police	<u>141</u>	<u>2,296,749</u>		<u>16,289</u>
Total	372	\$ 4,765,359		\$ 12,810
Vested Former Members ¹⁾				
General	721	\$ 3,997,852		\$ 5,545
Firefighters and Police	<u>131</u>	<u>898,783</u>		<u>6,861</u>
Total	852	\$ 4,896,635		\$ 5,747

¹⁾ Benefits are payable at age 60 for General employees and age 55 for Firefighters and Police.

APPENDIX A
MEMBERSHIP INFORMATION

The Employees' Retirement System for the City of Norfolk
Distribution of Active Participants - General

COUNTS BY AGE/SERVICE

Age	Service										Total
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & Up	
Under 25	23	18	0	0	0	0	0	0	0	0	41
25 to 29	48	76	17	0	0	0	0	0	0	0	141
30 to 34	48	124	45	9	0	0	0	0	0	0	226
35 to 39	32	110	67	29	18	0	0	0	0	0	256
40 to 44	26	110	98	55	75	32	4	0	0	0	400
45 to 49	40	98	101	40	67	89	43	5	0	0	483
50 to 54	18	67	78	39	64	84	87	57	2	0	496
55 to 59	12	39	52	27	57	55	50	64	8	0	364
60 to 64	3	17	22	14	26	26	17	23	12	1	161
65 to 69	1	2	4	3	4	9	2	2	3	0	30
70 & Over	0	1	2	1	2	1	1	0	0	1	9
Total	251	662	486	217	313	296	204	151	25	2	2,607

TOTAL SALARY BY AGE/SERVICE

Age	Service										Total
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & Up	
Under 25	538,108	440,100	0	0	0	0	0	0	0	0	978,208
25 to 29	1,428,000	2,165,696	461,669	0	0	0	0	0	0	0	4,055,365
30 to 34	1,596,912	4,302,428	1,512,135	290,214	0	0	0	0	0	0	7,701,689
35 to 39	1,058,656	3,791,370	2,509,418	1,058,877	680,184	0	0	0	0	0	9,098,505
40 to 44	767,208	3,494,150	3,483,998	2,060,025	2,991,900	1,239,584	208,228	0	0	0	14,245,093
45 to 49	1,258,840	3,400,404	3,623,779	1,560,720	2,713,902	4,080,828	1,908,813	194,910	0	0	18,742,196
50 to 54	675,306	2,426,740	3,352,284	1,453,920	2,973,184	3,913,980	4,256,127	2,793,171	91,600	0	21,936,312
55 to 59	394,068	1,636,011	2,121,132	1,067,553	2,475,852	2,429,240	2,550,750	3,330,048	387,160	0	16,391,814
60 to 64	77,286	889,610	726,572	737,758	1,180,530	1,135,810	779,025	1,077,458	622,176	36,092	7,262,317
65 to 69	21,447	45,740	91,976	123,357	131,548	342,405	60,296	68,932	138,021	0	1,023,722
70 & Over	0	23,071	35,362	31,214	58,874	45,596	38,983	0	0	41,307	274,407
Total	7,815,831	22,615,320	17,918,325	8,383,638	13,205,974	13,187,443	9,802,222	7,464,519	1,238,957	77,399	101,709,628

APPENDIX A
MEMBERSHIP INFORMATION

The Employees' Retirement System for the City of Norfolk
Distribution of Active Participants - Firefighters & Police

COUNTS BY AGE/SERVICE

Age	Service										Total
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & Up	
Under 25	31	26	0	0	0	0	0	0	0	0	57
25 to 29	26	79	15	0	0	0	0	0	0	0	120
30 to 34	15	77	91	15	0	0	0	0	0	0	198
35 to 39	13	41	74	49	30	0	0	0	0	0	207
40 to 44	7	16	33	34	91	47	3	0	0	0	231
45 to 49	0	7	12	12	40	71	44	2	0	0	188
50 to 54	0	1	3	5	13	24	53	30	0	0	129
55 to 59	0	0	1	5	1	8	19	40	18	0	92
60 to 64	0	1	0	0	0	0	0	1	7	0	9
65 to 69	0	0	0	0	0	0	0	0	0	0	0
70 & Over	0	0	0	0	0	0	0	0	0	0	0
Total	92	248	229	120	175	150	119	73	25	0	1,231

TOTAL SALARY BY AGE/SERVICE

Age	Service										Total
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & Up	
Under 25	983,878	943,410	0	0	0	0	0	0	0	0	1,927,288
25 to 29	841,126	2,971,980	598,020	0	0	0	0	0	0	0	4,411,126
30 to 34	484,170	2,930,620	3,705,156	681,060	0	0	0	0	0	0	7,801,006
35 to 39	431,483	1,534,179	3,019,644	2,266,250	1,556,040	0	0	0	0	0	8,807,596
40 to 44	225,393	592,304	1,331,649	1,566,312	4,757,935	2,757,161	171,300	0	0	0	11,402,054
45 to 49	0	257,264	471,756	562,752	2,054,200	4,041,178	2,705,032	124,064	0	0	10,216,246
50 to 54	0	131,200	125,961	235,885	657,267	1,365,792	3,307,094	1,917,660	0	0	7,740,859
55 to 59	0	0	25,000	165,495	50,526	446,232	1,181,420	2,561,920	1,284,300	0	5,714,893
60 to 64	0	25,000	0	0	0	0	0	54,411	380,268	0	459,679
65 to 69	0	0	0	0	0	0	0	0	0	0	0
70 & Over	0	0	0	0	0	0	0	0	0	0	0
Total	2,966,050	9,385,957	9,277,186	5,477,754	9,075,968	8,610,363	7,364,846	4,658,055	1,664,568	0	58,480,747

APPENDIX B ACTUARIAL ASSUMPTIONS AND METHODS

A. Actuarial Assumptions

Interest Rate

7-1/2% per annum, compounded annually (adopted as of June 30, 1990).

Separation from Active Service

Illustrative rates of assumed separation from services are as follows (adopted as of June 30, 2001).

General Employees:

Age	Withdrawal	Disability*		Death**	
		Male	Female	Male	Female
20	20.35%	0.13%	0.09%	0.09%	0.03%
25	17.37	0.15	0.11	0.11	0.03
30	9.27	0.18	0.12	0.10	0.04
35	6.81	0.29	0.20	0.11	0.05
40	5.60	0.44	0.30	0.16	0.07
45	3.91	0.68	0.47	0.24	0.10
50	2.51	1.01	0.69	0.35	0.16
54	1.45	1.32	0.90	0.49	0.26
55		1.41	0.96	0.54	0.29
59		2.05	1.40	0.85	0.48

* 7.5% of disabilities are assumed to be accidental

** 1.5% of deaths are assumed to be accidental

Age	Early Retirement	Normal Service Retirement
40	10.00 %	
45	10.00	25.00 %
50	10.00	30.00
53	5.00	35.00
55	5.00	35.00
56	5.00	35.00
57	5.00	35.00
58	5.00	35.00
59		30.00
60		30.00
61		30.00
62		30.00
63		25.00
64		25.00
65		25.00
66		20.00
67		20.00
68		15.00
69		15.00
70		100.00

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

Firefighters and Police:

Age	Withdrawal	Disability		Death*	
		Accidental	Ordinary	Male	Female
20	11.90%	0.03%	0.04%	0.09%	0.03%
25	7.57	0.05	0.06	0.11	0.03
30	3.43	0.07	0.09	0.10	0.04
35	1.76	0.10	0.12	0.11	0.05
40	0.95	0.25	0.18	0.16	0.07
45	0.34	0.47	0.32	0.24	0.10
50		0.79	0.55	0.35	0.16
54		1.06	0.74	0.49	0.26
55		1.13	0.79	0.54	0.29
59		1.49	1.03	0.85	0.48

* 40% of deaths are assumed to be accidental

Age	Early Retirement	Normal Service Retirement
40	5.00 %	25.00 %
45	5.00	25.00
48	3.00	25.00
50	3.00	25.00
51		25.00
52		25.00
53		20.00
54		20.00
55		20.00
56		20.00
57		20.00
58		20.00
59		20.00
60		20.00
61		20.00
62		100.00

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

APPENDIX B ACTUARIAL ASSUMPTIONS AND METHODS

Salary Increase

Effective average of 5.35% per annum, compounded annually. The components are 3-1/2% for inflation, 3/4% for national productivity and 1.1% for merit or seniority increases (adopted as of June 30, 1996). Representative values are as follows:

Age	Annual Rate of Salary Increase
20	7.6 %
25	7.1
30	6.6
35	6.1
40	5.6
45	5.1
50	4.6
55	4.6
60	4.6
65	4.6
69	4.6

Death After Retirement

The 1995 George B. Buck Mortality tables with ages rated forward one year for members and two years for beneficiaries. Special mortality tables are used for disability retirements. (Adopted as of June 30, 2001.)

Future Expenses

The assumed interest rate is net of the anticipated future administrative expenses of the Fund.

Loading or Contingency Reserves

None

Marital Status

65% of the general employees and 80% of the firefighters and police are assumed to be married, with males three years older than females.

APPENDIX B ACTUARIAL ASSUMPTIONS AND METHODS

B. Actuarial Methods

Actuarial Cost Method

Projected unit cost method. Unfunded Actuarial Liability is being amortized over an open period of 20 years.

Asset Valuation Method

The valuation assets are determined as the market value less (1) 66-2/3% of investment gain/(loss) during the preceding year, less (2) 33-1/3% of investment gain/(loss) during the second preceding year. For the purpose of this calculation, the gain/(loss) is defined as the difference between the actual and the expected return (based on the valuation interest rate) on the market value of assets during the year. This method was adopted as of June 30, 2004. To transition into this method, the valuation assets as of June 30, 2004 was set equal to the market value. The valuation assets on June 30, 2005 will reflect the market value on that date less 66-2/3% of investment gain/(loss) during the preceding 12 months. The transition will be complete as of June 30, 2006, when the valuation assets will be the market value on that date less 66-2/3% of investment gain/(loss) during the preceding year, less 33-1/3% of investment gain/(loss) during the second preceding year.

APPENDIX C

SUMMARY OF PLAN 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.

1. Membership

Any permanent regular full-time employee entering the service of the City 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 paramedic employees.

Paramedic employees, formerly members of the General Employees Group, were reclassified as members of Firefighters and Police effective June 9, 1992. City Council members on or after July 1, 2001 are classified as members of Firefighters and Police.

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.

2. Normal Service Retirement

Eligibility

The earlier of age 60 or 30 years of creditable service for general employees. The earlier of age 55 or 25 years of creditable service for firefighters, police officers and

paramedics. Mandatory retirement is age 62 for firefighters and police officers.

Amount

Employees Hired Before July 1, 1980

1/50 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 on or After July 1, 1980

1.75% of average final compensation for each year of creditable service up to a maximum of 35 years for general employees.

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 which produces the highest average. Creditable service consists of membership service plus 100% of accumulated

APPENDIX C

SUMMARY OF PLAN PROVISIONS

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.

3. 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 1/4 of 1% for each month commencement date precedes the normal retirement date for general employees and 1/2 of 1% for each month commencement date precedes the normal retirement date for firefighters, police officers and paramedics.

4. 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 his contributions made prior to July 1, 1972 with

interest, if any, in the System until normal service retirement date.

5. 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.

6. 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.

APPENDIX C SUMMARY OF PLAN PROVISIONS

Amount

66-2/3% of average final compensation.

7. 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 not less than one-half of the interest credited are paid. In addition, 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, an additional lump sum benefit equal to 50% of his earnable compensation during the year immediately preceding his death is payable. If a member dies in service after the earlier of completion of ten years of service or early service retirement eligibility and if 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. If the member was eligible for early or normal service retirement, the spouse's 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 member was not eligible for early or normal service retirement, the spouse's benefit is equal to one-half of the normal service retirement allowance which would have been payable to the member if he

or she had been vested, such benefit to commence at the same time as the vested benefit would have been paid to the member. 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.

8. 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

50% 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 not less than one-half of the interest credited are paid to his designated recipient or estate. If there is not spouse, a lump sum benefit equal to 50% of his earnable compensation during the year immediately preceding his death is payable.

APPENDIX C SUMMARY OF PLAN PROVISIONS

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 System.

9. Death Benefit After Retirement:

Eligibility

Death of a retired member receiving retirement allowance payments and who completed five years of creditable service if he 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 his 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.

10. 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, his contributions, if any, with not less than one-half of the interest credited. The member may elect, prior to the commencement of his retirement allowance, to receive an annuity which is the actuarial equivalent of his accumulated contributions.

APPENDIX C SUMMARY OF PLAN PROVISIONS

11. 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 will be payable. |

12. Contributions

- | | |
|------------|---|
| By Members | No contributions required. |
| By City | Annual contributions actuarially computed to be required to cover the cost of benefits of the System. |

13. Changes in Plan Provisions

Retirees and beneficiaries as of June 1, 2004 were granted a permanent 1.0% supplemental benefit increase effective July 2005.