

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

**Actuarial Valuation
as of June 30, 2013**

The Seventieth Actuarial Valuation

Produced by [Cheiron](#)

January 2014

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January 10, 2014

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

***Re: The Employees' Retirement System for the City of Norfolk
Actuarial Valuation as of June 30, 2013***

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, 2013. The results of the valuation are contained in this report. The purpose of the valuation is discussed in the Foreword.

The actuarial assumptions used in performing this valuation have been recommended by the actuary and adopted by the Board of Trustees based on the actuary's most recent review of the System's experience completed in October 2012. We believe the assumptions used, in the aggregate, reflect our best estimate of anticipated future experience of the Plan. The results of this report are only applicable to the contribution for fiscal year ending 2015 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.

The assumptions and methods used in determining the assets, liabilities, and the annual required contributions of the employer as defined by the Governmental Accounting Standards Board (GASB) meet the parameters set by GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*.

The purpose of this report is to present the annual actuarial valuation of the Employees' Retirement System for the City of Norfolk. This report is for the use of the board and its auditors in preparing financial reports in accordance with applicable law and accounting requirements.

To the best of our knowledge, this report and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.



Board of Trustees

January 10, 2014

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This actuarial report was prepared exclusively for City of Norfolk for the purpose described herein. This valuation report is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

Sincerely,
Cheiron



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



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

FOREWORD

Cheiron has performed the actuarial valuation of the Employees' Retirement System for the City of Norfolk as of June 30, 2013. 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 2015; and
- 4) **Provide specific information** and documentation required by the Governmental 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 discloses 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, 2014.

Section V includes the required disclosures under GASB Statement No. 25. This report does not reflect any changes in pension accounting requirements from newly issued GASB Statements No. 67 and 68. Statement No. 67 will be effective for the Retirement System in Fiscal Year ending June 30, 2014. Statement No. 68 will be effective for the City for Fiscal Year ending June 30, 2015.

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. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice #23 *Data Quality*.

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.

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, 2014. The contribution rate for General Employees is determined to be 16.45%. The contribution rate for Firefighters and Police is determined to be 30.85%. The composite rate is equal to 21.44% of annual payroll. This is a decrease from the composite rate of 23.84% determined in last year's valuation which is applicable to the current fiscal year. The decrease is primarily attributable to the liability gain experienced by the System and the increase in total payroll due to the participation of members of the Norfolk Community Services Board effective July 1, 2012.

Forecasts show that, should all assumptions be realized including the 7.0% assumed annual investment return, the System's funded status would increase from 82% to 95% over the next 15 years. Please note that this projection does **not** recognize the City's tendency to offer ad hoc COLAs. If the assumptions were changed to recognize future COLAs up front, the System's funded ratio would be significantly lower.

Recent Experience

The financial markets performed above expectation during the fiscal year ending June 30, 2013. However, the System experienced a loss on the actuarial value of assets. The actual return on a market value basis was approximately 11.79%. On an actuarial value basis, the assets returned 7.01% compared with an assumed rate of return of 7.0%. The gain recognized for funding purposes was \$0.1 million.

On the liability side, the System's experience resulted in an actuarial gain of \$15.4 million (roughly 1.3% of the liabilities). The City amended the Code such that members of the Norfolk Community Services Board ("NCSB") as of June 30, 2012 became participants in the System on July 1, 2012. Consequently, this June 30, 2013 actuarial valuation was the first valuation that recognized these employees. This change increased liabilities by \$1.5 million as of June 30, 2013 since many earned one year of credited service.

The combination of liability and investment experience produced an increase in the System's funding ratio (actuarial value of assets over actuarial accrued liability) from 80.7% at June 30, 2012 to 82.3% at June 30, 2013.

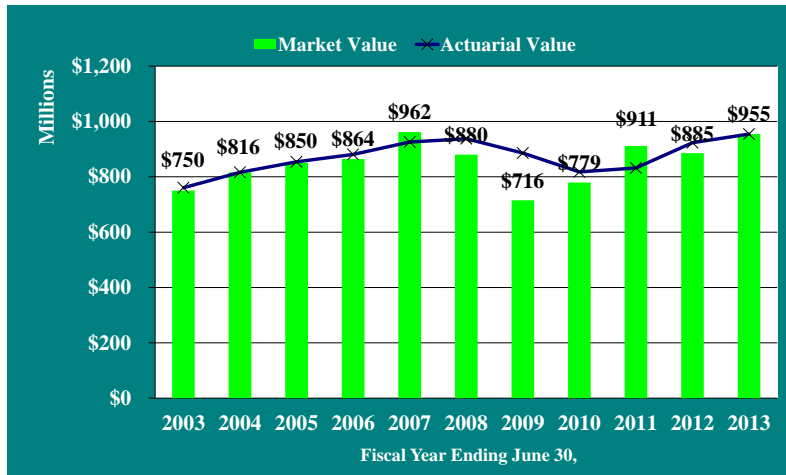
**THE EMPLOYEES' RETIREMENT SYSTEM FOR THE CITY OF NORFOLK
ACTUARIAL VALUATION AS OF JUNE 30, 2013**

**SECTION I
BOARD SUMMARY**

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. Here we present a series of graphs which display key factors in the valuations over the last eleven 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.

Growth in Assets

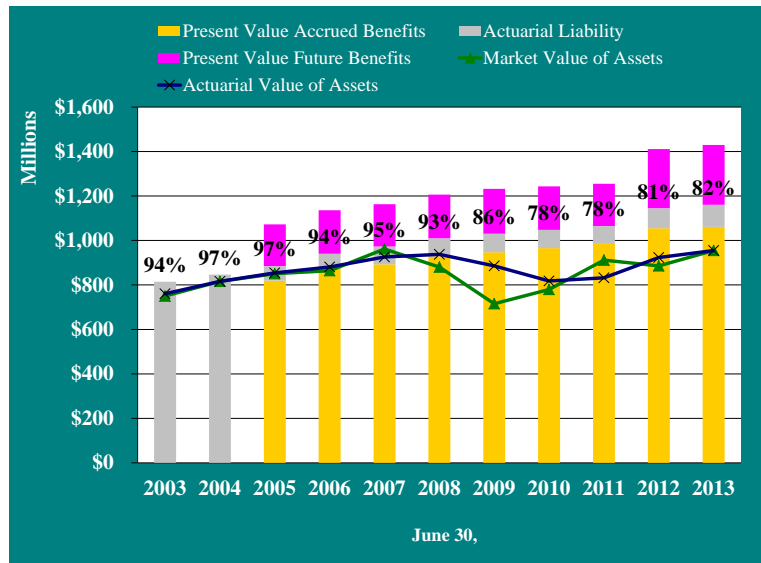


The market value of assets (MVA) experienced a return of 11.8% this year. Due to the asset smoothing method in place, the actuarial value of assets (AVA) increased as a result of the larger market value gain experienced this year counterbalanced by the lesser net investment return experienced in prior years. As a result, the return on the AVA was 7.0%.

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.

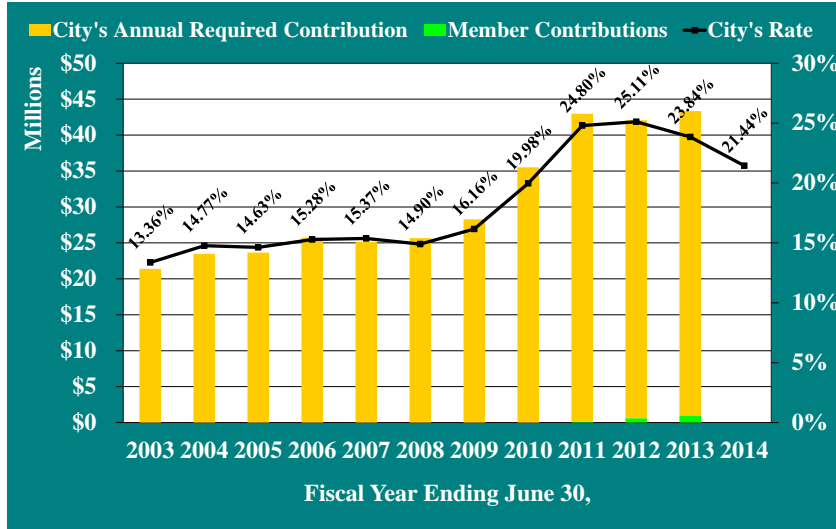
The amount represented by the top of the pink bars, the present value of future benefits, is the amount needed to provide all benefits for the current participants and their beneficiaries. The top of the yellow bars measures the benefits accrued to date.



**THE EMPLOYEES' RETIREMENT SYSTEM FOR THE CITY OF NORFOLK
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**SECTION I
BOARD SUMMARY**

Contribution Rates

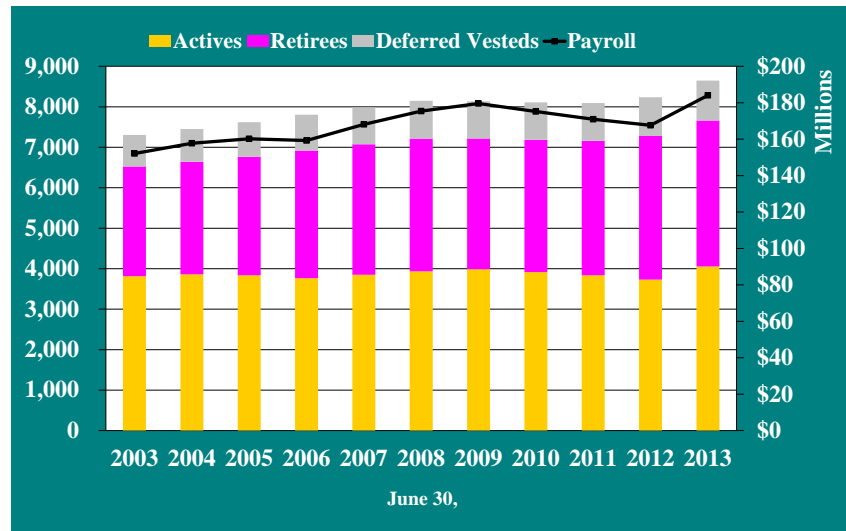


The yellow bars in this graph show the actual contribution amounts that have been booked by the City. The black line shows this contribution as a percent of payroll (right hand scale). The City contribution rate is set by the actuarial process. Please note there is a lag in the rate. For example, the June 30, 2012 valuation determined the annual required contribution for the period July 1, 2012 to

June 30, 2013. While this amount was booked in FY 2013, it is actually being contributed in FY 2014.

Participant Trends

This graph shows the number of actives, retirees and deferred vested members in the System as of each valuation date. The black line shows historic growth in the total covered payroll of the System. Total payroll increased this year due to NCSB employees now participating in the System. However, the average compensation for actives grew by 1.1%



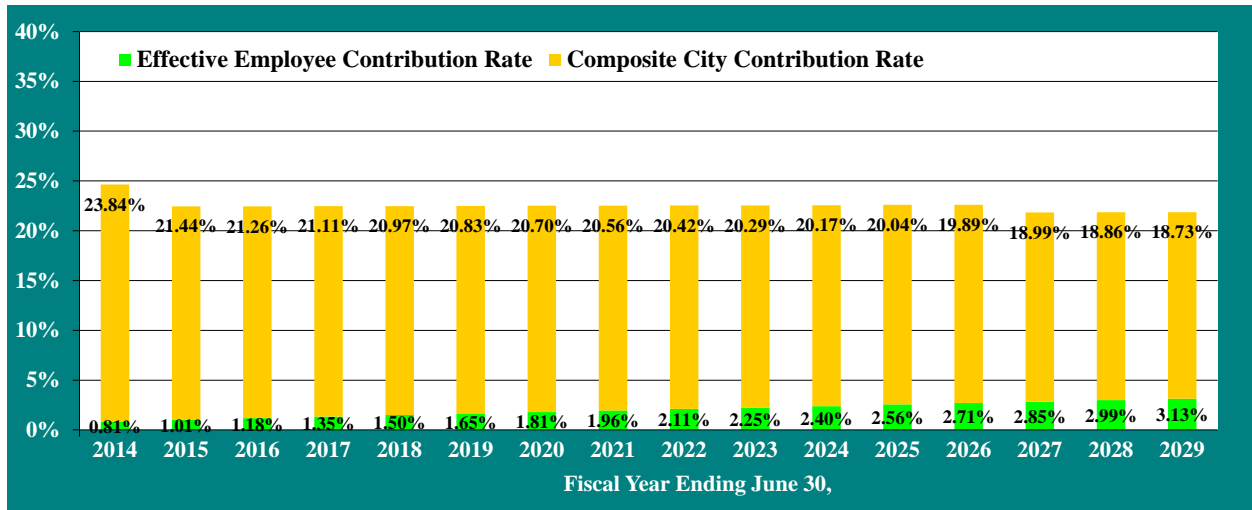
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BOARD SUMMARY**

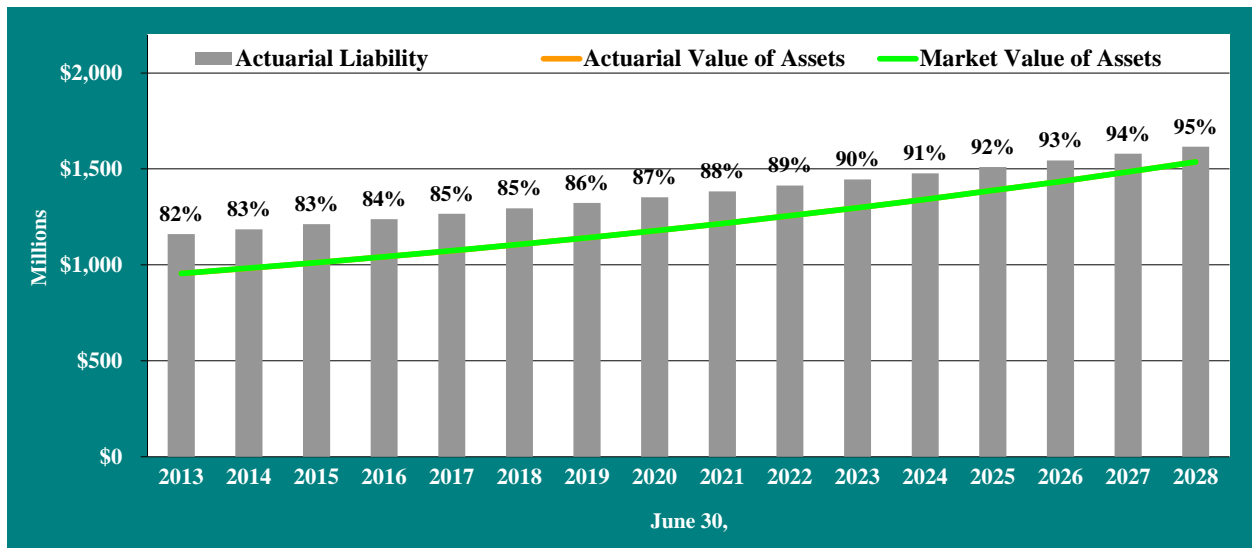
Future Outlook

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 7.0% of their *market value*. The first graph shows that the City contribution rate is projected to slightly decrease as a percentage of payroll, if all actuarial assumptions are met, including the 7.0% interest rate. It also shows the anticipated growth in the number of post October 5, 2010 hires who will be paying the 5% member contribution.



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 decrease initially, as stored investment losses are brought into the smoothing equation. Funding then improves to reach 95% by the end of the period shown. These projections do not include any assumption for future ad hoc COLAs.

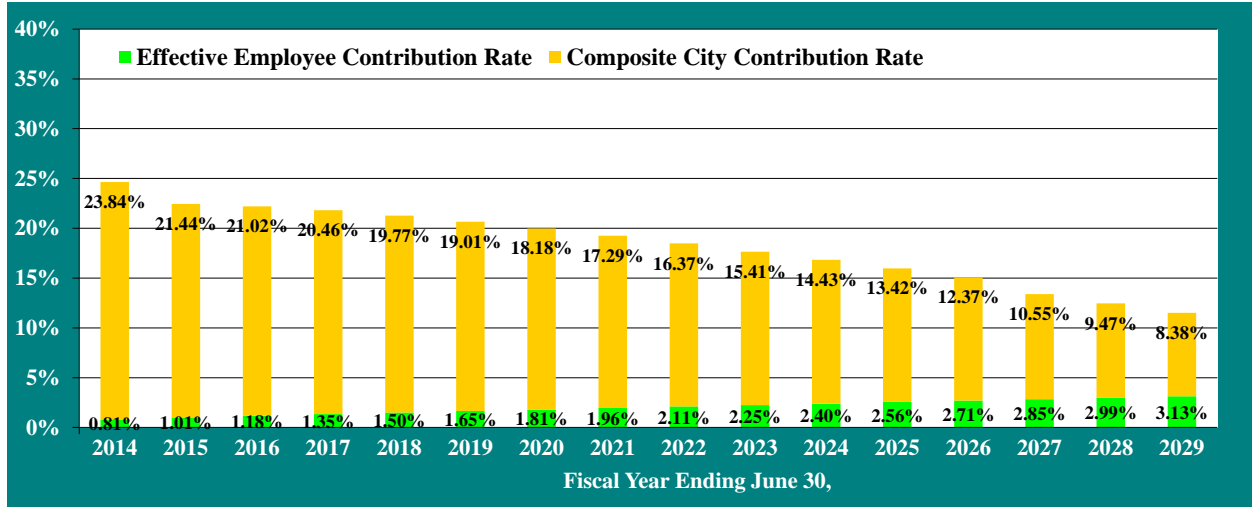


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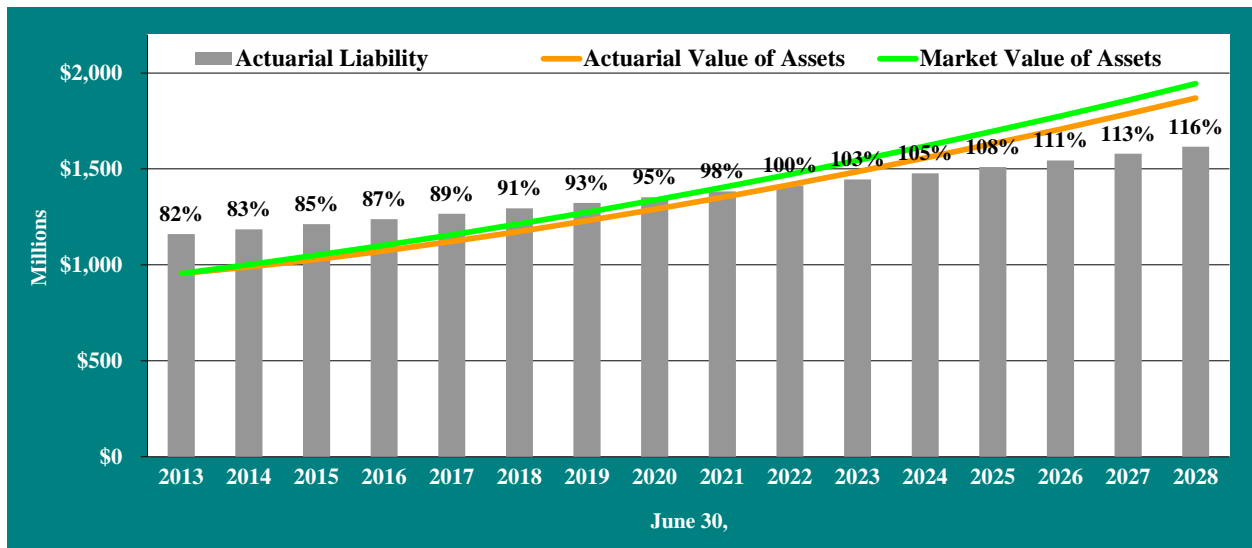
**SECTION I
BOARD SUMMARY**

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 relatively well funded status of this plan, the System is in a 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 21.44% of payroll down to 8.38% of payroll by the end of the 15 year period. In addition to the positive impact of the favorable assumed returns, the City's contribution rate is also mitigated as new participants are hired and obligated to pay a 5% employee contribution rate. The System would reach a fully funded position by 2022. Again, these projections are absent any additional ad hoc COLAs.



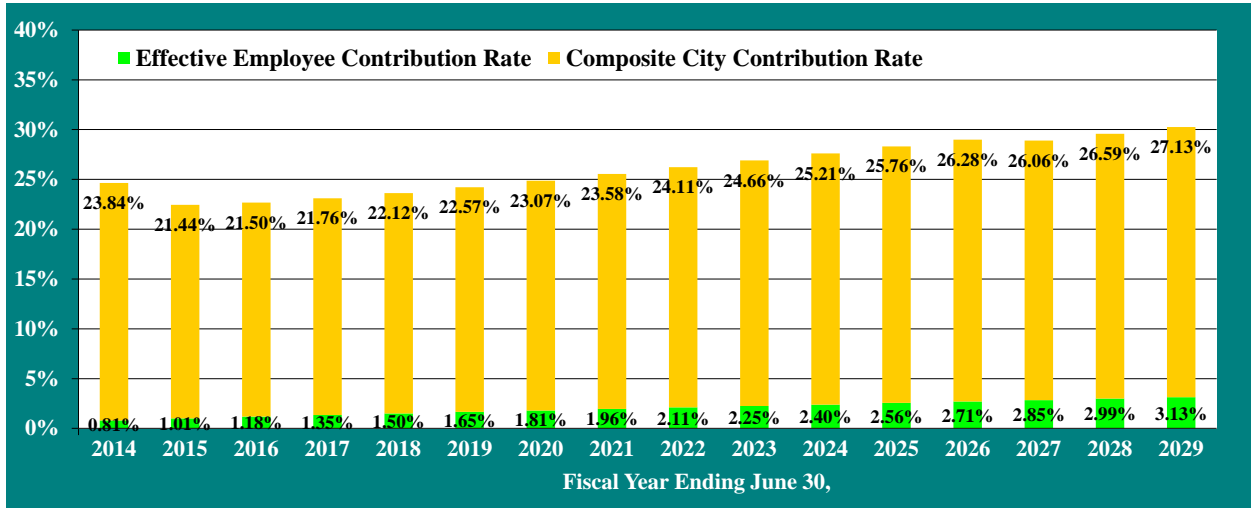
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BOARD SUMMARY**

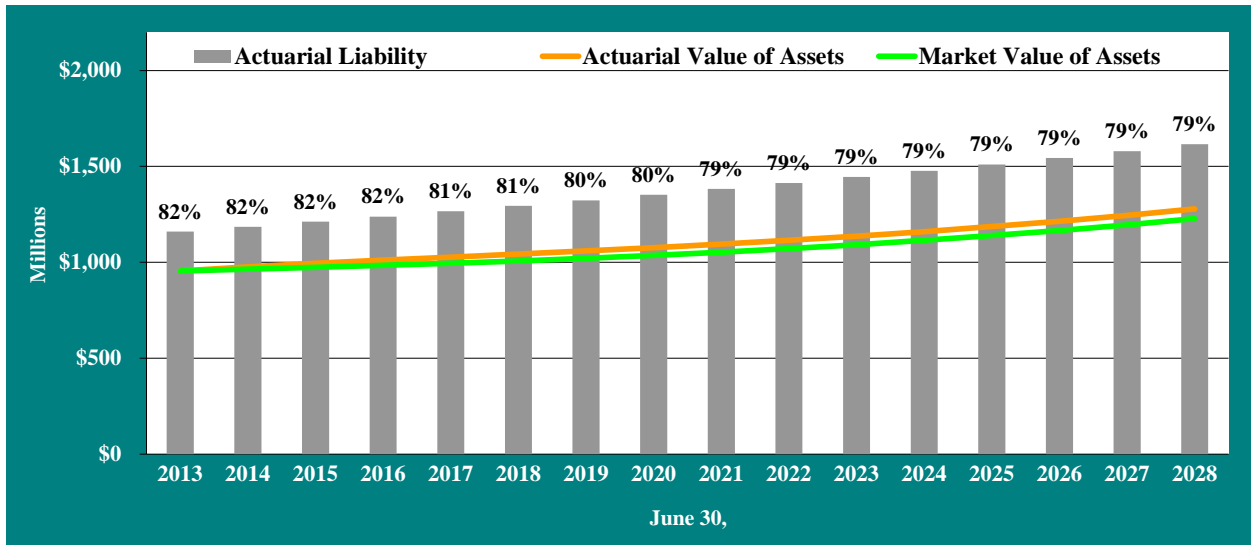
Projections With Asset Returns of 5.0%

The next two graphs show what the next 15 years would look like with a 5% annual return.

As one would expect, the City's composite contribution rate would increase over the period.



The System's funded level would steadily decrease to 79% funded over the long term. There would still be no danger of benefit commitments going unmet as the Fund would have over one billion dollars. Again, these projections are absent any additional ad hoc COLAs.



**THE EMPLOYEES' RETIREMENT SYSTEM FOR THE CITY OF NORFOLK
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**SECTION I
BOARD SUMMARY**

**Summary of Principal Plan Results
Combined**

Valuation as of:	6/30/2012	6/30/2013	% Change
<u>Participant Counts</u>			
Actives	3,731	4,055	8.7%
Leave of Absence*	27	22	(18.5%)
Terminated Vesteds	957	988	3.2%
Participants Due Account Balance	87	9	(89.7%)
In Pay Status	<u>3,547</u>	<u>3,605</u>	1.6%
Total	8,349	8,679	4.0%
Annual Salaries of Active Members	\$ 167,592,964	\$ 184,061,572	9.8%
Annual Retirement Allowances	\$ 72,238,155	\$ 73,997,729	2.4%
<u>Assets and Liabilities</u>			
Actuarial Accrued Liability	\$ 1,144,406,630	\$ 1,159,713,871	1.3%
Assets for Valuation Purposes	<u>923,198,558</u>	<u>954,499,184</u>	3.4%
Unfunded Actuarial Liability	\$ 221,208,072	\$ 205,214,687	
Funding Ratio	80.67%	82.30%	
Present Value of Accrued Benefits	\$ 1,054,819,569	\$ 1,061,425,847	0.6%
Market Value of Assets	<u>885,499,200</u>	<u>954,693,667</u>	7.8%
Unfunded FASB Accrued Liability	\$ 169,320,369	\$ 106,732,180	
Accrued Benefit Funding Ratio	83.95%	89.94%	
<u>City Contributions as a % of Payroll</u>			
	Fiscal Year 2013	Fiscal Year 2014	
Normal Cost Contribution	13.72%	12.54%	
Unfunded Actuarial Liability Contribution	<u>10.12%</u>	<u>8.90%</u>	
Total Contribution	23.84%	21.44%	

**THE EMPLOYEES' RETIREMENT SYSTEM FOR THE CITY OF NORFOLK
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**SECTION I
BOARD SUMMARY**

**Summary of Principal Plan Results
General Employees**

Valuation as of:	6/30/2012	6/30/2013	% Change
<u>Participant Counts</u>			
Actives	2,517	2,787	10.7%
Leave of Absence	14	14	0.0%
Terminated Vesteds	763	785	2.9%
Participants Due Account Balance	52	8	(84.6%)
In Pay Status	<u>2,415</u>	<u>2,443</u>	1.2%
Total	5,761	6,037	4.8%
Annual Salaries of Active Members	\$ 106,447,927	\$ 120,324,357	13.0%
Annual Retirement Allowances	\$ 39,498,518	\$ 39,924,239	1.1%
<u>Assets and Liabilities</u>			
Actuarial Accrued Liability	\$ 626,370,068	\$ 630,570,663	0.7%
Assets for Valuation Purposes	<u>516,617,553</u>	<u>533,470,479</u>	3.3%
Unfunded Actuarial Liability	\$ 109,752,515	\$ 97,100,184	
Funding Ratio	82.48%	84.60%	
Present Value of Accrued Benefits	\$ 573,485,710	\$ 575,303,808	0.3%
Market Value of Assets	<u>495,521,170</u>	<u>533,579,176</u>	7.7%
Unfunded FASB Accrued Liability	\$ 77,964,540	\$ 41,724,632	
Accrued Benefit Funding Ratio	86.41%	92.75%	
<u>City Contributions as a % of Payroll</u>			
	Fiscal Year 2013	Fiscal Year 2014	
Normal Cost Contribution	10.84%	10.15%	
Unfunded Actuarial Liability Contribution	<u>7.74%</u>	<u>6.30%</u>	
Total Contribution	18.58%	16.45%	

**THE EMPLOYEES' RETIREMENT SYSTEM FOR THE CITY OF NORFOLK
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**SECTION I
BOARD SUMMARY**

**Summary of Principal Plan Results
Firefighters and Police**

Valuation as of:	6/30/2012	6/30/2013	% Change
<u>Participant Counts</u>			
Actives	1,214	1,268	4.4%
Leave of Absence	13	8	(38.5%)
Terminated Vesteds	194	203	4.6%
Participants Due Account Balance	35	1	(97.1%)
In Pay Status	<u>1,132</u>	<u>1,162</u>	2.7%
Total	2,588	2,642	2.1%
Annual Salaries of Active Members	\$ 61,145,037	\$ 63,737,215	4.2%
Annual Retirement Allowances	\$ 32,739,636	\$ 34,073,490	4.1%
<u>Assets and Liabilities</u>			
Actuarial Accrued Liability	\$ 518,036,562	\$ 529,143,208	2.1%
Assets for Valuation Purposes	<u>406,581,005</u>	<u>421,028,705</u>	3.6%
Unfunded Actuarial Liability	\$ 111,455,557	\$ 108,114,503	
Funding Ratio	78.49%	79.57%	
Present Value of Accrued Benefits	\$ 481,333,859	\$ 486,122,039	1.0%
Market Value of Assets	<u>389,978,030</u>	<u>421,114,491</u>	8.0%
Unfunded FASB Accrued Liability	\$ 91,355,829	\$ 65,007,548	
Accrued Benefit Funding Ratio	81.02%	86.63%	
<u>City Contributions as a % of Payroll</u>			
	Fiscal Year 2013	Fiscal Year 2014	
Normal Cost Contribution	18.72%	17.04%	
Unfunded Actuarial Liability Contribution	<u>14.27%</u>	<u>13.81%</u>	
Total Contribution	32.99%	30.85%	

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, 2012 and June 30, 2013;
- 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 "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," is market values which have been smoothed based on actuarial methods used to estimate long-term asset values. They are used for evaluating the System's ongoing liability to meet its obligations.

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

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.

**THE EMPLOYEES' RETIREMENT SYSTEM FOR THE CITY OF NORFOLK
ACTUARIAL VALUATION AS OF JUNE 30, 2013**

**SECTION II
ASSETS**

Statement of Assets at Market Value		
	June 30, 2012	June 30, 2013
<u>Assets</u>		
Cash and Short-Term Investments	\$ 24,606,872	\$ 21,963,319
Receivables		
Contributions from the City of Norfolk	\$ 41,466,456	\$ 42,330,492
Accrued Investment Income	839,626	667,737
Accounts Receivable	198	198
Due from Broker for Securities Sold	<u>53,159,922</u>	<u>59,442,775</u>
Total	\$ 95,466,202	\$ 102,441,202
Investments, at Fair Value		
United States Treasury Securities	\$ 17,780,663	\$ 55,013,497
Fixed Income Securities	135,389,701	113,792,915
Equity Securities	3,062	3,795
Balanced Comingled Funds	710,681,320	756,513,681
Other	<u>69,085</u>	<u>199,476</u>
Total	\$ 863,923,831	\$ 925,523,364
Total Assets	\$ 983,996,905	\$ 1,049,927,885
<u>Liabilities</u>		
Accounts Payable	\$ 631,499	\$ 541,418
Due to Broker for Securities Purchased	<u>97,866,206</u>	<u>94,692,800</u>
Total Liabilities	\$ 98,497,705	\$ 95,234,218
Net Assets Available for Benefits	\$ 885,499,200	\$ 954,693,667

**THE EMPLOYEES' RETIREMENT SYSTEM FOR THE CITY OF NORFOLK
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**SECTION II
ASSETS**

Changes in Market Values	
Value of Assets - June 30, 2012	\$ 885,499,200
<u>Additions</u>	
Contributions	
Employer Contributions	\$ 42,330,492
Employee Contributions	1,007,140
Total	<u>\$ 43,337,632</u>
Investment Income:	
Net Appreciation (Depreciation) in Fair Value of Investments	\$ 95,957,473
Interest	4,724,808
Dividends	1,506,136
Other	74,948
Total Investment Income	<u>\$ 102,263,365</u>
Investment Expenses	(1,669,392)
Net Income from Investing Activities	<u>\$ 100,593,973</u>
Total Additions	<u>\$ 143,931,605</u>
<u>Deductions</u>	
Benefits Paid directly to Participants	\$ (70,226,545)
Return of Contributions	(6,037)
Beneficiary Payments	(3,963,936)
Administrative Fees	<u>(540,620)</u>
Total Deductions	<u>\$ (74,737,138)</u>
<u>Total</u>	
Net Increase/(Decrease)	\$ 69,194,467
Value of Assets - June 30, 2013	\$ 954,693,667

**THE EMPLOYEES' RETIREMENT SYSTEM FOR THE CITY OF NORFOLK
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**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 first calculating the expected actuarial value of assets based on last year’s valuation interest rate, last year’s actuarial value of assets, and the net cash flow (contributions less benefit payments and administrative expenses) of the System over the year prior to the valuation. One-third of the market value of assets less the expected actuarial value of assets is then added to the expected actuarial value of assets to determine the valuation assets.

Development of the Actuarial Value of Assets	
1. Actuarial Value of Assets - June 30, 2012	\$ 923,198,558
Employer Contributions	42,330,492
Employee Contributions	1,007,140
Benefit Payments	(74,196,518)
Expected Return at 7.0%	<u>62,062,271</u>
2. Expected Value at June 30, 2013 (EV)	\$ 954,401,943
3. Actual Market Value at June 30, 2012 (AV)	954,693,667
4. One-Third of AV less EV	<u>97,241</u>
5. Actuarial Value of Assets - June 30, 2013 [2. + 4.]	\$ 954,499,184

**THE EMPLOYEES' RETIREMENT SYSTEM FOR THE CITY OF NORFOLK
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**SECTION II
ASSETS**

Allocation of Actuarial Value of Assets As of June 30, 2013			
	General Employees	Firefighters and Police	Total
1. Actuarial Value of Assets at June 30, 2012	\$ 516,617,553	\$ 406,581,005	\$ 923,198,558
2. Contributions (per financial statements)	22,604,728	20,732,904	43,337,632
3. Benefit Payments (allocated on the basis of FY 2013 expected payments)	(40,569,317)	(33,627,201)	(74,196,518)
4. Investment Earnings (based on 7.01% return)	<u>34,817,515</u>	<u>27,341,997</u>	<u>62,159,512</u>
5. Actuarial Value of Assets at June 30, 2013	\$ 533,470,479	\$ 421,028,705	\$ 954,499,184
6. Market Value of Assets at June 30, 2013 (used only for disclosure purposes)	\$ 533,579,176	\$ 421,114,491	\$ 954,693,667

**SECTION II
ASSETS**

Investment Performance

The market value of assets (MVA) returned 11.8% during fiscal year 2013, which is greater than the expected 7.0% return (assumption in prior year's valuation) by 4.8%.

A return of 7.0% 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	11.1%	9.5%
2005	6.7%	7.2%
2006	4.7%	6.2%
2007	15.1%	8.7%
2008	-5.2%	4.9%
2009	-15.3%	-2.1%
2010	13.1%	-4.6%
2011	20.2%	4.6%
2012	0.4%	11.2%
2013	11.8%	7.0%

**THE EMPLOYEES' RETIREMENT SYSTEM FOR THE CITY OF NORFOLK
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**SECTION II
ASSETS**

Projection of System's Benefit Payments and Contributions				
Fiscal Year Ending		Expected Benefit Payments	Expected City Contributions*	Expected Employee Contributions*
2014	\$	77,673,000	\$ 42,330,000	\$ 1,519,000
2015		79,689,000	40,050,000	1,950,000
2016		81,838,000	40,906,000	2,345,000
2017		83,819,000	41,835,000	2,757,000
2018		85,714,000	42,805,000	3,157,000
2019		87,782,000	43,795,000	3,580,000
2020		90,207,000	44,827,000	4,035,000
2021		92,372,000	45,859,000	4,511,000
2022		94,495,000	46,914,000	4,990,000
2023		96,967,000	48,013,000	5,477,000

* Assumes contributions are made uniformly throughout the year.

Expected benefit payments are projected for the closed group valued at June 30, 2013. Projecting any further than 10 years using a closed-group would not yield reliable predictions due to the omission of new hires. These projections do not include additional ad hoc COLAs which may be granted by the City Council in future years.

Expected City contributions are shown on a cash basis. That is, while the FY 2014 contribution amount was already booked for accounting purposes in FY 2013, it is being contributed in FY 2014. The FY 2015 contribution is based on a 2013 valuation rate of 21.44%. Expected contributions for FY 2015 and beyond are projected based on an employer normal cost rate that starts at 12.54% and grades down over time as those making member contributions become a larger portion of the covered group. The employer contribution also uses a closed 20-year amortization of the 2012 unfunded liability balance (19 years remaining), the gain established in this valuation and the VRIP recognized in last year's valuation (19 years remaining). In addition, the PSREP has 12 years remaining. Future gains and losses are amortized over 20 years from the valuation in which they are first recognized. In all cases, the amortization assumes that annual payments will increase by 3% per year. Since the plan requires a 5% employee contribution rate for employees hired after October 5, 2010, we have included the anticipated employee contribution amount over the period as well. The projections assume the market value of assets will earn 7.0% per year and that any previous investment losses or gains not yet recognized in the asset smoothing method through the June 30, 2013 valuation date, will be picked up throughout the period shown.

SECTION III LIABILITIES

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

- **Disclosure** of System liabilities at June 30, 2012 and June 30, 2013; and
- Statement of **changes** in these liabilities during the year.

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 is calculated taking the Present Value of Benefits above and subtracting the present value of future Employer Normal Costs under an acceptable actuarial funding method. This method is referred to as the **Entry Age Normal** funding method.
- **Present Value of Accrued Benefits:** 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 (FASB ASC Topic No. 960) 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**.

**THE EMPLOYEES' RETIREMENT SYSTEM FOR THE CITY OF NORFOLK
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**SECTION III
LIABILITIES**

Liabilities/Net (Surplus)/Unfunded Combined		
	June 30, 2012	June 30, 2013
Present Value of Benefits		
Active Participant Benefits	\$ 641,875,220	\$ 645,736,422
Retiree Benefits	727,886,578	741,761,117
Terminated Vested and Inactive Members	<u>40,621,514</u>	<u>41,098,693</u>
Present Value of Benefits (PVB)	\$ 1,410,383,312	\$ 1,428,596,232
Market Value of Assets (MVA)	\$ 885,499,200	\$ 954,693,667
Future Member Contributions	10,124,016	18,867,394
Future City Contributions	<u>514,760,096</u>	<u>455,035,171</u>
Total Resources	\$ 1,410,383,312	\$ 1,428,596,232
Employer Normal Cost ¹	\$ 22,987,161	\$ 23,073,744
Actuarial Accrued Liability		
Active Participant Benefits	\$ 375,898,538	\$ 376,854,061
Retiree Benefits	727,886,578	741,761,117
Terminated Vested and Inactive Members	<u>40,621,514</u>	<u>41,098,693</u>
Actuarial Accrued Liability (AAL)	\$ 1,144,406,630	\$ 1,159,713,871
Actuarial Value of Assets (AVA)	<u>923,198,558</u>	<u>954,499,184</u>
Net (Surplus)/Unfunded (AAL – AVA)	\$ 221,208,072	\$ 205,214,687
Present Value of Accrued Benefits		
Present Value of Accrued Benefits (PVAB)	\$ 1,054,819,569	\$ 1,061,425,847
Market Value of Assets (MVA)	<u>885,499,200</u>	<u>954,693,667</u>
Net (Surplus)/Unfunded (PVAB – MVA)	\$ 169,320,369	\$ 106,732,180

¹ Net of 5% mandatory employee contributions for new hires on or after October 5, 2010

THE EMPLOYEES' RETIREMENT SYSTEM FOR THE CITY OF NORFOLK
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**SECTION III
LIABILITIES**

Liabilities/Net (Surplus)/Unfunded General Employees		
	June 30, 2012	June 30, 2013
Present Value of Benefits		
Active Participant Benefits	\$ 327,320,935	\$ 335,959,113
Retiree Benefits	384,495,329	386,330,192
Terminated Vested and Inactive Members	<u>29,974,930</u>	<u>29,413,885</u>
Present Value of Benefits (PVB)	\$ 741,791,194	\$ 751,703,190
 Employer Normal Cost ¹	 \$ 11,541,454	 \$ 12,212,923
 Actuarial Accrued Liability		
Active Participant Benefits	\$211,899,809	\$214,826,586
Retiree Benefits	384,495,329	386,330,192
Terminated Vested and Inactive Members	<u>29,974,930</u>	<u>29,413,885</u>
Actuarial Accrued Liability (AAL)	\$ 626,370,068	\$ 630,570,663
Actuarial Value of Assets (AVA)	<u>516,617,553</u>	<u>533,470,479</u>
Net (Surplus)/Unfunded (AAL – AVA)	\$ 109,752,515	\$ 97,100,184
 Present Value of Accrued Benefits		
Present Value of Accrued Benefits (PVAB)	\$ 573,485,710	\$ 575,303,808

¹ Net of 5% mandatory employee contributions for new hires on or after October 5, 2010

THE EMPLOYEES' RETIREMENT SYSTEM FOR THE CITY OF NORFOLK
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**SECTION III
LIABILITIES**

Liabilities/Net (Surplus)/Unfunded Firefighters and Police	June 30, 2012	June 30, 2013
Present Value of Benefits		
Active Participant Benefits	\$ 314,554,285	\$ 309,777,309
Retiree Benefits	343,391,249	355,430,925
Terminated Vested and Inactive Members	<u>10,646,584</u>	<u>11,684,808</u>
Present Value of Benefits (PVB)	\$ 668,592,118	\$ 676,893,042
Employer Normal Cost ¹	\$ 11,445,707	\$ 10,860,821
Actuarial Accrued Liability		
Active Participant Benefits	\$ 163,998,729	\$ 162,027,475
Retiree Benefits	343,391,249	355,430,925
Terminated Vested and Inactive Members	<u>10,646,584</u>	<u>11,684,808</u>
Actuarial Accrued Liability (AAL)	\$ 518,036,562	\$ 529,143,208
Actuarial Value of Assets (AVA)	<u>406,581,005</u>	<u>421,028,705</u>
Net (Surplus)/Unfunded (AAL – AVA)	\$ 111,455,557	\$ 108,114,503
Present Value of Accrued Benefits		
Present Value of Accrued Benefits (PVAB)	\$ 481,333,859	\$ 486,122,039

¹ Net of 5% mandatory employee contributions for new hires on or after October 5, 2010

SECTION III
LIABILITIES

Changes in Liabilities

Each of the liabilities disclosed in the prior tables 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 Liability	Present Value of Accrued Benefits
Liabilities as of 6/30/2012	\$1,410,383,312	\$1,144,406,630	\$1,054,819,569
Liabilities as of 6/30/2013	\$1,428,596,232	\$1,159,713,871	\$1,061,425,847
Liability Increase/(Decrease)	\$ 18,212,920	\$ 15,307,241	\$ 6,606,278
Change Due to:			
Plan Amendments	\$ 14,832,703	\$ 1,451,935	\$ 1,451,935
Assumption and Method Change	0	0	0
Actuarial (Gain)/Loss	NC*	(15,351,662)	NC*
Benefits Accumulated and Other Sources	3,380,217	29,206,968	5,154,343

* NC = not calculated

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 **Entry Age Actuarial Cost Method**. Under this 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 determined by taking the value, as of entry age into the Plan, of each member's projected future benefits. This value is then divided by the value, also at entry age, of the member's expected future salary.

The second part is an amortization payment to pay off the unfunded actuarial liability (UAL). 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. This also includes the fixed 20-year amortization of the Public Safety Retirement Enhancement Program (PSREP) beginning June 30, 2005 and the fixed 20-year amortization of the Voluntary Retirement Incentive Program (VRIP) beginning June 30, 2012.

Actuarially Determined Rate (for GASB Disclosure)

The employer's normal cost rate for General Employees is 10.15% and 17.04% for Firefighters and Police for the fiscal year beginning July 1, 2013. 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 (net of the PSREP and VRIP) as of June 30, 2012 over 20 years (19 years remaining as of June 30, 2013) and the change in unfunded established on June 30, 2013 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, 2012	June 30, 2013
Normal Cost Rate	13.72%	12.54%
UAL Rate	<u>10.12%</u>	<u>8.90%</u>
Total City Rate	23.84%	21.44%

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SECTION IV
CONTRIBUTIONS

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

More employees paying 5% Member Rate	(0.10%)
Actuarial liability gain	(0.63%)
Impact of salary changes	(0.55%)
Addition of NCSB	0.06%
Change in Employer normal cost	(1.09%)
Other miscellaneous experience	<u>(0.09%)</u>
Total City Rate net change	(2.40%)

THE EMPLOYEES' RETIREMENT SYSTEM FOR THE CITY OF NORFOLK
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**SECTION IV
CONTRIBUTIONS**

Development of Actuarially Determined Contribution Rate		
Composite Rate		
	June 30, 2012 (expensed FY 2013) (paid FY 2014)	June 30, 2013 (expensed FY 2014) (paid FY 2015)
1. Actuarial Accrued Liability		
a. Active Employees	\$ 375,898,538	\$ 376,854,061
b. Retired Members	727,886,578	741,761,117
c. Vested Terminated Members	<u>40,621,514</u>	<u>41,098,693</u>
d. Total Present Value	\$ 1,144,406,630	\$ 1,159,713,871
2. Actuarial Value of Assets	<u>923,198,558</u>	<u>954,499,184</u>
3. Unfunded Actuarial Liability (UAL) (1) – (2)	\$ 221,208,072	\$ 205,214,687
4. Remaining UAL for PSREP and VRIP	21,126,042	20,655,745
5. Remaining UAL from 2012	NA	<u>199,079,740</u>
6. Remaining UAL for 20 year amortization (3)–(4)–(5)	\$ 200,082,030	\$ (14,520,798)
7. Active Member Payroll	\$ 167,592,964	\$ 184,061,572
8. 2013 UAL Amortization Payment	\$ 15,008,032	\$ (1,089,196)
9. UAL amortization (8) / (7)	8.96%	(0.59%)
10. Additional amortization for PSREP and VRIP	1.16%	1.09%
11. 2012 UAL amortization	NA	8.40%
12. Employer Contribution Results (GASB)		
a. Employer Normal Cost Rate	13.72%	12.54%
b. Amortization of UAL (9) + (10) + (11)	<u>10.12%</u>	<u>8.90%</u>
c. Total Employer Contribution Rate June 30	23.84%	21.44%

THE EMPLOYEES' RETIREMENT SYSTEM FOR THE CITY OF NORFOLK
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SECTION IV
CONTRIBUTIONS

Development of Actuarially Determined Contribution Rate

General Employees

	June 30, 2012 (expensed FY 2013) (paid FY 2014)	June 30, 2013 (expensed FY 2014) (paid FY 2015)
1. Actuarial Accrued Liability		
a. Active Employees	\$ 211,899,809	\$ 214,826,586
b. Retired Members	384,495,329	386,330,192
c. Vested Terminated Members	<u>29,974,930</u>	<u>29,413,885</u>
d. Total Present Value	\$ 626,370,068	\$ 630,570,663
2. Actuarial Value of Assets	<u>516,617,553</u>	<u>533,470,479</u>
3. Unfunded Actuarial Liability (UAL) (1) – (2)	\$ 109,752,515	\$ 97,100,184
4. Remaining UAL for VRIP	6,333,733	6,302,005
5. Remaining UAL from 2012	NA	<u>102,900,717</u>
6. Remaining UAL for 20-year amortization (3)–(4)–(5)	\$ 103,418,782	\$ (12,102,537)
7. Active Member Payroll	\$ 106,447,927	\$ 120,324,357
8. Unfunded Liability Amortization Payment	\$7,757,380	\$ (907,804)
9. UAL amortization (8) / (7)	7.29%	(0.75%)
10. Additional amortization for VRIP	0.45%	0.41%
11. 2012 UAL amortization	NA	6.64%
12. Employer Contribution Results (GASB)		
a. Employer Normal Cost Rate	10.84%	10.15%
b. Amortization of UAL (9) + (10) + (11)	<u>7.74%</u>	<u>6.30%</u>
c. Total Employer Contribution Rate June 30	18.58%	16.45%

THE EMPLOYEES' RETIREMENT SYSTEM FOR THE CITY OF NORFOLK
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SECTION IV
CONTRIBUTIONS

Development of Actuarially Determined Contribution Rate

Firefighters and Police

	June 30, 2012 (expensed FY 2013) (paid FY 2014)	June 30, 2013 (expensed FY 2014) (paid FY 2015)
1. Actuarial Accrued Liability		
a. Active Employees	\$ 163,998,729	\$ 162,027,475
b. Retired Members	343,391,249	355,430,925
c. Vested Terminated Members	<u>10,646,584</u>	<u>11,684,808</u>
d. Total Present Value	\$ 518,036,562	\$ 529,143,208
2. Actuarial Value of Assets	<u>406,581,005</u>	<u>421,028,705</u>
3. Unfunded Actuarial Liability (UAL) (1) – (2)	\$ 111,455,557	\$ 108,114,503
4. Remaining UAL for PSREP and VRIP	14,792,309	14,353,740
5. Remaining UAL from 2012	NA	<u>96,179,023</u>
6. Remaining UAL for 20-year amortization (3)–(4)–(5)	\$ 96,663,248	\$ (2,418,261)
7. Active Member Payroll	\$ 61,145,037	\$ 63,737,215
8. Unfunded Liability Amortization Payment	\$ 7,250,652	\$ (181,392)
9. UAL amortization (8) / (7)	11.86%	(0.28%)
10. Additional amortization for PSREP and VRIP	2.41%	2.38%
11. 2012 UAL amortization	NA	11.71%
12. Employer Contribution Results (GASB)		
a. Employer Normal Cost Rate	18.72%	17.04%
b. Amortization of UAL (9) + (10) + (11)	<u>14.27%</u>	<u>13.81%</u>
c. Total Employer Contribution Rate June 30	32.99%	30.85%

SECTION V
ACCOUNTING STATEMENT INFORMATION

FASB ASC Topic No. 960 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.

FASB ASC Topic No. 960 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 ASC Topic No. 960) and the actuarial accrued liability (GASB-25) are determined assuming that the Plan is ongoing and participants continue to terminate employment, retire, etc., in accordance with the actuarial assumptions. Liabilities are discounted at the assumed valuation interest rate of 7.0% per annum.

FASB ASC Topic No. 960 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, 2013 are exhibited in Table V-1. Then, Table V-2 reconciles the FASB ASC Topic No. 960 liabilities determined as of the prior valuation, June 30, 2012, to the liabilities as of June 30, 2013.

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.

This report does not reflect any changes in pension accounting requirements from newly issued GASB Statements No. 67 and 68. Statement No. 67 will be effective for the Retirement System in Fiscal Year ending June 30, 2014. Statement No. 68 will be effective for the City for Fiscal Year ending June 30, 2015.

**THE EMPLOYEES' RETIREMENT SYSTEM FOR THE CITY OF NORFOLK
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**SECTION V
ACCOUNTING STATEMENT INFORMATION**

Table V-1 Accounting Statement Information Employees' Retirement System for the City of Norfolk		
	June 30, 2012	June 30, 2013
A. FASB ASC Topic No. 960		
1. Present Value of Benefits Accrued and Vested to Date		
a. Members Currently Receiving Payments	\$ 727,886,578	\$ 741,761,117
b. Vested Terminated Members	40,621,514	41,098,693
c. Active Members	<u>272,177,949</u>	<u>265,930,749</u>
d. Total PVVB	\$ 1,040,686,041	\$ 1,048,790,559
2. Present Value of Non-Vested Accrued Benefits for Active Members	<u>14,133,528</u>	<u>12,635,288</u>
3. Total Present Value of Accrued Benefits	\$ 1,054,819,569	\$ 1,061,425,847
4. Assets at Market Value	<u>885,499,200</u>	<u>954,693,667</u>
5. Unfunded Present Value of Accrued Benefits, But Not Less Than Zero	\$ 169,320,369	\$ 106,732,180
6. Ratio of Assets to Value of Benefits (4) / (3)	83.9%	89.9%
B. GASB No. 25 Basis		
1. Actuarial Liabilities		
a. Members Currently Receiving Payments	\$ 727,886,578	\$ 741,761,117
b. Vested Terminated Members	40,621,514	41,098,693
c. Active Members	<u>375,898,538</u>	<u>376,854,061</u>
d. Total PVVB	\$ 1,144,406,630	\$ 1,159,713,871
2. Actuarial Value of Assets	<u>923,198,558</u>	<u>954,499,184</u>
3. Unfunded Actuarial Liability	\$ 221,208,072	\$ 205,214,687
4. Ratio of Actuarial Value of Assets to Actuarial Liability	80.7%	82.3%

**THE EMPLOYEES' RETIREMENT SYSTEM FOR THE CITY OF NORFOLK
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**SECTION V
ACCOUNTING STATEMENT INFORMATION**

Table V-2 Statement of Changes in Total Actuarial Present Value of All Accrued Benefits	
	Accumulated Benefit Obligation (FASB ASC Topic No. 960)
Actuarial Present Value of Accrued Benefits as of June 30, 2012	\$ 1,054,819,569
Increase/(Decrease) During Years Attributable to:	
Passage of Time	\$ 71,240,492
Benefit Paid – FY 2012-2013	(74,196,518)
Change in Assumptions	0
CSB Participants joining Plan	1,451,935
Benefits Accrued, Other Gains/Losses	<u>8,110,369</u>
Net Increase/(Decrease)	\$ 6,606,278
Actuarial Present Value of Accrued Benefits as of June 30, 2013	\$ 1,061,425,847

**THE EMPLOYEES' RETIREMENT SYSTEM FOR THE CITY OF NORFOLK
ACTUARIAL VALUATION AS OF JUNE 30, 2013**

**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, 2013
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level Percent Closed, 20-Year Layers
Equivalent Single Amortization period	18.3 Years
Asset Valuation Method	3-Year Smoothed Value
Actuarial assumptions:	
Investment rate of return*	7.0%
Projected salary increases	Average annual salary increases of 5.64% for General Employees over a 30-year career and 6.68% for Public Safety employees over a 30-year career. Based on rates which vary by year-of-service and are compounded annually.
*Includes inflation at	3.0%

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 October of 2012.

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 is a level percent of payroll cost which will pay for projected benefits at retirement for each active plan participant. The actuarial accrued liability is that portion of the present value of projected benefits that will not be paid for by future employer normal costs. The difference between this liability and the funds accumulated as of the same date is the unfunded actuarial accrued liability.

THE EMPLOYEES' RETIREMENT SYSTEM FOR THE CITY OF NORFOLK
ACTUARIAL VALUATION AS OF JUNE 30, 2013

SECTION V
ACCOUNTING STATEMENT INFORMATION

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

Gain (or Loss) for Year ending June 30,

Type of Activity	2008	2009	2010	2011	2012	2013
Investment Experience	\$(22,682,482)	\$(87,432,722)	\$(104,166,163)	\$(21,698,596)	\$ 31,495,079	\$ 97,241
Combined Liability Experience	<u>8,284,079</u>	<u>14,859,619</u>	<u>18,097,499</u>	<u>12,889,233</u>	<u>3,881,141</u>	<u>15,351,662</u>
Gain (or Loss) During Year from Financial Experience	\$(14,398,403)	\$(72,573,103)	\$(86,068,664)	\$(8,809,363)	\$ 35,376,220	\$ 15,448,903
Non-Recurring Items	<u>(10,545,384)</u>	<u>0</u>	<u>0</u>	<u>3,202,603</u>	<u>(26,747,315)</u>	<u>(1,451,935)</u>
Composite Gain (or Loss) During Year	\$(24,943,787)	\$(72,573,103)	\$(86,068,664)	\$(5,606,760)	\$ 8,628,905	\$ 13,966,968

**THE EMPLOYEES' RETIREMENT SYSTEM FOR THE CITY OF NORFOLK
ACTUARIAL VALUATION AS OF JUNE 30, 2013**

**SECTION V
ACCOUNTING STATEMENT INFORMATION**

**Table V-5
SOLVENCY TEST
Aggregate Accrued Liabilities For**

Valuation Date July 1,	(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)
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	414,295,992	854,146,038	100%	100%	93%
2006	84,360	566,232,610	372,779,959	881,035,790	100%	100%	84%
2007	83,376	585,584,308	386,563,802	925,821,257	100%	100%	88%
2008	78,685	605,567,032	403,409,400	937,766,796	100%	100%	82%
2009	72,008	617,813,260	411,732,258	885,609,003	100%	100%	65%
2010	54,808	637,488,648	409,218,088	817,698,124	100%	100%	44%
2011	196,733	658,831,846	404,945,415	831,975,004	100%	100%	43%
2012	629,200	768,508,092	375,269,338	923,198,558	100%	100%	41%
2013	1,044,830	782,859,810	375,809,231	954,499,184	100%	100%	45%

**THE EMPLOYEES' RETIREMENT SYSTEM FOR THE CITY OF NORFOLK
ACTUARIAL VALUATION AS OF JUNE 30, 2013**

**APPENDIX A
MEMBERSHIP INFORMATION**

Summary of Membership Data as of June 30, 2013

Active Members (excluding those on Leave of Absence)				
Plan	Count	Average Age	Average Service	Average Salary
General	2,787	47.4	10.9	\$43,173
Firefighters and Police	<u>1,268</u>	<u>39.3</u>	<u>11.5</u>	<u>50,266</u>
Total System	4,055	44.8	11.1	\$45,391

Inactive Members (Excludes Participants Due Account Balance)			
	Count	Annual Benefit	Average Annual Benefit
Service Retirements			
General	1,895	\$ 34,406,598	\$ 18,157
Firefighters and Police	<u>856</u>	<u>29,227,478</u>	<u>34,144</u>
Total	2,751	\$ 63,634,076	\$ 23,131
Contingent Annuitants			
General	337	\$ 2,647,005	\$ 7,855
Firefighters and Police	<u>173</u>	<u>1,901,059</u>	<u>10,989</u>
Total	510	\$ 4,548,064	\$ 8,918
Disableds			
General	211	\$ 2,870,637	\$ 13,605
Firefighters and Police	<u>133</u>	<u>2,944,953</u>	<u>22,143</u>
Total	344	\$ 5,815,590	\$ 16,906
Vested Former Members ¹			
General	788	\$ 4,248,326	\$ 5,391
Firefighters and Police	<u>209</u>	<u>1,829,668</u>	<u>8,754</u>
Total	997	\$ 6,077,994	\$ 6,096

¹ Benefits are payable at age 60 for General Employees and age 55 for Firefighters and Police. Includes 9 participants on leave of absence (3 General employees and 6 Firefighters and Police) that are currently vested.

**THE EMPLOYEES' RETIREMENT SYSTEM FOR THE CITY OF NORFOLK
ACTUARIAL VALUATION AS OF JUNE 30, 2013**

**APPENDIX A
MEMBERSHIP INFORMATION**

Data Reconciliation						
	Actives	Vested Former Members	Service Retirements	Contingent Annuitants	Disableds	Total
Count as of June 30, 2012	3,731	957	2,686	512	349	8,235
New Entrants	645	25	5	9	3	687
Terminations/Retirements						
- Vested	(170)	74	96	0	0	0
- Non-Vested	(143)	0	0	0	0	(143)
Disablements	(8)	0	0	0	8	0
Vesteds that Retired	0	(43)	43	0	0	0
Deaths						
- With a Beneficiary	NC	0	(21)	23	(2)	0
- Without a Beneficiary	NC	(16)	(58)	(34)	(14)	(122)
Count as of June 30, 2013	4,055	997	2,751	510	344	8,657

NC = Not Calculated. Any participants who died during the Plan year are included in the non-vested terminations.

**THE EMPLOYEES' RETIREMENT SYSTEM FOR THE CITY OF NORFOLK
ACTUARIAL VALUATION AS OF JUNE 30, 2013**

**APPENDIX A
MEMBERSHIP INFORMATION**

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

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	40	20	3	0	0	0	0	0	0	0	0	63
25 to 29	54	97	60	0	0	0	0	0	0	0	0	211
30 to 34	46	99	82	17	0	0	0	0	0	0	0	244
35 to 39	32	83	86	45	2	1	0	0	0	0	0	249
40 to 44	31	92	101	68	35	14	0	0	0	0	0	341
45 to 49	27	86	94	65	51	29	29	2	0	0	0	383
50 to 54	14	65	101	86	56	48	69	25	1	0	0	465
55 to 59	12	58	77	59	70	36	59	51	31	5	5	458
60 to 64	2	41	48	32	31	23	33	31	21	14	14	276
65 to 69	0	11	11	10	13	11	9	4	4	4	4	77
70 & up	0	2	3	4	3	2	2	2	0	2	2	20
Total	258	654	666	386	261	164	201	115	57	25	25	2,787

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	1,028,360	530,128	87,593	0	0	0	0	0	0	0	0	1,646,081
25 to 29	1,654,630	3,311,051	1,875,511	0	0	0	0	0	0	0	0	6,841,192
30 to 34	1,597,707	3,628,312	3,074,346	574,616	0	0	0	0	0	0	0	8,874,981
35 to 39	1,191,220	3,358,114	3,196,998	1,799,180	61,942	34,253	0	0	0	0	0	9,641,707
40 to 44	1,135,036	4,240,094	4,005,992	3,052,808	1,692,625	596,656	0	0	0	0	0	14,723,211
45 to 49	970,358	3,707,722	3,876,978	2,661,054	2,385,306	1,493,889	1,313,175	93,455	0	0	0	16,501,937
50 to 54	514,097	3,071,347	3,851,992	3,602,205	2,619,531	2,164,525	3,500,400	1,292,032	50,460	0	0	20,666,589
55 to 59	502,572	3,232,231	3,166,813	2,482,176	3,224,314	1,862,947	3,013,479	2,731,254	1,638,587	248,395	248,395	22,102,768
60 to 64	110,954	1,971,814	1,993,470	1,611,383	1,405,843	1,248,118	2,000,818	1,742,827	1,372,875	904,123	904,123	14,362,225
65 to 69	0	530,270	423,984	423,098	813,857	764,610	461,443	217,923	222,806	181,149	181,149	4,039,140
70 & up	0	84,317	91,993	199,674	82,620	140,971	73,433	124,678	0	126,840	126,840	924,526
Total	8,704,934	27,665,400	25,645,670	16,406,194	12,286,038	8,305,969	10,362,748	6,202,169	3,284,728	1,460,507	1,460,507	120,324,357

**THE EMPLOYEES' RETIREMENT SYSTEM FOR THE CITY OF NORFOLK
ACTUARIAL VALUATION AS OF JUNE 30, 2013**

**APPENDIX A
MEMBERSHIP INFORMATION**

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

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	39	35	0	0	0	0	0	0	0	0	0	74
25 to 29	41	120	59	0	0	0	0	0	0	0	0	220
30 to 34	13	48	106	23	0	0	0	0	0	0	0	190
35 to 39	3	20	64	63	25	0	0	0	0	0	0	175
40 to 44	2	26	40	61	74	15	0	0	0	0	0	218
45 to 49	0	7	30	25	45	59	25	0	0	0	0	191
50 to 54	1	0	7	10	20	26	38	22	0	0	0	124
55 to 59	0	0	0	2	6	7	14	16	11	1	1	57
60 to 64	0	0	0	0	1	0	3	1	8	3	3	16
65 to 69	0	0	1	1	0	1	0	0	0	0	0	3
70 & up	0	0	0	0	0	0	0	0	0	0	0	0
Total	99	256	307	185	171	108	80	39	19	4	4	1,268

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	1,493,972	1,427,261	0	0	0	0	0	0	0	0	0	2,921,233
25 to 29	1,559,835	4,875,929	2,528,376	0	0	0	0	0	0	0	0	8,964,140
30 to 34	494,544	1,967,455	4,787,860	1,193,796	0	0	0	0	0	0	0	8,443,655
35 to 39	109,851	821,750	2,908,641	3,314,779	1,391,220	0	0	0	0	0	0	8,546,241
40 to 44	73,234	1,011,657	1,764,854	3,185,084	4,289,380	916,163	0	0	0	0	0	11,240,372
45 to 49	0	279,169	1,318,611	1,262,378	2,451,292	3,768,423	1,796,593	0	0	0	0	10,876,466
50 to 54	36,617	0	305,849	511,347	1,046,471	1,666,611	2,540,666	1,650,943	0	0	0	7,758,504
55 to 59	0	0	0	104,050	335,061	439,493	877,202	1,070,095	943,382	93,140	0	3,862,423
60 to 64	0	0	0	0	57,974	0	139,783	76,520	593,003	180,401	0	1,047,681
65 to 69	0	0	25,500	25,500	0	25,500	0	0	0	0	0	76,500
70 & up	0	0	0	0	0	0	0	0	0	0	0	0
Total	3,768,053	10,383,221	13,639,691	9,596,934	9,571,398	6,816,190	5,354,244	2,797,558	1,536,385	273,541	0	63,737,215

**APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS**

A. Actuarial Assumptions

Interest Rate

7.0% per annum, compounded annually (adopted as of June 30, 2012).

Mortality

Pre-Retirement: RP-2000 Combined Health Mortality projected to 2010 by Scale AA*

Health Annuitants: RP-2000 Combined Health Mortality projected to 2010 by Scale AA

Disableds: RP-2000 Disability Mortality projected to 2010 by Scale AA

* 5% of deaths are assumed to be accidental for general employees;
50% of deaths are assumed to be accidental for firefighters and police.

Margin for Future Mortality Improvement – Mortality experience for the period 2006-2012 was most closely approximated by the RP-2000 table without projection, therefore the projection to 2010 should provide for improvement through the 2018 valuation date.

Salary Increase

Representative values are as follows:

Service	Annual Rate of Salary Increase	
	General	Firefighters and Police
0	7.12 %	11.24%
1	6.97	8.15
2	6.81	7.63
3	6.66	7.63
4	6.50	7.63
5	6.35	7.63
10	5.85	7.63
15	5.70	7.33
20	5.26	5.78
25	4.74	4.55
30	4.23	4.55

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

**THE EMPLOYEES' RETIREMENT SYSTEM FOR THE CITY OF NORFOLK
ACTUARIAL VALUATION AS OF JUNE 30, 2013**

**APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS**

Withdrawal

Service	General	Firefighters and Police
0	15.00 %	10.00 %
1	13.00	9.00
2	11.00	8.00
3	9.00	7.00
4	9.00	6.00
5	7.50	5.00
10	2.50	2.80
15	2.50	1.00
20	2.50	1.00
25	1.00	1.00
30	1.00	1.00

Disability

Age	General*		Firefighters and Police**
	Male	Female	Unisex
20	0.07%	0.05%	0.04%
25	0.08	0.05	0.06
30	0.09	0.06	0.08
35	0.14	0.10	0.11
40	0.22	0.15	0.22
45	0.34	0.23	0.40
50	0.51	0.35	0.67
54	0.66	0.45	0.90
55	0.70	0.48	0.96
59	1.02	0.70	1.26

* 20% of General disabilities are assumed to be accidental

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

**THE EMPLOYEES' RETIREMENT SYSTEM FOR THE CITY OF NORFOLK
ACTUARIAL VALUATION AS OF JUNE 30, 2013**

**APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS**

Retirement
General:

Age	Early Retirement	Normal Service Retirement
45	5.00 %	7.50 %
50	7.50	7.50
51	5.00	7.50
52	5.00	7.50
53	5.00	7.50
54	5.00	7.50
55	5.00	7.50
56	5.00	7.50
57	5.00	7.50
58	5.00	7.50
59	5.00	7.50
60		12.50
61		12.50
62		12.50
63		12.50
64		12.50
65		25.00
66		15.00
67		15.00
68		15.00
69		15.00
70		100.00

THE EMPLOYEES' RETIREMENT SYSTEM FOR THE CITY OF NORFOLK
ACTUARIAL VALUATION AS OF JUNE 30, 2013

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

Firefighters and Police:

Service	Rate of Retirement*
20	2.50 %
21	3.00
22	3.50
23	4.00
24	5.00
25	10.00
26	25.00
27 and up	10.00

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

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

Future Expenses

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

Loading or Contingency Reserves

A load of 0.85% for General Employees and 1.05% for Firefighters and Police is applied to retirement benefits for active employees to account for unused sick leave balances at time of retirement.

Marital Status

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

Changes in Assumptions

None.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

B. Actuarial Methods

Actuarial Cost Method: Entry Age Normal Cost Method. The unfunded actuarial liability (UAL) that arose from the offering of the Public Safety Retirement Enhancement Program is being amortized over a closed 20-year period commencing as of July 1, 2005. The unfunded actuarial liability (UAL) that arose from the offering of the Voluntary Retirement Incentive Program is being amortized over a closed 20-year period commencing as of July 1, 2012. The remaining UAL as of June 30, 2012 was amortized over a closed period of 20 years. Future annual changes in the UAL, including the change set up with this June 30, 2013 valuation, will be amortized over a closed period of 20 years as well. All rates are developed using a level-percent of pay amortization method with a 3% per annum increase in the payments.

Asset Valuation Method: The actuarial value of assets are determined by first calculating the expected actuarial value of assets based on last year's valuation interest rate, last year's actuarial value of assets, and the net cash flow (contributions less benefit payments and administrative expenses) of the System over the year prior to the valuation. One-third of the difference between market value of assets and the expected actuarial value of assets is then added to the expected actuarial value of assets to determine the valuation assets. Since this is the first year this method is being used, the expected actuarial value of assets is based on last year's market value of assets in lieu of the prior year's actuarial value of assets.

Changes in Actuarial Methods

None.

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 of Norfolk is required to become a member of the Retirement System. Upon entering the System, members are classified according to their occupational group, either as General Employees, firefighters, police officers, or paramedics.

Paramedics, formerly members of the General Employees Group, were reclassified as members of firefighters and police effective June 9, 1992. 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.

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

2. Normal Service Retirement Allowance

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 65 for Firefighters and Police Officers.

Amount

Employees Hired Before July 1, 1980

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

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

APPENDIX C
SUMMARY OF PLAN PROVISIONS

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

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

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

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

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 $\frac{1}{4}$ of 1% for each month commencement date precedes the normal retirement date for General Employees, and $\frac{1}{2}$ of 1% for each month commencement date precedes the normal retirement date for firefighters, police officers, and paramedics.

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 their contributions made prior to July 1, 1972 with interest, if any, in the System until normal service retirement date.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

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.

Amount

The amount payable is 66 $\frac{2}{3}$ % 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 their earnable compensation during the year immediately preceding their death is payable. If a member

APPENDIX C
SUMMARY OF PLAN PROVISIONS

dies in service after the earlier of completion of 10 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

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

Offset on Account of Workers' Compensation

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

APPENDIX C
SUMMARY OF PLAN PROVISIONS

9. Death Benefit After Retirement

Eligibility

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

Amount

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

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

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, their contributions, if any, is not less than one-half of the interest credited. The member may elect, prior to the commencement of their retirement allowance, to receive an annuity which is the actuarial equivalent of their 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 of Trustees will be payable.

12. Contributions

By Members	5% of pay for anyone hired on or after October 5, 2010
By City	Annual contributions actuarially computed to be required to cover the cost of benefits of the System.

13. Changes in Plan Provisions

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