

# Popular Annual Financial Report



**Celebrating 80 Years**  
**THE CITY OF**  
**NORFOLK**  
EMPLOYEES' RETIREMENT SYSTEM  
**1942 - 2022**

**Fiscal Year Ending June 30, 2022**  
**City of Norfolk Employees' Retirement System**

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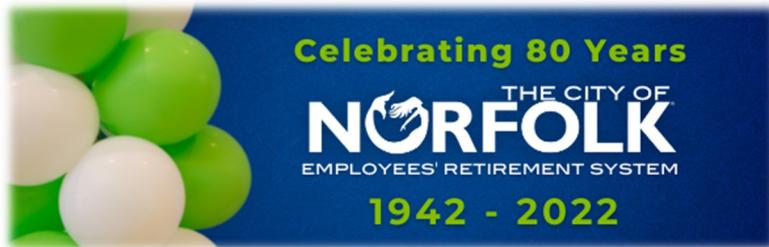
Drone Photography over Downtown Norfolk and Historical Ghent, Photographer Andrew Cooper

# MESSAGE TO OUR READERS

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

**NERS is proud to make a historic milestone: our 80<sup>th</sup> anniversary.** This significant milestone is a chance to reflect on the importance of our mission and the positive impact the System has had on generations of Norfolk employees, as well as to prepare for the future legacy of the NERS and the delivery of services to its members.

We can say with pride that we have provided our members with a secure pension for life, on time and without fail, since our founding in 1942. That trust begins in the working years of each public employee – each paycheck provides employees with contribution information – and then annually, all NERS employees are provided with a personal retirement statement detailing the status of their benefit. This annual statement not only provides valuable information, it builds trust in the System over the decades of their public working career and provides employees with the ability to plan financially for the future.



Following a comprehensive review of NERS, City Council adopted a resolution on May 11, 2021, to solidify its intent to reform the City's pension system by closing the NERS defined benefit plan to new membership (both general and sworn public safety employees) and requiring participation in the Virginia Retirement System (VRS) for all employees hired on or after January 1, 2022. During the calendar year 2022, the City allowed currently employed NERS members the opportunity to elect participation in the VRS or to remain in the NERS.

We would like to extend our thanks to the Board of Trustees and the City of Norfolk, who work diligently to keep the NERS fiscally strong. This vigilance means NERS will continue to serve as an economic driver through retiree spending, and help our active members and retirees maintain financial self-sufficiency while actively employed and into retirement.

Sincerely,

Norfolk Employees' Retirement System

# BOARD OF TRUSTEES

The members of the Board are appointed and serve pursuant to Chapter 37 of the Norfolk City Code. The Board consists of ten (10) trustees, as follows: The City Manager, ex officio; the Director of Finance, ex officio; and eight (8) trustees appointed by the City Council. The Ex-officio trustees serve by virtue of their position with the City of Norfolk. Of the eight (8) trustees, one (1) must be an employee in the police or fire departments, one (1) must be an employee of some other City department, four (4) must be citizens of the City, none of whom shall be members of the System and one (1) of whom may be a retiree and two (2) must be citizens of the City and neither of whom shall be a member of the System.

## **Lawrence A. Bernert III, CFA**

Chair

Appointed October 30, 2007

## **Yvonne T. Allmond**

Vice-Chair

Appointed October 30, 2007

## **Kenneth W. Crowder**

Member

Appointed February 3, 2009

## **Elizabeth (Liz) Delude**

Member

Appointed November 24, 2020

## **Arthur M. Eason, III**

Member

Appointed November 25, 2014

## **Daryl Howard**

Member represents the City's Public Safety

Appointed January 29, 2019

## **James Izard, II**

Member

Appointed June 11, 2019

## **Christina (Tina) Tally**

Member represents the City's General Employees

Appointed May 27, 2020

## **Christine A. Garczynski**

Ex-officio Trustee as the Director of Finance

Appointed by virtue of her position with the City

## **Catheryn Whitesell**

Ex-officio Trustee represents the City Manager

Appointed by virtue of her position with the City

# SYSTEM HISTORY

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

**NERS directs a defined benefit plan, with eligibility based on factors such as age and years of service.** Defined benefit plans provide recipients a retirement income for their lifetime. This differs from defined contribution plans, such as 401(k)s, where a recipient can outlive their accumulated savings. Eligible members receive a service retirement or disability pension, death benefits, and coverage for beneficiaries.



Norfolk Community Play-In & Sing-Along 2022, Photographer Andrew Cooper

**NERS is funded through a combination of member contributions, employer (City of Norfolk) contributions and investment earnings.** Effective January 8, 2015, all System members are required to contribute five (5) percent of their earnable compensation to the System.

**NERS members are required to meet the five (5) year vesting requirement to be eligible for a future retirement benefit.** Upon vesting, mandatory member contributions become an asset of the System to be used to pay benefits under the System. In the event of death or departure of an employee prior to vesting, member contributions, including accrued interest, shall be refunded. Interest was accrued at the rate of 0.17 percent during the fiscal year ended June 30, 2022.



Norfolk Community Play-In & Sing-Along 2022, Photographer Andrew Cooper

**Effective fiscal year ending 2023, the City of Norfolk began making separate contributions to the System from the Section 115 Trust that was previously established in June 2021.** The first \$8.7 million contribution was made from the Trust in July 2022 and is projected to continue at \$8.7 million annually until the Section 115 Trust assets are depleted.

# SYSTEM MEMBERSHIP

The System is the administrator of a single-employer, contributory, defined benefit plan that covers substantially all employees of the City of Norfolk with the exclusion of City employees who are hired on or after January 1, 2022, in addition to School Board and Constitutional Officer employees who are covered by the Virginia Retirement System.

The NERS serves nearly 8,900 active and retired members, including beneficiaries. The types of members covered by the System consists of retirees and beneficiaries, vested former members entitled to but not yet receiving retirement benefits, and active plan members. On June 30, 2022, the membership consisted of 4,351 retirees and beneficiaries, 1,533 vested former members and 2,966 active members.

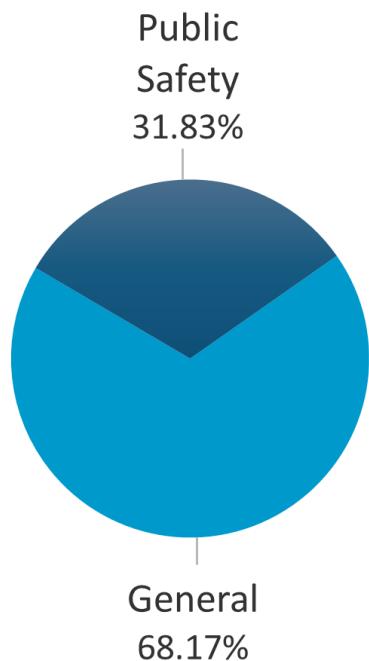
## The System By the Numbers

### Active Membership by Gender\*



\*As provided by the employee upon employment with the City

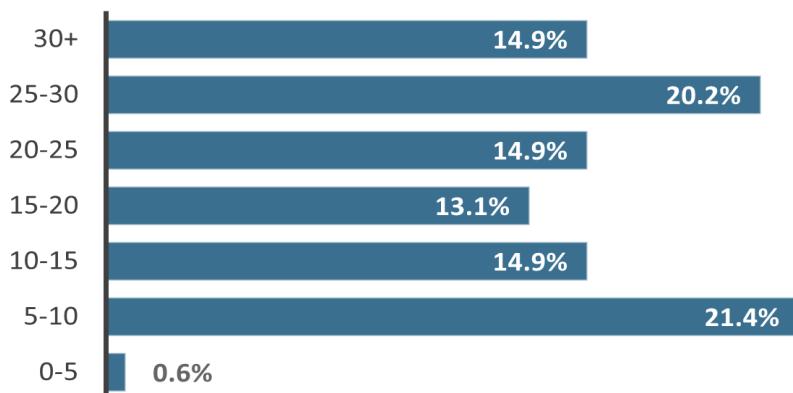
### Active Membership by Type



### Plan Membership

	FY 2022	FY 2021
Retirees and Beneficiaries	4,351	4,272
Vested Former Members	1,533	1,440
Active Members	2,966	3,741
<b>Total Plan Membership</b>	<b>8,850</b>	<b>9,453</b>

### Years of Service at Retirement



# BENEFITS AND SERVICES

**Members are vested after five years of service and are eligible for benefits upon meeting retirement eligibility requirements.**

**Normal service and early service retirement benefits are available to members who attain the age and/or service requirements while in active employment.**

**A vested service retirement benefit is available to NERS members that have met the vesting requirement but are no longer active City employees.**

**The System provides retirement benefits as well as disability pensions and death benefits.**

**Benefit Statements are provided to all active members on an annual basis.**

**Counseling is provided to all plan participants.**

## Committed to The Highest Ethical Standards of Conduct

NERS strives to model strong ethical values within the pension industry. Our Board and staff take their fiduciary responsibilities seriously and are committed to operating in an environment of transparency.



Winter Storm Jasper, Norfolk 2022, Photographer Andrew Cooper

NERS staff adhere to the following guiding **principles of ethics and conduct:**

- Ensure compliance with all applicable laws, ethical and professional standards, and City and NERS policies and procedures.
- Protect the interest of stakeholders, including members, employers and the public.
- Act with integrity at all times to prevent a violation of public trust.
- Guard the privacy of stakeholder information.

# CLOSURE OF NERS



Drone Photography of Norfolk's East Beach, Photographer Andrew Cooper

Following a comprehensive review of its current pension situation and available options to ensure the long-term financial health and sustainability of both the City and the NERS, on May 11, 2021, City Council enacted an ordinance requiring that all new hires, both general and sworn public safety employees, participate in VRS effective January 1, 2022.

It is expected that required contributions to NERS will grow over the next ten years or less by between \$5 and \$10 million, as a result of the closure of the NERS to new hires. Actual cost estimates will not be known until the 2023 year valuation report and will be subject to change based on actual Plan experience. **Although NERS is closed to new membership, the System will continue until the last member and their beneficiary are paid.**

## FINANCIAL STATEMENTS

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

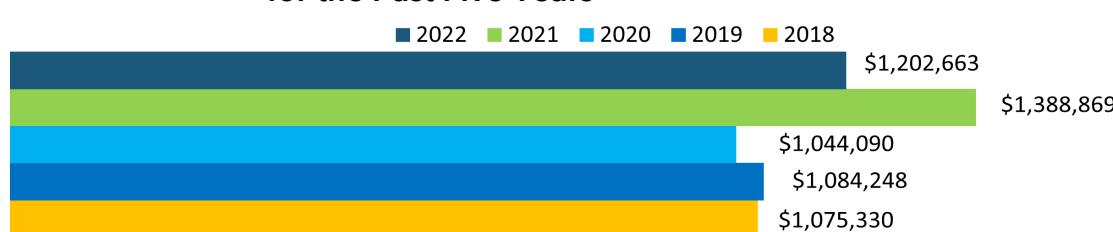
- ♦ **The statement of fiduciary net position presents the System's assets and liabilities and the net position restricted for pensions (also known as funded status) as of June 30, 2022.** The assets comprise cash and cash equivalents, receivables and fair value of investments. Liabilities are comprised of accounts payable and accrued expenses, in addition to payables due to brokers for securities purchased.
- ♦ **System assets exceeded liabilities at the close of fiscal years 2022 and 2021 by approximately \$1.2 billion and \$1.4 billion, respectively.** In fiscal year 2022, plan net position restricted for pensions decreased by \$186.2 million or 13.4 percent from the previous fiscal year.
- ♦ **The System's funding objective is to meet long-term benefit obligations through contributions and investment income.** The net position as a percentage of the total pension liability or funded status, was 84.2 percent and 90.6 percent, at June 30, 2022 and June 30, 2021, respectively.

# FINANCIAL STATEMENTS (Continued)

**Employees' Retirement System of the City of Norfolk**  
**Summary of Plan Fiduciary Net Position**  
**For the Fiscal Years Ended June 30, 2022 and 2021**

	FY 2022	FY 2021	Percentage Change
<b>ASSETS</b> (In '000s)			
Cash and cash equivalents	\$ 38,824	\$ 37,958	2.2%
Receivables	61,123	43,015	42.1%
Investments	1,213,924	1,406,545	-13.7%
<b>Total Assets</b>	<b>\$ 1,313,871</b>	<b>\$ 1,487,518</b>	<b>-11.7%</b>
<b>LIABILITIES</b> (In '000s)			
Accounts payable and accrued expenses	3,927	2,112	85.9%
Due to brokers for securities purchased	107,281	96,537	11.1%
<b>Total Liabilities</b>	<b>\$ 111,208</b>	<b>\$ 98,649</b>	<b>12.7%</b>
<b>Plan Net Position Restricted for Pensions</b>	<b>\$ 1,202,663</b>	<b>\$ 1,388,869</b>	<b>-13.4%</b>

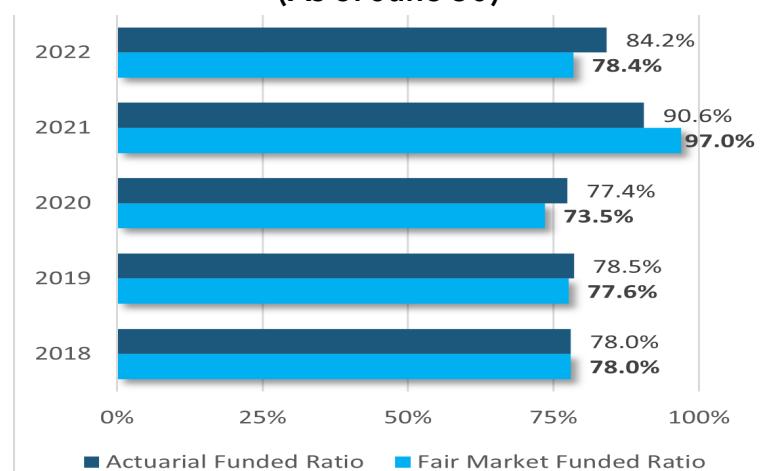
**Fiduciary Net Position Restricted for Pensions  
for the Past Five Years**



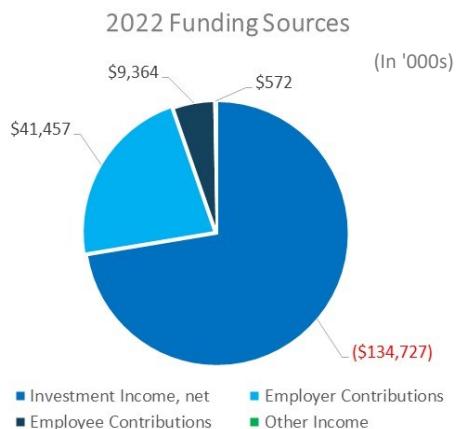
For 80 years, NERS has consistently provided pension benefits. How does it continue to deliver on its commitment year after year?

Only through responsible actions and the courage to anticipate and plan for change. This has allowed the System to face challenges such as members living longer than ever before in retirement, volatile global markets and an ever-decreasing member-to-retiree ratio.

**Funded Status for the Past Five Years  
(As of June 30)**



# FINANCIAL STATEMENTS (Continued)



**Total additions to the System decreased over the prior year by \$524 million or approximately 118.9 percent.**

The decrease was due to a decline in investment income and in the employer contribution that included a previous one-time payment from the sale of bonds to benefit the System.

**Total deductions increased over the prior year by \$6.7 million or approximately 6.9 percent.** The increase primarily reflects a rise in benefit payments.

## Employees' Retirement System of the City of Norfolk Summary of Changes in Plan Fiduciary Net Position For the Fiscal Years Ended June 30, 2022 and 2021

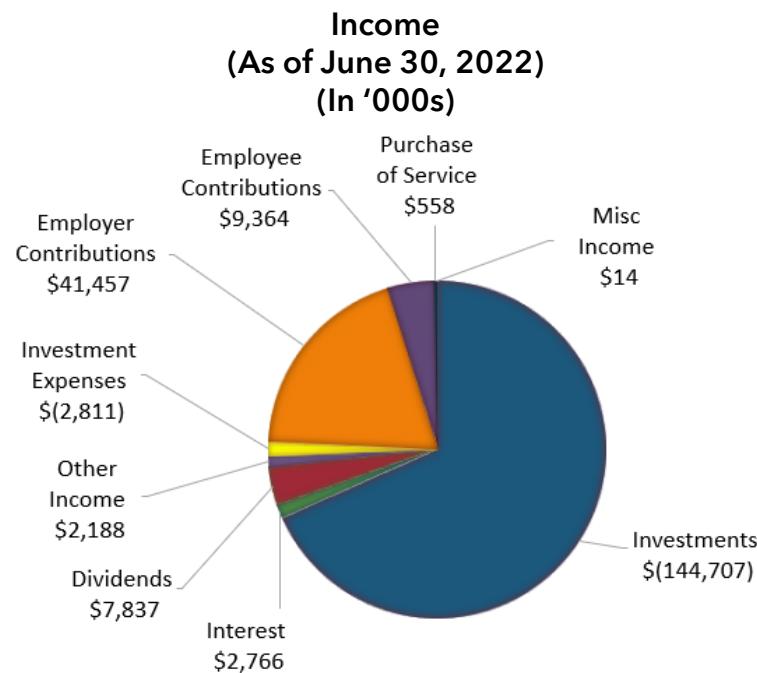
(In '000s)	FY 2022	FY 2021	Percentage Change
<b>ADDITIONS</b>			
Investment Income, net	\$ (134,727)	\$ 270,352	-149.8%
Employer Contributions	41,457	160,252	-74.1%
Employee Contributions	9,364	9,712	-3.6%
Other Income	572	655	-12.7%
<b>Total Additions</b>	<b>\$ (83,334)</b>	<b>\$ 440,971</b>	<b>-118.9%</b>
<b>DEDUCTIONS</b>			
Benefit Payments	99,100	94,649	4.7%
Refunds of Contributions	2,924	923	216.8%
Administrative Expenses	848	620	36.8%
<b>Total Deductions</b>	<b>\$ 102,872</b>	<b>\$ 96,192</b>	<b>6.9%</b>
<b>Net Increase (Decrease)</b>	<b>\$ (186,206)</b>	<b>\$ 344,779</b>	<b>154.0%</b>
<b>Plan Net Position Restricted for Pensions</b>			
<b>Beginning of the Year</b>	<b>\$ 1,388,869</b>	<b>\$ 1,044,090</b>	
<b>End of the Year</b>	<b>\$ 1,202,663</b>	<b>\$ 1,388,869</b>	<b>-13.4%</b>

### EXTRA EXPLANATIONS:

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

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

# INCOME



The primary sources of additions to net position are employer contributions, member contributions and net investment

income. Contributions are a direct result of contribution rates and covered payroll of active NERS members.

# CONTRIBUTIONS

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

## Total Annual Contributions

Fiscal Year	Employer Contributions (In '000s)	Employee Contributions (In '000s)	Total Annual Contribution (In '000s)
2018	\$ 35,494	\$ 9,668	\$ 45,162
2019	37,079	9,673	46,752
2020	38,494	9,838	48,332
2021	160,252	9,712	169,964
2022	41,457	9,364	50,821

# INVESTMENTS

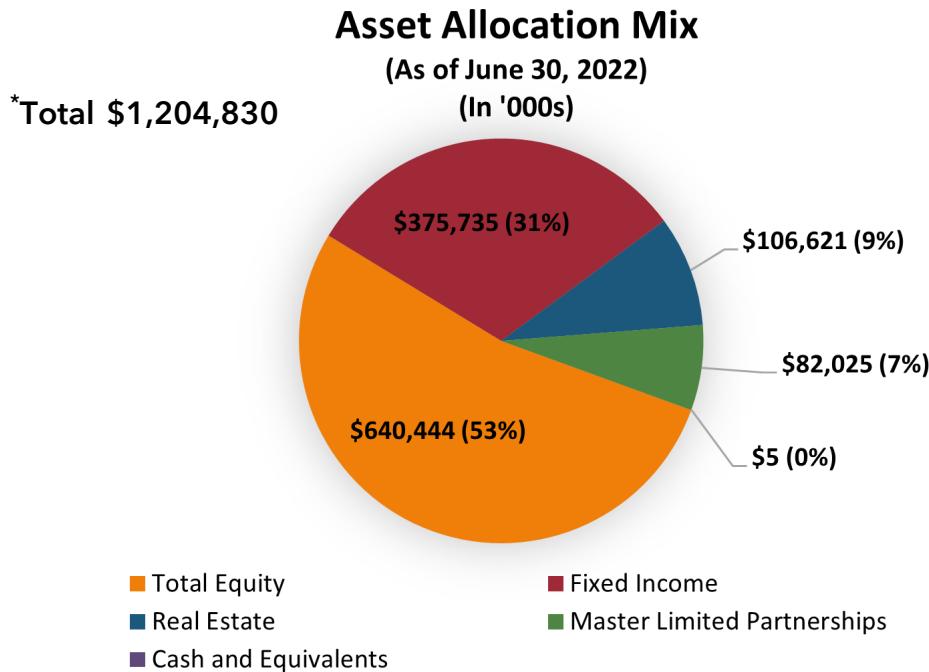
The investment program is designed to generate a long-term return that meets the System's objectives while minimizing risk. This structure and administration of the portfolio is defined by the prudent person standard. The standard states that the Board may invest the System's funds in every type of investment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

By establishing a well-diversified investment portfolio, the System has strengthened control over the fund's risk and return parameters.

**Asset allocation is the most significant factor influencing the risk and return of the investment program.** To establish an appropriate long-term asset allocation strategy, the Board evaluates expected return and risk for each of the major asset types (stocks, bonds and private markets). These asset classes are then combined in the most efficient manner possible to construct a portfolio that matches the risk and return needs of the System. The allocation process helps control risk and ensures the overall portfolio is broadly diversified.

**The Board reviews capital market expectations and asset allocation routinely.** In addition, the Board employs a disciplined rebalancing policy to manage market volatility and to ensure the portfolio's exposures are consistent with the System's long-term asset targets.

The following charts shows the asset mix at June 30, 2022.



\*excludes cash held by managers

The System manages investments with prudent care, constant attention, specialized expertise, and a concern for the financial security of its membership.

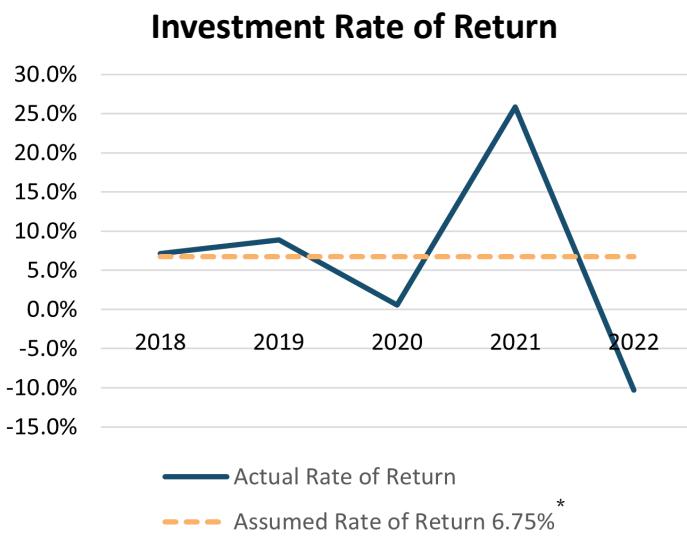
# INVESTMENTS (Continued)

Global economic growth continued to slow during the 2<sup>nd</sup> quarter as global central banks tightened monetary policy in order to fight persistently high inflation. Additionally, rising geopolitical concerns related to Russia's continued action in Ukraine, China's zero-COVID policy and social unrest in emerging markets all contributed to the slowdown.

**The U.S. labor market continues to be a source of strength with the unemployment rate holding steady at 3.6 percent in June.** The pace of job growth remains above the market's expectations with 390,000 and 372,000 new jobs created in May and June, respectfully. Despite these gains, the number of available workers entering the workforce remains significantly below the pre-pandemic high. U.S. interest rates moved significantly higher during the second quarter of 2022 with the U.S. 10-Year Treasury bond rising 63 basis points to close at yields of 2.98 percent.

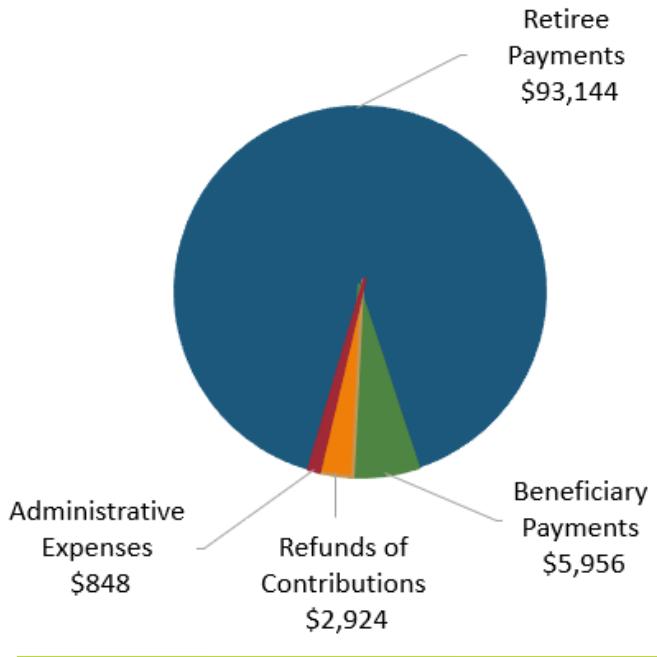
**The investment return results of each year are important to continue to provide sufficient income for benefit payments.** Consider that NERS must provide approximately \$8 million in benefit payments each month. Strong investment returns will strengthen the foundation by making assets available for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

This chart illustrates NERS' portfolio performance over the last five fiscal years. The System's fiscal year 2022 rate of return is -10.32 percent versus the long-term assumed rate of return objective of 6.75 percent (reduced from 7 percent in prior years).



# EXPENSES

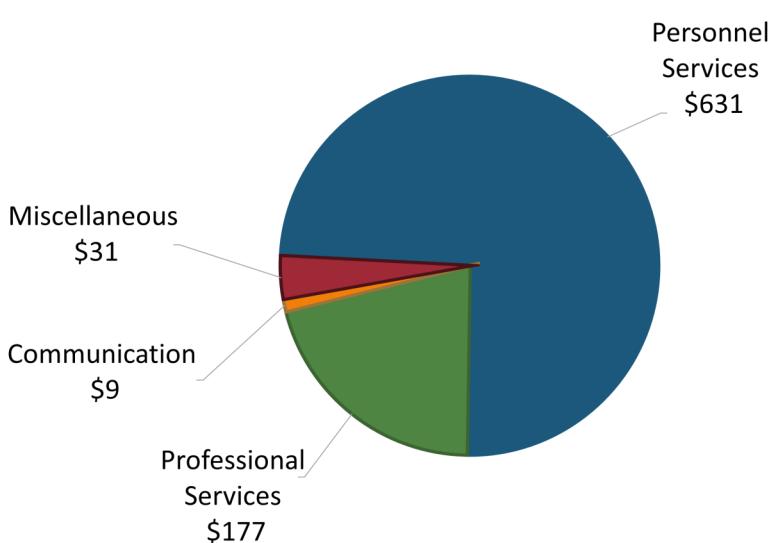
**Pension Expenses**  
(As of June 30, 2022)  
(In '000s)



The System's expenses, or deductions from net position, include benefit payments, refunds of contributions to former members, and the cost of administering the System.

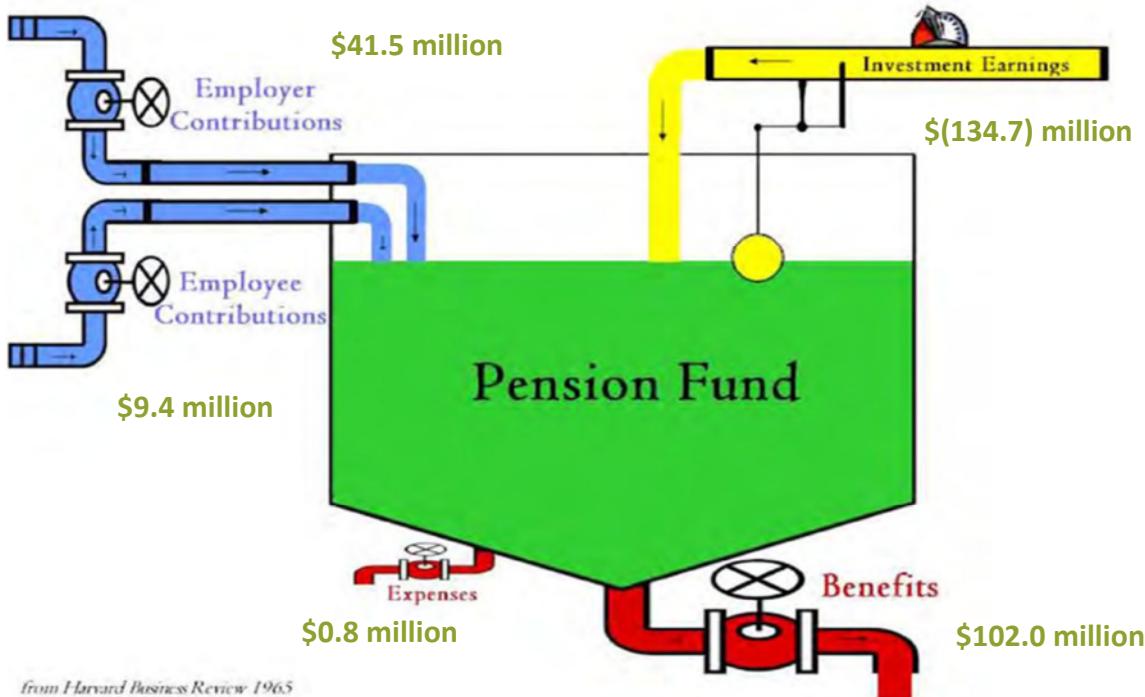
The majority of expenses were benefit payments, due primarily to an increase in benefit recipients. Contribution refunds are available to members who terminate employment or NERS membership and who are not eligible to receive monthly benefits. Expenses for administration of the System are funded from the pension trust.

**Administrative Expenses**  
(As of June 30, 2022)  
(In '000s)



# FUNDED STATUS

The System's funding objective is to meet long-term benefit obligations through contributions and investment income. This is depicted in the graphic below with fiscal year 2022 information.



**One measure of a pension fund's health is its funded status.** To determine the funded status, we compare the assets available to the benefits we must pay. One factor to keep in mind is that all benefits the System is obligated to pay are not due and payable immediately.

The System's funding objective is to pay long-term benefits through contributions (and investment returns on such contributions) that remain relatively level from year to year. **The amount contributed is a percentage of the salaries earned by members.**

Using this methodology, the employer and members each pay for retirement service accrued by active members in any given year.

**To ensure responsible financing of benefits, the NERS is constantly evaluating the plan's assets relative to the value of the liabilities.** The System receives an annual actuarial valuation indicating the contribution rates required to fund the System on an actuarial basis, and the City makes the contributions in accordance with that report.

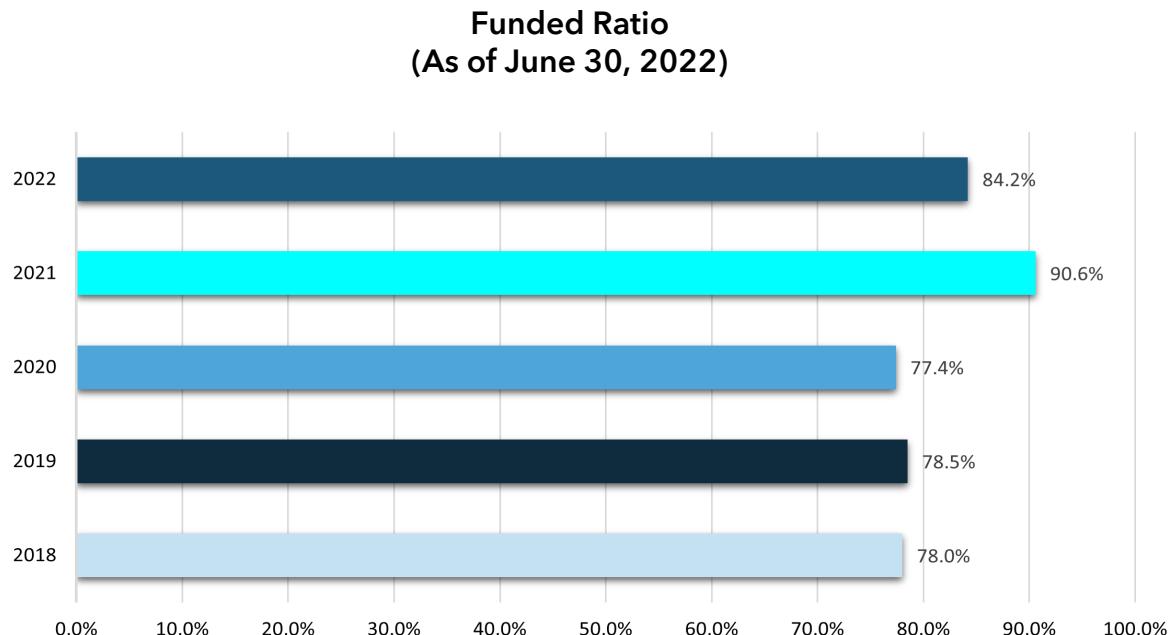
# FUNDED STATUS (Continued)

The actuarial funded ratio decreased to 84.2 percent as of June 30, 2022, compared to a funded ratio of 90.6 percent as of June 30, 2021. Total additions to the System decreased over the prior year by \$524 million or approximately 118.9 percent.

The City, per its City Council adopted policy, is expected to continue to make payments to amortize its remaining outstanding unfunded actuarial liability (UAL).

**As of June 30, 2022, the Section 115 Trust held \$76.5 million in assets. Had this entire amount been contributed on June 30, 2022, and recognized as part of System's assets, the System's funded ratio would be 89.2 percent on an actuarial value basis compared to 84.2 percent.**

Below is a chart showing the historical funding levels of the NERS over the last five fiscal years.



**Variations from year to year are primarily due to changes in the individual plan's actuarial assumptions and differences in assumed and actual results.** System investments are diversified to help mitigate the effects of a volatile financial market, and investment returns are smoothed over a three-year period.

# RESPONSIBLE FINANCIAL REPORTING

We are pleased to present the Popular Annual Financial Report (PAFR) for the Norfolk Employees' Retirement System's fiscal year ended June 30, 2022.

This Popular Annual Financial Report (PAFR) is derived from information contained in the Norfolk Employees' Retirement System's (NERS or the System) fiscal year 2022 Annual Comprehensive Financial Report (ACFR). NERS management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. Generally Accepted Accounting Principles. The ACFR offers more information about the System's financial status, investments and statistics.

For a detailed copy of our ACFR, as well as a host of further details on the System, please visit our website  
[www.norfolk.gov/retirement](http://www.norfolk.gov/retirement)



## 2021 Award for Outstanding Achievement

For the second consecutive year, NERS received the Government Finance Officers Association of the United States and Canada (GFOA) Award for Outstanding Achievement in Popular Annual Financial Reporting for its popular annual financial report for the fiscal year ended June 30, 2021.

This award is a prestigious national award recognizing conformance with the highest standards of creativity, presentation, understandability, and reader appeal for preparation of governmental popular reports. Recognition from various industry organizations demonstrates NERS' commitment to excellence in financial reporting.

# CONTACTING RETIREMENT



## VISION

To provide our members with a secure pension.

## MISSION

To be a trusted leader in the delivery of benefits and services to those who serve the citizens of the City of Norfolk.

## VALUES

Accountability, Innovation, Integrity and Respect

Please visit the City's website at [www.norfolk.gov/retirement](http://www.norfolk.gov/retirement) to view the 2022 ACFR for the City of Norfolk Employees' Retirement System.

## Contact the Retirement Office



**Phone:** (757) 664-4738



**Email:** [retirement@norfolk.gov](mailto:retirement@norfolk.gov)



**Mailing Address:** Norfolk Employees' Retirement System  
810 Union Street, Suite 309  
Norfolk, Virginia 23510

Norfolk Employees' Retirement System

810 Union Street, Suite 309, Norfolk, VA 23510



[www.norfolk.gov/retirement](http://www.norfolk.gov/retirement) (757) 664-4738