# Annual Comprehensive Financial Report


Fiscal Year Ending June 30, 2022

City of Norfolk Employees' Retirement System

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# Annual Comprehensive Financial Report

*FISCAL YEAR ENDING JUNE 30, 2022*

*PREPARED BY:*
*NORFOLK EMPLOYEES' RETIREMENT SYSTEM*

**Penny DeLosh**
**Executive Director of Retirement**

THE CITY OF NORFOLK
FINANCE

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# Introductory Section

## (Unaudited)

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December 8, 2022

## Letter of Transmittal

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

It is with great pleasure that I present the Annual Comprehensive Financial Report (ACFR) for the Employees' Retirement System of the City of Norfolk (the System) for Fiscal Year ended June 30, 2022. The System is a Pension Trust Fund included in the financial statements of the City of Norfolk, Virginia.

The System administration is responsible for the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures. All disclosures necessary to enable the reader to gain an understanding of the System's financial activities have been included to present fairly the System net position and changes therein of the System in accordance with U.S. Generally Accepted Accounting Principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB).

The System is a single-employer contributory defined benefit plan that covers substantially all employees of the City of Norfolk, excluding Constitutional Officers and School Board employees who are covered by the Virginia Retirement System. The City of Norfolk, a political subdivision of the Commonwealth of Virginia, acting through the Council of the City of Norfolk elected to join the Virginia Retirement System (VRS) and provide VRS retirement benefits for its eligible employees effective January 1, 2022. The System was closed to new membership effective January 1, 2022. Although the System presents separate financial statements, it is also included as a Pension Trust Fund, fiduciary fund type in the City of Norfolk's ACFR.

Management's Discussion and Analysis (MD&A), as required by GAAP, is included in the financial section of this report. The MD&A provides a narrative overview and analysis of the financial status of the System for the year ended June 30, 2022 (see page 18).

### System History

The System operates a defined benefit pension plan that was established by Section 37 of the Code of the City of Norfolk, Virginia (Code), and began operations as of January 1, 1942. Section 37 of the Code, as amended from time to time, established the authority under which the City of Norfolk's obligation to contribute to the plan is set forth. 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. This year marks the eightieth ($80^{th}$) anniversary of the Norfolk Employees' Retirement System (NERS).

## Benefit Provisions

The System provides normal and early service retirement benefits, as well disability pensions and death benefits. All benefits vest after five (5) years of creditable service effective January 1, 1997. Ad hoc cost-of-living adjustments or one-time supplements are provided at the discretion of the City Council. The benefit provisions of the plan are determined by Section 37 of the Code.

Effective January 8, 2015, all System members are required to have mandatory employee contributions withheld from their pay as a deduction of 5 percent (5.0%) of their earnable compensation, except for City Council members hired before October 5, 2010. Upon vesting, member contributions become an asset of the System to be used to pay benefits under the System. In the event of death or departure prior to retirement or 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.

The Retirement Office staff provides counseling to all benefit applicants and to others requesting counseling. All forms and retirement planning information are available in the Retirement Office, 810 Union Street, Suite 309, Norfolk, Virginia 23510 in addition to email via retirement@norfolk.gov.

## Accounting System and Internal Control

Financial statements included in this report are the responsibility of the System staff and have been prepared in accordance with the GAAP. The Fiscal Year 2022 financial statements have been audited by CliftonLarsonAllen LLP in conjunction with the City of Norfolk's annual audit.

The accrual basis of accounting is used to record assets, liabilities, additions and deductions of the System. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. In developing the accounting system, consideration was given to the adequacy of internal accounting controls. These were designed with the concept of reasonable rather than absolute assurance recognizing that the cost of a control should not exceed the benefits likely to be derived and that the calculation of costs and benefits requires estimates and judgments by management. A continuing effort is being made toward improving the controls to provide reasonable assurance of proper recording of financial transactions in all material respects.

## Funded Status and Net Pension Liability

The System's funding objective is to meet long-term benefit payments through investment returns on trust fund assets and annual employer and employee contributions. The advantage of a well-funded plan is that participants are confident that sufficient assets are available for the payment of current and future member benefits. An annual actuarial valuation of the System provides information for both the actuarially determined contributions, as well as the actuarially determined total pension liability. The actuarial valuation used for this report period was completed with payroll data as of June 30, 2022. Information from this report is included in the Actuarial Section.

The City of Norfolk's commitment to provide a financially sound retirement plan for its employees is illustrated within this report. "The Schedule of Employer's Net Pension Liability and Related Ratios" found in the Required Supplementary Information of the Financial Section, reports plan fiduciary net position as a percentage of the total pension liability, which provides one indication of the System's funded status.

The "Schedule of Employer's Contributions" includes historical trend information about the actuarially determined contributions (ADC) of the employer and the contributions made by the employer in relation to the ADC. As of June 30, 2022, the System's actuarial funded ratio was 84.2 percent, a decrease from 90.6 percent as of June 30, 2021. This funded ratio does not include any market movements since June 30, 2022. The City of Norfolk's next planned valuation will reflect market conditions through June 30, 2023. The financial markets performed worse than expected during the Fiscal Year ending June 20, 2022, resulting in a loss on the actuarial value of assets. On an actuarial value basis, the assets returned 3.73 percent compared with an assumed rate of return of 7.00 percent. The liabilities of the System increased by $4.4 million, primarily due to salaries increasing more than expected.

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 upon the bond issuance in June 2021. The first $8.7 million contribution was made from the Section 115 Trust in July 2022 and is projected to continue at $8.7 million annually until the Section 115 Trust assets are depleted. 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 the System's assets, the System's funded ratio would be 89.2 percent on an actuarial value basis compared to 84.2 percent.

**Investment Program**

The Board of Trustees (Trustees) for the Employees' Retirement System formally amended and adopted a written Statement of Investment Policy on February 3, 2016, that includes the guidelines and objectives for the investments of the System. The policy is reviewed annually, and changes are made as warranted. The System has an asset allocation target of 55 percent Global Equities; 30 percent Fixed Income; 7.5 percent Real Estate and 7.5 percent Master Limited Partnerships.

The Trustees are empowered to invest the System's assets utilizing the "Prudent Person" standard and to take appropriate action regarding the investment, management, and custodianship of plan assets. The investment responsibilities include establishing reasonable investment objectives, developing investment policy guidelines, selecting investment managers, and evaluating performance results to assure adherence to guidelines and the achievement of objectives. Each investment manager must adhere to the guidelines established by the Trustees for investment asset quality, diversification, liquidity and risk. Both annual and longer term (3 to 10 years) goals for investment returns are established for each manager. Attainment of these goals weighs heavily in terms of whether a manager's contract is renewed. Typically, managers who fall below the Board's minimum objectives over the longer term are replaced.

The Board of Trustees recognizes that the objective of a sound and prudent investment policy is to generate total returns consistent with its risk tolerance and return requirements. The Board of Trustees has carefully exercised its responsibility by prudently diversifying the System's assets.

The System has converted most of its portfolio to a passive investment structure. Except for the PIMCO fixed income securities, the real estate funds managed by J.P. Morgan and UBS Trumbull, and the master limited partnerships managed by Harvest Fund Advisors and Tortoise Capital Advisors, all the System's investments were consolidated into a passive approach with State Street Global Advisors in 2008 and the addition of a Vanguard Real Estate Index Fund added in July 2021.

The investment results of each manager as well as the result for the total fund are monitored by an independent pension investment advisory firm who reports its findings to the Board on a monthly basis. The pension investment consultant monitors and evaluates the performance of the investment managers and the aggregated total plan investment portfolio.

**Current Economic Condition**

Global economic growth continued to slow during the 2nd quarter as global central banks tightened monetary policy 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. Federal Reserve Bank (the Fed) increased interest rates twice during the quarter by a total of 1.25 percent. June's rate increase of 0.75 percent was the largest interest rate increase since the early 1990s. The Fed indicated that its primary focus is arresting the increase in inflation which could require additional rate increases. 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. The U.S. housing market showed signs of cooling as higher mortgage rates pushed many buyers out of the market. Importantly, housing starts and new building permits continued their downward trend that suggests future new inventory may fall short of demand. Finally, home price appreciation continued to increase as measured by the Cash-Shiller Home Price Index.

U.S. equities declined broadly during the 2nd quarter as worries regarding inflation, sharply higher interest rates, rising recession risk, and continued geopolitical events weighed on the equity market. Large cap value was the least negative (-12.2 percent) segment of the domestic equity market relative to other styles and capitalizations for the second consecutive quarter. Mid-cap growth was the worst performing style, falling 21.1 percent for the period. International stocks also struggled during the 2nd quarter as the continuing conflict in Ukraine and persistently high inflation drove markets lower. Western Europe was negatively affected by rising energy prices due to continued restrictions on purchases from Russia. Additionally, both the Euro and Yen currencies fell against the U.S. dollar because of increasing uneasiness over future economic growth.

Concerns about current inflation levels, combined with the Fed's stated commitment to continue raising interest rates, were the primary drivers of return during the 2nd quarter. U.S. interest rates moved significantly higher during the quarter with the U.S. 10-Year Treasury bond rising 63 basis points to close at a yield of 2.98 percent. Performance was broadly negative across all bond market sectors during the quarter with U.S. Treasury bonds holding up the most as market volatility increased. Investment grade corporate bonds underperformed higher quality mortgage-backed and U.S. Treasury bonds during the quarter. High yield bonds also lagged their peers as fears over future economic growth and weaker corporate earnings drove credit spreads wider. Counterintuitively, TIPS underperformed nominal U.S. Treasury bonds during the quarter as the bond market's future expectation for inflation declined.

The pace of global central bank monetary tightening increased during the quarter with the both the Fed and Bank of England raising interest rates. The European Central Bank also hinted it would begin raising rates during the 3rd quarter. The crisis in Ukraine continues to negatively impact global economic growth. Specifically, recently imposed restrictions will likely result in higher energy costs in Europe just as economic growth beings to slow. U.S. equity markets experienced their second consecutive negative quarter of performance and their worst start to a calendar year since the 1970s. Growth-oriented stocks significantly underperformed value stocks as investors' fears about rising inflation and future economic growth carried through to asset prices. Historically, growth stocks have underperformed value stocks as the economy slows. Interest rates continued to rise across the Treasury yield curve during the quarter as investors believe the Fed will continue to raise interest rates to fight inflation. The shape of the yield curve remained relatively flat between two- and ten-year maturities. Historically, the yield curve has been used as a leading indicator to predict the market's expectations of a recession.

A hypothetical portfolio of 62.5 percent MSCI ACWI IMI and 37.5 percent Bloomberg U.S. Aggregate returned -14.06 percent for the trailing one-year ending June 30, 2022. The NERS portfolio returned -9.84 percent for the year ending June 30, 2022. The System's portfolio outperformed these returns due to the positive performance from both the Master Limited Partnerships (MLP) and Real Estate allocations. The System's MLP Composite returned 14.28 percent for the year and the Real Estate composite returned 19.29 percent for the same time-period.

**Closure of NERS**

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 NERS, on May 13, 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 (10) years or less by between $5 and $10 million, as a result of the closure of NERS to new hires. Actual cost estimates will not be known until the next valuation report and will be subject to change based on actual Plan experience.

**General Obligation Bonds for the Benefit of NERS**

The City utilized the proceeds of taxable General Obligation Bonds (the Bonds) to increase funding for the already healthy System These Bonds, together with other available funds, were used to finance (i) the payment of a portion of the City's unfunded actuarial liability (UAL) to NERS, with respect to the City's defined benefit retirement plan for City employees, (ii) a deposit to an irrevocable trust (the "Section 115 Trust") that will be used to provide the City long-term budgetary flexibility with respect to its current and future required contributions to NERS, and (iii) the payment of the costs of issuing the Bonds.

By executing the plan of finance, the City was able (i) to refinance its UAL at a lower interest rate without extending the amortization period, which is expected to reduce the City's annual and aggregate pension costs, and (ii) attain an immediate improvement in the City's pension funding ratio due to the increase in pension assets and (iii) to create a tool to enable the City to offset unanticipated contribution rate increases to the NERS through the establishment of the Section 115 Trust.

## Professional Services

The professional consultants who are contracted by the Board of Trustees to perform services that are essential to the effective and efficient operation of the System are listed on page 9. An independent audit was conducted by CliftonLarsonAllen LLP, and a copy of their Independent Auditors' report on the financial statements is found on pages 14-17.

A certification letter from the actuary, Cheiron, is also included as part of this ACFR on pages 53-55. State Street Bank and Trust is the System's custodian.

## Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Employees' Retirement System for the City of Norfolk for its Annual Comprehensive Financial Report (ACFR) for the Fiscal Year ended June 30, 2021. This was the seventeenth year that the System has achieved this prestigious award. The award is valid for a period of one year only.

In addition to the ACFR, GFOA awarded the Award for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) to the Employees' Retirement System for the City of Norfolk for the year ending June 30, 2021. This was the second year the System has achieved this award.

An entity must publish an easily readable and efficiently organized ACFR and PAFR. We believe that this report continues to meet the requirements and it will be submitted to the GFOA again this year.

## Acknowledgements

The compilation of this report reflects the combined effort of the System's staff under the leadership of the Board of Trustees.

On behalf of the Board of Trustees, I would like to take this opportunity to express our sincere gratitude to the staff, the advisors and to the many people who have worked so diligently to help ensure the successful operation of the System.

Sincerely,

Penny L. DeLosh
Executive Director

## Board of Trustees

### COMPOSITION OF THE BOARD

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.

## Consultants and Professional Services

**Legal Advisor**

Bernard Pishko, City Attorney
Andrew Fox, Deputy City Attorney

**Medical Examiners**

Dr. Anthony C. Cetrone
Dr. Keith H. Newby

**Actuary**

Cheiron
McLean, VA

**Custodian**

State Street Bank and Trust
Kansas City, MO

**Consultants**

AndCo Consulting
St. Louis, MO

**Independent Auditor**

CliftonLarsonAllen LLP
Arlington, VA

## Investment Managers

See pages 48 and 51 of the Investment Section for Manager Assignments and a Schedule of Broker Commissions

**Domestic Equity**

State Street Global Advisors
Boston, MA

**International**

State Street Global Advisors
Boston, MA

**Fixed Income**

State Street Global Advisors
Boston, MA

Pacific Investment Management Company
Newport Beach, CA

**Real Estate**

J.P. Morgan Chase Bank
New York, NY

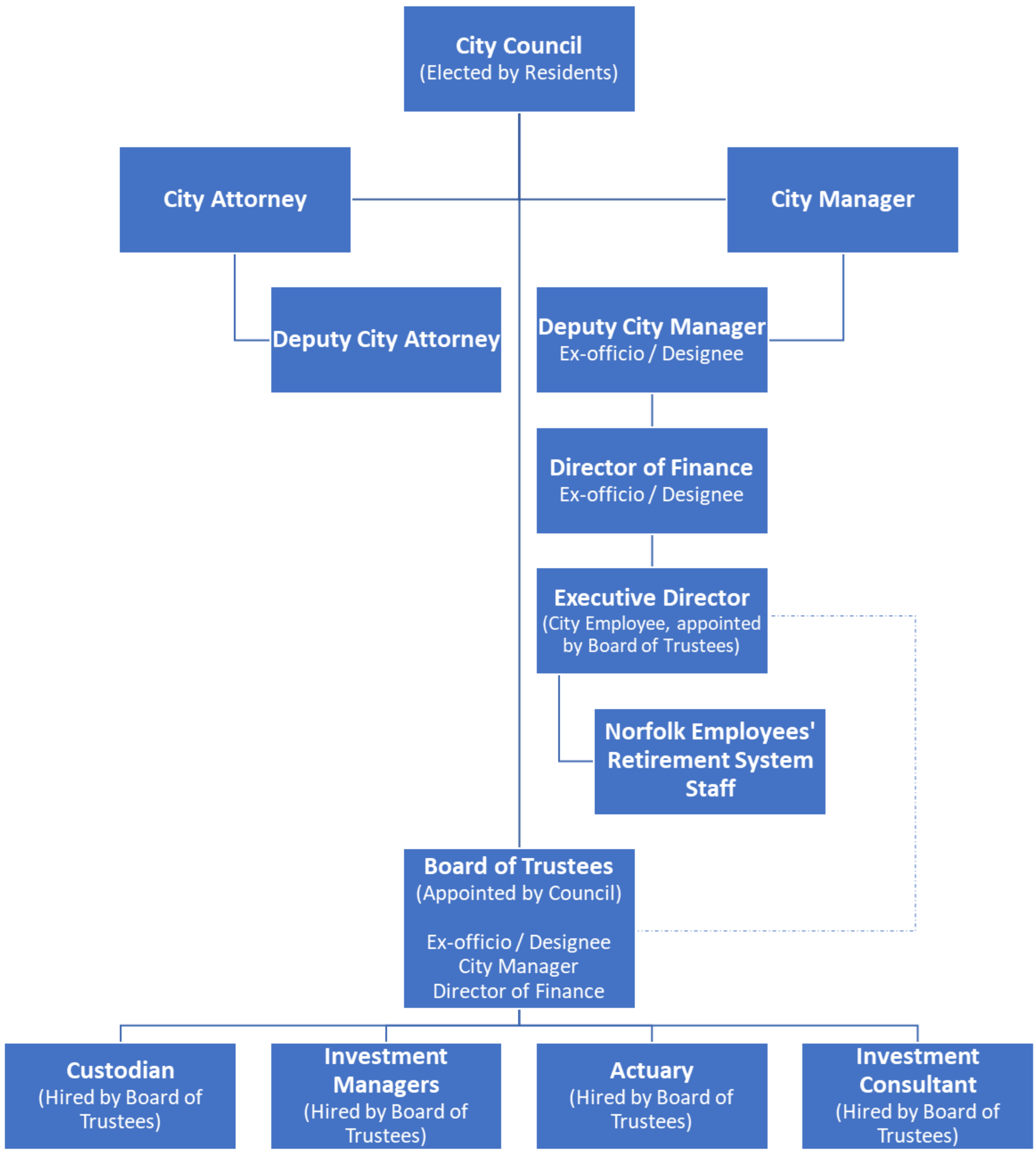
UBS Trumbull
Hartford, CT

**Master Limited Partnerships**

Harvest Fund Advisors LLC
New York, NY
Wayne, PA

Tortoise Capital Advisors
Hartford, CT
Leawood, KS

## Organizational Chart



Government Finance Officers Association

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

**Employees' Retirement System of the City of Norfolk Virginia**

For its Annual Comprehensive Financial Report For the Fiscal Year Ended

June 30, 2021

Christopher P. Morrill

Executive Director/CEO

Government Finance Officers Association

# Award for Outstanding Achievement in Popular Annual Financial Reporting

Presented to

**Employees' Retirement System of the City of Norfolk Virginia**

For its Annual Financial Report
For the Fiscal Year Ended

June 30, 2021

Christopher P. Morrill

Executive Director/CEO

THE CITY OF
NORFOLK
FINANCE

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# Financial Section

THE CITY OF NORFOLK
FINANCE

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CliftonLarsonAllen LLP
CLAconnect.com

## INDEPENDENT AUDITORS' REPORT

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

### Report on the Audit of the Financial Statements

***Opinion***

We have audited the accompanying financial statements of the Employees' Retirement System of the City of Norfolk (the System), a fiduciary fund of the City of Norfolk, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System as of June 30, 2022, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Board of Trustees
Employees' Retirement System of the City of Norfolk

***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Board of Trustees
Employees' Retirement System of the City of Norfolk

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 18-22, the schedule of changes in net pension liability and related ratios on page 38, the schedule of employer's net pension liability and related ratios and the schedule of employer's contributions on page 40, the schedule of the investment returns on page 41, and the notes to the required supplementary information on page 42 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the System's basic financial statements. The schedule of administrative expenses and schedule of investment expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of administrative expenses and the schedule of investment expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Other Information***

Management is responsible for the other information included in the annual report. The other information comprises introductory, investment, actuarial, and statistical sections but does not include the basic financial statements and our auditors' report thereon. Our opinion on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Board of Trustees
Employees' Retirement System of the City of Norfolk

***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated December 7, 2022, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the System's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Arlington, Virginia
December 7, 2022

# MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Our discussion and analysis of the financial performance of the Employees' Retirement System of the City of Norfolk (the System) provides an overview of financial activities for the Fiscal Years ended June 30, 2022, and 2021. Please read Management's Discussion and Analysis in conjunction with the basic financial statements and the related notes thereto, which follows this discussion.

## FINANCIAL HIGHLIGHTS

- System assets exceeded liabilities at the close of Fiscal Years 2022 and 2021 by $1.203 billion and $1.389 billion, respectively (reported as Plan Net Position Restricted For Pensions). Total Plan assets are held in trust to meet future benefit obligations.

- The System's funding objective is to meet long-term benefit obligations through contributions and investment income. The actuarial value net position as a percentage of the total pension liability was 84.2 percent and 90.6 percent, for June 30, 2022, and June 30, 2021, respectively. The fair value net position as a percentage of the total pension liability was 78.4 percent and 97.0 percent, for Fiscal Year 2022, and Fiscal Year 2021, respectively.

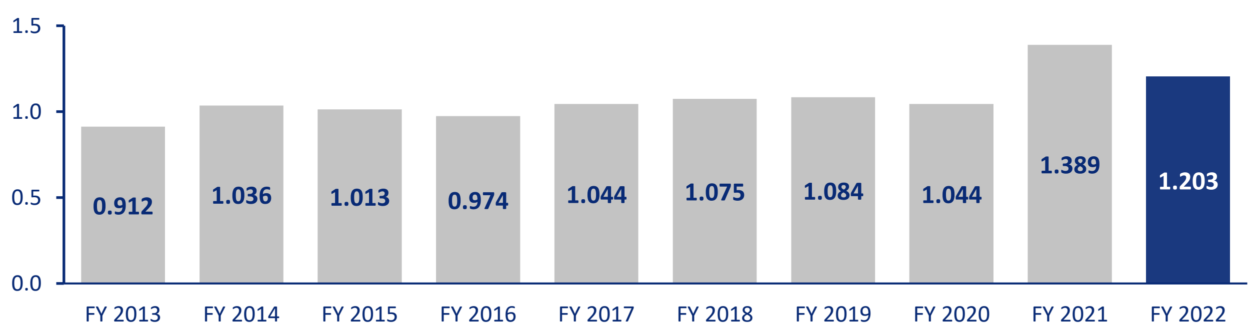
- Effective Fiscal Year ending 2023, the City of Norfolk began making separate contributions to the System from the Section 115 Trust that was previously established upon the bond issuance in June 2021. The first $8.7 million contribution was made from the Section 115 Trust in July 2022 and is projected to continue at $8.7 million annually until the Section 115 Trust assets are depleted. 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 the System's assets, the System's funded ratio would be 89.2 percent on an actuarial value basis compared to 84.2 percent.

- Total additions decreased over the prior year by $524.3 million or approximately 118.9 percent. The decrease was due to a decline in investment income and employer contribution .

- 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.

**Plan Net Position Restricted For Pensions**

As of June 30 (Expressed in Billions)



## OVERVIEW OF THE FINANCIAL STATEMENTS

This ACFR consists of two financial statements: The Statement of Plan Fiduciary Net Position and the Statement of Changes in Plan Fiduciary Net Position. These financial statements report information about the System as a whole and about its financial condition. These financial statements include all assets and liabilities that are due and payable using an economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all additions and deductions are accounted for regardless of when cash is received or paid.

The Statement of Plan Fiduciary Net Position presents all the System's assets and liabilities, with the difference reported as plan net position restricted for pensions. Over time, increases and decreases in plan net position restricted for pensions measure whether the System's assets available for benefits is improving or deteriorating. The Statement of Changes in Plan Fiduciary Net Position presents how the System's plan net position restricted for pensions, changed during the most recent fiscal year. These two financial statements should be reviewed along with the unaudited required supplementary information and the other supplementary information, to determine financial strength of the System and to understand changes over time in the funded status of the System.

**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 In '000s | FY 2021 In '000s | FY 2022-FY 2021 Percentage Change |
|---|---|---|---|
| **ASSETS** | | | |
| 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% |
| **Total Assets** | **$ 1,313,871** | **$ 1,487,518** | **-11.7%** |
| **LIABILITIES** | | | |
| Accounts payable and accrued expenses | 3,927 | 2,112 | 85.9% |
| Due to brokers for securities purchased | 107,281 | 96,537 | 11.1% |
| **Total Liabilities** | **$ 111,208** | **$ 98,649** | **12.7%** |
| **Plan Net Position Restricted for Pensions** | **$ 1,202,663** | **$ 1,388,869** | **-13.4%** |

## ANALYSIS OF FINANCIAL ACTIVITIES

Total assets as of June 30, 2022, and 2021, were $1.3 billion and $1.5 billion, respectively, and were comprised of cash and cash equivalents, receivables and investments. Total assets decreased by $173.6 million or 11.7 percent for the Fiscal Year 2022, as a result of investment losses.

Total liabilities as of June 30, 2022, and 2021, were $111.2 million and $98.6 million, respectively, and were comprised of accounts payables and accrued expenses, and payables to brokers for securities purchased. Total liabilities increased by $12.6 million or 12.7 percent for the Fiscal Year 2022, primarily due to an increase in accounts payable and accrued expenses and payables due to brokers for securities purchased.

System assets exceeded liabilities at the close of Fiscal Years 2022 and 2021 by $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 decrease reflects the loss in investments and the increase in payables due to brokers for securities purchased.

**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**

| | FY 2022 In '000s | FY 2021 In '000s | FY 2022-FY 2021 Percentage Change |
|---|---|---|---|
| **ADDITIONS** | | | |
| 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% |
| **Total Additions** | **$ (83,334)** | **$ 440,971** | **-118.9%** |
| **DEDUCTIONS** | | | |
| Benefit Payments | 99,100 | 94,649 | 4.7% |
| Refunds of Contributions | 2,924 | 923 | 216.8% |
| Administrative Expenses | 848 | 620 | 36.8% |
| **Total Deductions** | **$ 102,872** | **$ 96,192** | **6.9%** |
| **Net Increase/(Decrease)** | **$ (186,206)** | **$ 344,779** | **154.0%** |
| | | | |
| **Plan Net Position Restricted for Pensions** | | | |
| **Beginning of the Year** | **$ 1,388,869** | **$ 1,044,090** | |
| **End of the Year** | **$ 1,202,663** | **$ 1,388,869** | **-13.4%** |

## ADDITIONS TO PLAN NET POSITION

The funds needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investments. Contributions and net investment income for Fiscal Years 2022 and 2021 totaled $(83.3) million and $441.0 million, respectively.

Additions decreased for Fiscal Year 2022 by $524.3 million from the prior year, due primarily to a loss of investment income and a decrease in employer contributions. The financial markets performed worse than expected during the fiscal year ending June 20, 2022. The actual return on a fair value basis was approximately (9.74) percent. On an actuarial value basis, the assets returned 3.73 percent compared with an assumed rate of 7.0 percent.

## DEDUCTIONS FROM PLAN NET POSITION

The deductions from plan net position restricted for pensions include pension payments to retirees and beneficiaries, refunds of mandatory contributions to non-vested members that left city employment and non-vested NERS members that voluntarily elected to terminate their NERS membership and become participating members of the Virginia Retirement System (VRS), in addition to the cost of administering the System. Total deductions for Fiscal Year 2022 were $102.9 million, an increase of 6.9 percent over Fiscal Year 2021 deductions.

Pension benefit payments increased by $4.5 million in Fiscal Year 2022 or 4.7 percent, from the previous fiscal year. The increase in pension benefits payments is a result of an increase in the number of new retirements. See page 63 for details on changes to the beneficiary population. Administrative expenses for the Fiscal Years ended June 30, 2022, and 2021 were $848,000 and $620,000, respectively.

## RETIREMENT SYSTEM AS A WHOLE

Plan fiduciary net position restricted for pensions decreased in Fiscal Year 2022 over Fiscal Year 2021. The System's plan net position restricted for pensions as a percentage of the total pension liability was 84.2 percent and 90.6 percent as of June 30, 2022, and 2021, respectively.

Effective Fiscal Year beginning 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. As of June 30, 2022, the 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 ratios would be 89.2 percent on an actuarial value basis compared to 84.2 percent.

## CONTACTING SYSTEM FINANCIAL MANAGEMENT

The annual financial report is designed to provide citizens, taxpayers, plan participants, and the marketplace's credit analysts with an overview of the System's finances and the prudent exercise of the Board's oversight. Any questions regarding this report or requests for additional financial information should be directed to the Employees' Retirement System of the City of Norfolk, 810 Union Street, Suite 309, Norfolk, Virginia 23510, or via email to retirement@norfolk.gov. This report, along with previous years financial reports, can be found at www.norfolk.gov/retirement.

## Employees' Retirement System of the City of Norfolk
## (A Pension Trust Fund)
## Statement of Plan Fiduciary Net Position
## June 30, 2022

| | FY 2022 In '000s |
|---|---|
| **Assets:** | |
| Cash and Cash Equivalents | $ 38,824 |
| Receivables: | |
| Accrued Investment Income | 884 |
| Accounts Receivable-Other | 2 |
| Due from Brokers for Securities Sold | 60,237 |
| **Total Receivables** | **$ 61,123** |
| Investments: | |
| Government Issues | 53,721 |
| Fixed Income Securities | 101,929 |
| Futures/Options/Swaps | (1,097) |
| Equity Securities | 91,432 |
| Commingled Funds: | |
| Equity | 640,444 |
| Fixed Income | 220,874 |
| Real Estate | 106,621 |
| Total Commingled Funds | 967,939 |
| **Total Investments** | **$ 1,213,924** |
| **Total Assets** | **$ 1,313,871** |
| **Liabilities:** | |
| Accounts Payable and Accrued Expenses | 3,927 |
| Due to Brokers for Securities Purchased | 107,281 |
| **Total Liabilities** | **$ 111,208** |
| **Plan Net Position Restricted for Pensions** | **$ 1,202,663** |

**See accompanying independent auditor's report.**

**Employees' Retirement System of the City of Norfolk**
**(A Pension Trust Fund)**
**Statement of Changes in Plan Fiduciary Net Position**
**For the Fiscal Year Ended June 30, 2022**

| | FY 2022 In '000s |
|---|---|
| **Additions:** | |
| Investment Income: | |
| Net Appreciation in Fair Value of Investments | $ (144,707) |
| Interest | 2,766 |
| Dividends | 7,837 |
| Other Income | 2,188 |
| | (131,916) |
| Less: Investment Expenses | (2,811) |
| **Investment Income, Net** | **(134,727)** |
| Employer Contributions | 41,457 |
| Employee Contributions | 9,364 |
| Purchase of Service | 558 |
| Other Income/Interest | 14 |
| **Total Net Additions** | **$ (83,334)** |
| **Deductions:** | |
| Benefits Paid Directly to Members | (93,144) |
| Beneficiary Payments | (5,956) |
| Refunds of Contributions | (2,924) |
| Administrative Expenses | (848) |
| **Total Deductions** | **$ (102,872)** |
| **Net Increase (Decrease)** | **$ (186,206)** |
| | |
| **Plan Net Position Restricted for Pensions** | |
| Beginning of the Year | **$ 1,388,869** |
| End of the Year | **$ 1,202,663** |

**See accompanying independent auditor's report.**

## Notes to Financial Statements

### Note 1. Organization and Summary of Significant Accounting Policies

**Reporting entity**: The Employees' Retirement System of the City of Norfolk (the System) is the administrator of a single-employer contributory defined benefit plan that covers substantially all employees of the City of Norfolk (the City), excluding School Board and Constitutional Officer employees covered by the Virginia Retirement System, as authorized by Section 143(a) of the City Charter. The City of Norfolk, a political subdivision of the Commonwealth of Virginia, acting through the Council of the City of Norfolk elected to join the Virginia Retirement System (VRS) and provide VRS retirement benefits for its eligible employees effective January 1, 2022. The System was closed to new membership effective January 1, 2022. The System was established and placed under the management of the Board of Trustees for the System for the purpose of providing retirement allowances and death benefits as authorized by the provisions of Chapter 37 of the Norfolk City Code. Effective January 8, 2015, all System members pay contributions on a salary reduction basis in the amount of five percent (5%) of earnable compensation, except for City Council members hired before October 5, 2010. City Council members hired before October 5, 2010, do not pay member contributions. Effective December 13, 2011, all employees hired on or after December 13, 2011, are required to meet the employee contributions and vesting requirement of five years to be eligible to receive benefits under the System.

The System has a ten-member Board of Trustees appointed by the City Council of the City of Norfolk, including the City Manager and Director of Finance as ex-officio trustees. The System meets the definition of a Fiduciary Fund of the City of Norfolk under applicable accounting standards and as a result, the System's financial statements are incorporated into the Annual Comprehensive Financial Report (ACFR) of the City of Norfolk. These financial statements are those of the System and not of the City of Norfolk as a whole. The City of Norfolk makes contributions that in addition to employee contributions and investment earnings provide funding for pension benefits and administrative costs.

**Basis of accounting**: The financial statements of the System are prepared using the accrual basis of accounting as required under the provisions of Governmental Accounting Standards Board ("GASB") No. 67, Financial Reporting for Pension Plans ("GASB 67"). Employer contributions are recognized when received by the Plan. Benefits and refunds are recognized when paid in accordance with the terms of the Plan.

**Cash and cash equivalents:** Cash equivalents consist of short-term investments with maturities of six months or less. Short-term investments are recorded at fair value.

**Investment valuation method:** Investments are reported at fair value in accordance with GASB 72, Fair Value Measurement and Application. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Net appreciation or depreciation in fair value of investments is reflected in the Statement of Changes in Plan Fiduciary Net Position and includes realized gains and losses on investments purchased and sold and the change in appreciation or depreciation from one period to the next. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Acquisition costs are included in the cost of investments purchased, and sales are recorded net of selling expenses. Purchases and sales of securities traded, but not yet settled at year-end are recorded as due to brokers for securities purchased and due from brokers for securities sold, respectively.

**Estimates:** The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows, deferred inflows, and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in plan net position during the reporting period. Actual results could differ from those estimates.

**Note 2. Description of the Plan**

The System is the administrator of a single-employer, contributory, defined benefit plan that covers substantially all employees of the City of Norfolk, Virginia, excluding the School Board and the Constitutional Officer employees and City employees hired on or after January 1, 2022, who are covered by the Virginia Retirement System. Although the System presents separate financial statements, it is also included in the City of Norfolk's ACFR as a pension trust fund. The types of employees covered and current membership as of June 30, 2022, consists of the following:

**Active, Retired and Vested Former Members and Beneficiaries**
For the Fiscal Years Ended June 30

| | General | Public Safety | FY 2022 Total | FY 2021 Total |
|---|---|---|---|---|
| Retirees and Beneficiaries Receiving | 2,956 | 1,395 | 4,351 | 4,272 |
| Vested Former Members Entitled to but not Receiving Benefits | 1,138 | 395 | 1,533 | 1,440 |
| Active Plan Members | 2,022 | 944 | 2,966 | 3,741 |
| **Total*** | **6,116** | **2,734** | **8,850** | **9,453** |

*Includes five hundred seventy-two (572) members due a refund of mandatory member contributions. See Note 4 for more details. Also includes fifty-two (52) members currently in the Deferred Retirement Option Program (DROP) and eighteen (18) members on leave of absence that are currently vested.

The System provides retirement benefits, as well as disability pensions and death benefits. Benefits vest after ten (10) years of creditable service prior to January 1, 1997. All benefits vest after five (5) years of creditable service as of January 1, 1997. Creditable service includes membership service and allowable military service. Employee eligibility requirements are as follows:

> Retirement (for employees who became members prior to July 1, 1980): Normal service retirement age is the earlier of age 60 or after completion of 30 years of credited service for general employees, and the earlier of age 55 or after the completion of 25 years of credited service for public safety employees. The normal service retirement benefit per annum for general employees is equal to 2.0 percent of average final compensation (average of the three highest years of compensation) times years of creditable service, with service limited to 35 years. Public safety employees accrue benefits at 2.5 percent of average final compensation times years

of creditable service, not to exceed 65 percent of average final compensation. Mandatory retirement is age 65 for public safety employees. There is no mandatory retirement age for general employees.

Retirement (for employees who became members on or after July 1, 1980): Normal service retirement age is the earlier of age 60 or after completion of 30 years of credited service for general employees, and age 55 or after the completion of 25 years of credited service for public safety employees. The normal service retirement benefit per annum for general employees is equal to 1.75 percent of average final compensation times years of creditable service, with service limited to 35 years. Public safety employees accrue benefits at 2.5 percent of average final compensation times years of creditable service, not to exceed 65 percent of average final compensation. Mandatory retirement is age 65 for public safety employees. There is no mandatory retirement age for general employees.

Retirement (for employees who became members on or after July 1, 2018): Normal service retirement age is the earlier of the retirement age as defined under the Social Security Act (42 U.S.C.46 et seq. and amended) with at least five (5) years of creditable service or the age at which the sum of creditable service years and age equals 90 for general employees, and age 60 with 5 years of creditable service or age 50 years with 25 years of creditable service for public safety employees. The normal service retirement benefit per annum for general employees is equal to 1.75 percent of average final compensation times years of creditable service, with service limited to 35 years. Public safety employees accrue benefits at 2.5 percent of average final compensation times years of creditable service, not to exceed 65 percent of average final compensation. Mandatory retirement is age 65 for public safety employees. There is no mandatory retirement age for general employees.

Effective January 1, 2015, the City Council adopted Ordinance Number 45,566 that established a Deferred Retirement Option Program (DROP) for policemen and firemen eligible for normal service retirement. Eligible members may elect to participate for a maximum of four years, deferring receipt of a reduced retirement benefit of 70 percent while continuing employment with the City without loss of any other employee benefits.

Upon the member’s election to participate in the DROP, the amount of creditable service and the average final compensation becomes frozen for purposes of determining pension benefits. The participant is considered retired for all purposes related to the System and does not accrue additional retirement benefits, except for ad hoc one-time cost-of-living supplements, often commonly referred to as “COLAs”, if applicable.

The DROP participant’s monthly pension is held in lieu of being paid to the participant. Upon termination of employment, the participant will receive the DROP account balance and will begin receiving the monthly pension benefit. The participant’s DROP balance is not credited with investment gains and losses.

As of June 30, 2022, the DROP liability is $3.41 million and is not recognized as due and payable in the Statement of Plan Fiduciary Net Position since it represents accumulated liabilities of active employees within the Deferred Retirement Option Program (DROP).

Ad hoc Cost of Living One-time Supplements are provided at the discretion of the City Council. Participants should refer to the Plan document for a complete description of these provisions. There was no ad hoc Cost of Living One-time Supplement provided in the Fiscal Year ended June 30, 2022.

The Employees' Retirement System is established by Chapter 37 of the Code of the City of Norfolk, Virginia. The benefit provisions of the System are also determined by this Code section.

Effective January 1, 2022, the System closed to new membership. Future City of Norfolk employees hired or rehired on or after January 1, 2022, will be participating members of the Virginia Retirement System (VRS), if applicable.

**Note 3. Net Pension Liability**

The components of the net pension liability of the System on June 30, 2022, were as follows:

| | In '000s |
|---|---|
| Total Pension Liability | 1,534,615 |
| Plan Fiduciary Net Position | 1,202,663 |
| **Net Pension Liability** | **$331,952** |
| **Plan Fiduciary Net Position as a percentage of the Total Pension Liability** | **78.4%** |

**Note 4. Actuarial Assumptions and Contributions Made**

Significant assumptions used to calculate contribution requirements are the same as those used to calculate the actuarial accrued liability. Normal cost is funded on a current basis. Periodic contributions for normal cost are based on the level percentage-of-payroll method. The funding strategy for normal cost should provide sufficient resources to pay employee pension benefits on a timely basis.

Section 37 of the Code of the City of Norfolk, Virginia, establishes the authority under which the employer's obligation to contribute to the Plan is established or may be amended. Contribution requirements are actuarially determined at the end of each fiscal year and paid by the City of Norfolk in the ensuing year. The employer contribution was made by the City totaling $41.5 million in July 2021, in accordance with the actuarially determined contribution requirements stated above.

Effective January 8, 2015, all System members (with the exception of City Council members hired before October 5, 2010) are required to make mandatory contributions on a salary reduction basis in the amount of five (5) percent of earnable compensation. These contributions accumulate thereafter with interest equivalent to the 12-month certificate of deposit (CD) instrument as established by the Board of Trustees at the beginning of each Fiscal Year until the member is fully vested in benefits under the Plan. Upon vesting, members' mandatory contributions become an asset of the System to be used to pay benefits under the System. Such contributions are refundable to members who terminate before becoming vested for retirement benefits. Mandatory employee contributions totaled $9.4 million for the Fiscal Year ended June 30, 2022. The System paid approximately $2.9 million in refundable contributions in the year ended June 30, 2022, and is retaining approximately $1.42 million in refundable contributions payable as of June 30, 2022, to members that have left City employment and have not elected their refund of mandatory contributions.

The funding objective of the Employees' Retirement System is to:

A) fully fund the normal cost contribution for the current year determined under the funding method, and
B) liquidate the unfunded accrued liability based on a level percent of payroll over a closed amortization period of 20 years.

**Employee and Employer Contributions**
For the Fiscal Years Ended June 30 (Expressed in '000s)

| | FY 2022 | FY 2021 |
|---|---|---|
| Employee Contributions | 9,364 | 9,712 |
| Employer Contributions | 41,457 | 160,252 |
| **Total** | **$50,821** | **$169,964** |

The actuarial assumptions for the June 30, 2022, actuarial valuation, were as follows:

| | |
|---|---|
| Actuarial Cost Method | Entry Age Normal Cost Method |
| Amortization Method | Level Percent Closed, 20-Years Layers |
| Asset Valuation Method | 3-Year smoothed Value |
| Investment Rate of Return | 7.0% |
| Amortization growth Rate | 3.0% |
| Inflation | 3.0% |
| Salary Increases - General Employees | Average of 5.12% over a 30-year-career; based on rates that vary by year of service and are compounded annually |
| Salary Increases - Public Safety Employees | Average of 6.19% over a 30-year-career; based on rates that vary by year of service and are compounded annually |
| Mortality | 108% of RP-2014 adjusted back to 2006 using MP-2014 and brought forward to 2016 using MP-2016 and generational improvements of 0.75% per year (ages < 86) thereafter for healthy lives; and<br>100% of RP-2014 Disability Mortality adjusted back to 2006 using MP-2014 and brought forward to 2016 using MP-2016 and generational improvements of 0.75% per year (ages < 86) thereafter for disabled lives |

**Rate of return:** The annual money-weighted rate of return, net of investment expenses, as of June 30, 2022, was (10.32) percent. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

The long-term expected rate of return on System investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Plan's target asset allocation as of June 30, 2022, are summarized in the following table:

| Asset Class | 30-Year 2022 Long-Term Expected Real Rate of Return |
|---|---|
| Private Core Real Estate | 4.75% |
| Master Limited Partnerships | 6.50% |
| Core Fixed Income | 1.00% |
| Core Plus Income | 1.50% |
| Equity (ACWI IMI) | 5.15% |

Discount rate: The discount rate, as of June 30, 2022, used to measure the total pension liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contributions rate and that City contributions will be made in accordance with the funding policy assumption adopted by the Board. That policy includes contributions equal to the employer portion of the Entry Age normal cost for members as of the valuation date plus an amortization payment on the unfunded actuarial liability (UAL). The UAL is based on an actuarial value of the assets that smooths investment gains and losses over three years and a measurement of the actuarial liability. The initial UAL is being amortized over a closed 20-year period. Future annual changes to the UAL due to plan changes, assumption changes, gains and losses will be amortized over their own closed 20-year periods. All rates are developed using a level percent of pay amortization method with a 3 percent per year increase. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future payments and pay administrative expenses. The GASB 67 depletion schedule was prepared for the next 99 years. Projected benefit payments are discounted at the long-term expected return of 6.75 percent (net of investment expenses). The single equivalent rate used, for purposes of GASB 67, to determine the Total Pension Liability as of June 30, 2022, was 6.75 percent.

**Sensitivity of the net pension liability to changes in the discount rate:** The following presents the net pension liability of the System, calculated using the discount rate of 6.75 percent, compared to the System's net pension liability if it were calculated using a discount rate that is 1-percentage-point lower (5.75 percent) or 1-percentage-point higher (7.75 percent) than the current rate:

**Net Pension Liability (In '000s)**

| 1% Decrease (5.75%) | Current Discount Rate (6.75%) | 1% Increase (7.75%) |
|---|---|---|
| $504,105 | $331,952 | $187,410 |

The actuarial assumptions above are based on the results of an Experience Study performed in 2022, which covered the period from July 1, 2016, to June 30, 2021, and the presumption that the System will continue until the last employee and beneficiary are paid. Were the System to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial accrued liability. Experience studies are typically conducted every five years with the next one scheduled for 2027.

**Note 5. Deposits and Investments**

**Deposits:** The carrying amount of the System's deposits with financial institutions was $3.1 million as of June 30, 2022. These bank balances were covered by Federal Depository Insurance or commercial insurance or collateralized in accordance with the Virginia Security for Public Deposits Act Regulations of the Code of Virginia. Under the Act, banks holding public deposits more than the amounts insured by the Federal Deposit Insurance Corporation must pledge collateral in the amount of 50 percent of excess deposits to a collateral pool in the name of the State Treasury Board. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Virginia Security for Public Deposits Act and for notifying local governments of compliance by banks. Cash equivalents amounting to $35.7 million consists of short-term investment funds and certificates of deposit.

**Investments:** The Board of Trustees of the System has full power to invest and reinvest the trust funds in accordance with Section 51.1-124.30 of the Code of Virginia (1950), as amended. This section requires the Board to discharge its duties solely in the interest of the beneficiaries and to invest the assets with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The Board must also diversify such instruments to minimize the risk of large losses unless under the circumstances, it is clearly prudent not to do so. The following was the Board's adopted asset allocation policy as of June 30, 2022:

| Asset Class | Target Allocation |
|---|---|
| Equities | 55.0% |
| Fixed Income | 30.0% |
| Real Estate | 7.5% |
| Master Limited Partnerships | 7.5% |

**Custodial Credit Risk:** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Equity and fixed income investments are not insured and are registered in the name of the System and held by State Street Bank as custodian. The System's policy is that all securities purchased by or for the System be properly and clearly labeled as an asset of the System and held in safekeeping by a third-party custodial bank or institution in compliance with Section 2.2-4515 of the Code of Virginia.

**Interest rate risk:** The System has outlined a policy on duration to help manage its interest rate risk. The Investment Policy Statement outlines "duration" as the weighted average effective duration of each Account's fixed income portfolio, including cash equivalents. The Investment Policy states that the duration of the fixed income portfolio shall be within +/- two years relative to the Bloomberg Barclays U.S. Aggregate Bond Index.

**Segmented Time Distribution**

For the Fiscal Year Ended June 30, 2022 (Expressed in '000s)

| | | Investment Maturities (in years) | | | | | |
|---|---|---|---|---|---|---|---|
| **Investment Type** | **Fair Value** | **Under 1** | **1 – 3** | **3 – 6** | **6 – 10** | **10+** | **N/A** |
| Asset Backed Securities | **$ 6,720** | $ 2,965 | $ 946 | $ 2,026 | $ 319 | $ 464 | $ - |
| Bank Loans | **96** | - | - | 96 | - | - | - |
| Corporate Bonds | **38,433** | 3,795 | 9,224 | 13,349 | 5,104 | 6,961 | - |
| Mortgage-Backed Securities | **54,913** | 1 | 293 | 37 | 236 | 54,346 | - |
| Municipals | **1,768** | - | - | - | - | 1,768 | - |
| Futures/Options/Swaps | **(1,097)** | (1,124) | (12) | (123) | 278 | (116) | - |
| Government Issues | **53,721** | 2,545 | 18,576 | 7,060 | 3,342 | 22,198 | - |
| Common Stock | **35,478** | - | - | - | - | - | 35,478 |
| Equity Funds | **640,443** | - | - | - | - | - | 640,443 |
| Master Limited Partnerships | **49,060** | - | - | - | - | - | 49,060 |
| Fixed Income Funds | **227,768** | - | - | - | - | - | 227,768 |
| Real Estate Funds | **106,621** | - | - | - | - | - | 106,621 |
| **Totals** | **$1,213,924** | **$ 8,182** | **$ 29,027** | **$ 22,445** | **$ 9,279** | **$ 85,621** | **$1,059,370** |

**Foreign currency risk:** Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The System does not have a formal policy; however, the System manages its exposure to fair value loss by requiring its international securities investment managers to maintain diversified portfolios by issuer to limit foreign currency and security risk. The System's exposure to foreign currency risk is presented on the following table.

| Currency | Fair Value | |
|---|---|---|
| Australian Dollar | $ | 12 |
| Canadian Dollar | | 54 |
| Danish Krone | | 588 |
| Euro Currency | | 3,216 |
| Japanese Yen | | 1,546 |
| Mexican Peso | | 7 |
| New Zealand Dollar | | 18 |
| Pound Sterling | | 686 |
| **Total** | **$** | **6,127** |

(Expressed in '000s)

**Credit risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System's formal policy governing credit risk is that securities rated below investment grade by two of the three primary rating agencies, Moody's Investors Service, Inc. (Moody's), Standard and Poor's Global Ratings (S&P), and Fitch Ratings (Fitch) are not permitted without the written permission of the Board. PIMCO has been given the authority by the Board to invest 20 percent of its portfolio, including cash equivalents, in below investment grade securities.

The System invests in certain derivatives including real estate mortgage investment conduits, collateralized mortgage obligations, futures, and swaps. Those securities are included in reported investments. The System's rated debt investments as of June 30, 2022, were rated by S&P's and/or an equivalent national rating organization and the ratings are presented below using the S&P's credit quality rating scale.

**S&P Credit Quality Rating Scale**
For Fiscal Year Ended June 30, 2022 (Expressed in '000s)

| | Fair Quality Ratings | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | AAA | AA+/AA /AA- | A+/A /A- | BBB+/BBB /BBB- | BB+/BB /BB- | B+ and below | Unrated | Totals |
| **Corporate Bonds** | $ 1,058 | $ 2,313 | $ 10,583 | $ 15,444 | $ 2,834 | $ 6,109 | $ 92 | $ 38,433 |
| **Mortgage-Backed Securities** | 53,542 | 119 | 4 | 632 | 116 | 500 | | 54,913 |
| **Equity Funds** | | | | | | | 640,444 | 640,444 |
| **Asset Backed Securities** | 3,450 | 298 | 2,806 | | 159 | | 6 | 6,719 |
| **Bank Loans** | | | | | 96 | | | 96 |
| **Govt. Issues** | 48,002 | 2,323 | 2,132 | 152 | | | 1,113 | 53,722 |
| **Municipals** | | 1,231 | 436 | 101 | | | | 1,768 |
| **Common Stock** | | | | | | | 35,478 | 35,478 |
| **Master Limited Partnerships** | | | | | | | 49,060 | 49,060 |
| **Futures/Options/ Swaps** | | | | | | | (1,097) | (1,097) |
| **Fixed Income** | | 30,683 | 6,894 | | | | 190,190 | 227,767 |
| **Equity Real Estate Funds** | | | | | | | 106,621 | 106,621 |
| **Totals** | $106,052 | $ 36,967 | $ 22,855 | $ 16,329 | $ 3,205 | $ 6,609 | $1,021,907 | $1,213,924 |

(Cash and Cash Equivalents are not included.)

**Concentration of credit risk:** Concentration of credit risk is the risk of loss attributed to the magnitude of a System's investment in a single issuer. The System's formal policy governing concentration of credit risk is that securities rated below investment grade by two of the three primary rating agencies, Moody's, S&P and Fitch, are not permitted. No more than 20 percent of each account's fixed income portfolio, including cash equivalents, shall be invested in investment grade securities rated below Baa (1, 2 and 3) or BBB (+ or -). Upon written request from the manager, the Board of Trustees will consider allowing more than 20 percent in these ratings and the purchase of securities rated below Baa3 or BBB-.

The following table presents the fair value of investments that represent 5 percent or more of the System's net position on June 30, 2022:

| Investment | Amount In '000s |
|---|---|
| SSGA MSCI ACWI IMI Index Fund | $640,444 |
| PIMCO Total Return Fund | $185,545 |
| SSGA Bond Market Index Fund | $190,190 |

### Note 6. Transactions with the City of Norfolk

The System reimburses the City for administrative costs related to the System's operations. The costs reimbursed for the Fiscal Year ended June 30, 2022, were $650,000.

### Note 7. Income Tax Status

The Internal Revenue Service has ruled in a determination letter dated September 29, 2016, that the System qualifies under Section 401-1(b)(3) of the Internal Revenue Code and is, therefore, not subject to tax under present income tax laws. The System operates pursuant to City Code. Instances of non-compliance with City Code are addressed when discovered. As of June 30, 2022, there are no such instances expected to have a material impact to the financial statements.

## Note 8. GASB 72 Fair Value Measurements and Application

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The System has the following recurring fair value measurements as of June 30, 2022:

| | | Fair Value Measurements (Expressed in '000s) | |
|---|---|---|---|
| | June 30, 2022 | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) |
| Cash Equivalents: | | | |
| Government Issues | $9,687 | | $9,687 |
| Short-Term | 24,250 | | 24,250 |
| Short-Term Fund | 1,777 | | 1,777 |
| **Total Cash Equivalents** | **$35,714** | | **35,714** |
| Fixed Income Securities | | | |
| Government Issues | 53,721 | | 53,721 |
| Corporate Bonds | 38,433 | | 38,433 |
| Futures/Options/Swaps | (1,097) | (327) | (770) |
| Municipals | 1,768 | | 1,768 |
| Asset-Backed Securities | 3,562 | | 3,562 |
| Bank Loans | 4,670 | | 4,670 |
| Mortgage-Backed Securities | 53,496 | | 53,496 |
| **Total Fixed Income Securities** | **$154,553** | **(327)** | **154,880** |
| Equity Securities | | | |
| Common Stock | 35,478 | 35,268 | 210 |
| Master Limited Partnerships | 49,060 | 49,060 | |
| **Total Equity Securities** | **$84,538** | **84,328** | **210** |
| Comingled Securities | | | |
| Fixed Income Funds | 37,578 | | 37,578 |
| **Total Comingled Securities** | **$37,578** | | **37,578** |

| | |
|---|---|
| **Investments measured at the Net Asset Value (NAV)** | |
| Equity Funds | 640,444 |
| Fixed Income Funds | 190,190 |
| Real Estate Funds | 106,621 |
| **Total Investments measured at the NAV** | **$937,255** |
| **Total Investments (excludes cash)** | **$1,249,638** |

In accordance with the authoritative guidance on fair value measurements and disclosures under GAAP, the Funds disclose the fair values of their investments in a hierarchy that prioritized the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to valuations based upon unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to valuations based upon unobservable inputs that are significant to the valuation (level 3 measurements). The guidance established three levels of the fair value hierarchy as follows:

> Level 1 - Quoted prices in active markets for identical assets. Equity securities are priced using an exchange traded price or a broker quote in an active market.
>
> Level 2 - Inputs other than quoted prices that are observable for the asset, including quoted prices for similar investments based on interest rates, credit risk and alike factors. The United States Treasury and fixed income securities are priced using pricing models based on a compilation of primarily observable market information or a broker quote in a non-active market for an identical or similar security. The certificate of deposit is valued based on discounted cash flows using current interest rates at the stated maturity. The short-term investment fund trades daily without restriction at $100 per unit. The fixed income fund can be redeemed within 3-7 days with 1-day notice.
>
> Level 3 - Unobservable inputs for the assets, including the Fund's own assumptions for determining fair value. There are no Level 3 investments as of June 30, 2022.

Portfolio investments are assigned a level based upon the observability of the inputs which are significant to the overall valuation. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The remaining commingled funds are reported at Net Asset Value (NAV), as a practical expedient for fair value, based on the fair values of the underlying securities in the respective fund.

1. Equity Funds. This type includes an investment in an equity fund with an investment objective to track the performance of the MSCI ACWI IMI Index Fund over the long-term. These investments can be redeemed semi-monthly with semi-monthly notice.
2. Fixed Income Funds. This type includes an investment in a fund with an investment objective to track the performance of the Bloomberg Barclays U.S. Aggregate Bond Index over the long term. This investment can be redeemed within 1-15 days, depending on trade size, with 1-day notice.
3. Real Estate Funds. This type includes two investments in real estate funds that invest in U.S. real estate. These funds compare themselves to the National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index - Open-End Diversified Core Equity (NFI-ODCE) benchmark. These investments can be redeemed quarterly with 45-60 days' notice.

## Required Supplemental Information

### Schedule of Changes in Net Pension Liability and Related Ratios

Last 10 Fiscal Years*

For the Fiscal Years Ended June 30 (Expressed in '000s)

| | FY 2022 | FY 2021 | FY 2020 | FY 2019 |
|---|---|---|---|---|
| **Total Pension Liability** | | | | |
| Service Cost | $ 25,972 | $ 27,208 | $ 26,978 | $ 26,372 |
| Interest | 98,454 | 98,032 | 96,458 | 94,853 |
| Change In Benefits | (880) | - | - | - |
| Change In Assumptions | 77,210 | - | - | (7,031) |
| Differences Between Expected and Actual Experience | 4,369 | (19,181) | (6,398) | (8,189) |
| Benefit Payments | (99,101) | (94,649) | (93,078) | (91,999) |
| Refunds of Contributions | (2,924) | (923) | (920) | (867) |
| **Net Change in total Pension Liability** | **103,100** | **10,487** | **23,040** | **13,139** |
| **Total Pension Liability - Beginning** | **1,431,515** | **1,421,028** | **1,397,988** | **1,384,849** |
| **Total Pension Liability - Ending (a)** | **$ 1,534,615** | **$ 1,431,515** | **$ 1,421,028** | **$ 1,397,988** |
| **Plan Fiduciary Net Position** | | | | |
| Contributions - Employer | 41,457 | 160,252 | 38,494 | 37,079 |
| Contributions - Employee | 9,937 | 10,367 | 10,210 | 10,009 |
| Net Investment Income | (134,727) | 270,352 | 5,736 | 55,313 |
| Benefit Payments | (99,101) | (94,649) | (93,078) | (91,999) |
| Refunds of Contributions | (2,924) | (923) | (920) | (867) |
| Administrative Expenses | (848) | (620) | (600) | (617) |
| **Net Change in Plan Fiduciary Net Position** | **(186,206)** | **344,779** | **(40,158)** | **8,918** |
| **Plan Fiduciary Net Position - Beginning** | **1,388,869** | **1,044,090** | **1,084,248** | **1,075,330** |
| **Plan Fiduciary Net Position - Ending (b)** | **1,202,663** | **1,388,869** | **1,044,090** | **1,084,248** |
| **Plan Net Pension Liability - Ending (a-b)** | **$ 331,952** | **$ 42,646** | **$ 376,938** | **$ 313,740** |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (b/a) | 78.4% | 97.0% | 73.5% | 77.6% |
| Covered Payroll (c) | $ 195,554 | $ 200,484 | $ 197,405 | $ 195,358 |
| Net Pension Liability as a Percentage of Covered Payroll ((a-b)/c) | 169.7% | 21.3% | 190.9% | 160.6% |

*The schedule is intended to show information for 10 years.

**See accompanying independent auditor's report.**

## Schedule of Changes in Net Pension Liability and Related Ratios

Last 10 Fiscal Years*

For the Fiscal Years Ended June 30 (Expressed in '000s)

| | FY 2018 | FY 2017 | FY 2016 | FY 2015 | FY 2014 |
|---|---|---|---|---|---|
| **Total Pension Liability** | | | | | |
| Service Cost | $ 25,146 | $ 26,310 | $ 25,919 | $ 25,467 | $ 24,579 |
| Interest | 92,517 | 86,974 | 84,711 | 82,839 | 80,203 |
| Change In Benefits | 11,698 | 590 | 568 | 353 | 20,689 |
| Change In Assumptions | 16,606 | 53,197 | (6,509) | | |
| Differences Between Expected and Actual Experience | (1,598) | (2,543) | (2,666) | (2,471) | (10,654) |
| Benefit Payments | (84,704) | (83,215) | (76,489) | (79,028) | (77,061) |
| Refunds of Contributions | (1,229) | (762) | (4,295) | (3) | (4) |
| **Net Change in total Pension Liability** | **58,436** | **80,551** | **21,239** | **27,157** | **37,752** |
| **Total Pension Liability - Beginning** | **1,326,413** | **1,245,862** | **1,224,623** | **1,197,466** | **1,159,714** |
| **Total Pension Liability - Ending (a)** | **$1,384,849** | **$1,326,413** | **$1,245,862** | **$1,224,623** | **$1,197,466** |
| **Plan Fiduciary Net Position** | | | | | |
| Contributions - Employer | 35,494 | 33,457 | 30,761 | 34,932 | 42,330 |
| Contributions - Employee | 9,858 | 9,450 | 8,735 | 4,915 | 1,672 |
| Net Investment Income | 72,663 | 111,228 | 3,278 | 16,596 | 157,292 |
| Benefit Payments | (84,704) | (83,215) | (76,489) | (79,028) | (77,061) |
| Refunds of Contributions | (1,229) | (762) | (4,295) | (3) | (4) |
| Administrative Expenses | (764) | (668) | (672) | (387) | (413) |
| **Net Change in Plan Fiduciary Net Position** | **31,318** | **69,490** | **(38,682)** | **(22,975)** | **123,816** |
| **Plan Fiduciary Net Position - Beginning** | **1,044,012** | **974,522** | **1,013,204** | **1,036,179** | **912,363** |
| **Plan Fiduciary Net Position - Ending (b)** | **1,075,330** | **1,044,012** | **974,522** | **1,013,204** | **1,036,179** |
| **Plan Net Pension Liability - Ending (a-b)** | **$ 309,519** | **$ 282,401** | **$ 271,340** | **$ 211,419** | **$ 161,287** |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (b/a) | 77.6% | 78.7% | 78.2% | 82.7% | 86.5% |
| Covered Payroll (c) | $ 191,549 | $ 188,066 | $ 175,679 | $ 178,468 | $ 177,561 |
| Net Pension Liability as a Percentage of Covered Payroll ((a-b)/c) | 161.6% | 150.2% | 154.5% | 118.5% | 90.8% |

*The schedule is intended to show information for 10 years.

**See accompanying independent auditor's report.**

## Schedule of Employer's Net Pension Liability and Related Ratios

Last 10 Fiscal Years

(Expressed in '000s)

| Fiscal Year | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability | Plan Fiduciary Net Position as a Percentage of Total Pension Liability | Covered Payroll | Plan Net Pension Liability as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| 2022 | $1,534,615 | $1,202,663 | $331,952 | 78.4% | $195,554 | 169.7% |
| 2021 | 1,431,515 | 1,388,869 | 42,646 | 97.0 | 200,484 | 21.3 |
| 2020 | 1,421,028 | 1,044,090 | 376,938 | 73.5 | 197,405 | 190.9 |
| 2019 | 1,397,988 | 1,084,248 | 313,740 | 77.6 | 195,358 | 160.6 |
| 2018 | 1,384,849 | 1,075,330 | 309,519 | 77.6 | 191,549 | 161.6 |
| 2017 | 1,326,413 | 1,044,012 | 282,401 | 78.7 | 188,066 | 150.2 |
| 2016 | 1,245,862 | 974,522 | 271,340 | 78.2 | 175,679 | 154.5 |
| 2015 | 1,224,623 | 1,013,204 | 211,419 | 82.7 | 178,468 | 118.5 |
| 2014 | 1,197,466 | 1,036,179 | 161,287 | 86.5 | 177,561 | 90.8 |
| 2013 | N/A | N/A | N/A | N/A | N/A | N/A |

*N/A - Information for fiscal years prior to the adoption of GASB 67 is not available in this format.*

## Schedule of Employer's Contributions

Last 10 Fiscal Years

(Expressed in '000s)

| Fiscal Year | Contribution (ADC)* | Contribution* | Contribution Deficiency (Excess) | Covered Payroll** | Contribution as a Percentage of Covered Payroll |
|---|---|---|---|---|---|
| 2022 | $41,457 | $41,457 | - | $195,554 | 21.2% |
| 2021 | 40,698 | 160,252 | (119,554) | 200,484 | 79.9 |
| 2020 | 38,494 | 38,494 | - | 197,405 | 19.5 |
| 2019 | 37,079 | 37,079 | - | 195,358 | 19.0 |
| 2018 | 35,494 | 35,494 | - | 191,549 | 18.5 |
| 2017 | 33,457 | 33,457 | - | 188,066 | 17.8 |
| 2016 | 30,761 | 30,761 | - | 175,679 | 17.5 |
| 2015 | 38,264 | 34,932 | 3,331 | 178,468 | 19.6 |
| 2014 | 42,330 | 42,330 | - | 177,561 | 23.8 |
| 2013 | 41,466 | 41,466 | - | 184,062 | 22.5 |

**The actuarially determined contribution and the employer contributions were adjusted for years prior to 2014 to retrospectively apply the timing of recognition under GASB 34.*

***The actuarially determination of the ADC is based on a projection of covered payroll for the period for which the ADC will apply. The covered payroll was provided by the actuary.*

## Schedule of Investment Returns

| Fiscal Year | Money-Weighted Rate of Return |
|---|---|
| 2022 | (10.32)% |
| 2021 | 25.85 |
| 2020 | 0.58 |
| 2019 | 8.91 |
| 2018 | 7.16 |
| 2017 | 11.64 |
| 2016 | 0.39 |
| 2015 | 1.97 |
| 2014 | 17.36 |
| 2013 | N/A |

*N/A - Information for fiscal years prior to the adoption of GASB 67 is not available in this format.*

**See accompanying independent auditor's report.**

## Notes to Required Supplementary Information

### Changes in Benefits

Effective January 2015, additional liabilities derived as a result of a 5 percent pay increase to members for purposes of paying 5 percent member contributions and the Deferred Retirement Option Program (DROP) for public safety members.

### Methods and assumptions used in calculations of actuarially determined contributions

The actuarially determined contribution rates are calculated as of June 30, one year prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule.

| | |
|---|---|
| Actuarial Cost Method | Entry Age Normal Cost Method |
| Amortization Method | Level Percent Closed, 20-Years Layers |
| Asset Valuation Method | 3-Year smoothed Value |
| Investment Rate of Return | 7.00% |
| Amortization growth Rate | 3.0% |
| Inflation | 3.0% |
| Salary Increases - General Employees | Average of 5.12% over a 30-year-career; based on rates that vary by year of service and are compounded annually |
| Salary Increases - Public Safety Employees | Average of 6.19% over a 30-year-career; based on rates that vary by year of service and are compounded annually |
| Mortality | 108% of RP-2014 adjusted back to 2006 using MP-2014 and brought forward to 2016 using MP-2016 and generational improvements of 0.75% per year (ages < 86) thereafter for healthy lives; and<br>100% of RP-2014 Disability Mortality adjusted back to 2006 using MP-2014 and brought forward to 2016 using MP-2016 and generational improvements of 0.75% per year (ages < 86) thereafter for disabled lives |

## Other Supplementary Information

### Employees' Retirement System of the City of Norfolk
### (A Pension Trust Fund)
### Schedule of Administrative Expenses
### For the Fiscal Year Ended June 30, 2022

| | | FY 2022 In ‘000s |
|---|---|---|
| **Personnel Services:** | | |
| Staff Salaries | $ | 477 |
| Benefits | | 154 |
| **Total Personnel Services** | | **631** |
| **Professional Services:** | | |
| Actuarial Fees | | 139 |
| Medical Examinations | | 4 |
| Legal Fees | | 13 |
| Audit Fees | | 21 |
| **Total Professional Services** | | **177** |
| **Communication Services:** | | |
| Travel and Training | | 2 |
| Postage and Shipping | | 7 |
| **Total Communication Services** | | **9** |
| **Miscellaneous Expenses:** | | |
| Supplies and Equipment | | 10 |
| Other | | 21 |
| **Total Miscellaneous Expenses** | | **31** |
| **Total Administrative Expenses** | **$** | **848** |

**See accompanying independent auditor’s report.**

## Employees' Retirement System of the City of Norfolk
## (A Pension Trust Fund)
## Schedule of Investment Expenses
## For the Fiscal Year Ended June 30, 2022

| | | FY 2022 In '000s |
|---|---|---|
| **Investment Manager Fees:** | | |
| Manager Fees | $ | 2,195 |
| **Custody and Investment Consultant Fees:** | | |
| Investment Consultant Fees | | 203 |
| Custody Fees | | 413 |
| **Total Custody and Investment Consultant Fees** | | **616** |
| **Total Investment Expenses** | **$** | **2,811** |

**See accompanying independent auditor's report.**

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# 3

# Investment Section

## (Unaudited)

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## Investment Performance, Policy, Statistics and Activity

*This section was prepared by AndCo Consulting LLC, investment consultant to the System, and a Securities and Exchange Commission registered investment adviser under the Investment Advisers Act of 1940.*

In the investment of public funds, adequate funding of employee retirement benefits at a reasonable and affordable cost is a paramount concern. An appropriate balance must be struck between risks taken and return sought to ensure the long-term health of the System. The System has adopted an investment policy that works to control the extent of the downside risk to which assets are exposed, while maximizing the potential for long-term increase in the value of the assets.

**Investment Objectives**

The Board of Trustees for the Employees' Retirement System has adopted investment policies and guidelines, which outline the System's investment goals and objectives. The Statement of Investment Policy contains a statement of investment goals and objectives, general investment principles, and guidelines. The general investment goals of the System are broad in nature. The primary objectives are to efficiently allocate and manage the assets dedicated to the payment of Plan benefits and administrative expenses. The following goals, consistent with the above-described purpose, are adopted:

- The overall goal of the System's investment portfolio is to provide a retirement benefit for the employees of the City of Norfolk, Virginia. This will be accomplished through a carefully planned and executed long-term investment program.

- The total portfolio over the long-term will be expected to earn a return that equals or exceeds:

    1. The rate of inflation, as measured by the Consumer Price Index, plus 2.5 percent per year.
    2. The return of a target policy index ("Target Policy") comprised of 62.5 percent MSCI AC World IMI (Net), and 37.5 percent Bloomberg Capital Aggregate Bond Index.
    3. The return of a Strategy Index; such index being comprised of the return of the various broad market benchmarks assigned to each manager or other indices representing each asset class, each weighted to reflect the target asset allocation.
    4. The actuarially assumed investment rate of return.
    5. For the aggregate Global Equity, Fixed Income, Real Estate, and Master Limited Partnership components of the Fund: the return of the MSCI AC World IMI (Net), Bloomberg Capital Aggregate Bond, NCREIF – ODCE, and Alerian MLP Total Return indices, respectively.

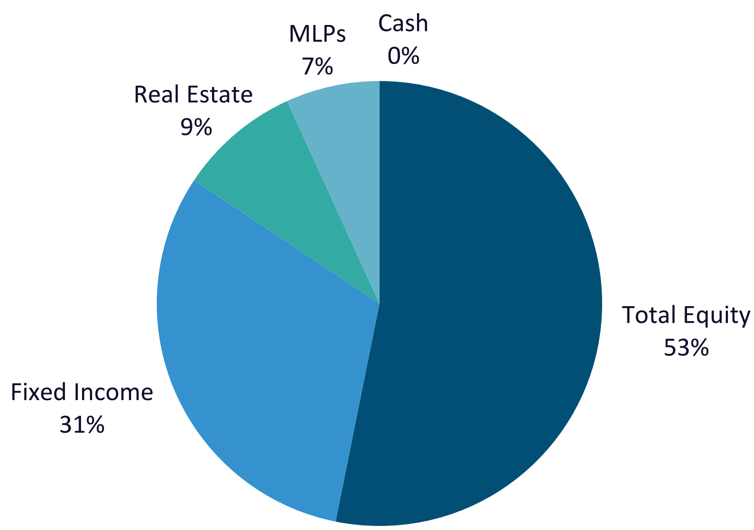
## Asset Allocation

The System adopts and implements an asset allocation policy that is predicated on several factors, including:

- Historical and expected long-term capital market risk and return behavior;
- Projected assets, liabilities, benefit payments, and contributions provided by System's actuary;
- An assessment of future economic conditions, including inflation and interest rate levels; and
- The specific investment objectives set forth in the Statement of Investment Policy.

The System will be diversified both by asset class (e.g., common stocks, bonds, cash) and within asset classes (e.g., within common stocks by economic sector, industry, quality, and market capitalization). The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the total System.

### Asset Allocation by Asset Class as of June 30, 2022




| | | |
|---|---|---|
| Total Equity | $ | 640,444 |
| Fixed Income | | 375,735 |
| Real Estate | | 106,621 |
| MLPs | | 82,025 |
| Cash and Equivalents (excludes cash held by managers) | | 5 |
| **Total** | **$** | **1,204,830** |

(Expressed in '000s)

## Asset Allocation

| | |
|---|---|
| **Total Net Position Fair Value** | **$1,204,830** |
| Adjustments to Reconcile Statement of Plan Asset Investments Total: | |
| Total Cash and Cash Equivalents held by Managers | (37,431) |
| Accrued Investment Income | (884) |
| Loan Income Receivable | (2) |
| Due from Brokers for Securities Sold | (60,237) |
| Interest Payable | 541 |
| Due to Brokers for Securities Purchased | 107,281 |
| Unrealized Appreciation (Depreciation) on Payables | (161) |
| Unrecognized variance due to timing/pricing difference on investments | (13) |
| **Total Investments Reconciled to the Statement of Plan Fiduciary Net Position** | **$1,213,924** |

(Expressed in '000s)

## Investment Managers and Investment Assignments

| | Fair Value | % of Portfolio |
|---|---|---|
| SSGA MSCI ACWI IMI Index Fund | $ 640,444 | 53.16% |
| PIMCO Total Return | 185,545 | 15.40 |
| SSGA Bond Market Index | 190,190 | 15.79 |
| J.P. Morgan Asset Management Strategic Property Fund | 57,837 | 4.80 |
| UBS Trumbull Property Fund | 33,146 | 2.75 |
| Vanguard Real Estate Index | 15,638 | 1.30 |
| Tortoise Capital Advisors | 40,535 | 3.36 |
| Harvest MLP | 41,490 | 3.44 |
| Cash Holding Account | 5 | 0.00 |
| **Total** | **$1,204,830** | **100.00%** |

(Expressed in '000s)

***See reconciliation of Statement of Plan Assets above.**

## Asset Allocation Comparison

| | Global Equity Commitment | Fixed Income Commitment | Total Other * |
|---|---|---|---|
| Total Fund | 56.1% | 30.8% | 13.10% |
| Median All Public Plans | 51.6% | 24.2% | 13.10% |

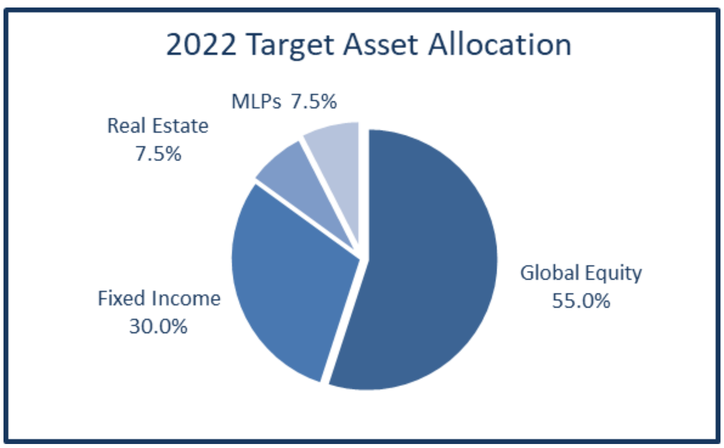
*Includes cash and alternative asset classes such as real estate, private equity, and hedge funds. Medians do not sum to 100 percent as not all plan sponsors are exposed to each asset class.

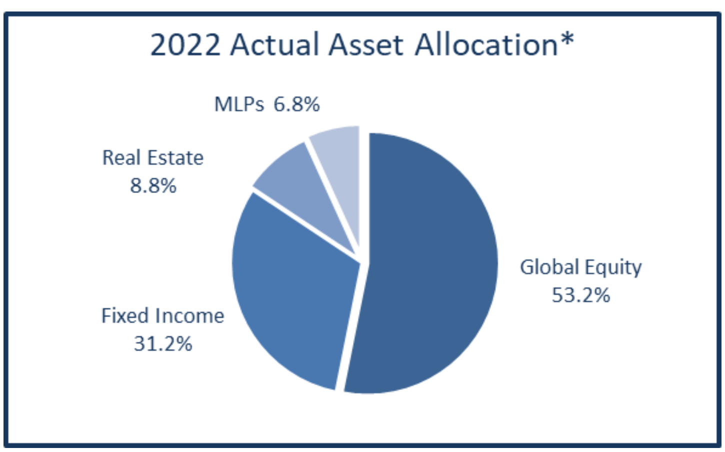
## Target Asset Allocation

The target asset allocation for the investment portfolio is determined by the Board of Trustees to facilitate the achievement of the investment program's long-term investment objectives within the established risk parameters. Due to the fact the allocation of funds between asset classes may be the single most important determinant of the investment performance over the long run, the System's assets shall be divided into the following asset classes:

| Asset Class | Minimum Percentage | Maximum Percentage | Target Percentage |
|---|---|---|---|
| **Equities** | **45%** | **65%** | **55%** |
| **Fixed Income** | **25%** | **40%** | **30%** |
| **Real Estate** | **5%** | **10%** | **7.5%** |
| **MLPs** | **5%** | **10%** | **7.5%** |

Formal asset allocation studies will be conducted at least every five years, with annual evaluations of the validity of the adopted asset allocation based on updated return projections. Any change in capital market assumptions or liabilities will require consideration of revision to the asset allocation policy.




***Fixed income includes cash and cash equivalents.**

## Investment Performance Summary

***For the Fiscal Year Ending June 30, 2022***

| Account | 1 Year | 2 Years | 3 Years | 5 Years |
|---|---|---|---|---|
| **Total Equity** | **-16.21** | **9.04** | **6.51** | **7.19** |
| *Total Equity Policy Index** | -16.52 | 8.47 | 5.98 | 6.70 |
| **Fixed Income** | | | | |
| PIMCO Total Return | -10.66 | -5.17 | -0.84 | 1.07 |
| *Bloomberg Barclays U.S. Aggregate* | -10.29 | -5.45 | -0.94 | 0.88 |
| SSGA Bond Market Index | -10.33 | -5.43 | -0.92 | 0.89 |
| *Bloomberg Barclays U.S. Aggregate* | -10.29 | -5.45 | -0.94 | 0.88 |
| **Total Fixed Income** | **-10.49** | **-5.28** | **-0.86** | **0.98** |
| *Bloomberg Barclays U.S. Aggregate* | -10.29 | -5.45 | -0.94 | 0.88 |
| **Real Estate** | | | | |
| J.P. Morgan Strategic Property Fund | 27.52 | 16.29 | 11.04 | 8.88 |
| *NCREIF Fund Index - ODCE [M]* | 28.31 | 17.22 | 11.66 | 9.55 |
| UBS Trumbull Property Fund | 23.54 | 11.78 | 7.02 | 5.36 |
| *NCREIF Fund Index - ODCE [M]* | 28.31 | 17.22 | 11.66 | 9.55 |
| **Total Real Estate** | **18.07** | **10.67** | **6.90** | **5.86** |
| *NCREIF Fund Index – ODCE [M]* | 28.31 | 17.22 | 11.66 | 9.55 |
| **MLPs** | | | | |
| Harvest MLP | 18.08 | 35.39 | 5.26 | 3.44 |
| *Alerian MLP* | 4.33 | 30.80 | 0.07 | -0.29 |
| Tortoise Capital Advisors | 9.87 | 28.48 | 0.16 | 0.09 |
| *Alerian MLP* | 4.33 | 30.80 | 0.07 | -0.29 |
| **Total MLP** | **14.01** | **31.75** | **2.60** | **1.70** |
| *Alerian MLP* | 4.33 | 30.80 | 0.07 | -0.29 |
| **Total Fund Composite** | **-9.97** | **6.48** | **4.48** | **5.17** |
| *Total Fund Policy Index*** | -14.06 | 3.29 | 3.71 | 4.80 |
| *Total Fund Strategy Index**** | -9.98 | 6.71 | 4.87 | 5.36 |

*Total Equity Policy Index = 100% MSCI AC World IMI (Net).
**Total Fund Policy Index = 62.5% MSCI AC World IMI (Net) and 37.5% Bloomberg Aggregate.
***Total Fund Strategy Index = 55% MSCI AC World IMI (Net), 30% Bloomberg Aggregate, 7.5% NCREIF ODCE (VW) (Net), and 7.5% Alerian MLP.

Investment returns are time-weighted returns based on fair value and gross of investment management fees. The investment returns shown elsewhere in this report are net of all expenses paid by the System (investment management fees, custody and consultant fees and administrative expenses).

## Schedule of Broker Commissions

Broker selection is the responsibility of individual investment managers. Transactions and commission costs are monitored by State Street Bank (the custodian) and System staff. Commissions paid in Fiscal Year 2022:

| | Shares Traded | Base Commission | Commission Cost/Share |
|---|---|---|---|
| Broker Commissions | 4,894,108,701.406 | $54,654.39 | $0.00001 |

## List of Largest Assets

***Ten Largest Stock Holdings within the Domestic Equity (Commingled) Funds (by fair value)***

| Stock | Shares | Fair Value |
|---|---|---|
| Apple Inc. | 163,194 | $22,312 |
| Microsoft Corporation | 71,220 | $18,291 |
| Amazon.com Inc. | 91,592 | $9,728 |
| Alphabet Inc. | 5,849 | $12,768 |
| Tesla Inc. | 8,785 | $5,916 |
| United Health Group | 9,409 | $4,833 |
| Johnson & Johnson | 26,293 | $4,667 |
| Taiwan Semiconductor Manufacturing Company Limited | 246,339 | $3,944 |
| NVIDIA Corporation | 25,000 | $3,790 |
| Meta Platforms | 23,091 | $3,723 |

(Expressed in ‘000s)

***Ten Largest Bond Holdings (by fair value)***

| Bonds | Interest Rate | Maturity Date | Par Value | Fair Value |
|---|---|---|---|---|
| PIMCO Short-Term* | N/A | N/A | $3,440 | $30,684 |
| FNMA Pool | 3.5000 | 8/11/2052 | $17,400 | $16,711 |
| FNMA Pool | 3.5000 | 7/14/2052 | $16,400 | $15,771 |
| FNMA Pool | 4.0000 | 4/25/2052 | $15,000 | $14,764 |
| FNMA Pool | 3.0000 | 8/11/2052 | $11,900 | $11,067 |
| U.S. Treasury | 4.3750 | 11/15/2039 | $7,500 | $8,664 |
| FNMA Pool | 2.5000 | 8/11/2052 | $8,600 | $7,722 |
| PIMCO Investment Grade* | N/A | N/A | $799 | $6,895 |
| U.S. Treasury | 4.2500 | 5/15/2039 | $5,200 | $5,940 |
| U.S. Treasury | 1.7500 | 7/31/2024 | $6,000 | $5,850 |

*These holdings represent investments in PIMCO’s sector funds. Holdings for the sector funds and a complete list of portfolio holdings are available upon request from AndCo.
(Expressed in ‘000s)

# 4

# Actuarial Section

## (Unaudited)

THE CITY OF NORFOLK
FINANCE

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CHEIRON Classic Values, Innovative Advice

## Actuary's Certification Letter

September 20, 2022

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

Dear Members of the Board:

The purpose of this letter is to provide the certification for the Actuarial Section of the Annual Comprehensive Financial Report (ACFR) for the Employees' Retirement System of the City of Norfolk (System) with respect to pension benefits.

**Actuarial Valuation Used for Funding Purposes**

Actuarial valuations of the Employees' Retirement System of the City of Norfolk are performed annually. The results of the latest actuarial valuation of the System, which we have prepared as of June 30, 2022, are summarized in this letter. Please refer to that valuation report for additional information related to the System.

The valuation reflects the benefits in effect on the valuation date and was prepared on the basis of the data submitted by the City of Norfolk and the actuarial assumptions as adopted by the Board of Trustees of the Employees' Retirement System, including a valuation interest rate assumption of 6.75 percent per annum, compounded annually. The actuarial cost method, the Entry Age Normal Cost Method, and the actuarial assumptions used for funding purposes are the same as those used for financial reporting purposes.

We prepared the following schedules for inclusion in the Actuarial Section of the Annual Comprehensive Financial Report based on the June 30, 2022, actuarial valuation.

- Summary of Actuarial Assumptions and Methods
- Schedule of Active Member Valuation Data
- Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
- Schedule of Funded Liabilities by Type
- Analysis of Financial Experience
- Summary of Benefits and Contribution Provisions

The financing objective of the Employees' Retirement System is to:

a) fully fund the normal cost contribution for the current year determined under the funding method; and

**Actuary's Certification Letter**

The Board of Trustees
September 20, 2022
Page 2

b) amortize the June 30, 2017, unfunded actuarial liability over a closed 20-year period and to create additional, closed 20-year periods for annual UAL changes that arise. These payments are assumed to remain level throughout the amortization period. City contributions are assumed to occur on the July 1 following the valuation date to be made on the basis of the rates developed in the valuation applied to actual covered payroll of the City during the previous October.

In accordance with the above, the City's contribution appropriated for the Fiscal Year ended June 30, 2023 (and to be paid July 1, 2022) was determined based on the results of the June 30, 2021, valuation. In accordance with this policy, the City contributed $31.4 million on July 1, 2022. 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 upon the bond issuance from June 2021. The first $8.7 million contribution made from the Trust in July 2022 is reflected in the current year receivable and is projected to continue at $8.7 million annually until the Section 115 Trust assets are depleted. As of June 30, 2022, the Trust held $76.5 million in assets.

The results of the June 30, 2022, valuation determine the contribution appropriation for the Fiscal Year ending June 30, 2024 (to be paid July 1, 2023), which will be presented in our valuation report subject to your approval.

As of June 30, 2022, the System's actuarial liability was 84.2 percent funded based on the Actuarial Value of Assets and 78.4 percent funded based on the Fair Value of Assets. These ratios exclude the Section 115 Trust assets. If the Trust balance of $76.5 million as of June 30, 2022, was included, the System would be 89.2 percent funded based on the Actuarial Value of Assets and 83.3 percent funded based on the Fair Value of Assets.

Included in the valuation report are contribution and funding progress schedules prepared by the actuary.

**Actuarial Valuation Used for Financial Reporting Purposes**

For financial reporting purposes, the Total Pension Liability is based on the June 30, 2022, actuarial valuation. Please refer to the GASB 67/68 report for additional information related to the financial reporting of the System. We prepared the following schedules for inclusion in the Financial Section of the Annual Comprehensive Financial Report based on the June 30, 2022, valuation report.

- Change in Net Pension Liability
- Sensitivity of Net Pension Liability to Changes in Discount Rate
- Schedule of Changes in Net Pension Liability and Related Ratios
- Schedule of Employer Contributions

**Actuary's Certification Letter**

The Board of Trustees
September 20, 2022
Page 3

**Reliance on the Information Provided by the City and Compliance with** Actuarial Standard of Practices **and GAAP**

In preparing our valuations and schedules for the Annual Comprehensive Financial Report, we relied on information (some oral and some written) supplied by the City of Norfolk. 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.

The current actuarial assumptions used for valuation purposes were adopted by the Board of Trustees and are first effective for the June 30, 2022, Actuarial Valuation. The most recent study of the System's experience, used in developing the current actuarial assumptions, was based on a period from July 2016 to June 2021. In our opinion, the actuarial assumptions used in the valuation are reasonable. Included in the valuation report is a schedule that presents an outline of the actuarial assumptions and methods used to prepare the actuarial valuation results. The assumptions and methods used for funding purposes were developed in compliance with the Actuarial Standards of Practice as they relate to pension plans. Future valuation reports may differ significantly from the current results presented in this letter due to such factors as the following: plan experience differing from that anticipated by the assumptions; changes in assumptions; and changes in plan provisions or applicable law.

This certification letter and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. The schedules provided for financial reporting purposes have been prepared in accordance with our understanding of generally accepted actuarial principles as promulgated by the GASB. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter. This letter does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

This letter was prepared for the City of Norfolk Employees' Retirement System for the purposes described herein and for the use by the plan auditor in completing an audit related to the matters herein. Other users of this letter are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any such other users.

Respectfully submitted,
Cheiron

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

Justin Runkel, ASA, EA, MAAA
Consulting Actuary

CHEIRON

# SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

## Actuarial Assumptions

### Interest Rate

6.75 percent per annum, compounded annually (originally adopted as of June 30, 2022).

### Mortality:

*Pre-Retirement*

| | |
|---|---|
| *General:* | Pub-2010(B) General Employee Below-Median Table with fully generational improvements using Scale MP-2021, with 5% of deaths assumed accidental |
| *Public Safety:* | Pub-2010 Safety Employee Table with fully generational improvements using Scale MP-2021, with 60% of deaths assumed accidental |

*Healthy Annuitants*

| | |
|---|---|
| *General:* | Pub-2010(B) General Healthy Annuitant Below-Median Table with fully generational improvements using Scale MP-2021 |
| *Public Safety:* | Pub-2010 Safety Healthy Annuitant Table with fully generational improvements using Scale MP-2021 |

*Disableds*

| | |
|---|---|
| *General:* | Pub-2010 General Disabled Annuitant Table with fully generational improvements using Scale MP-2021 |
| *Public Safety:* | Pub-2010 Safety Disabled Annuitant Table with fully generational improvements using Scale MP-2021 |

### Salary Increase:

Annual rates of salary increases are as follows:

| Service | General | Public Safety |
|---|---|---|
| 0 | 6.09% | 9.18% |
| 1 | 5.94 | 5.58 |
| 2 | 5.78 | 5.32 |
| 3 | 5.63 | 5.32 |
| 4 | 5.47 | 5.32 |
| 5 | 5.32 | 5.32 |
| 10 | 4.55 | 5.32 |
| 15 | 4.03 | 5.32 |
| 20 | 4.03 | 4.65 |
| 25 | 4.03 | 4.03 |
| 30 | 3.71 | 4.03 |

*The table above includes an annual inflation rate of 3.00 percent.*

## SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (continued)

**Withdrawal:**

| Service | General | Public Safety |
|---|---|---|
| 0 | 23.00% | 12.50% |
| 1 | 20.00 | 12.00 |
| 2 | 18.00 | 11.00 |
| 3 | 16.00 | 10.00 |
| 4 | 15.00 | 9.00 |
| 5 | 14.00 | 8.00 |
| 10 | 8.00 | 3.00 |
| 15 | 3.00 | 1.00 |
| 20 | 3.00 | 1.00 |
| 25 | 3.00 | 1.00 |

**Disability:**

| | General* | | Public Safety** |
|---|---|---|---|
| Age | Male | Female | Unisex |
| 20 | 0.02% | 0.02% | 0.02% |
| 25 | 0.03 | 0.02 | 0.02 |
| 30 | 0.03 | 0.02 | 0.04 |
| 35 | 0.05 | 0.03 | 0.05 |
| 40 | 0.06 | 0.05 | 0.09 |
| 45 | 0.09 | 0.07 | 0.18 |
| 50 | 0.16 | 0.12 | 0.30 |
| 54 | 0.21 | 0.16 | 0.41 |
| 55 | 0.25 | 0.19 | 0.43 |
| 59 | 0.37 | 0.28 | 0.57 |

*25 percent of General disabilities are assumed to be accidental.

**70 percent of Firefighters & Police disabilities are assumed to be accidental.

## SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (continued)

**Retirement:**

*General:*

| | | *Hired On or After July 1, 2018* | | |
|---|---|---|---|---|
| **Age** | **Hired Before July 1, 2018** | **Social Security NRA 65** | **Social Security NRA 66** | **Social Security NRA 67** |
| 50 | 10.00 % | 10.00 % | 10.00 % | 10.00 % |
| 51 | 10.00 | 10.00 | 10.00 | 10.00 |
| 52 | 10.00 | 10.00 | 10.00 | 10.00 |
| 53 | 10.00 | 10.00 | 10.00 | 10.00 |
| 54 | 10.00 | 10.00 | 10.00 | 10.00 |
| 55 | 10.00 | 10.00 | 10.00 | 10.00 |
| 56 | 10.00 | 10.00 | 10.00 | 10.00 |
| 57 | 10.00 | 10.00 | 10.00 | 10.00 |
| 58 | 10.00 | 10.00 | 10.00 | 10.00 |
| 59 | 10.00 | 10.00 | 10.00 | 10.00 |
| 60 | 22.50 | 12.50 | 12.50 | 12.50 |
| 61 | 22.50 | 12.50 | 12.50 | 12.50 |
| 62 | 30.00 | 12.50 | 12.50 | 12.50 |
| 63 | 22.50 | 12.50 | 12.50 | 12.50 |
| 64 | 25.00 | 15.00 | 15.00 | 15.00 |
| 65 | 35.00 | 35.00 | 15.00 | 15.00 |
| 66 | 35.00 | 35.00 | 35.00 | 15.00 |
| 67 | 35.00 | 35.00 | 35.00 | 35.00 |
| 68 | 25.00 | 25.00 | 25.00 | 25.00 |
| 69 | 25.00 | 25.00 | 25.00 | 25.00 |
| 70 | 100.00 | 100.00 | 100.00 | 100.00 |

For those hired before July 1, 2018, the retirement rates at ages before 60 are 10 percent higher than those shown above if the participant has at least 30 years of service. For those hired on or after July 1, 2018, the retirement rate is 10 percent higher than shown above at ages before Social Security Normal Retirement Age (SSNRA) if the participant is eligible for an unreduced benefit under the "Rule of 90."

## SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (continued)

*Public Safety:*

| Service | Rate of Retirement* |
|---|---|
| 20 | 5.00% |
| 21 | 7.50 |
| 22 | 7.50 |
| 23 | 10.00 |
| 24 | 30.00 |
| 25 | 30.00 |
| 26 | 30.00 |
| 27 and up | 20.00 |

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

**Future Expenses:**

Administrative expenses are assumed to be 0.35 percent of payroll. The assumed interest rate is net of the anticipated investment expenses of the Employees' Retirement System.

**Loading or Contingency Reserves:**

A load of 1.00 percent for General employees and 1.15 percent 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:**

For active members, 65 percent of Public Safety and 55 percent of General employees are assumed to be married, with males three years older than females.

For inactive participants, those with "unknown" marital status were updated to use data from the prior year.

**Form of Payment Election:**

For retirees with a specified optional form of payment, the raw data was used. For all other retirees and beneficiaries, the form of payment is determined by marital status. Those with a marital status of "married" are assumed to receive their benefit as a 50 percent Joint & Survivor, and all unmarried participants are assumed to receive a Single Life Annuity.

**DROP Election:**

70 percent of members that have reached the maximum pensionable service (26 years for Public Safety, 35 years for General) and 30 percent of the members with less than the maximum pensionable service are assumed to elect to enter DROP in lieu of immediate retirement.

**Rationale for Economic and Demographic Assumptions:**

Assumptions were set by the Board of Trustees based on recommendations made by Cheiron as a result of an experience study covering the period from July 1, 2016 through June 30, 2021.

## SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (continued)

**Changes in Assumptions:**

Using data provided between July 1, 2016 and June 30, 2021, a review of all economic and demographic assumptions was performed in May 2022. The experience study yielded a reduction to the assumed interest rates from 7.00 percent to 6.75 percent. Other changes to rates of mortality, withdrawal, disability, retirement, salary increases and DROP election were also made.

Subsequent to the experience study, the City of Norfolk amended the System to allow all NERS active participants to participate in DROP effective January 1, 2023. To account for this change, we increased retirement rates by 10 percent at each age upon reaching Normal Retirement eligibility as described earlier.

### Methods

**Actuarial Cost Method:**

Entry Age Normal Cost Method. The unfunded actuarial liability (UAL) as of June 30, 2017, is being amortized over a closed 20-year period. Subsequent annual changes in the UAL are amortized over their own closed 20-year periods calculated as follows: The UAL is adjusted for one year, by increasing it at the assumed interest rate and reducing it by the portion of the City's scheduled contribution not attributable to the value of additional benefits earned (i.e., normal cost) or administrative expenses. The resulting projected UAL is then amortized over a 20-year period and turned into a rate by using the projected payroll three months after the valuation date when the City's contribution amount is budgeted. All rates are developed using a level-dollar amortization.

City contributions assumed to occur on the July 1 following the valuation date to be made on the basis of the rates developed in this valuation applied to actual covered payroll of the City during the previous October.

In accordance with the pension funding policy, City contributions in the first year after the issuance of pension obligation bonds (POB) will be based on the actuarial determined contribution rate. With the most recent POB issuance on June 29, 2021, the July 1, 2022, contribution amount was set through the actuarial process. For all subsequent fiscal years, City contributions cannot be less than the preceding year until the System reaches 100 percent funding. Other conditions that would provide consideration to adjust the contribution amount would be if the total contribution exceeds a 6 percent increase from the preceding year or if the contribution amount exceeds $80 million.

**Asset Valuation Method:**

The actuarial value of assets is 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 assumed administrative expenses) of the System over the year prior to the valuation. One-third of the fair 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.

**Valuation Software:**

Cheiron utilizes ProVal, an actuarial valuation software leased from Winklevoss Technologies (WinTech) to calculate liabilities and projected benefit payments. We have relied on WinTech as the developer of ProVal. We have reviewed ProVal and have a basic understanding of it and have used ProVal in accordance with its original intended purpose. We have not identified any material inconsistencies in assumptions or output of ProVal that would affect this actuarial valuation.

**Changes in Actuarial Methods**

None.

# SCHEDULE OF ACTIVE MEMBER VALUATION DATA

**Census and Assets:**

The valuation was based on members of the System as of June 30, 2022, and does not take into account future members. All census data were supplied by the Executive Director of the System and were subject to reasonable consistency checks. Asset data were supplied by the Executive Director of the System.

**General Employees:**

| Valuation as of June 30 | Number of Active Members | Valuation Payroll (In '000s) | Average Salary | Percent Increase (Decrease) in Average |
|---|---|---|---|---|
| 2022 | 2,022[1] | $114,991 | $56,870 | 11.9% |
| 2021 | 2,492 | 126,671 | 50,831 | 1.3 |
| 2020 | 2,591 | 130,005 | 50,176 | 2.2 |
| 2019 | 2,599 | 127,569 | 49,084 | 1.6 |
| 2018 | 2,689 | 129,910 | 48,312 | 2.4 |
| 2017 | 2,727 | 128,708 | 47,198 | 1.9 |
| 2016 | 2,741 | 126,900 | 46,297 | 1.5 |
| 2015 | 2,704 | 123,366 | 45,624 | 3.8 |
| 2014 | 2,709 | 119,079 | 43,957 | 1.8 |
| 2013 | 2,787 | 120,324 | 43,173 | 2.1 |

[1] Excludes ten (10) members on leave of absence and four hundred eighty-one (481) participants due a refund on June 30, 2022.

**Public Safety:**

| Valuation as of June 30 | Number of Active Members | Valuation Payroll (In '000s) | Average Salary | Percent Increase (Decrease) in Average |
|---|---|---|---|---|
| 2022 | 892[1] | $60,111 | $67,390 | 11.3% |
| 2021 | 1,123 | 67,982 | 60,536 | (0.1) |
| 2020 | 1,171 | 71,415 | 60,986 | 2.0 |
| 2019 | 1,187 | 70,942 | 59,766 | 1.8 |
| 2018 | 1,216 | 71,415 | 58,729 | 4.8 |
| 2017 | 1,219 | 68,343 | 56,065 | 4.9 |
| 2016 | 1,238 | 66,136 | 53,422 | 2.8 |
| 2015 | 1,207 | 64,346 | 53,310 | 2.5 |
| 2014 | 1,216 | 63,219 | 51,989 | 3.4 |
| 2013 | 1,268 | 63,737 | 50,266 | (0.2) |

[1] Excludes eight (8) members on leave of absence and ninety-one (91) participants due a refund on June 30, 2022.

## Total

| Valuation as of June 30 | Number of Active Members | Valuation Payroll (In '000s) | Average Salary | Percent Increase (Decrease) in Average |
|---|---|---|---|---|
| 2022 | 2,914[1] | $175,102 | $60,090 | 11.6% |
| 2021 | 3,615 | 194,653 | 53,846 | 0.6 |
| 2020 | 3,762 | 201,420 | 53,541 | 2.1 |
| 2019 | 3,786 | 198,511 | 52,433 | 1.7 |
| 2018 | 3,905 | 201,325 | 51,556 | 3.2 |
| 2017 | 3,946 | 197,051 | 49,937 | 2.9 |
| 2016 | 3,979 | 193,036 | 48,514 | 1.1 |
| 2015 | 3,911 | 187,712 | 47,996 | 3.3 |
| 2014 | 3,925 | 182,298 | 46,445 | 2.3 |
| 2013 | 4,055 | 184,061 | 45,391 | 1.1 |

[1] Excludes eighteen (18) members on leave of absence and five hundred seventy-two (572) participants due a refund on June 30, 2022.

## SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

| Year Ended June 30 | Added to Rolls | | Removed from Rolls | | On Rolls at Year-End | | | |
|---|---|---|---|---|---|---|---|---|
| | No. | Annual Allowance (In '000s) | No. | Annual Allowance (In '000s) | No. | Annual Allowance (In '000s) | Average Allowance | % Increase Average Allowance |
| 2022 | 206 | $3,567 | 127 | $2,091 | 4,351 | $97,145 | $22,327 | (0.3)% |
| 2021 | 194 | 4,509 | 134 | 2,240 | 4,272 | 95,669 | 22,394 | 1.0 |
| 2020 | 208 | 4,946 | 115 | 1,606 | 4,212 | 93,400 | 22,175 | 1.4 |
| 2019 | 216 | 4,972 | 91 | 1,295 | 4,119 | 90,060 | 21,865 | 1.1 |
| 2018 | 201 | 4,876 | 120 | 1,543 | 3,994 | 86,383 | 21,628 | 1.9 |
| 2017 | 176 | 3,449 | 100 | 1,272 | 3,913 | 83,051 | 21,224 | 0.7 |
| 2016 | 159 | 3,369 | 82 | 1,047 | 3,837 | 80,874 | 21,077 | 0.9 |
| 2015 | 158 | 2,605 | 116 | 1,374 | 3,760 | 78,552 | 20,891 | 0.5 |
| 2014 | 221 | 4,477 | 108 | 1,154 | 3,718 | 77,321 | 20,796 | 1.3 |
| 2013 | 164 | 3,077 | 106 | 1,317 | 3,605 | 73,998 | 20,526 | 0.8 |

**Note:** The amount added to the rolls includes additions and deletions due to COLAs, supplements, workers' compensation in addition to the annual allowance for new retirees.

## SCHEDULE OF FUNDED LIABILITIES BY TYPE

The System's funding objective is to meet long-term benefit obligations through contributions that remain approximately level from year to year as a dollar amount. If the contributions to the System are level in concept and soundly executed, the System will pay promised benefits when due; thus, providing the ultimate test of financial soundness. Testing for level contribution rates is the long-term test.

A short condition test is one means of checking a plan's progress under its funding program. In a short condition test, the System's present assets (cash and investments) are compared with: (1) active member contributions, (2) the liabilities for future benefits to present retired lives, and (3) the employer-provided portion of liabilities for service already rendered by active members. In a plan that has been following the discipline of level percent of payroll financing, the active member contribution balances (Liability (1)) and the liabilities for future benefits to present retired members (Liability (2)) will be fully covered by present assets, except in rare circumstances. In addition, the liabilities for service already rendered by active members (Liability (3)) will be at least partially covered by the remainder of present assets.

The relationship between accrued liabilities and net assets of the System for Fiscal Years ended June 30, 2013 through June 30, 2022, are presented as follows:

| Valuation Date | (1) Active Member Contributions | (2) Retirees, Vested Terms, Beneficiaries | (3) Active Members (Employer Financed Portion) | Reported Assets[A] | Portion of Accrued Liabilities Covered by Reported Assets (1) | (2) | (3) |
|---|---|---|---|---|---|---|---|
| 2022 | $45,687 | $1,094,862 | $394,066 | $1,291,722 | 100.0% | 100.0% | 38.4% |
| 2021 | 45,445 | 1,024,402 | 361,668 | 1,297,114 | 100.0 | 100.0 | 62.8 |
| 2020 | 40,701 | 1,001,938 | 378,389 | 1,100,046 | 100.0 | 100.0 | 15.2 |
| 2019 | 34,844 | 979,721 | 383,423 | 1,097,451 | 100.0 | 100.0 | 21.6 |
| 2018[B] | 29,427 | 950,489 | 397,973 | 1,074,892 | 100.0 | 100.0 | 23.9 |
| 2017[C] | 21,937 | 921,087 | 392,802 | 1,043,620 | 100.0 | 100.0 | 25.6 |
| 2016 | 15,493 | 877,143 | 361,774 | 1,048,346 | 100.0 | 100.0 | 43.0 |
| 2015 | 8,425 | 850,742 | 365,456 | 1,038,059 | 100.0 | 100.0 | 49.0 |
| 2014[D] | 3,451 | 816,288 | 377,728 | 1,011,523 | 100.0 | 100.0 | 50.8 |
| 2013 | 1,780 | 782,860 | 375,074 | 954,499 | 100.0 | 100.0 | 45.3 |

(Expressed in '000s)

[A] Reported assets are actuarial value of assets. If assets were fair value of assets, the results would be different.

[B] Retirees and beneficiaries receiving a benefit as of June 30, 2014, were granted a permanent 2.0 percent supplemental benefit increase on their annual benefit up to $36,000 effective July 2018.

[C] Reported assets for 2017 do not include the receivable employer contribution. Reported assets prior to 2017 included these amounts.

[D] 81 members retired under the Voluntary Retirement Incentive Program (VRIP) between July 1, 2013 and June 30, 2014.

## SCHEDULE OF FUNDING PROGRESS

Last 10 Fiscal Years

(Expressed in '000s)

| Fiscal Year | Actuarial Accrued Liability | Actuarial Value of Plan Net Position | Unfunded Actuarial Accrued Liability/ Surplus | Actuarial Value of Plan Net Position as a Percentage of Actuarial Accrued Liability | Covered Payroll | Unfunded Actuarial Accrued Pension Liability/Surplus as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| 2022 | $1,534,614 | $1,291,722 | $242,892 | 84.2% | $195,554 | 124.2% |
| 2021 | 1,431,515 | 1,297,114 | 134,401 | 90.6 | 200,484 | 67.0 |
| 2020 | 1,421,028 | 1,100,046 | 320,982 | 77.4 | 197,405 | 162.6 |
| 2019 | 1,397,988 | 1,097,451 | 300,537 | 78.5 | 195,358 | 153.8 |
| 2018 | 1,377,889 | 1,074,892 | 302,997 | 78.0 | 191,549 | 158.2 |
| 2017 | 1,335,826 | 1,043,620 | 292,206 | 78.1 | 188,066 | 155.4 |
| 2016 | 1,254,410 | 1,048,346 | 206,064 | 83.6 | 175,679 | 117.3 |
| 2015 | 1,224,623 | 1,038,059 | 186,564 | 84.8 | 178,468 | 104.5 |
| 2014 | 1,197,466 | 1,011,523 | 185,943 | 84.5 | 177,561 | 104.7 |
| 2013 | 1,159,714 | 954,499 | 205,215 | 82.3 | 184,062 | 111.5 |

## ANALYSIS OF FINANCIAL EXPERIENCE

**Gain or (Loss) for Year Ending June 30**
**(In '000s)**

| Type of Activity | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|
| Investment income | $ (6,601) | $ (27,978) | $ 45,878 | $ (44,529) |
| Combined liability experience | 9,342 | 6,398 | 19,181 | (4,369) |
| Gain (loss) during year from financial experience | 2,741 | (21,580) | 65,059 | (48,898) |
| Non-recurring items | - | - | - | (76,330) |
| Composite gain (loss) during year | $ 2,741 | $ (21,580) | $ 65,059 | $ (125,228) |

## SUMMARY OF BENEFIT AND CONTRIBUTION 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.

### Membership

Any permanent regular full-time employee entering the service of the City of Norfolk prior to January 1, 2022, 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 Public Safety effective June 9, 1992. Per City Code Sec. 37-61(n) any member serving on the council of the City of Norfolk on or after July 1, 2001, shall have a normal service retirement allowance of 2.5% of his average final compensation multiplied by the number of his years of creditable service up to a number of years of creditable service that allows his normal retirement allowance to equal up to sixty-five (65) percent of his average final compensation. The normal service retirement age of any member serving on the council on or after July 1, 2001, shall be fifty-five (55) years or the age at which twenty-five (25) years of creditable service has been completed, whichever comes first.

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 were exempt from the member's mandatory contributions applicable to anyone hired on or after October 5, 2010 until January 8, 2015.

### Benefits

### Normal Service Retirement Allowance

**<u>Eligibility</u>**

*<u>Employees Hired Before July 1, 2018</u>*

For General Employees, the earlier of age 60 or 30 years of creditable service.

For Firefighters, Police Officers and Paramedics, the earlier of age 55 or 25 years of creditable service. Mandatory retirement is age 65 for Firefighters and Police Officers.

*<u>Employees Hired On or After July 1, 2018</u>*

For General Employees, the earlier of the retirement age as defined under the Social Security Act (42 U.S.C §416) or the age at which the combination of a participant's age and service sums to at least 90.

For Firefighters, Police Officers and Paramedics, the earlier of age 60 or age 50 with 25 years of creditable service. 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 percent of average final compensation for each year of creditable service.

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

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

*Employees Hired Between July 1, 1980 and June 30, 2018*

For General Employees, the pension earned is 1.75 percent 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 percent of average final compensation for each year of creditable service up to a maximum of 65 percent of average final compensation.

"Average Final Compensation" means the average annual earnable compensation for the three years of creditable service that produces the highest average. Creditable service consists of membership service plus 100 percent 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 percent of unused sick leave accumulated on and after July 1, 1985, is included.

*Employees Hired On or After July 1, 2018*

For General Employees, the pension earned is 1.75 percent 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 percent of average final compensation for each year of creditable service up to a maximum of 65 percent of average final compensation.

"Average Final Compensation" means the average annual earnable compensation for sixty consecutive months of creditable service which produces the highest average. Creditable service consists of membership service plus 100 percent of accumulated unused sick leave for all employees except Firefighters. For Firefighters, 46 percent 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.

**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 ¼ of 1 percent for each month commencement date precedes the normal retirement date for general employees, and ½ of 1 percent for each month commencement date precedes the normal retirement date for firefighters, police officers and paramedics.

**Vested Allowance**

**Eligibility**

Five years of creditable service and upon attaining their normal service retirement age in accordance with the provisions of Chapter 37 in effect at the time of their termination.

**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.

**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 percent 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.

**Accidental Disability Retirement Allowance**

**Eligibility**

Total and permanent disability because 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.

**<u>Amount</u>**

The amount payable is 66⅔ percent of average final compensation.

**Ordinary Death Benefit**

**<u>Eligibility</u>**

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.

**<u>Amount</u>**

All contributions, if any, made by the member with interest credited are paid, if the member was not vested at the time of death. 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, a lump-sum benefit equal to 50 percent of their earnable compensation during the year immediately preceding their death is payable. If the member was eligible for early or normal service retirement and 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. The spousal monthly 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 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.

**Accidental Death Benefit**

**<u>Eligibility</u>**

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.

**<u>Amount</u>**

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 interest credited are paid to their designated recipient or estate, if the member was not vested. If there is no spouse, a lump-sum benefit equal to 50 percent 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.

**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.

**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, with 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.

## 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 and a surviving spouse one-time lump sum payment. |
| 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 and a surviving spouse one-time lump sum payment. |
| Option C | A reduced pension with the provision that at death some other benefit approved by the Board of Trustees will be payable and a surviving spouse one-time lump sum payment. |
| Option D | Membership beginning on or after July 1, 2016, 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 which may include one-time modified benefit election. |

## Contributions

| | |
|---|---|
| By Members | 5 percent of pay for anyone hired on or after October 5, 2010. Effective January 8, 2015, all members (except City Council members hired before October 5, 2010) will be required to contribute 5 percent of pay. |
| By City | Annual contributions actuarially computed to be required to cover the cost of benefits of the System. |

Only City contributions will continue to be made throughout the DROP period for any eligible participant who has elected to participate in DROP.

## Deferred Retirement Option Program (DROP)

### Eligibility

Effective January 1, 2023, any active member of the System who reaches Normal Retirement eligibility may elect to participate. Prior to this change, only Police and Firefighters were eligible to participate.

**Amount**

The DROP period may be elected by the member but shall not exceed four years. During the DROP period, 70 percent of the participant's monthly retirement allowance shall be paid to the DROP account. No interest shall accrue on this account during the DROP period. At the end of the DROP period, the participant will receive a lump sum of the DROP account and shall begin receiving his or her full monthly benefit payment as a retired member.

**Changes in Plan Provisions**

Effective January 1, 2023, all employees who attain his or her Normal Retirement Age may elect to participate in DROP to the lesser of five years or sixty months from the original date of entry into the DROP, not to exceed the current mandatory retirement age for public safety officers, sworn firefighters and sworn police officers.

# 5

# Statistical Section

## (Unaudited)

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**About the Statistical Section**

**This section provides the reader with detailed information about the economic and demographic trends experienced over the past eight years in the System.**

***Schedule of Additions by Source and Deductions by Type*** **displays the changes in plan net position because of payments made to and by the System.**

***Schedule of Benefit Payments by Type*** **identifies the type of payments made to beneficiaries and former employees.**

***Schedule of Retired Members by Type of Benefit*** **identifies the range of benefit payments made to retirees sorted by plan and type of retirement for the current fiscal year.**

***Schedule of Average Benefit Payments*** **presents the average monthly benefit paid as of June 30, 2022.**

## Schedule of Additions by Source and Deductions by Type
(Expressed in '000s)

### Schedule of Additions by Source

| Fiscal Year Ended June 30 | Employee Contributions | Employer Contributions | % of Covered Payroll | Employer Contributions from Pension Obligation Bonds | Total Net Investment Income (Loss) | Additions |
|---|---|---|---|---|---|---|
| 2022 | $9,936 | $41,457 | 21.20% | $ - | $(134,727) | $(83,334) |
| 2021 | 10,367 | 40,698 | 20.30 | 119,554 | 270,352 | 440,971 |
| 2020 | 10,209 | 38,494 | 19.50 | - | 5,737 | 54,440 |
| 2019 | 10,009 | 37,079 | 18.98 | - | 55,313 | 102,401 |
| 2018 | 9,858 | 35,494 | 18.53 | - | 72,663 | 118,015 |
| 2017 | 9,450 | 33,457 | 17.79 | - | 111,228 | 154,135 |
| 2016 | 9,038 | 30,761 | 17.51 | - | 3,278 | 43,078 |
| 2015 | 4,915 | 34,932 | 21.44 | - | 16,596 | 56,443 |
| 2014 | 1,672 | 42,330 | 23.84 | - | 157,292 | 201,294 |

### Schedule of Deductions by Type

| Fiscal Year Ended June 30 | Benefit Payments | Refund of Contributions | Lump-Sum Death Benefits | Administrative Expenses | Total Deductions |
|---|---|---|---|---|---|
| 2022 | $98,765 | $2,924 | $336 | $848 | $102,873 |
| 2021 | 94,472 | 923 | 177 | 620 | 96,192 |
| 2020 | 92,858 | 920 | 220 | 600 | 94,598 |
| 2019 | 91,829 | 867 | 170 | 617 | 93,483 |
| 2018 | 84,453 | 1,229 | 251 | 764 | 86,697 |
| 2017 | 83,049 | 762 | 166 | 668 | 84,645 |
| 2016 | 80,553 | 305 | 231 | 672 | 81,761 |
| 2015 | 78,914 | 3 | 115 | 386 | 79,418 |
| 2014 | 76,785 | 4 | 276 | 413 | 77,478 |

### Total Change in Net Assets

| Fiscal Year Ended June 30 | Total Change in Net Position |
|---|---|
| 2022 | $(186,206) |
| 2021 | 344,779 |
| 2020 | (40,158) |
| 2019 | 8,918 |
| 2018 | 31,318 |
| 2017 | 69,490 |
| 2016 | (38,683) |
| 2015 | (22,975) |
| 2014 | 123,816 |

Contributions were made in accordance with the actuarially determined contribution requirement.

## Schedule of Benefit Payments by Type
## Annual Allowances Scheduled to be Paid in Ensuing Fiscal Year
**(Expressed in '000s)**

### General

| As of June 30 | Service Retired Members | Contingent Annuitants | Disabled Annuitants | Total |
|---|---|---|---|---|
| 2022 | $46,618 | $3,772 | $2,641 | $53,031 |
| 2021 | 46,093 | 3,540 | 2,636 | 52,269 |
| 2020 | 45,553 | 3,244 | 2,699 | 51,496 |
| 2019 | 44,336 | 3,048 | 2,514 | 49,898 |
| 2018 | 42,210 | 3,006 | 2,632 | 47,848 |
| 2017 | 40,489 | 2,834 | 2,612 | 45,935 |
| 2016 | 38,726 | 2,746 | 2,711 | 44,183 |
| 2015 | 37,388 | 2,716 | 2,737 | 42,841 |

### Public Safety

| As of June 30 | Service Retired Members | Contingent Annuitants | Disabled Annuitants | Total |
|---|---|---|---|---|
| 2022 | $37,219 | $3,418 | $3,477 | $44,114 |
| 2021 | 36,753 | 3,355 | 3,292 | 43,400 |
| 2020 | 35,488 | 2,840 | 3,577 | 41,905 |
| 2019 | 34,315 | 2,660 | 3,187 | 40,162 |
| 2018 | 32,359 | 2,636 | 3,540 | 38,535 |
| 2017 | 31,743 | 2,206 | 3,167 | 37,116 |
| 2016 | 31,308 | 2,127 | 3,256 | 36,691 |
| 2015 | 30,606 | 2,106 | 2,999 | 35,711 |

### Total

| As of June 30 | Service Retired Members | Contingent Annuitants | Disabled Annuitants | Total* |
|---|---|---|---|---|
| 2022 | $83,837 | $7,190 | $6,118 | $97,145 |
| 2021 | 82,846 | 6,895 | 5,928 | 95,669 |
| 2020 | 81,041 | 6,084 | 6,276 | 93,401 |
| 2019 | 78,651 | 5,708 | 5,701 | 90,060 |
| 2018 | 74,569 | 5,642 | 6,172 | 86,383 |
| 2017 | 72,232 | 5,040 | 5,779 | 83,051 |
| 2016 | 70,034 | 4,873 | 5,967 | 80,874 |
| 2015 | 67,994 | 4,822 | 5,736 | 78,552 |

*Reflects monthly benefits in pay status, multiplied by 12. Not intended to agree with actual payouts in the prior year as shown on the previous page.

### Schedule of Retired Members by Type of Benefit as of June 30, 2022

#### General

| Amount of Monthly Benefit | Number of Retirees | Type of Retirement[1] | | | | | | | | | Option Selected[2] | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 1 | 2 | 3 | 4 |
| Deferred[3] | 1,138 | | | | | | | | | | | | | |
| $1-$300 | 282 | 133 | 4 | 0 | 50 | 5 | 0 | 72 | 16 | 2 | 106 | 4 | 116 | 0 |
| $301-$600 | 502 | 210 | 4 | 0 | 101 | 29 | 0 | 113 | 42 | 3 | 189 | 6 | 199 | 0 |
| $601-$900 | 370 | 98 | 3 | 1 | 76 | 26 | 2 | 107 | 55 | 2 | 124 | 2 | 162 | 0 |
| $901-$1,200 | 315 | 50 | 1 | 1 | 55 | 22 | 7 | 116 | 61 | 2 | 107 | 6 | 143 | 0 |
| $1,201-$1,500 | 281 | 34 | 3 | 0 | 36 | 8 | 15 | 119 | 65 | 1 | 97 | 2 | 142 | 0 |
| $1,501-$1,800 | 221 | 12 | 1 | 1 | 9 | 11 | 13 | 105 | 68 | 1 | 100 | 2 | 107 | 0 |
| $1,801-$2,100 | 223 | 7 | 0 | 0 | 10 | 7 | 8 | 148 | 43 | 0 | 90 | 2 | 121 | 0 |
| $2,101-$2,400 | 167 | 3 | 1 | 0 | 8 | 2 | 4 | 117 | 32 | 0 | 66 | 1 | 91 | 0 |
| $2,401-$2,700 | 153 | 2 | 0 | 0 | 3 | 3 | 1 | 125 | 19 | 0 | 58 | 1 | 91 | 0 |
| $2,701-$3,000 | 113 | 1 | 0 | 0 | 1 | 2 | 2 | 97 | 10 | 0 | 50 | 0 | 62 | 0 |
| Over $3,000 | 329 | 2 | 0 | 0 | 3 | 2 | 3 | 304 | 15 | 0 | 113 | 0 | 212 | 1 |
| Totals | 4,094 | 552 | 17 | 3 | 352 | 117 | 55 | 1,423 | 426 | 11 | 1,100 | 26 | 1,446 | 1 |

#### Public Safety

| Amount of Monthly Benefit | Number of Retirees | Type of Retirement[1] | | | | | | | | | Option Selected[2] | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 1 | 2 | 3 | 4 |
| Deferred[3] | 447 | | | | | | | | | | | | | |
| $1-$300 | 13 | 5 | 0 | 0 | 6 | 0 | 0 | 2 | 0 | 0 | 2 | 0 | 5 | 0 |
| $301-$600 | 99 | 49 | 0 | 2 | 31 | 4 | 1 | 3 | 3 | 6 | 30 | 0 | 30 | 0 |
| $601-$900 | 77 | 22 | 0 | 0 | 26 | 4 | 2 | 4 | 7 | 12 | 9 | 1 | 29 | 0 |
| $901-$1,200 | 68 | 13 | 2 | 2 | 28 | 6 | 4 | 3 | 5 | 5 | 8 | 1 | 22 | 0 |
| $1,201-$1,500 | 83 | 6 | 1 | 6 | 31 | 9 | 5 | 11 | 8 | 6 | 8 | 0 | 31 | 0 |
| $1,501-$1,800 | 69 | 6 | 2 | 5 | 21 | 2 | 8 | 13 | 9 | 3 | 11 | 0 | 27 | 0 |
| $1,801-$2,100 | 72 | 1 | 2 | 0 | 15 | 3 | 7 | 25 | 18 | 1 | 16 | 0 | 38 | 0 |
| $2,101-$2,400 | 89 | 4 | 0 | 0 | 10 | 2 | 17 | 40 | 15 | 1 | 19 | 1 | 58 | 0 |
| $2,401-$2,700 | 88 | 0 | 0 | 1 | 2 | 1 | 9 | 60 | 15 | 0 | 22 | 1 | 62 | 0 |
| $2,701-$3,000 | 116 | 1 | 0 | 0 | 2 | 0 | 19 | 80 | 14 | 0 | 32 | 1 | 81 | 0 |
| Over $3,000 | 621 | 1 | 0 | 0 | 4 | 1 | 25 | 563 | 27 | 0 | 161 | 5 | 450 | 1 |
| Totals | 1,842 | 108 | 7 | 16 | 176 | 32 | 97 | 804 | 121 | 34 | 318 | 10 | 833 | 1 |

#### Total

| Amount of Monthly Benefit | Number of Retirees | Type of Retirement[1] | | | | | | | | | Option Selected[2] | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 1 | 2 | 3 | 4 |
| Deferred[3] | 1,585 | | | | | | | | | | | | | |
| $1-$300 | 295 | 138 | 4 | 0 | 56 | 5 | 0 | 74 | 16 | 2 | 108 | 4 | 121 | 0 |
| $301-$600 | 601 | 259 | 4 | 2 | 132 | 33 | 1 | 116 | 45 | 9 | 219 | 6 | 229 | 0 |
| $601-$900 | 447 | 120 | 3 | 1 | 102 | 30 | 4 | 111 | 62 | 14 | 133 | 3 | 191 | 0 |
| $901-$1,200 | 383 | 63 | 3 | 3 | 83 | 28 | 11 | 119 | 66 | 7 | 115 | 7 | 165 | 0 |
| $1,201-$1,500 | 364 | 40 | 4 | 6 | 67 | 17 | 20 | 130 | 73 | 7 | 105 | 2 | 173 | 0 |
| $1,501-$1,800 | 290 | 18 | 3 | 6 | 30 | 13 | 21 | 118 | 77 | 4 | 111 | 2 | 134 | 0 |
| $1,801-$2,100 | 295 | 8 | 2 | 0 | 25 | 10 | 15 | 173 | 61 | 1 | 106 | 2 | 159 | 0 |
| $2,101-$2,400 | 256 | 7 | 1 | 0 | 18 | 4 | 21 | 157 | 47 | 1 | 85 | 2 | 149 | 0 |
| $2,401-$2,700 | 241 | 2 | 0 | 1 | 5 | 4 | 10 | 185 | 34 | 0 | 80 | 2 | 153 | 0 |
| $2,701-$3,000 | 229 | 2 | 0 | 0 | 3 | 2 | 21 | 177 | 24 | 0 | 82 | 1 | 143 | 0 |
| Over $3,000 | 950 | 3 | 0 | 0 | 7 | 3 | 28 | 867 | 42 | 0 | 274 | 5 | 662 | 2 |
| Totals | 5,936 | 660 | 24 | 19 | 528 | 149 | 152 | 2,227 | 547 | 45 | 1,418 | 36 | 2,279 | 2 |

[1] Type of Retirement:

- 1 = Resigned
- 2 = Pre-Retirement Ordinary Death
- 3 = Pre-Retirement Accidental Death
- 4 = Post-Retirement Death
- 5 = Ordinary Disability
- 6 = Accidental Disability
- 7 = Normal Retirement
- 8 = Early Retirement
- 9 = Qualified Domestic Relations Order

[2] Option Selected:

- 1 = Straight Life Annuity
- 2 = Option A: Joint and Survivor (100%)
- 3 = Option B: Joint and Survivor (50%)
- 4 = Option C: Joint and Survivor (Other)

Beneficiaries were excluded. Retirees provided without a specified option are allocated by marital status: single = Option 1, married = Option 3

[3] Deferred Future Benefits - Terminated employees entitled to benefits but not yet receiving them.
Includes 52 participants currently in DROP and 18 vested participants on Leave of Absence.

**Schedule of Retired Members by Type of Benefit as of June 30, 2022**

**General**

| Amount of Monthly Benefit | Number of Retirees | Type of Retirement[1] | | | | | | | | | Option Selected[2] | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 1 | 2 | 3 | 4 |
| Deferred[3] | 1,138 | | | | | | | | | | | | | |
| \$1-\$300 | 282 | 133 | 4 | 0 | 50 | 5 | 0 | 72 | 16 | 2 | 106 | 4 | 116 | 0 |
| \$301-\$600 | 502 | 210 | 4 | 0 | 101 | 29 | 0 | 113 | 42 | 3 | 189 | 6 | 199 | 0 |
| \$601-\$900 | 370 | 98 | 3 | 1 | 76 | 26 | 2 | 107 | 55 | 2 | 124 | 2 | 162 | 0 |
| \$901-\$1,200 | 315 | 50 | 1 | 1 | 55 | 22 | 7 | 116 | 61 | 2 | 107 | 6 | 143 | 0 |
| \$1,201-\$1,500 | 281 | 34 | 3 | 0 | 36 | 8 | 15 | 119 | 65 | 1 | 97 | 2 | 142 | 0 |
| \$1,501-\$1,800 | 221 | 12 | 1 | 1 | 9 | 11 | 13 | 105 | 68 | 1 | 100 | 2 | 107 | 0 |
| \$1,801-\$2,100 | 223 | 7 | 0 | 0 | 10 | 7 | 8 | 148 | 43 | 0 | 90 | 2 | 121 | 0 |
| \$2,101-\$2,400 | 167 | 3 | 1 | 0 | 8 | 2 | 4 | 117 | 32 | 0 | 66 | 1 | 91 | 0 |
| \$2,401-\$2,700 | 153 | 2 | 0 | 0 | 3 | 3 | 1 | 125 | 19 | 0 | 58 | 1 | 91 | 0 |
| \$2,701-\$3,000 | 113 | 1 | 0 | 0 | 1 | 2 | 2 | 97 | 10 | 0 | 50 | 0 | 62 | 0 |
| Over \$3,000 | 329 | 2 | 0 | 0 | 3 | 2 | 3 | 304 | 15 | 0 | 113 | 0 | 212 | 1 |
| Totals | 4,094 | 552 | 17 | 3 | 352 | 117 | 55 | 1,423 | 426 | 11 | 1,100 | 26 | 1,446 | 1 |

**Public Safety**

| Amount of Monthly Benefit | Number of Retirees | Type of Retirement[1] | | | | | | | | | Option Selected[2] | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 1 | 2 | 3 | 4 |
| Deferred[3] | 447 | | | | | | | | | | | | | |
| \$1-\$300 | 13 | 5 | 0 | 0 | 6 | 0 | 0 | 2 | 0 | 0 | 2 | 0 | 5 | 0 |
| \$301-\$600 | 99 | 49 | 0 | 2 | 31 | 4 | 1 | 3 | 3 | 6 | 30 | 0 | 30 | 0 |
| \$601-\$900 | 77 | 22 | 0 | 0 | 26 | 4 | 2 | 4 | 7 | 12 | 9 | 1 | 29 | 0 |
| \$901-\$1,200 | 68 | 13 | 2 | 2 | 28 | 6 | 4 | 3 | 5 | 5 | 8 | 1 | 22 | 0 |
| \$1,201-\$1,500 | 83 | 6 | 1 | 6 | 31 | 9 | 5 | 11 | 8 | 6 | 8 | 0 | 31 | 0 |
| \$1,501-\$1,800 | 69 | 6 | 2 | 5 | 21 | 2 | 8 | 13 | 9 | 3 | 11 | 0 | 27 | 0 |
| \$1,801-\$2,100 | 72 | 1 | 2 | 0 | 15 | 3 | 7 | 25 | 18 | 1 | 16 | 0 | 38 | 0 |
| \$2,101-\$2,400 | 89 | 4 | 0 | 0 | 10 | 2 | 17 | 40 | 15 | 1 | 19 | 1 | 58 | 0 |
| \$2,401-\$2,700 | 88 | 0 | 0 | 1 | 2 | 1 | 9 | 60 | 15 | 0 | 22 | 1 | 62 | 0 |
| \$2,701-\$3,000 | 116 | 1 | 0 | 0 | 2 | 0 | 19 | 80 | 14 | 0 | 32 | 1 | 81 | 0 |
| Over \$3,000 | 621 | 1 | 0 | 0 | 4 | 1 | 25 | 563 | 27 | 0 | 161 | 5 | 450 | 1 |
| Totals | 1,842 | 108 | 7 | 16 | 176 | 32 | 97 | 804 | 121 | 34 | 318 | 10 | 833 | 1 |

**Total**

| Amount of Monthly Benefit | Number of Retirees | Type of Retirement[1] | | | | | | | | | Option Selected[2] | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 1 | 2 | 3 | 4 |
| Deferred[3] | 1,585 | | | | | | | | | | | | | |
| \$1-\$300 | 295 | 138 | 4 | 0 | 56 | 5 | 0 | 74 | 16 | 2 | 108 | 4 | 121 | 0 |
| \$301-\$600 | 601 | 259 | 4 | 2 | 132 | 33 | 1 | 116 | 45 | 9 | 219 | 6 | 229 | 0 |
| \$601-\$900 | 447 | 120 | 3 | 1 | 102 | 30 | 4 | 111 | 62 | 14 | 133 | 3 | 191 | 0 |
| \$901-\$1,200 | 383 | 63 | 3 | 3 | 83 | 28 | 11 | 119 | 66 | 7 | 115 | 7 | 165 | 0 |
| \$1,201-\$1,500 | 364 | 40 | 4 | 6 | 67 | 17 | 20 | 130 | 73 | 7 | 105 | 2 | 173 | 0 |
| \$1,501-\$1,800 | 290 | 18 | 3 | 6 | 30 | 13 | 21 | 118 | 77 | 4 | 111 | 2 | 134 | 0 |
| \$1,801-\$2,100 | 295 | 8 | 2 | 0 | 25 | 10 | 15 | 173 | 61 | 1 | 106 | 2 | 159 | 0 |
| \$2,101-\$2,400 | 256 | 7 | 1 | 0 | 18 | 4 | 21 | 157 | 47 | 1 | 85 | 2 | 149 | 0 |
| \$2,401-\$2,700 | 241 | 2 | 0 | 1 | 5 | 4 | 10 | 185 | 34 | 0 | 80 | 2 | 153 | 0 |
| \$2,701-\$3,000 | 229 | 2 | 0 | 0 | 3 | 2 | 21 | 177 | 24 | 0 | 82 | 1 | 143 | 0 |
| Over \$3,000 | 950 | 3 | 0 | 0 | 7 | 3 | 28 | 867 | 42 | 0 | 274 | 5 | 662 | 2 |
| Totals | 5,936 | 660 | 24 | 19 | 528 | 149 | 152 | 2,227 | 547 | 45 | 1,418 | 36 | 2,279 | 2 |

[1] Type of Retirement:

- 1 = Resigned
- 2 = Pre-Retirement Ordinary Death
- 3 = Pre-Retirement Accidental Death
- 4 = Post-Retirement Death
- 5 = Ordinary Disability
- 6 = Accidental Disability
- 7 = Normal Retirement
- 8 = Early Retirement
- 9 = Qualified Domestic Relations Order

[2] Option Selected:

- 1 = Straight Life Annuity
- 2 = Option A: Joint and Survivor (100%)
- 3 = Option B: Joint and Survivor (50%)
- 4 = Option C: Joint and Survivor (Other)

Beneficiaries were excluded. Retirees provided without a specified option are allocated by marital status: single = Option 1, married = Option 3

[3] Deferred Future Benefits - Terminated employees entitled to benefits but not yet receiving them.
Includes 52 participants currently in DROP and 18 vested participants on Leave of Absence.

## Schedule of Retired Members by Type of Benefit as of June 30, 2022

### General

| Amount of Monthly Benefit | Number of Retirees | Type of Retirement: Service Retired Members | Contingent Annuitants | Disabled Annuitants | Option Selected*: 1 | 2 | 3 | 4 |
|---|---|---|---|---|---|---|---|---|
| Deferred** | 1,138 | | | | | | | |
| $1-$300 | 282 | 221 | 56 | 5 | 106 | 4 | 116 | 0 |
| $301-$600 | 502 | 365 | 108 | 29 | 189 | 6 | 199 | 0 |
| $601-$900 | 370 | 260 | 82 | 28 | 124 | 2 | 162 | 0 |
| $901-$1,200 | 315 | 227 | 59 | 29 | 107 | 6 | 143 | 0 |
| $1,201-$1,500 | 281 | 218 | 40 | 23 | 97 | 2 | 142 | 0 |
| $1,501-$1,800 | 221 | 185 | 12 | 24 | 100 | 2 | 107 | 0 |
| $1,801-$2,100 | 223 | 198 | 10 | 15 | 90 | 2 | 121 | 0 |
| $2,101-$2,400 | 167 | 152 | 9 | 6 | 66 | 1 | 91 | 0 |
| $2,401-$2,700 | 153 | 146 | 3 | 4 | 58 | 1 | 91 | 0 |
| $2,701-$3,000 | 113 | 108 | 1 | 4 | 50 | 0 | 62 | 0 |
| Over $3,000 | 329 | 321 | 3 | 5 | 113 | 0 | 212 | 1 |
| Totals | 4,094 | 2,401 | 383 | 172 | 1,100 | 26 | 1,446 | 1 |

### Public Safety

| Amount of Monthly Benefit | Number of Retirees | Type of Retirement: Service Retired Members | Contingent Annuitants | Disabled Annuitants | Option Selected*: 1 | 2 | 3 | 4 |
|---|---|---|---|---|---|---|---|---|
| Deferred** | 447 | | | | | | | |
| $1-$300 | 13 | 7 | 6 | 0 | 2 | 0 | 5 | 0 |
| $301-$600 | 99 | 55 | 39 | 5 | 30 | 0 | 30 | 0 |
| $601-$900 | 77 | 33 | 38 | 6 | 9 | 1 | 29 | 0 |
| $901-$1,200 | 68 | 21 | 37 | 10 | 8 | 1 | 22 | 0 |
| $1,201-$1,500 | 83 | 25 | 44 | 14 | 8 | 0 | 31 | 0 |
| $1,501-$1,800 | 69 | 28 | 31 | 10 | 11 | 0 | 27 | 0 |
| $1,801-$2,100 | 72 | 44 | 18 | 10 | 16 | 0 | 38 | 0 |
| $2,101-$2,400 | 89 | 59 | 11 | 19 | 19 | 1 | 58 | 0 |
| $2,401-$2,700 | 88 | 75 | 3 | 10 | 22 | 1 | 62 | 0 |
| $2,701-$3,000 | 116 | 95 | 2 | 19 | 32 | 1 | 81 | 0 |
| Over $3,000 | 621 | 591 | 4 | 26 | 161 | 5 | 450 | 1 |
| Totals | 1,842 | 1,033 | 233 | 129 | 318 | 10 | 833 | 1 |

### Total

| Amount of Monthly Benefit | Number of Retirees | Type of Retirement: Service Retired Members | Contingent Annuitants | Disabled Annuitants | Option Selected*: 1 | 2 | 3 | 4 |
|---|---|---|---|---|---|---|---|---|
| Deferred** | 1,585 | | | | | | | |
| $1-$300 | 295 | 228 | 62 | 5 | 108 | 4 | 121 | 0 |
| $301-$600 | 601 | 420 | 147 | 34 | 219 | 6 | 229 | 0 |
| $601-$900 | 447 | 293 | 120 | 34 | 133 | 3 | 191 | 0 |
| $901-$1,200 | 383 | 248 | 96 | 39 | 115 | 7 | 165 | 0 |
| $1,201-$1,500 | 364 | 243 | 84 | 37 | 105 | 2 | 173 | 0 |
| $1,501-$1,800 | 290 | 213 | 43 | 34 | 111 | 2 | 134 | 0 |
| $1,801-$2,100 | 295 | 242 | 28 | 25 | 106 | 2 | 159 | 0 |
| $2,101-$2,400 | 256 | 211 | 20 | 25 | 85 | 2 | 149 | 0 |
| $2,401-$2,700 | 241 | 221 | 6 | 14 | 80 | 2 | 153 | 0 |
| $2,701-$3,000 | 229 | 203 | 3 | 23 | 82 | 1 | 143 | 0 |
| Over $3,000 | 950 | 912 | 7 | 31 | 274 | 5 | 662 | 2 |
| Totals | 5,936 | 3,434 | 616 | 301 | 1,418 | 36 | 2,279 | 2 |

[1] Option Selected:

1 = Straight Life Annuity
2 = Option A: Joint and Survivor (100%)
3 = Option B: Joint and Survivor (50%)
4 = Option C: Joint and Survivor (Other)

Beneficiaries were excluded. Retirees provided without a specified option are allocated by marital status: single = Option 1, married = Option 3

[2] Deferred Future Benefits - Terminated employees entitled to benefits but not yet receiving them.
Includes 52 participants currently in DROP and 18 vested participants on Leave of Absence.

**Schedule of Average Benefit Payments**
**(Excludes Beneficiaries)**

**General**

| Retirement Effective Dates | Years of Credited Service | | | | | | |
|---|---|---|---|---|---|---|---|
| | 0-5 | 5-10 | 10-15 | 15-20 | 20-25 | 25-30 | 30+ |
| July 1, 2015 to June 30, 2016 | | | | | | | |
| Average Monthly Benefit | $935 | $468 | $742 | $1,107 | $2,195 | $2,281 | $2,870 |
| Average - Average Final Compensation | $47,027 | $36,332 | $39,308 | $39,931 | $63,423 | $59,285 | $53,734 |
| Number of Active Retirees | 5 | 16 | 23 | 18 | 13 | 10 | 23 |
| July 1, 2016 to June 30, 2017 | | | | | | | |
| Average Monthly Benefit | $270 | $656 | $594 | $958 | $1,431 | $2,088 | $3,082 |
| Average - Average Final Compensation | $43,399 | $58,727 | $34,372 | $39,554 | $45,813 | $53,418 | $58,727 |
| Number of Active Retirees | 3 | 13 | 24 | 17 | 8 | 11 | 37 |
| July 1, 2017 to June 30, 2018 | | | | | | | |
| Average Monthly Benefit | $559 | $381 | $831 | $1,133 | $1,597 | $2,234 | $2,787 |
| Average - Average Final Compensation | $17,651 | $36,046 | $39,223 | $42,149 | $52,172 | $56,091 | $53,389 |
| Number of Active Retirees | 3 | 18 | 18 | 16 | 6 | 9 | 33 |
| July 1, 2018 to June 30, 2019 | | | | | | | |
| Average Monthly Benefit | $36 | $562 | $787 | $992 | $1,849 | $2,236 | $3,537 |
| Average - Average Final Compensation | $14,108 | $60,153 | $42,143 | $39,738 | $57,821 | $56,339 | $67,144 |
| Number of Active Retirees | 1 | 19 | 25 | 11 | 22 | 12 | 39 |
| July 1, 2019 to June 30, 2020 | | | | | | | |
| Average Monthly Benefit | $221 | $516 | $741 | $1,079 | $1,829 | $1,979 | $3,370 |
| Average - Average Final Compensation | $48,699 | $50,443 | $37,737 | $43,237 | $56,742 | $49,232 | $67,004 |
| Number of Active Retirees | 3 | 36 | 21 | 25 | 24 | 9 | 34 |
| July 1, 2020 to June 30, 2021 | | | | | | | |
| Average Monthly Benefit | $201 | $489 | $686 | $1,075 | $1,643 | $1,978 | $2,904 |
| Average - Average Final Compensation | $29,325 | $41,437 | $33,667 | $37,929 | $48,025 | $45,365 | $52,497 |
| Number of Active Retirees | 2 | 25 | 22 | 23 | 15 | 4 | 39 |
| July 1, 2021 to June 30, 2022 | | | | | | | |
| Average Monthly Benefit | $27 | $450 | $972 | $1,402 | $1,627 | $2,012 | $2,792 |
| Average - Average Final Compensation | $8,382 | $41,988 | $50,183 | $55,678 | $49,463 | $52,365 | $54,985 |
| Number of Active Retirees | 1 | 31 | 17 | 20 | 19 | 13 | 24 |

*Where applicable, Average Final Compensation reflects amounts as provided in the census data. For participants where Average Final Compensation was not provided, an estimated amount was determined using individual benefit amounts and final service.*

## Schedule of Average Benefit Payments
## (Excludes Beneficiaries)

### Public Safety

| Retirement Effective Dates | Years of Credited Service | | | | | | |
|---|---|---|---|---|---|---|---|
| | 0-5 | 5-10 | 10-15 | 15-20 | 20-25 | 25-30 | 30+ |
| July 1, 2015 to June 30, 2016 | | | | | | | |
| Average Monthly Benefit | $0 | $1,638 | $1,386 | $2,158 | $2,380 | $3,483 | $3,752 |
| Average - Average Final Compensation | $0 | $93,640 | $42,807 | $50,251 | $58,583 | $64,995 | $74,998 |
| Number of Active Retirees | 0 | 5 | 5 | 4 | 8 | 22 | 8 |
| July 1, 2016 to June 30, 2017 | | | | | | | |
| Average Monthly Benefit | $0 | $449 | $933 | $833 | $2,247 | $4,034 | $3,792 |
| Average - Average Final Compensation | $0 | $34,298 | $39,850 | $25,000 | $61,041 | $73,441 | $72,268 |
| Number of Active Retirees | 0 | 2 | 4 | 1 | 5 | 8 | 11 |
| July 1, 2017 to June 30, 2018 | | | | | | | |
| Average Monthly Benefit | $0 | $504 | $1,522 | $1,682 | $2,915 | $3,560 | $3,984 |
| Average - Average Final Compensation | $0 | $40,922 | $43,357 | $50,162 | $64,961 | $67,427 | $70,961 |
| Number of Active Retirees | 0 | 1 | 6 | 4 | 7 | 9 | 2 |
| July 1, 2018 to June 30, 2019 | | | | | | | |
| Average Monthly Benefit | $0 | $534 | $870 | $1,921 | $2,893 | $3,731 | $4,823 |
| Average - Average Final Compensation | $0 | $39,414 | $39,061 | $53,009 | $63,087 | $69,180 | $88,604 |
| Number of Active Retirees | 0 | 2 | 5 | 5 | 10 | 11 | 2 |
| July 1, 2019 to June 30, 2020 | | | | | | | |
| Average Monthly Benefit | $0 | $426 | $1,271 | $1,932 | $3,410 | $4,036 | $0 |
| Average - Average Final Compensation | $0 | $39,280 | $43,066 | $56,148 | $69,926 | $74,799 | $0 |
| Number of Active Retirees | 0 | 3 | 5 | 3 | 13 | 7 | 0 |
| July 1, 2020 to June 30, 2021 | | | | | | | |
| Average Monthly Benefit | $0 | $501 | $994 | $2,608 | $2,981 | $3,873 | $4,529 |
| Average - Average Final Compensation | $0 | $36,247 | $41,261 | $72,906 | $66,720 | $72,937 | $83,599 |
| Number of Active Retirees | 0 | 5 | 4 | 3 | 10 | 13 | 4 |
| July 1, 2021 to June 30, 2022 | | | | | | | |
| Average Monthly Benefit | $0 | $901 | $1,229 | $1,607 | $3,215 | $3,816 | $10,155 |
| Average - Average Final Compensation | $0 | $32,916 | $49,205 | $49,823 | $71,963 | $71,677 | $182,768 |
| Number of Active Retirees | 0 | 5 | 8 | 2 | 6 | 21 | 1 |

*Where applicable, Average Final Compensation reflects amounts as provided in the census data. For participants where Average Final Compensation was not provided, an estimated amount was determined using individual benefit amounts and final service.*

### Schedule of Average Benefit Payments
### (Excludes Beneficiaries)

**Total**

| Retirement Effective Dates | Years of Credited Service 0-5 | 5-10 | 10-15 | 15-20 | 20-25 | 25-30 | 30+ |
|---|---|---|---|---|---|---|---|
| July 1, 2015 to June 30, 2016 | | | | | | | |
| Average Monthly Benefit | $935 | $747 | $857 | $1,298 | $2,266 | $3,108 | $3,098 |
| Average - Average Final Compensation | $47,027 | $49,976 | $39,933 | $41,807 | $61,579 | $63,211 | $59,222 |
| Number of Active Retirees | 5 | 21 | 28 | 22 | 21 | 32 | 31 |
| July 1, 2016 to June 30, 2017 | | | | | | | |
| Average Monthly Benefit | $270 | $628 | $642 | $951 | $1,745 | $2,908 | $3,245 |
| Average - Average Final Compensation | $43,399 | $55,470 | $35,154 | $38,746 | $51,670 | $61,849 | $61,831 |
| Number of Active Retirees | 3 | 15 | 28 | 18 | 13 | 19 | 48 |
| July 1, 2017 to June 30, 2018 | | | | | | | |
| Average Monthly Benefit | $559 | $387 | $1,004 | $1,243 | $2,306 | $2,897 | $2,856 |
| Average - Average Final Compensation | $17,651 | $36,303 | $40,257 | $43,752 | $59,059 | $61,759 | $54,393 |
| Number of Active Retirees | 3 | 19 | 24 | 20 | 13 | 18 | 35 |
| July 1, 2018 to June 30, 2019 | | | | | | | |
| Average Monthly Benefit | $36 | $560 | $801 | $1,282 | $2,175 | $2,951 | $3,599 |
| Average - Average Final Compensation | $14,108 | $58,178 | $41,629 | $43,885 | $59,467 | $62,480 | $68,191 |
| Number of Active Retirees | 1 | 21 | 30 | 16 | 32 | 23 | 41 |
| July 1, 2019 to June 30, 2020 | | | | | | | |
| Average Monthly Benefit | $221 | $509 | $843 | $1,170 | $2,384 | $2,879 | $3,370 |
| Average - Average Final Compensation | $48,699 | $49,585 | $38,762 | $44,620 | $61,374 | $60,417 | $67,004 |
| Number of Active Retirees | 3 | 39 | 26 | 28 | 37 | 16 | 34 |
| July 1, 2020 to June 30, 2021 | | | | | | | |
| Average Monthly Benefit | $201 | $491 | $734 | $1,252 | $2,178 | $3,427 | $3,055 |
| Average - Average Final Compensation | $29,325 | $40,572 | $34,836 | $41,965 | $55,503 | $66,449 | $55,390 |
| Number of Active Retirees | 2 | 30 | 26 | 26 | 25 | 17 | 43 |
| July 1, 2021 to June 30, 2022 | | | | | | | |
| Average Monthly Benefit | $27 | $512 | $1,054 | $1,421 | $2,008 | $3,126 | $3,087 |
| Average - Average Final Compensation | $8,382 | $40,728 | $49,870 | $55,145 | $54,863 | $64,293 | $60,097 |
| Number of Active Retirees | 1 | 36 | 25 | 22 | 25 | 34 | 25 |

*Where applicable, Average Final Compensation reflects amounts as provided in the census data. For participants where Average Final Compensation was not provided, an estimated amount was determined using individual benefit amounts and final service.*

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# 6

# Compliance Section

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## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Employees' Retirement System of the City of Norfolk (the System), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated December 7, 2022.

### *Report on Internal Control Over Financial Reporting*

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control exists* when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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

***Report on Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Purpose of This Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

**CliftonLarsonAllen LLP**

Arlington, Virginia
December 7, 2022

THE CITY OF NORFOLK
FINANCE

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City of Norfolk
810 Union Street
Norfolk, Virginia 23510
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*A Publication of the City of Norfolk, Virginia*