THE CITY OF NORFOLK

Employees' Retirement System (NERS)

A HISTORY

Cover photo: December 22, 1941. First City of Norfolk Employees' Retirement System Board of Trustees takes oath of office.

NERS published this inaugural document October 1, 2023

The Commonwealth of Virginia is steeped in history, with several noteworthy events occurring in Hampton Roads. Thirteen years before the infamous Mayflower landing in Plymouth, Massachusetts, the first English settlement in North America was established in Jamestown, Virginia, in 1607. It was at the Battle of Yorktown where the British surrendered and effectively ended the American Revolutionary War and the battle for independence from Britain. The precursor for National Aeronautics and Space Administration (NASA), the National Advisory Committee for Aeronautics (NACA), founded the first civilian aeronautical research center at the Langley Memorial Aeronautical Laboratory in Hampton. In 1917, Naval Station Norfolk (NSN) was established; solidifying the City's status as an important military center, NSN played a vital role during both World Wars, serving as a key supply and troop embarkation point. Constructed by the Army in 1918 and purchased by the Virginia Port Authority in 1968, the Norfolk International Terminal is one of the nation's sixteen strategic ports for deploying military personnel and equipment worldwide.

An important 400-year-old port city and home to the world's largest naval base, the City of Norfolk (the City) boasts its own rich history. The area was originally inhabited by several Native American tribes, including the Chesapeians and the Powhatan Chiefdom, among which included the Nansemond and Pamunkey tribes. The City of Norfolk was established as a town in 1682, as a borough in 1736 and incorporated as a City in 1845.

The City of Norfolk Employees' Retirement System (NERS) dates back to its inception in 1942. January 1, 2022, marked the eightieth (80th) anniversary of the Norfolk Employees' Retirement System (NERS or the System). However, the first pension plan offered by the City of Norfolk predates NERS by nearly 20 years.

Retirement, as a concept, was not always as idyllic as it is thought of today, and government provision for the future economic security of its workers was not always guaranteed. The aging population of Colonial America likely could not envision retirement as living out their golden years without the need to work. Early English settlements in America brought with them the English Poor Laws, which served as the basis for poor relief policies in the colonies, playing a key role in shaping the development of social welfare policies in the United States.

Evolution of Public Pensions in America

The large population of the destitute necessitated poverty relief as a legislative priority in the New World. By the mid-17th

Century, many colonies adopted legislation mirroring English "Poor Laws". These policies represented an early attempt at providing social welfare and relief to the poor and needy and even the elderly, sick, and disabled, but were not specifically designed as a form of retirement. Some of the provisions of the Poor Laws did provide support for elderly individuals who were no longer able to work. In addition to financial assistance, the laws established almshouses, which were charitable institutions that provided housing and support for the poor and elderly. Almshouses were often overcrowded, unsanitary and rampant with disease. A more comprehensive social welfare system would not develop for another few hundred years.

War Pensions were the precursor to modern Social Security. In 1776, the Continental Congress awarded soldiers who were disabled during service in the American Revolutionary War a lifetime income after they retired and is one of the earlier uses of the term "pension". In the 1860s hundreds of thousands of people were widowed, orphaned, or disabled from the Civil War. The Civil War Pension program was the first pension system in America to provide benefits to widows and orphans of servicemen and to expand benefits beyond service-related disability, to include any disability, and old-age.

Passage of the Social Security Act in 1935 was, in many ways, the culmination of decades, if not centuries, of evolving economic security "programs" in America. In 1795, controversial political activist, Thomas Payne, published a pamphlet advocating for a national social insurance program. One aspect of his proposal was to provide an annual stipend to everyone aged 50 and older. Various so-called radical pension schemes arose at the state level throughout the 1930s including Huey Long's Share Our Wealth program, Francis E. Townsend's Old Age Revolving Pension Plan, the Union for Social Justice, Upton Sinclair's End Poverty in California (EPIC) pension proposal, the "Ham & Eggs" movement and the Bigelow pension plan. While several of these movements garnered millions of followers by desperate Depression-era Americans, the Federal government enacted the Social Security Act to provide long-term income security for the elderly.

Social Security Act – Notable Provisions

Social Security was signed into law in 1935 by President Franklin D. Roosevelt as part of his New Deal programs. The Social Security Act was designed to provide a safety net for older Americans who had lost their savings during the Great Depression and were at risk of poverty in their retirement years. An extensive survey indicated only five out of every 100 persons reaching age 65 were capable of financial self-support. The Act created a national pension system for retired workers, which provided monthly benefits to eligible individuals aged 65 or older. The benefits were financed through payroll taxes paid by workers and their employers. A system of unemployment insurance was created to provide temporary financial assistance to workers who lost their jobs through no fault of their own, funded through payroll taxes paid by employers. Federal matching funds were provided to states to help aid children who were orphaned, abandoned, or whose parents were unable to provide for their basic needs; and to provide assistance to blind individuals who were unable to support themselves. In 1939, dependent benefits and survivor benefits paid to families were added to the Act, followed by the initiation of a disability insurance program in 1954. Social Security had transformed from a retirement program into an economic security program.

Public employees were ineligible for Social Security under the original Act, however, many state welfare programs were in place before Social Security was enacted, including the Virginia Retirement System (VRS).

Virginia Retirement System (VRS)

New York City is often credited as the first public pension plan in the country. Created in 1857, New York City's Police Life and Health Insurance Fund became the first municipal disability plan providing line-of-duty disability or death benefits. While Massachusetts began offering a pension to state employees in 1911, only a handful of states offered some form of a civil service pension plan before 1935.

What is known today as the VRS was created by the Virginia General Assembly in 1942 to provide retirement benefits to state employees. Virginia's Retired Teacher's Fund, founded in 1908, was the first public retirement system in the Commonwealth but was only open to public school teachers. The VRS was established by the Virginia Retirement Act, which initially covered only state employees, but over time it was expanded to include employees of local governments, public school teachers, public college and universities, state police, Virginia law officers, and the judiciary. Today, the VRS is one of the largest public pension systems in the United States.

The original Social Security Act did not cover state and local governments due to questions over the constitutionality of Federal authority to impose taxes on the states. The Act was amended by Congress in 1950 to extend coverage to state and local government employees who were not already covered by a retirement system. In February 1952, the Commonwealth of Virginia became one of the first states to repeal its retirement system and cover its employees under Social Security. Less than a month later, on March 1, 1952, the Virginia Supplemental Retirement System (VSRS) was created as a supplement to Social Security. Other Federal legislation enacted in the 1980s affected the taxation of Social Security to where VSRS benefits were no longer considered supplemental to Social Security. As a result, the system changed its name back to the VRS in 1990.

The VRS provides retirement, disability, and survivor benefits to eligible employees and their families. The VRS is funded through a combination of employee and employer contributions, as well as investment income from its assets. There are currently fewer than ten Virginia localities that do not participate in VRS, whose employees are covered under another retirement system. Up until January 1, 2022, the only employees of the City of Norfolk who were also members of the VRS were Constitutional Officers and their employees.

Introduction to the City of Norfolk Employees' Retirement System (NERS)

In 1942, the population of Hampton Roads boomed thanks in part to the growth of the defense industry in the region. The predecessor to the Norfolk Employees' Retirement System (NERS) provided for the retirement of police and firemen, and included an annual pension for their widows, but did not extend benefits to other employees. The NERS was created in response to the increased need to provide retirement benefits for public sector employees, as the Social Security program at the time did not cover government workers and political subdivisions of the Commonwealth did not have the option to join the VRS until 1944. NERS 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.

Norfolk's "Finest" and "Bravest": Pre-NERS

Almost twenty years before NERS was established, the City of Norfolk (the City) provided pension benefits, but only to Norfolk's "finest" and "bravest". On January 8, 1924, the City adopted an ordinance providing for the retirement of policemen, firemen and their widows. The pension was to be based on years of service, up to "one-half pay" for life in recognition of honorable service to the City.

Widows of members were eligible to receive up to half of the retired members' monthly pension. The plan also included a provision for work related disability retirement, as well as retirement for those unable to work due to natural or non-work related causes, which we refer to as "ordinary disability" under the City's current plan.

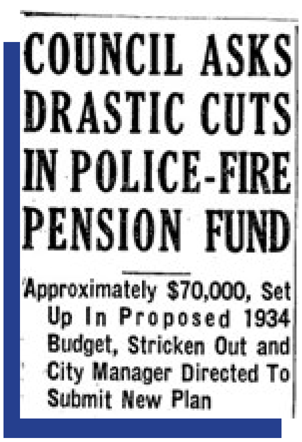
Dedication of new radio equipped police cars c. 1938
Sargeant Memorial Collection Digital Collection

This early pension plan also accounted for the far-reaching effects of World War I. Those who resigned due to War duties and subsequently rejoined the City after their service were credited with up to five years of service for the time spent serving our country. Early pension plan members were required to contribute one percent of their monthly salary to fund the plan. The City Ordinance also allowed for the appropriation of City revenues to fund any plan deficits in a given year. Police or firemen who were involuntarily separated from City service lost their ability to receive retirement benefits, and further, were not permitted a refund of any mandatory contributions made during their employment.

Norfolk Firemen c. 1927 - Hotel Neddo Fire
Sargeant Memorial Collection
Digital Collection

The Pension Commission of the City of Norfolk was established to oversee the administration of the newly established pension plan. Membership consisted of the City Manager, City Treasurer and the City Auditor. Ordinances passed in 1926 further defined the responsibilities of the Pension Commission of the City of Norfolk, including requiring annual reporting of funds received and disbursed. City Manager, I. Walke Truxtun, proposed amendments, which were adopted, to align the ordinance with federal requirements. Retired police and firemen were receiving City funds, and therefore, the ordinance was amended to require those retired police and firemen, who were physically able to, be called back to work with the City in the event of a local emergency. Said retirees were also subject to their respective department's personnel policies pertaining to disciplinary action, facing the possible revocation of their pensions for their misconduct. In 1927, the City began permitting police and firemen who were rehired after involuntary termination (through no fault of their own) to receive service credit for the time their service was interrupted.

In February of 1928, a group of firemen solicited Virginia House Delegate A. L. Jordan to present a bill to make pensions for the police and firemen mandatory as the current charter provided the City Council "may" set up a pension fund for those groups, but did not make it mandatory. The group also wanted to bring the heads of these departments under Civil Service rules. The City Council opposed these recommendations. The City Manager expressed his belief that the pension system was "most generous" and to make the system mandatory would affect others who did not have the protection of the Civil Service. At the time, police and firemen were the only employees under Civil Service.



COUNCIL ASKS DRASTIC CUTS IN POLICE-FIRE PENSION FUND

Approximately $70,000, Set Up In Proposed 1934 Budget, Stricken Out and City Manager Directed To Submit New Plan

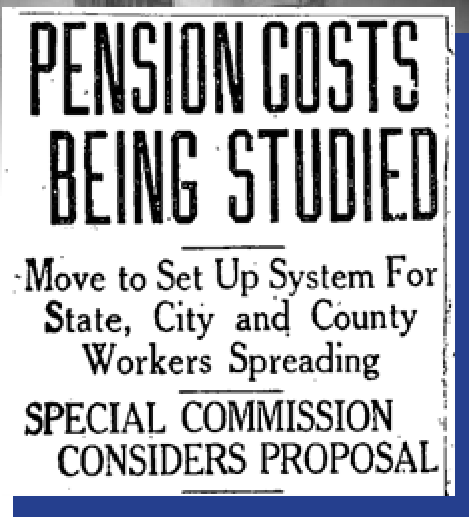
After the Wall Street Crash of 1929, the lowest point of the Great Depression came in the early 1930s. Norfolk was not immune to the deflation and economic impact. In 1933, $70,000 was cut from the budget allocation for the police and firemen pension fund. The City Council did not want to abolish the pension system, but "drastic curtailment" was "vitally necessary", a problem that pension systems across the country were facing. At the time police and firemen contributed 1 percent of their pay. The City Manager was tasked with conducting a study of the pension plan. He found that the City's contribution to the fund was too liberal compared to the public safety personnel's contributions, the retirement age, 55, was too low, and that it was unsound to provide for widows. There was discussion of returning those who were fit to work, but receiving pensions, to service with the City to cut costs to the fund as previous Code amendments would have allowed.

As a result of the study, contribution rates were increased from one percent to three percent, the years of service requirement was also increased from 20 to 25 years, and the retirement multiplier was reduced from two-and-a-half percent to two percent. The plan also introduced an optional retirement allowance – a reduced pension for life, with a monthly death benefit to their widow. The City also considered substituting a group insurance retirement policy in lieu of a pension plan. Ultimately, the pension was suspended for several years.

The pension ordinance was amended December 26, 1933, to eliminate benefits to widows but continued to provide for those who were already receiving pensions. There were medical examinations of police and firemen who had been on leave more than seven days in the previous year to see if they were fit for duty or ready for retirement – many were retired and declared physically unfit to discharge the duties of their positions.

In 1935, the pension was restored. Salaries had effectively been cut since the individual contribution rate was raised to three percent. Amendments to the ordinance were made to base all pensions in a given year on the salary scale for that year. This allowed for an increase or decrease in the pension as the salary scale increased or decreased and prevented future pensioners from receiving larger pensions than one who had previously retired under a lower salary scale. Efforts to restore pre-depression wages were affected with the adoption of the 1937 salary scale, which was 7.5 percent higher than the 1936 scale. The increase was applied to those already receiving pensions.

In 1937, City Manager Thomas P. Thompson was instructed to study the costs of a pension plan for all City employees, not only police and firemen. At the same time, the State appointed a special commission to study the costs of an old age pension system that would cover all people in public service in the State, not only school teachers. In 1938, City Manager Thompson reported the expense of such a system was beyond the financial reach of the City, recommending the matter be closed until the City could find a way to provide the protection of a pension system for all City employees. The framework for what would become the Norfolk Employees' Retirement System (NERS) had been laid.



PENSION COSTS BEING STUDIED

Move to Set Up System For State, City and County Workers Spreading

SPECIAL COMMISSION CONSIDERS PROPOSAL

1940s – The Early Years

In 1940, Senators Vivian L. Page and Ralph H. Daughton introduced a bill in the Virginia Senate requiring cities to establish and maintain specific pension and retirement funds for police and firemen. While the City's police and firemen pension ordinance had been in effect already for fifteen years, the bill would make such pensions mandatory while also prescribing set voluntary and compulsory retirement ages, pension amounts, disability and widow benefits. Seventy police and firemen from Norfolk went to Richmond to favor the bill, expressing fear that a majority of councilmen could vote to abolish the police and firemen's pension fund leaving the men who had been making payments for years with no protection and no benefits.

City Manager Charles Borland wrote to the Norfolk delegation in the Legislature saying the bill would impose "an enormous additional financial burden on the City". However, he admitted that the present pension plan was "not entirely satisfactory" and referred to the ongoing cost study looking toward a pension and retirement plan for all City employees. Unwilling to force a plan that is purely a local matter and involved uncertain financial burdens on the City that could lead to significant salary increases for all City employees, the bill died in the House of Delegates.

A. Winston Sykes

Still experiencing Depression-era financial woes and now in the midst of World War II, the proposed 1942 budget included establishment of a comprehensive pension system for City employees, adding approximately $276,000 to the budget. The newspaper called it a "major miracle" that tax rates did not have to be raised to meet the appropriated expenditures. The defense industry building boom added $5 million to the real estate assessment base, and increased various other revenues, partly contributed to an increase in tax revenue. Refunds from the state and federal government, particularly social security, also contributed to a surplus in the budget that negated the need to raise the tax rate.

On December 5, 1941, an informational meeting was held for all employees in the auditorium of Blair Junior High School to explain the benefits of the plan. Later that month, a Board of Trustees (the Board) was established to oversee the general administration and operation of the System. The first Board of Trustees appointees were Mr. H. H. George, III, representing general employees, Capt. W. J. Lewis, representing Department of Public Safety, Mr. Milton B. Ames, representing the Citizens of Norfolk, and Mr. Aubrey L. Eggleston, an investment broker. The Chairman of the Board of Sink Fund Commissioners, Mr. Hugh G. Whitehead, A. Preston Breedan, City Auditor, and the City Manager were ex officio members of the Board.

A. Winston Sykes was the City Clerk and first Executive Secretary to the Board of Trustees. In fact, he would continue to be the Executive Secretary until his retirement in 1976.

The Board of Trustees to the NERS acts as a fiduciary for both benefit administration and investment of the System's assets. The Board focuses on long-term management of funds, meets monthly, and relies on the assistance of an Investment Consulting firm to help analyze, monitor and report on the portfolio. There are three sources of income for the plan: employee contributions of five percent of earnable compensation, investment earnings and City contributions. The Board implemented an investment management change from an active to passive style in 2009. The change reduced costs to the City and simplified the management of the Fund. The NERS is one of fewer than ten Virginia local governments with a retirement System that operates independently of the Virginia Retirement System. In the 1950s, the City Council increased the number of members of the Board of Trustees from seven to nine, specifically to fill the new positions with those especially qualified for recommending investment of funds. The Chairman of the Board of Sinking Fund Commissioners was deleted as an ex officio member of the Board of Trustees in October 1978 as the Sinking Fund was no longer an active body. The Director of Finance did not become an ex officio member of the Board of Trustees until December 1978. Simultaneously, the City Auditor was deleted as an ex officio member and provision for an additional citizen member was added, bringing the total number of trustees to ten. It was not until 2014 when amendments required one of the trustees to be a retiree.


Pension Plan Adopted by City Council

General Assembly To Be Asked for Permissive Legislation

January 1, 1942, inaugurated the City's pension System for all City employees via adopted ordinance. The ordinance brought those retired under the former police and firemen's pension fund into the new System, whose pensions would continue to be paid from the new Pension Accumulation Account. Approximately 1,500 employees would be eligible for this new System. Not all employees were compelled to become members of the System. As the ordinance was passed in late 1941, employees hired before January 1, 1942, were given from October 1941 to January 1, 1942, the effective date of the new System, to decide whether to join. All employees hired on and after January 1, 1942, were required to become members of the plan as a condition of their employment.

While police favored the new pension plan for City employees, 172 firemen submitted a petition objecting to the new pension plan, requesting instead a simplified separate plan for their own division due to their work being more hazardous than that of other employees, and specifically requesting a lower retirement age of 55. The City Manager indicated a separate plan for them would result in exceptionally high rates; so high the firemen would be unable to pay them. He explained contributions of other City employees cuts down the average costs.

Plan Highlights – Contributory System

Many of the same benefits afforded to the NERS members today were conceptualized in the original 1942 ordinance. The System was set up to be funded by employee contributions through payroll deductions, matched dollar for dollar by the City. Any employee who left their service with the City would be refunded their contributions to the plan, with interest. The new System differed from the police and firemen's pension plan by adding the provision for accidental disability, accidental death, ordinary disability, ordinary death allowances to widows and dependents, and allowing for the refund of contributions.

Retirement Age

The retirement ages set by the ordinance required general employees to retire at age 70, and police and firemen to retire at age 65. General employees could voluntarily retire earlier, at age 65, with police and firemen becoming eligible to voluntarily retire at age 60. Early retirement was not permitted under this new System, unless a member was deemed to be disabled with five years of creditable service. There was no service requirement for one who was disabled in the performance of their job, however. The first retirements under the new plan were to be made in 1942. The service retirement allowance was set to approximately $1/70^{th}$ of the average annual salary of the employee for the five years preceding retirement, multiplied by the number of years of service by the employee to a maximum of 35 years.

Job-Related Disability Retirement

Calculated at 66 2/3 percent of the average annual compensation for five years before the disability onset, retirees under the new plan were eligible for disability retirements when an accident in the line of duty was the cause of the disability. The retiree would receive a refund of their contributions to the plan, with interest. In addition, this retirement benefit would be offset by any workers' compensation benefits received by the employee.

Ordinary and Accidental Death Benefits

The ordinary death benefit was available if the death was not a result of an accident in the performance of a job duty. The ordinary death benefit was a lump-sum payment equal to one-half of the compensation received by the deceased employee during the year before their death, to include a refund of the deceased member's contributions to the plan with interest. Accidental death benefits were available if the death was a result of an accident in the performance of a job duty. The accidental death benefit was one-half of the average annual compensation based on the five years before death, payable to the widow or dependent parents until remarriage or death, or to the children until they reached age eighteen; also, to include refunding the contributions to the plan, with interest.

Optional Allowances

Additionally, optional allowances were available to retiring members who wanted to elect to take less retirement than due to them. If an option was elected, upon a member's death, a lump-sum death benefit would be payable to their designated beneficiary, or else the reduced benefit, or part of the reduced benefit, would be continued to their designated beneficiary.


City Manager Reveals Pension Plan Details

Retirement, Disability and Death Benefits Provided All City Employes, Except Elected Officials, in 'Actuarily Sound' Plan

Certain Employees Excluded

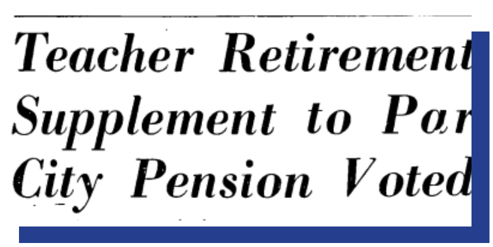
School teachers, principals, employees of the Norfolk City School Board, elected officials, and employees in the offices of certain elected officials were not included in the new pension System. These employees were not classified as City employees within the meaning of the pension plan as there was a movement for the establishment of a separate state pension system providing them coverage. Later in 1942, the General Assembly enacted legislation which would permit employees in the offices of the Commissioner of the Revenue and the City Treasurer to become members of the City's Employees' Retirement System and the City Manager was tasked with studying the cost of enlarging the System to include them. In November 1942, these positions were brought under the System to be covered at two-thirds of their salary, as the state paid the other one-third of their salary and with the reasoning that they one day may be able to participate in a state plan. The Commissioner of the Revenue and the City Treasurer themselves could not participate in the plan as they were elected officials.

Other Notable Amendments of the Decade

The United States entered World War II in December 1941 and many City employees were answering the call to serve their country. A 1942 City Council resolution provided that any City employee called into war duty in the armed forces of the United States will be rehired after the war if they are physically able to perform their jobs. Ordinances in 1944 and 1946 solidified these veterans would be rehired without loss of the years of service with the City under the pension plan.

The pension ordinance was again amended in 1947 to allow the NERS to invest in stocks, bonds, and other securities eligible for investment by trust funds with specified restrictions. The Board of Trustees enlisted the help of consulting actuaries in 1948 to assist in the handling of investment matters of the pension System. In the 1950s, the City Council increased the number of members of the Board of Trustees from seven to nine, specifically to fill the new positions with those especially qualified for recommending investment of funds.

Later amendments required all members appointed by a board, commission, or other body other than the City Manager, to retire upon reaching their compulsory retirement age or lose their membership in the Retirement System. This would prevent individuals from being rehired by the City and collecting full salary plus a pension.


Teacher Retirement Supplement to Par City Pension Voted

In 1946, retired school teachers began a campaign to City Council requesting a supplemental retirement income from the City, arguing their State pensions were less than $1,000 and insufficient to live on. A study revealed the supplement was not recommended for several reasons, one of which being 78 percent of City retirees received pensions of less than $1,000, with 28 percent receiving less than $500 per year. It was argued if retired teachers' pensions were increased, then those City employees with similarly lower pensions (approximately 121 of them) should be given a corresponding supplement. This was thought to be prohibitive when the cost to operate the City's pension System increased over $100,000 between 1942 and 1947. Later that year, however, supplemental pensions for teachers were granted by ordinance, and continued until the mid-1980s.

1950s – Growth and Social Security Integration

For the greater part of the 1950s the United States was in a period of economic growth and prosperity. Despite the challenges of the past decade, the country emerged from World War II as the world's dominant economic power, and the post-war was one of sustained economic expansion.

However, in 1950-1951 the American economy experienced negative short-term effects of the Korean War that were coupled with lingering inflation in the post-Depression era. Many older Americans saw their purchasing power decline. Several major changes were made to the Federal Social Security System in the 1950s. Social Security benefits were adjusted to account for increases in the cost of living, expanded to provide protections to disabled workers, and extended to more classes of workers, including state and local government employees.

Local governments were afforded a window from January 1, 1953 - January 1, 1954, to elect to join Social Security. The consulting actuary for the Employees' Retirement System's Board of Trustees was requested to prepare a plan to provide Social Security coverage for municipal employees. Many employees found Social Security "unappealing" and expressed doubt about tampering with the existing retirement program. A resolution was adopted by Council in March 1952, expressing that the City, at that time, did not desire coverage under the Federal Social Security Act. The Council decided to defer a decision to considering any developments that may arise during the implementation of State integration.

There were many discussions over the next year surrounding the merits and demerits of bringing City employees under the Federal Social Security System. Many employees considered petitioning the City Council to leave the retirement System intact, expressing doubt about the wisdom of tampering with the current Plan. The City Council made it clear that no decision would be made until after employees had been given the opportunity to comment. The City Council considered how joining the Federal Social Security System would affect all classes of employees and what effect the change would have on retirement benefits already built up by the contributions to the NERS. In October 1953, the City elected to not join Social Security, but did broaden the membership of the NERS to include the City Treasurer, Commissioner of the Revenue, Commonwealth's Attorney and their staff, the judges of the Juvenile and Domestic Relations Court and the Clerk of the Courts of record and their employees.

It was not until May 14, 1958, when City employees elected through a referendum to combine their present retirement plan with Social Security. A majority of members of the local retirement plan was required to vote in favor of Social Security coverage

before it could be accorded to City employees. The combination of the two plans was to be retroactive to January 1, 1956. This meant that Social Security taxes due from City employees had to be calculated for each of the ten preceding quarters. Under Social Security regulations, to be eligible for benefits one must earn Social Security credits by paying Social Security tax on income. Full benefits would be denied a larger group than first contemplated if back-dating was not followed as they would not have acquired the required number of Social Security credits.

EMPLOYEES' RETIREMENT SYSTEM OF THE CITY OF NORFOLK
303 CITY HALL BUILDING
NORFOLK 10, VIRGINIA

NERS Letterhead, 1957

The City's Employees' Retirement System was integrated with Social Security on July 1, 1958. In accordance with the plan adoption, contributions to, and benefits from, the Retirement System were reduced by a portion of the Social Security payment. Policemen and firemen continued to be covered exclusively under the NERS and were not covered by Social Security, as they were not eligible for social security coverage in the Commonwealth of Virginia at the time. Amendments were made to the City's retirement ordinance to extend coverage under the Social Security Act to certain members of the NERS.

At the request of the Board of Trustees, the City Council amended the Code pertaining to the management of funds held by the NERS. Amendments permitted the appointment of an investment nominee or establishment of a nominee partnership. This action reduced delays in the NERS receiving payment for sold securities. This allowed the nominee to hold, buy, sell, transfer or exchange securities of the NERS in their name. In 1969, the ordinance was expanded to permit the nominee of a national bank to be used in such transactions.

1960s – Fully Funded Employee's Retirement System

The rise of the middle class, low unemployment and continued economic growth set up the 1960s to be a prosperous decade for the country. Inflation was relatively low in the early 1960s, but began to rise due to increased government spending on the Vietnam War and other social programs. The 1960s was also a period of significant social change, including civil rights campaigns and anti-war protests. Rising healthcare costs were disproportionately affecting the elderly, and in 1965, Congress passed legislation creating Medicare, a federal health insurance program for Americans aged 65 and older. Another important local event occurred in 1965 with the opening of the current City Hall building. Close to 5,000 Norfolk citizens toured the building prior to its dedication.

Norfolk Civic Center,
City Hall Building
Photo by Jason R. Waicunas,
Published by Society of
Architectural Historians

Throughout the 1960s, the City Council issued amendments to the NERS to improve benefits that would afford greater financial protection for City employees and their dependents. This included the reduction of the vesting requirement from 15 years to 10 years. Many notable amendments affected disability retirements. When City employees voted for Social Security coverage, it was necessary that various sections of the City Code dealing with the retirement System be rewritten. For example, Social Security would not cover all instances of disability. The City's ordinary disability retirement allowance needed to be changed so that when Social Security did not cover the disability, the benefit payable under the NERS would total a guaranteed 25 percent of the retiree's average final compensation. The accidental disability retirement allowance was amended to no longer require reduction of Social Security benefits by the amount of any workers' compensation benefits. Further, service and disability retirement allowances were amended to be based on the average of the five highest salary years.

In 1962, Social Security legislation allowed for the coverage of police and firemen. The Governor of Virginia and the Federal Department of Health granted permission for the City's Police and Fire Divisions to vote independently of each other as to whether or not they wanted to integrate their City retirement benefits with those of Social Security. Personnel of the Police and Fire Divisions rejected the plan. Instead, the Norfolk Firemen's Relief and Social Association presented a comprehensive study of the retirement plan in 1964. The study compared the provisions of the NERS to those of other systems in the Commonwealth. The firemen proposed suggestions as to how Norfolk's System could be brought in line with, or improved beyond, other systems. The City Council requested the City Manager study the recommendations.

As a result of the City Manager's review, Code amendments eliminated a ten percent reduction in computing the ordinary disability retirement allowance. Other revisions permitted the refund of contributions of vested members, but with the consequence of forfeiting their future deferred retirement allowance. Further, a lump-sum death benefit of one-half of the average final compensation payable to the member's surviving wife, husband, or children under the age of 18, was brought back into the retirement plan. Widow's benefits were previously eliminated in 1933. The City Manager again encouraged the Police and Fire Divisions to consider adopting Social Security. A referendum to allow these divisions to again vote on Social Security integration was approved by the State in 1965, but was ultimately postponed.

The City conducted a more comprehensive study of the retirement Plan in 1969, which resulted in several benefit improvements for all employees, and represented the equivalent of an approximate four percent salary increase. Such improvements included the payment of the balance of a retired member's contributions to their beneficiary without a reduction in annuity benefits for both general employees and police and firemen. Other improvements for general employees increased the retirement multiplier to 1/70th, removed the offset of the primary Social Security benefit for general employees, and reduced the early service retirement age to 60. Changes specifically benefiting police and firemen included an increase in the retirement multiplier to 1/60th, a reduction the years of service requirement from 35 to 30 years, and a reduction in the early service retirement age to 55 years.

1964 marked one of the greatest financial achievements in the history of the NERS and for the nearly 3,300 employees then participating in the Plan. The City paid the full accrued liability it had assumed to finance service credited to municipal employees prior to January 1, 1942. The City also contributed a large payment for service credits dating after January 1, 1942. These payments, combined with employee contributions, distinguished the NERS as a fully funded, actuarially sound retirement plan.

1970s – Costs

Rising energy prices, high unemployment, and soaring inflation returned by 1970. For years, the City Council was repeatedly asked to consider adjusting retirement pensions to cover an increase in the cost of living. The City amended its Charter in 1969 to permit cost-of-living benefits for retired beneficiaries, but such supplements were not guaranteed.

In 1970, the first supplemental payments for cost-of-living adjustments were issued since the inception of the retirement Plan. The payments were based on a percentage ranging from 3-30 percent of retirement benefits then being paid, depending on how long the member had been retired. The authorizing ordinance specified retirees did not have a vested interest in the supplement. The supplement did not apply to those receiving death benefits or refunds of contributions. In 1973, an additional three percent (or 33 percent total) was allocated to those who had been retired for eleven years or more.

City Manager Letterhead c. 1975

The costs of the retirement plan were escalating. Several key changes contributed to the rising costs. The retirement plan was made noncontributory for police and firemen on July 1, 1970, and for all employees in 1972. In 1974, creditable service for military service was added for present active and retired members. Effective July 1, 1975, the City Council lowered the normal service retirement for general employees from age 65 to 60. The number of creditable years of service to qualify for normal service retirement was also reduced to 30 years. Normal service retirement age for police and fire employees was changed from age 60 to age 55, or the age 25 years of service had been completed. The benefit formula was changed from $1/60^{th}$ of average final compensation to $1/50^{th}$ of average final compensation, multiplied by the number of years of creditable service. While attractive to the retirement Plan members, these benefit improvements were costly.

The State began recognizing that police and firemen were at increased risk of developing certain respiratory diseases, hypertension, or heart disease due to the nature of their work. By establishing legal presumptions that certain diseases were work-related, workers could more easily access compensation including death or retirement benefits. State law created the presumption for firemen in 1972, and expanded similar presumptions to policemen in a law passed in 1973 (effective in 1975). The City followed suit. The City Council amended its accidental disability retirement Code to parallel the new State laws. A lifetime surviving spouse's benefit option was also added in 1974 for all members. These two benefit improvements were substantial in terms of additional cost, resulting a rapid expansion of the retirement Plan expenses from 1974-1977.

At the request of the City Council, the Board of Trustees reviewed alternatives to the benefit structure of the System. The Board of Trustees issued a report on October 18, 1979, containing two alternatives that would reduce costs going forward. One was to reduce benefits provided to future employees hired after a certain date. The other was to require future employees participate in the VSRS. These alternatives were estimated to result in substantial reductions in retirement appropriations in the coming years, but with no immediate effects. Several changes were made in the 1980s aiming to reduce costs without a reduction in benefits to present employees.

1980s – Revisions

The System was expensive, and changes were needed. Two changes were estimated to produce the most cost savings for future operations with the least impact on the System's operations: raise the normal service retirement age and amend the benefit formula. The retirement age had been revised multiple times since the System began operations; the most recent being a reduction happening in 1971. Effective July 1, 1980, applicable to new hires, the normal service retirement age for general employees was set at age 65 (instead of 60); the normal service retirement age for police and fire department employees was set at 60 (instead of 55) or the age at which 30 years (instead of 25) of creditable service had been completed. Additionally, the benefit formula was amended to be based on 1/60th (or 1 2/3 percent) (instead of 1/50th or two percent) of average final compensation multiplied by the number of years of creditable service.

These revisions meant that the System would have some employees under one set of terms relating to their retirement, with others under different terms. Over time, it was believed these changes would lessen the rate of increase of the cost of the System.

The NERS was closed to new employees of certain constitutional offices as these new employees were provided retirement benefits through participation in VSRS. Employees placed under VSRS were required to contribute five (5) percent of their salary to the State retirement plan. A trend began within the regional municipal government community for the VSRS employee contribution to be paid by the employing government, and the City followed suit.

At the proposal of the NERS Board of Trustee's, City Council amended the retirement ordinance to remove the limitation with respect to investing in common stock. The investment world had become so volatile that many of the investment premises used in the past had become obsolete. The ownership of common stock had become much more favorable as a hedge against inflation and less volatile than the bond market. The investment manager recommended the 35 percent limitation on holdings in common stock be eliminated. Guidelines were in place for the investment manager to safeguard capital while maximizing a return on investment. The investment manager indicated market valuations remained low in the marketplace and companies had demonstrated an ability in recent years to increase profits and dividends well in excess of the rate of inflation. By eliminating the 35 percent limitation, the Fund would have far greater flexibility to take advantage of attractive opportunities in the equity market.

Beginning with Fiscal Year 1989, the City began to downsize operations by eliminating approximately 200 positions. The City implemented a Retirement Eligible Extra-Incentive Program, or Project-REXI, which would provide an incentive to employees eligible for normal or early service retirement as of October 31, 1988. Those employees had the opportunity to retire while facilitating the City's downsizing effort. The incentive provided three additional years to one's creditable service and their average final compensation would equal the highest annual earnable compensation during a twelve consecutive month period.

Throughout 1988, the City began implementing greater microcomputer utilization to enhance operations. For example, access to microcomputers improved productivity levels of Human Services staff at decentralized locations and facilitated improved communications with its Central Office. The use of microcomputers also assisted the City's downsizing strategy by expanding the use of automated applications and deleting lower priority general revenue sharing projects. Some personnel in positions targeted for elimination were reassigned to special project positions.

Special Project employees who had completed two consecutive years of service were added to the retirement ordinance to be eligible for benefits. No prior service credit in other non-qualifying positions with the City would be provided, nor would prior service credit be given if the position of special project employee had been held for longer than two years. Employees in positions or work classified as part-time, temporary, substitute, contract or trainee were not then eligible for membership in the NERS.

The first Executive Secretary of the Employees' Retirement System, A. W. Sykes, retired in 1976 after serving the Board of Trustees since 1942. Alfred N. Gibson had been leading the charge since then, and rounded out the decade as the System's director. In April 1989, the Retirement Bureau was created. The Bureau was charged with providing administrative and clerical services and support to the Board of Trustees, as well as implementing the City's retirement ordinance. The positions of Executive Secretary of the Retirement System, Accountant II, Financial Assistant II, and Office Assistant II were transferred to the purview of the Department of Human Resources. Functions performed by the Bureau were closely related to existing benefits areas administered by the Department of Human Resources. That same year, the next tenured Executive Secretary of Retirement, Theodore O. Wilder, was appointed. Mr. Wilder would serve the System for the next two decades.

1990s – The NERS' Semicentennial

By the early 1990s, the System was nearing 50 years of operations and had grown to include 3,774 active members and 2,686 retirees. In 1992, the Retirement Bureau was reorganized under the Department of Finance. The NERS assumed the costs of all its expenses, including the cost of personnel and equipment necessary for the administration of the Retirement System, with reimbursement to the City. The incorporation of these expenses gave the Board of Trustees a more complete "accounting picture".

Tough economic times forced a required elimination of an additional 75-100 positions in the proposed Fiscal Year 1994 budget. The staff reduction would be achieved through attrition and a new retirement incentive program. The retirement incentive of 1993 redefined the calculation of average final compensation as the "J" step, or the top of their pay range, and was offered to 501 employees who were eligible for early or normal service retirement. It was estimated about 125 employees would take advantage of the program resulting in an estimated $2.1 million savings.

An additional Retirement Eligible Extra-Incentive Program, or Project-REXI, was offered in 1996. The 1996 Project-REXI offered a normal service retirement incentive. A retiree could elect to receive four additional years of creditable service, or a one-time payment of 40 percent of their salary at the time of retirement, rather than the last twelve months of earnable compensation. The latter allowed those electing this option to receive the benefit of the two percent general wage increase and any step increments that may have been due by the time of retirement. The City Council also authorized payment for accrued holiday leave to public safety employees participating in the REXI, as they would not have the chance to use their accumulated holiday leave prior to retirement under this incentive.

In the 1996 session of the General Assembly, legislation was passed permitting an employee of the State or other political subdivision to transfer accrued retirement benefits earned as a member of VRS to another private local government plan and vice versa. The City Council amended the retirement ordinance to allow the System to enter into portability agreements with the State or other localities. Portability agreements were ultimately entered into with VRS, and later with the Cities of Richmond, Newport News and Roanoke. As explained to Council at the time, pension portability enhances the City's ability to attract a quality workforce; encourage greater regional cooperation; improve job opportunities and mobility; and reduce retirement income loss due to job mobility for a considerable number of Virginia workers.

As the end of the century approached, efforts were underway to ensure that all City-supported systems were compatible with the year 2000 (Y2K) requirements. The application supporting the processing and generation of the payroll for City retirees required replacement to be made Y2K compliant. In 1999, the retirement payroll application was converted into the City's PeopleSoft Human Resources/Payroll system. Favorable investment returns from 1995-1999 resulted in net decreases in the employer contribution rate and increases in the Systems funded ratio. By the turn of the Century, the NERS was again fully funded with the actuarial funded status at 127.7 precent. Due to the overfunded status of the System, the City Council elected to take a contribution holiday and suspend the City's contributions to the System for Fiscal Years 2000-2002.

2000s – "A Changing City in Changing Years"

At the turn of the Century, the American economy was prospering, experiencing rapid growth in the technology sector and a booming stock market. After the dot-com bubble burst and the unthinkable terrorist attacks of 9/11, the City, and the Nation, braved a difficult decade. As the economy in the early 2000s screeched to a halt, yet another retirement study was underway. The normal service retirement age was once again reduced to age 60, or 30 years of creditable service for general employees; and to age 55 or 25 years of creditable service for public safety employees. The normal service retirement allowance of a general member after June 30, 1980, was capped at 35 years. The normal service retirement allowance of a policeman, fireman or paramedic was capped at 65 percent of their average final compensation.

Three years later in 2004, City Administration was working on a proposal to address ongoing concerns of long-term public safety employees concerning the retirement allowance cap of 65 percent. A series of meetings were held with public safety focus groups to review several alternative options. A limited, one-time retirement enhancement program for police and firemen was implemented for those members eligible for normal service retirement as of May 1, 2005. The enhanced retirement benefit allowance temporarily removed the 65 percent cap, calculating the benefit on an increasing scale up to a 75 percent maximum. The retirement incentive allowed over 120 officers the opportunity to retire, with hopes of creating opportunities for remaining officers to seek promotion.

Given the number of people taking advantage of the retirement enhancement program, some were needed to delay their retirement date as their services were deemed essential for the continuing day to day operations of the Police and Fire-Rescue Departments. The retirement enhancement program was modified to allow an exception to the carryover of annual leave for those whose accruals had exceeded the limit under the City's leave policy.

Employees transferring from the VRS to the NERS eligible City employment were able to begin purchasing prior service credit in 2000. Over time, the option to purchase service credit was extended to Constitutional Officers and their employees, those with prior active military service, and those transferring from other public retirement systems. Ultimately, any employee who had a period of full-time employment with the City that did not include the NERS membership was allowed to purchase retirement service credit once they vested or reached their normal service retirement age. Additionally, new tax legislation passed in 2002 gave employees the option to purchase service credit in the NERS through an eligible rollover distribution from other tax-favored retirement vehicles including Individual Retirement accounts or annuities, Section 403(b) plans (which employees might have from previous employment with a school system or not-for-profit organization), Section 457(b) plans (such as the City's ICMA Deferred Compensation Plan) and Section 401(a) and 401(k) plans (that include other public and private pension and profit-sharing plans). Other amendments allowed a surviving spouse to deposit a rollover distribution to an IRA, a Section 401(a), a 401(k), a Section 403(b) or a Section 457(b) plan.

In 2007, the retirement ordinance was updated to comply with changes in Federal tax law so that it would receive a favorable Determination Letter from the Internal Revenue Service (IRS), which assures special tax treatment. Subsection 37-44 was added to the Code, extending death benefits to beneficiaries of City employees who die while called up for military service. City Code 37-74(f) was amended to provide for the payment of eligible rollover distributions to certain retired employees and their beneficiaries. These revisions brought the City's Code into compliance with IRS regulations and the System received a new Determination Letter in 2007 stating that the City's 401(a) governmental defined benefit plan complied with Federal tax laws and regulations. The System's prior Determination Letter was received in 1976.

2010s – The Great Recession

The national economy entered into a deep recession beginning in December 2007. Beyond the impacts of the national and state economic environment, the City had local concerns such as continued rising retirement costs, health insurance premium increases, and falling investment earnings. The City Manager indicated when presenting his proposed Fiscal Year 2011 Operating Budget, that the City would not feel the effects of an economic turnaround immediately as it takes longer for state and local governments to rebound from a recession. Retirement costs doubled between 2003 - 2011. Due to the fiscal impact on the System, the NERS once again became a contributory System in 2010. New employees hired on or after October 5, 2010, were required to pay member contributions in the amount of five percent of earnable compensation to the System.

In 2010, the average tenure of public safety employees was eight years. In an effort to retain experienced employees, the mandatory retirement age for sworn police and fire fighters was increased from age 62 to age 65 years. There was, and still is, no mandatory retirement age for the police or fire chief, and public safety employees of all ages were still required to demonstrate fitness for duty.

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In 2011, a new non-permanent employment category of retiree part-time was created. Retired employees rehired by the City in any other position than as retiree part-time employee, would have their NERS retirement allowance discontinued during their period of reemployment. Alternatively, NERS retiree part-time employees would have no impact to their retirement pensions.

The Norfolk Community Services Board (NCSB) was re-designated from an operating community services board to an administrative policy board and moved its officers and employees into the City's personnel system in 2012. NCSB members were previously participants in the Norfolk Community Services Board Money Purchase Plan (Purchase Plan) as a retirement savings vehicle. Due to the reorganization of NCSB as a City department, the Purchase Plan appointed the City as administrator in order to affect the close out of that retirement fund. NCSB could not be the administrator as they no longer existed as an independent entity after June 30, 2012. As of July 1, 2012, NCSB employees would have their prior service with NCSB counted towards the NERS' five-year vesting requirement, however, this service would not be deemed creditable service nor considered in the retirement benefit calculation.

Uneven economic recovery lasted into 2014 and retirement costs continued to increase. Often cited as one of Virginia's most "financially stressed" cities, Norfolk implemented a three-year Attraction, Retention, Motivation, and Development (ARMD) Initiative beginning with Fiscal Year 2015. The ARMD Initiative was implemented in three phases, the first included a five percent

salary increase and a five percent employee contribution for all employees who were not currently contributing to the NERS, a one-time $300 supplement for retirees who met specific service time and income requirements, and a Deferred Retirement Option Program (DROP) for public safety. The DROP allows for a lump-sum payment of accumulated retirement benefits to employees who officially retire, but continue working for a specified period beyond their effective retirement date. The DROP was a long-awaited benefit by City police and fire personnel that had been sought for over a decade and carefully studied by the City Council and the Department of Finance's Retirement Bureau.

During Fiscal Year 2014, the City reviewed various DROP proposals with its retirement fund actuaries prior to its implementation. In 2015, the DROP was established for sworn police and fire-rescue employees. The challenge to the creation of the DROP was in finding a plan that was beneficial to these employees while retaining the actuarial integrity of the plan. The City Council adopted the definition that Norfolk's DROP would be a unique retirement benefit program that allows eligible NERS members to officially retire and accrue a deferred 70 percent retirement benefit, in addition to continue working and receiving active employee wages and benefits as a NERS retiree for up to sixty months if they do not exceed any age restrictions (e.g., Public Safety employees have a mandatory retirement age of 65). The City's inaugural DROP had a four-year (48 month) participation limit per public safety employee.

Increased employee interest in added benefit flexibility and management's recognition that the DROP assists in workforce planning, by both encouraging employees to stay beyond their normal retirement date and providing a more definitive date for retirement for planning purposes, resulted in the City Council, after consulting with the City's Actuary, as part of the Fiscal Year 2023 Operating Budget, expanding the DROP beyond sworn police and fire-rescue employees to all eligible the NERS members. Due to the DROP's success and popularity, the City's DROP participation limit per employee was also expanded from four years (48 month) to five years (60 months) to account for employees working longer in their careers.

While the Great Recession is considered to have officially ended in 2009, the City was impacted by its effects for many years. Real-estate tax revenue was in an unprecedented decline, taking seven years for real estate revenue to return to the pre-recession peak. Between 2011 and 2016, the City established community-based partnerships with businesses, non-profit organizations, higher education institutions, and community stakeholders resulting in stimulated investment and innovation, and the attraction for businesses to relocate to Norfolk. During this time, the City made efforts to improve its venues and continue its support of its arts and culture community that drew more tourists and visitors to the City, thus increasing other locally generated revenues.

Throughout the NERS' history, cost-of-living adjustments (COLA) were extended to retirees by City Council on an ad hoc basis, but were never guaranteed by the City's Code. In the economically turbulent 2000s, the issue of COLAs was prevalent, with retirees often requesting the City Council to grant one. From Fiscal Years 2002 - 2009, annual COLAs ranging from one to three percent were awarded to retirees. In the wake of a bad market, COLAs were suspended after 2009. Around the same time, the Board of Trustee's actuary advised of pending accounting standards that would require COLAs to be estimated and

projected for inclusion as part of the long-term liability if a pattern of supplements could be established. The Governmental Accounting Standards Board (GASB) released new rules, effective in 2014, on how auditors and actuaries must treat one-time COLAs. GASB Statement No. 68, “Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27” aimed to improve accounting and financial reporting by state and local governments for pensions. Under GASB 68, governments providing defined benefit pensions are required to recognize their long-term obligation for pension benefits as a liability that is required to be reported in the government-wide financial statements. COLAs add to the long-term liabilities of the NERS without an increase in assets. One financial risk of an ad hoc COLA is when they are determined, by actuaries, to be “substantively automatic” due to a historical pattern of granting them as defined by the provisions of GASB 68. When this occurs, future COLAs are included in liability calculations and the impact to a retirement system may be substantial. In other words, if the City were to provide a COLA frequently, it could be treated as an automatic plan feature. The actuary demonstrated the onerous financial impact a COLA would have on the System. As such, COLAs remain available only at the discretion of City Council’s approval.

By 2017, the City’s economic recovery began gaining momentum. The revenue estimate in the proposed Fiscal Year 2018 Operating Budget was higher than its pre-recession peak reached in Fiscal Year 2009 for the second year in a row. In 2018, the Board of Trustees reported that during a period in the early 2000s when the System’s assets was 100 percent of the liability, and in fact was overfunded, the City suspended its contributions to the System. During subsequent down markets, the funded status dropped significantly. While it had rebounded, the Board of Trustees recommended that going forward, the City always make employer contributions annually to the System regardless of the funding level because of the smoothing effect on the highs and lows of the market.

The Fiscal Year 2019 Operating Budget included retirement reform actions designed to mitigate the budget risk inherent in a defined benefit retirement system, while continuing to provide competitive benefits. The Code amendments pertained to new employees hired on or after July 1, 2018, and corresponded to recent industry trends, including in the VRS. For those hired on or after July 1, 2018, the average final compensation changed from the average of the three highest compensation years of employment to the average of the highest 60 consecutive months of compensation. The eligible retirement age for new employees also changed. General employees would be eligible for retirement at their normal Social-Security age, or when the combination of their age plus creditable service years equals 90 (“Rule of 90”). Public Safety employees would be eligible for retirement at age 60, or when they reach age 50 with at least 25 years of creditable service.

In 2018, a series of educational pamphlets were published by the NERS in a series called “Know 2 Ask”. In an effort to educate employees on not only what to expect during the retirement process, but most importantly for how to plan for retirement, the series covered topics such as navigating the loss of a loved one, the DROP, a guide to active service retirements, among others. These materials evidence one element of the NERS’ commitment to providing excellent customer service to its members. In the 2020s, additional innovative initiatives were implemented strengthening the NERS’ customer service reputation.

2020s – Pandemic

The NERS would prove its continued commitment to its members over the next several years, as the City faced the unprecedented COVID-19 pandemic. The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, quickly became a worldwide concern. COVID-19 was declared a pandemic by the World Health Organization (WHO) on March 11, 2020. The pandemic caused extensive disruptions to industries, businesses, and financial markets, having a significant impact on the global economy. As the COVID-19 pandemic worsened, widespread shutdowns and restrictions occurred around the world as governments sought to slow the spread of the virus and reduce the burden on healthcare systems. These shutdowns typically involved the closure of non-essential businesses and services, restrictions on public gatherings, and travel restrictions. In March 2020, Virginia Governor Ralph Northam declared a state of emergency as a result of the ongoing uncertainty of the pandemic. City Manager Dr. Larry "Chip" Filer II announced the City would close all facilities to the public in an abundance of caution. The City implemented measures to ensure the stability of the organization by moving to a critical staffing only status. The City's workforce quickly transitioned from ten (10) work from home employees (or remote employees) to more than 800.

The NERS began offering remote and virtual meetings with Retirement staff in 2019, proving to be an asset to active and retired members during the COVID-19 pandemic. The NERS implemented the City's Microsoft Bookings system to promote accessibility of its Retirement staff through scheduling dedicated individual consultations. Remote appointments offered a safe alternative during the COVID-19 pandemic minimizing the risk of exposure for both the NERS members and personnel. Virtual appointments improve access to the NERS services, especially for people who face barriers like limited transportation options or physical disabilities. The Bookings system allows members dedicated time for the NERS personnel to share educational resources, provide personalized advice, and engage members in managing their own retirement.

The City strives to be financially sustainable by maintaining a structurally balanced budget, in which ongoing revenues are sufficient to meet ongoing expenditure needs. The City Council recognizes the importance of establishment and maintenance of reserves, including the appropriate use and replenishment, as one of the most effective management practices a local government can employ.

Reserves ensure adequate resources for cash flow and can address unforeseen emergencies or changes in conditions. In July 2013, the City Council adopted a resolution creating financial policies on reserves, debt affordability and surplus fund utilization. In 2019, these policies were amended to establish new policies on pension funding and enterprise fund financial management.

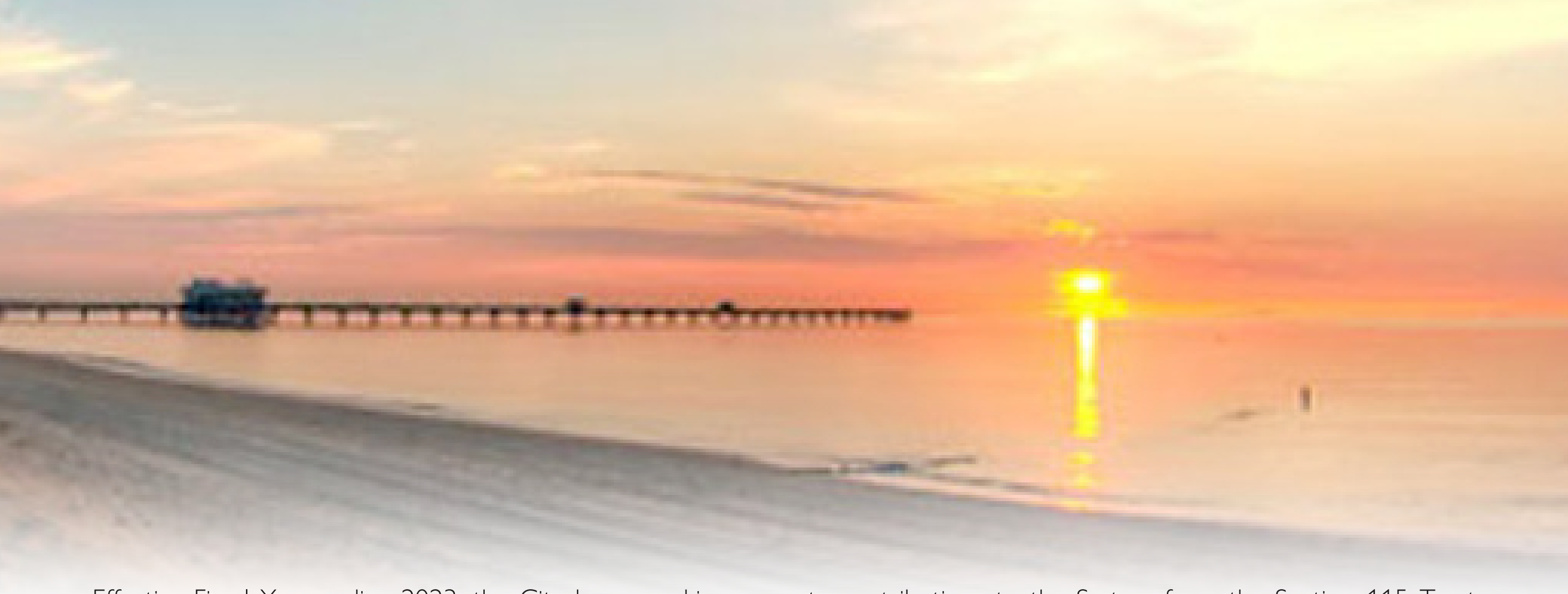
In 2023, the Pension Policy was revised to allow for the positive impacts garnered from any supplemental funding by the City and to provide a framework for the appropriate use of reserves. The pension funding policy outlines that the City's contribution is the actuarially defined contribution plus debt service on the bonds, and proscribes that subsequent contributions are the greater of the prior year's contribution or the current year's actuarially defined contribution. The policy allows for the adjustment of the contribution if 1) the NERS' funded ratio reaches 100%, 2) the year over year increase in the City's total pension contribution exceeds six percent (6%) or 3) if the total pension contribution rises above eighty million dollars ($80,000,000). The City strives to fund the actuarially defined contribution plus debt service on the pension obligation bonds in any year. Further, the pension funding policy dictates that the City's enterprise funds will pay their respective portion, from dedicated fees and revenues, of pension costs including debt.

City employees had been eligible to contribute to a deferred compensation plan through ICMA Retirement Corporation since 1977 and various constitutional officers and their employees were permitted to begin participation in the 1980s. In the 1990s, there was increased focus by City leadership on the importance of counseling employees that the NERS should not be sole source of retirement income and were proponents of the System strongly encouraging participation in the City's 457 Deferred Compensation Plan. A Payroll Roth IRA was added to the benefits package in October 2011. The City aims to empower employees to make informed decisions about their retirement savings. The Retirement Bureau facilitates promotion of participation in the City's voluntary 457 Plan by tailoring City-wide communications to increase awareness and engagement in informational lunch-and-learn events or one-on-one consultations with ICMA-RC (now MissionSquare) Retirement Plan Specialists. The NERS leverages internal communication channels such as the employee newsletter, and dedicated space on its intranet page, to regularly share educational opportunities and resources on saving for retirement.

The City Council recognized that automatic enrollment in the 457 Plan gives employees a head start on building personal assets for retirement. Since the deductions are automatic, the employee can save without thinking about it, and has the ability to save for retirement in a tax-advantaged vehicle. In 2018, the City continued offering participation in the ICMA Deferred Compensation Plan with an amendment to allow for automatic enrollment into the plan, with the ability to opt out, at one percent of base salary effective January 1, 2019. This ordinance supported the City's strategy to improve employees' preparation for retirement by supplementing the NERS defined benefit with personal, portable, tax-deferred savings through the ICMA-RC 457 Plan.

Automatic enrollment in the 457 Plan allows employees to build additional savings while also receiving the immediate benefit of pre-tax deductions. Aligning automatic enrollments with the January 2019 two percent general wage increase allowed employees to begin investing or increase their investment in their personal retirement savings without experiencing a reduction in their disposable income. In July 2022, the automatic default contribution rate was increased from one percent to two percent. Further, the option to contribute to a Roth 457 plan was introduced in 2022. The Roth 457 option allows employees to invest additional contributions in their 457 deferred compensation account after taxes to generate tax-free income when the funds are withdrawn. These strategies highlight the City's dedication to City employees that includes fostering a culture of financial wellbeing through education and resources.

The NERS takes immense pride in maintaining a level of assets necessary to meet the promise of providing benefits for its members. With prudent investment strategies and annual actuarial valuations, NERS has sustained a history of sufficient funding levels to meet benefit obligations. On June 15, 2021, the City sold $210,800,000 in taxable General Obligation Bonds to increase the funding of the NERS. The true interest cost on the bonds was 1.94 percent. The City used $119,553,490 of the bond proceeds to immediately improve the pension funded ratio of the NERS from 77 percent to approximately 91 percent. The remaining bond proceeds of $90,446,510 were used to fund the newly created irrevocable Pension Funding Trust (Section 115 Trust), for the benefit of the NERS. The City initially established U.S. Bank National Association as trustee, which was changed to Principal Custody Solutions in 2022. The Trust will make transfers to the System over the life of the bonds and is currently anticipated to be $8,716,323 annually.



Effective Fiscal Year ending 2023, the City began making separate contributions to the System from the Section 115 Trust that was previously established. 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. Including the Trust as part of the System's assets, the System's funded ratio will be higher on an actuarial value basis compared to the System's ratio.

In 2021, the Department of Finance reimagined the City's retirement administration application. Its Business Process Management Division (BPM) partnered with the Retirement Bureau and Department of Information Technology (IT) to implement a sustainable method of (1) generating retirement benefit calculations, (2) managing retirement data and (3) maintaining business process rules.

The effective partnership between the departments of Finance and IT delivered a sustainable tool supporting Retirement in delivering the highest level of service possible for its clients. Additionally, the typically high cost of acquiring third-party software was avoided by developing a solution in-house. Easily accessible by all Retirement Bureau staff, the retirement application allows for quick and efficient access to member's information and is a vital complementary component to the NERS' exemplary customer service reputation.

Also in 2021, the City Council considered the costs and benefits of operating an independent retirement system and the impact on City finances, employee recruitment and retention, and overall benefits of employment when compared to those benefits and obligations provided by VRS. The City Council determined it in the best interests of the City that future employees participate in VRS. Code amendments were enacted to make necessary changes to the City's retirement ordinance, transitioning new employees hired on or after January 1, 2022, to the VRS. Existing NERS members were given an election period from January 1 through December 31, 2022, to either become participating members of VRS, or to remain in the NERS. At the end of the election period, approximately 2,000 employees elected to remain in NERS and approximately 750 NERS members elected to transition and become participating members of VRS. The NERS is now closed to new members.

The City has long been dedicated to becoming a more resilient and sustainable community, while making hard, but balanced choices. With excellent performance and over $200 million in bond proceeds benefiting the System, the NERS is well-positioned to reach full funding in the coming years. From the Great Depression to the Great Recession, to the COVID-19 pandemic, that resilience has been tested in many ways. The NERS has a proven record as a financially sound, fiscally prudent retirement System able to withstand downturns in the economy. The NERS looks forward to continuing to support the members who laid the framework for a resilient retirement System.

Appendix A: History of the NERS Leadership

Executive Secretaries/Directors

A. Winston Sykes	(1942 - 1976)
Alfred N. Gibson	(1976 - 1989)
Theodore O. Wilder	(1989 - 2012)
Galen Gresalfi	(2015 - 2018)
Penny DeLosh	(2019 - Present)

Board of Trustees

The Board of Trustees to the Norfolk Employees' Retirement System (NERS) acts as a fiduciary for both benefit administration and investment of the System's assets. The Board focuses on long-term management of funds, meets bi-monthly, and relies on the assistance of an Investment Consulting firm to help analyze, monitor and report on the portfolio. There are three sources of income for the Plan: employee contributions of five (5) percent of earnable compensation, investment earnings, and City contributions. The Board implemented an investment management change from an active to passive style in 2009. The change reduced costs to the City and simplified the management of the Fund. The NERS is one of fewer than ten Virginia local governments with a retirement system that operates independently of the Virginia Retirement System. In the 1950s, the City Council increased the number of members of the Board of Trustees from seven to nine, specifically to fill the new positions with those especially qualified for recommending investment of funds. The Chairman of the Board of Sinking Fund Commissioners was deleted as an ex officio member of the Board of Trustees in October 1978 as the Sinking Fund was no longer an active body. The Director of Finance did not become an ex officio member of the Board of Trustees until December 1978. Simultaneously, the City Auditor was deleted as an ex officio member and provision for an additional citizen member was added, bringing the total number of trustees to ten. It was not until 2014 when amendments required one of the trustees to be a retiree.

Board Members (listed by Appointment Date)

City Managers – Ex Officio Members

Charles B. Borland	(1938 - 1945)
Charles A. Harrell	(1946 - 1951)
Henry H. George, III	(1952 - 1955)
Sherwood Reeder	(1955 - 1955)
Thomas F. Maxwell	(1956 - 1970)
G. Robert House, Jr.	(1971 - 1975)
Julian F. Hirst	(1975 - 1986)
James B. Oliver, Jr.	(1987 - 1998)
Regina V.K. Williams	(1999 - 2010)
Marcus D. Jones	(2011 - 2012)
Sabrina Joy-Hogg (Deputy City Manager designee)	(2013 - 2016)
Catheryn Whitesell (Deputy City Manager designee)	(2017 - Present)

Directors of Finance – Ex Officio Members as of 1978

Jimmy Clowers	(1978 - 1990)
Sterling B. Cheatham	(1991 - 1995)
Nancy C. Tracy	(1995 - 1999)
Sterling B. Cheatham	(1999 - 2000; Acting Director)
Steven G. de Mik	(2000 - 2008)
Alice M. Kelly	(2008; Acting Director)
Darrell V. Hill	(2009 - 2010)
Shenette C. Felton	(2011 - 2012; Acting Director)
Alice M. Kelly	(2013 - 2014)
Christine A. Garczynski	(2015; Acting Director)
Christine A. Garczynski	(2016 - Present)

Appendix A: History of the NERS Leadership (*continued*)

Appointees (listed by Appointment Year)

A. Joel Jackson	(1951)
S.C. Morrisette	(1952)
W. A. Charters	(1952)
A.L. McCardell	(1953)
Wm. Herbert Nash	(1953)
Jessee J. Parkerson	(1953)
M. Lee Payne	(1953)
W. J. Lewis	(1959)
Charles H. McCoy	(1959)
Wm. T. Hastings, Jr.	(1959)
Harold Anderson	(1963)
R. W. Boggs	(1967)
Fred V. Martin	(1969)
Stuart Hume	(1969)
Claude J. Staylor	(1969)
Robert N. Harrell	(1969)
Nathaniel "Chip" Beaman, III	(1970)
Michael C. Curran	(1976)
Michael S. Ives	(1989)
Kevin L. Hawkins	(1989)
Emory W. McCoy, Sr.	(1989)
Gwendolyn Jones Jackson	(1990)
Marc Jacobson	(1990)
Dr. John D. Hopkins	(1990)
Emory W. McCoy	(1990)
Mary Lou Nexson	(1991)
Frederick V. Martin	(1993)
Robert J. Keogh	(1994)
W. O. Carrow	(1998)
Alan Nusbaum	(1998)
Christopher R. Neikirk	(2006)
Stephanie Adler Calliott	(2006)
Nicholas Edward Nelson	(2007)
Eric Garnett Tucker	(2007)
Lawrence A. Bernert, III*	(2007)
Yvonne T. Allmond *	(2007)
Freida A. Clark	(2008)
Kenneth W. Crowder	(2009)
Arthur M. Eason, III*	(2014)
Daryl N. Howard*	(2019)
James J. Izard, II*	(2019)
Elizabeth A. Delude*	(2020)
Christina G. Talley	(2020)
Lashawnda Hall*	(2023)
John R.E. Garris*	(2023)

**Denotes current Board of Trustees appointee as of the date of publication.*

Appendix B: The NERS' First Retirees

In January 1942, the first City employees to be retired under the new City pension plan were four veteran members of the police division and one assistant building inspector.

The police division members were:

Sgt. Merritt W. Freeman, Member of Police Division since October 28, 1894
Detective W.H. Fleet, Member of Police Division since February 21, 1905
Patrolman W.T. Marshall, Joined the City on August 7, 1913
Patrolman T.R. Penham, Member of Police Division since February 21, 1905

The assistant building inspector was Maj. Walter H. Church, who joined the City on May 1, 1906.


Five Veterans Of City Retired As Over Age 70

Major Church and Detective Fleet Among Them; Firemen Join Plan

January 4, 1942 The Virginian-Pilot News Article Headline

The number and annual retirement allowances of beneficiaries on the roll as of December 31, 1943:

Service Retirements:	Total Number:	38	Total retirement allowance:	$26,256
Disability Retirements:	Total Number:	10	Total retirement allowance:	$4,500

Dependents of Deceased Members or Beneficiaries:
Total Number: 3 Total retirement allowance: $432

Benefits to Police and Firemen Retirement under Former Police and Fire Pension Fund:
Total Number: 135 Total retirement allowance: $90,192

Appendix C: Other Notable Moments in the NERS' History and Notable Ordinance Amendments

1942: Medical Board Doctors were selected in January 1942: Dr. Mallory S. Andrews, Dr. George Schneck, and Dr. N. G. Wilson.

1943: Employees of the library, becoming a unit in the City government on January 1, 1944, permitted to participate in the City's retirement System.

1946: City Council amended retirement ordinance increasing the retirement benefit from 2/3 to full benefits for the employees of the City Treasurer and the Commissioner of the Revenue, so long as these employees paid a higher contribution rate to the System. Other part-time employees began asking for the same consideration, e.g., employees of the CitySergeant who were paid 1/3 by the City and 2/3 by the State. City Sergeant employees were later included in the NERS upon the basis of their total compensation.

1948: Atlantic Street and Colley Avenue pumping station employees given the option to be transferred to other City jobs to remain in the retirement System since said stations were being taken over by the Hampton Roads Sanitation District Commission, a state entity.

1948: Three employees of the Norfolk Port-Traffic Commission were continued in the NERS for as long as the Norfolk Port Authority continued to contribute to the System to cover their contributions (or otherwise became a fully state funded/run entity).

1950: City Manager and City Attorney reported to City Council that police or firemen that go outside the City limits in connection with law enforcement activities but without instruction by the proper officials, would not be protected by the pension fund for purposes of accidental disability.

1953: Commissioner of the Revenue, City Treasurer, City Sergeant, Civil Justice, Judge of the Juvenile and Domestic Relations Court, Clerks of the Courts of Records, and the employees in the offices of such clerks, the Commonwealth's Attorney and the employees in the office, became members of the NERS.

1959: Ordinance amendment related to membership in the NERS so that any member who is absent from service for more than five years, or six years after last becoming a member, or if any member withdraw their contributions, die, or retire, ceases being a member of the System.

1959: Various amendments to service retirement allowances so as to provide that on and after May 1, 1960, members of the NERS in service who are elected by the people and who attain compulsory service retirement age may continue in active service as a member of the NERS for one additional year subject to medical examination. This means those serving a fixed term will have their retirement rights extended in the event the official reached retirement age during their term of office.

1969: Ordinance amended to require one of the Trustees on the Board of Trustees be an employee of the Department of Police or the Department of Fire.

1989: Medical Board expanded to six physicians who are not eligible to participate in the System.

1963: A City Manager became eligible to retire after 15 years of service, down from 35 years of service. Provisions allowed the City Manager to continue contributing to annuity after they reached minimum retirement age as long as they remained in the employ of the City.

1963: Refund of the full four percent compounded interest on members' contributions was approved to be paid to the nominated beneficiary as part of the member's ordinary death benefit, effectively doubling the amount of interest refundable at death.

Appendix C: Other Notable Moments in the NERS' History and Notable Ordinance Amendments

1965: City Council approved an affiliation of the Norfolk Health Department with the State Department of Health, resulting in the creation of an affiliated district. Nurses would be considered City employees at the time of the affiliation so that they could maintain their credentials and seniority, along with the option to join the City's retirement System versus the State retirement system.

1967: City began awarding retirement pins to employees who were retiring as appreciation for their betterment of the community.

1968: Amendments to the ordinance to suspend retirement benefit payment to members who were appointed to a board, commission or other body or rehired in a NERS eligible position until termination of the term of office.

1968: Retirement allowances begun being paid on the last day of the month.

1971: Ordinance amended to allow contributions of policemen and firemen be refunded to the members of the respective department at normal, early, or ordinary, or accidental disability retirement, or to have the sum converted to purchasean additional benefit in the form of an annuity. Eligibility for normal service retirement was revised to be age 60, or once 32 years of creditable service was obtained, whichever occurred first; the normal service retirement benefit calculation was changed to 1/50th of the average final compensation multiplied by the total years of creditable service up to a maximum of 34 years.

1971: Eligibility for early service retirement eligibility for police and firemen was reduced to age 55, or completion of 27 years of service; the ability to take a deferred pension upon completion of 20 years of creditable service so long as contributions had not previously been withdrawn from the ERS or NERS; and mandatory retirement age was to be reduced to age 62 was established.

1972: Applicable to police and firemen: the retirement benefits calculation was revised to be based upon three highest earning years down from five. Retirement age revised to age 55, or 25 years of service, whichever comes first, to qualify for normal service retirement, with vesting of benefits after 10 years of service. For general employees: the retirement benefits calculation was revised to be based upon three highest earning years down from five.

1974: Widows pension provision became available to all members then receiving a pension as well as those who retire in the future; equaling a monthly benefit for life to the surviving spouse of such persons in lieu of a lump sum payment.

1975: Ordinance passed to provide for the restoration of creditable service to those who previously retired or left service, subject to repayment of withdrawn contributions with interest.

1975: Ordinance passed to allow State employees of the General District courts, Juvenile and Domestic Relations courts, and those providing social services for the courts to remain in the City's retirement System when those courts and personnel became an operation of the State.

1976: Provision added to disability retirement ordinance allowing the Board of Trustees to require reexamination of a member retired on disability upon learning they are engaged in gainful employment.

1976: Amendments to the ordinance providing for benefits under presumptions with respect to certain diseases or certain conditions as they relate to the Sheriff and Deputy Sheriffs, including the requirement of physical examinations of current personnel, and prior to employment of future personnel.

Appendix C: Other Notable Moments in the NERS' History and Notable Ordinance Amendments

1976: Amendment to the ordinance to have the Internal Revenue Service (IRS) qualify the City's plan under Section 401(a). Qualification under 401(a) meant the widow's benefit was no longer taxable to the estate of the deceased beneficiary. The IRS required certain amendments to qualify including: eliminating the preferential service retirement allowance previously granted to City Managers; amendments clarifying if an option was taken by the member it could not exceed 50 percent of that to which the member would have been entitled; and amendment to provide that should the plan be terminated or upon discontinuance of contributions to the plan by the City, employees benefits accrued could not be forfeited.

1977: Combination of retirement accounts into one consolidated Pension Accumulation Account.

1977: Amendment to the ordinance permitting an increase in the limitation on investment transactions from $1 to $2 million and eliminating limitation on short-term investments; as well as elimination of the requirement for amortizing gains and losses over the period of the bonds acquired in a bond swap, which violated accounting standards thus requiring an exception in the annual audit.

1978: Death benefits no longer payable upon the spouse's remarriage.

1978: Creation of investment committee giving the committee the same power regarding the management of funds as exercised by the Board of Trustees to invest and reinvest assets and to change investments and reinvestments with the stipulation that the committee reports all transactions to the Board of Trustees. This permitted flexibility to accommodate investments to rapidly changing and fluctuating conditions; also eliminated the monthly investment dollar limitation since working in inflationary times when having funds for reinvestment at higher interest rates.

1978: Ordinance passed allowing those on disability retirement to earn the difference between their retirement allowance and the top step of the pay plan then in existence in the position from which they retired.

1978: Ordinance passed authorizing employees to receive credit in their retirement benefits through the credit of unused sick leave.

1978: Amendment to the ordinance allowing the Board of Trustees to engage medical specialists as consultants to the Medical Board to assist in the assessment of an individual for disability retirements.

1979: Amendment to ordinary death benefit to require those employed on or after July 1, 1979, be in service for a period of five years or more before death benefits would be payable.

1979: Amendment to the ordinance to require any individual requesting accidental disability retirement to first ascertain that the disability is compensable under the Virginia Workmen's Compensation Act.

1981: Lump sum active death benefit became available again; spouse could elect lump sum payment or monthly payment based on what the member would have received had they been eligible for retirement.

1987: Eliminated compulsory retirement for general employees at age 70 due to amendments to the Age Discrimination in Employment Act. The mandatory retirement age for police and fire was continued until the end of 1993 so that lawful individualized fitness tests could be developed to determine the fitness for continued employment.

1987: Credit for 100 percent of unused sick leave in the case of firefighters permitted towards service credit.

1987: Amendment to the ordinance regarding the offset of workers' compensation benefits against retirement allowance. A retiree eligible for service or early service retirement would not be subjected to the offset provision in case of voluntary relinquishment, suspension or termination due to the member's failure, refusal, or desire not to accept vocational rehabilitation or selective employment.

Appendix C: Other Notable Moments in the NERS' History and Notable Ordinance Amendments

1988: Transfer of employees at Lake Taylor Hospital to the Hospital Authority. In accomplishing the transfer of the employees of the City, sick leave that was not transferrable to the Authority would be credited towards an employee's retirement credit with the City. Employees with less than ten years of creditable service who became employees of the Lake Taylor City Hospital Authority on July 1, 1988, were offered vested retirement benefits.

1989: Amendment to the ordinance as a result of a Supreme Court ruling that courts should defer to the Board in interpreting a plan: The Board of Trustees of the System has discretionary authority to determine eligibility for benefits and to construe the terms of this plan (for judicial review, an abuse of discretion standard of review should apply).

1989: Reduction in the number of physicians required for a disability examination from two to one, with ability to seek second opinion.

1989: Retirement benefits become taxable by the Commonwealth of Virginia, effective with the 1989 tax year.

1990: Amendment to Code Section 37-2 which allowed beneficiaries of retirees that are alive on the first day of the month to be entitled to the retirement allowance for the entire month; provided for an eligible survivor to receive a benefit equal to one-half of any cost-of-living allowance in addition to receiving one-half of the retirement payable to the deceased retired member.

1991: The City Council gave permission to use the projected unit credit actuarial cost method in lieu of entry age method to calculate amount of accrued liability of the System and the amount of which the assets either exceed the accrued liability or not, or the amount of unfunded liability.

1992: Paramedic employees were added to the coverage under normal service retirement on the same basis as firefighters.

1993: Began offering health insurance participation to retirees.

1995: Definition of membership in NERS amended to include City Council members.

1996: Amendment to the ordinance reducing the penalty for early service retirement.

1996: Retroactively raised the public safety retirement accrual rate from 1.66 percent to 2.5 percent.

1997: Amendment to the ordinance to permit the Board of Trustees to purchase nonrecourse fiduciary liability insurance to protect the Board of Trustees and the System; premiums to be paid out of retirement plan assets.

1997: Extension of retirement benefits to permanent part-time workers with a prorated creditable service accrual rate.

1997: Vesting requirement was reduced to five years down from ten years.

1998: Resolution adopted clarifying the City Manager is the Director of Public Safety for purposes of determining normal retirement age.

1999: Established 401(a) Money Purchase Plan for City Manager to be administered by ICMA Retirement Corporation (now MissionSquare Retirement).

2000: Amendment to the ordinance eliminating early service retirement penalty for Council appointees in the event of "involuntary separation" to conform with State code.

Appendix C: Other Notable Moments in the NERS' History and Notable Ordinance Amendments

2001: Amendments to the ordinance regarding retirement provisions applicable to Council setting retirement multiplier to 2.5 percent and capping the retirement benefit at 65 percent average final compensation. Creditable service calculated from day of the first term of Council. As of January 1, 2022, newly appointed City Council members may not participate in the NERS or the VRS.

2002: Amendment to the ordinance as a result of Federal tax law changes affecting pension plans. The definition of employee for purposes of the System was amended to exclude contracted and/or leased employees who are independent contractors and not intended to be members of the System.

2004: Resolution adopting retirement health savings plan for City employees to assist in funding their health spending needs during retirement. Benefit offered through 2011.

2004: Amendment to the ordinance to clarify any voluntary contributions of earned compensation by employees to City-authorized benefit plans (such as cafeteria and deferred compensation plans) are not calculated as earned compensation for tax purposes, but would continue to be counted with respect to earnable compensation for retirement purposes.

2004: Amendment to the ordinance to credit compensation earned during Temporary Active Service of at least 30 consecutive workdays toward retirement calculations.

2005: The NERS received first ever Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association. Since its first award, the NERS has continued to receive this recognition. The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting.

2008: Resolution adopted to provide enhanced benefits to certain Regional Jail employees in hazardous duty positions by lowering the retirement age to 60 with a supplement paid monthly until normal Social Security retirement age is reached.

2009: The City passed a resolution affirming its intention to establish and maintain a pick-up arrangement in order to treat the VRS member contribution (five percent) of certain employees on a pre-tax basis.

2010: Virginia General Assembly in its 2010 session passed legislation creating a separate retirement plan under the VRS for employees of an entity participating in the VRS hired on or after July 1, 2010 (referred to as Plan 2 employees). That legislation stipulated that absent other action, Plan 2 employees would pay their five percent member contribution and that such contribution would be paid through salary reduction according to IRS Code 414(h) on a pre-tax basis. The legislation allowed local employers participating in the VRS, to pick-up and pay all or a portion of such Plan 2 employees' member contributions as an additional benefit not paid as salary.

2012: The City elected to self-fund its participation in the Virginia Line of Duty Act Fund (LODA). The General Assembly established the Line of Duty Act to provide death and continuing health insurance benefits to surviving dependents of public safety personnel killed in the line of duty. For public safety disability, the LODA also provides continuing health insurance benefits for public safety personnel and their dependents. Previously, benefits were paid from the State treasury.

2012: The General Assembly passed legislation requiring all VRS participating employees to contribute five percent of their salary to VRS while also requiring localities to increase salaries for these employees by five percent in order to offset the employee contribution.

2014: Amendment to the ordinance to establish the Deferred Retirement Option Program (DROP) with a maximum 48-month participation period for eligible public safety officers.

Appendix C: Other Notable Moments in the NERS' History and Notable Ordinance Amendments

2015: Amendment to the ordinance regarding mandatory contributions – members with a break in service who return after October 5, 2010, shall be required to make the five (5) percent contribution through salary reduction.

2015: Amendment to the DROP ordinance to include the option to distribute the DROP account balance to an eligible retirement plan at the end of the DROP period.

2016: Amendment to the DROP ordinance to provide payment of a decedent's DROP account balance.

2020: Ordinance adopted electing enhanced hazardous duty retirement benefits for officers and employees of Norfolk Sheriff's Office participating in VRS.

2020: The NERS received its first ever Award for Outstanding Achievement for its Popular Annual Financial Report (PAFR) – a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports. Since its first award, the NERS has continued to receive this recognition.

2021: Resolution passed authorizing pick-up of employee contributions to the VRS for purchase of past service credit.

2022: Ordinance was adopted modifying the City Attorney's retirement benefit calculation to include the Public Safety retirement multiplier (2.5%) for time served from May 1, 1997, until their retirement, in conjunction with the General Employee multiplier (1.75%) for time served prior to May 1, 1997, up to the maximum of 35 creditable years of service for the purpose of providing legal counsel to the police and fire departments. Unlike Public Safety employees, the City Attorney was afforded social security.

2022: Resolution passed directing the City to become a VRS covered employer to employees hired on or after January 1, 2022, excluding City Council member as of this date.

2022: Ordinance adopted to expand DROP participation up to a maximum of 60 months and to include all NERS members both general and public safety officers.

Appendix D: Funded Ratio History of the NERS

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.

Funded status measures a retirement system's assets compared to its projected liabilities (payouts). Funded status is an important measure of a system's health and is considered by credit rating agencies when determining the City's credit rating. A funded status of 80 percent or higher is generally considered healthy.

The list below illustrates the NERS Funded Ratio history from 1995 through 2023:

Fiscal Year	Actuarial Funded Ratio *
2023	84.50%
2022[1]	84.20%
2021[2]	90.60%
2020	77.40%
2019	78.50%
2018	78.00%
2017	78.10%
2016	83.60%
2015[3]	84.80%
2014	84.50%
2013	82.30%
2012[4]	80.70%
2011	78.20%
2010	78.10%
2009	86.00%
2008	92.90%
2007[5]	95.20%
2006	93.80%
2005	96.60%
2004	96.50%
2003	93.50%
2002	101.70%
2001	115.60%
2000	131.60%
1999	127.70%
1998	121.80%
1997	110.70%
1996	113.90%
1995	108.90%

* Source: Annual Comprehensive Financial Report (ACFR)

Footnote references on Page 35.

Appendix D: Funded Ratio History of the NERS (*continued*)

[1]Effective Fiscal Year ending 2023, the City began making separate contributions to the System from the Section 115 Trust that was previously established. 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. Including the Trust as part of the System's assets, the System's funded ratio will be higher on an actuarial value basis compared to the System's ratio.

[2]On June 15, 2021, the City sold $210,800,000 in taxable General Obligation Bonds to increase the funding of the NERS. The true interest cost on the bonds was 1.94 percent. The City used $119,553,490 of the bond proceeds to immediately improve the pension funded ratio of the NERS from 77 percent to approximately 91 percent. The remaining bond proceeds of $90,446,510 were used to fund the newly created irrevocable Pension Funding Trust (Section 115 Trust), for the benefit of the NERS. The City initially established U.S. Bank National Association as trustee, which was changed to Principal Custody Solutions in 2022. The Trust will make transfers to the System over the life of the bonds and is currently anticipated to be $8,716,323 annually.

[3]The Governmental Accounting Standards Board (GASB), founded in 1984, sets the accounting and financial reporting standards for state and local governments. GASB rules aim to enhance accountability and transparency in the financial reporting of state and local governments. In 2012, the GASB released new rules Number 67 and 68, effective in 2013 and 2014 respectively, on how auditors and actuaries must report unfunded pension liabilities. GASB 67 focuses on the financial reporting requirements for pension plans themselves. The standard established new guidelines for measuring and reporting the financial activities of a pension plan, and requires the disclosures about funding, investments, and actuarial assumptions. GASB 68 focuses on the accounting and financial reporting requirements for state and local governments participating in pension plans and introduced changes to how governments recognize and report their pension obligation costs. For the fiscal year ending June 30, 2015, the City implemented GASB Number 68, which required the recording of the net pension liability, pension expense and related deferred inflows and outflows on the statement of net position. A restatement of the beginning net position was required for this adoption of new accounting standards.

[4]The actuarial asset valuation method was changed June 30, 2012, to a new smoothing method. The prior actuarial asset valuation method reflected expected income (based on the valuation interest rate) and spread over three years recognition of any gains (losses) due to investment return in excess of (or less than) the expected return. The new method was 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 of the system over the year prior to the valuation. One-third of the market value of assets less the expected actuarial value of assets is then added to the expected actuarial value of assets to determine the valuation of assets. The actuarial value of assets increased, and the funding shortage decreased by $54.6 million in Fiscal Year 2012, as a result of this change.

[5]The actuarial cost method was changed June 30, 2007, from the Projected Unit Credit to the Entry Age Normal. Actuarial assumptions were also changed as a result of an experience study.

SPECIAL THANKS

to all who have contributed to the history of the NERS.

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THE CITY OF NORFOLK®

NORFOLK EMPLOYEES' RETIREMENT SYSTEM