

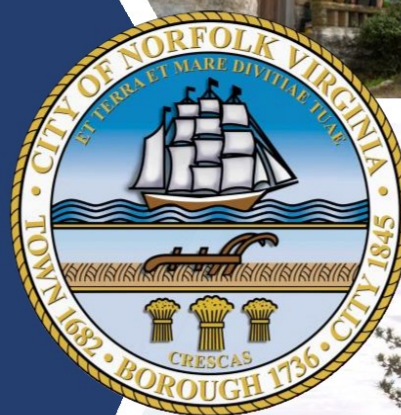


THE CITY OF  
**NORFOLK**<sup>®</sup>

NORFOLK EMPLOYEES' RETIREMENT SYSTEM

A Pension Trust Fund of the City of Norfolk, VA

# Popular Annual Financial Report



# 2023

Fiscal Year Ended June 30, 2023

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Drone Photography over 2023 Harbor Fest & Parade of Sails, Photographer Andrew Cooper



# MESSAGE TO OUR READERS

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

It is with great pleasure that we present the NERS Popular Annual Financial Report (PAFR) for Fiscal Year ended June 30, 2023. The System is a Pension Trust Fund included in the financial statements of the City of Norfolk, Virginia.

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

The System is a single-employer contributory defined benefit plan that covers eligible employees of the City of Norfolk, with the exception of Constitutional Officer employees, Norfolk School Board employees and employees who are covered by the Virginia Retirement System (VRS). The City of Norfolk, acting through City Council, elected to join the VRS and provide VRS retirement benefits for all new eligible employees effective January 1, 2022. As a result, the System is closed to new membership.

Although the System presents separate financial statements, it is also included as a Pension Trust Fund, fiduciary fund type in the City of Norfolk's Annual Comprehensive Financial Report (ACFR).



View from Willoughby Spit, Norfolk, Virginia

Sincerely,

*Norfolk Employees' Retirement System*

# BOARD OF TRUSTEES

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

## **Lawrence (Larry) A. Bernert III, CFA**

Chair

Appointed October 30, 2007

## **Daryl N. Howard**

Member represents City Public Safety Employees

Appointed January 29, 2019

## **Yvonne T. Allmond**

Vice-Chair

Appointed October 30, 2007

## **James (Jim) J. Izard, II**

Member

Appointed June 11, 2019

## **Kenneth W. Crowder**

Member

Appointed February 3, 2009

## **Lashawnda W. Hall**

Member represents City General Employees

Appointed January 1, 2023

## **Elizabeth (Liz) A. Delude**

Member

Appointed November 24, 2020

## **Christine A. Garczynski**

Ex-officio Trustee as the Director of Finance

Appointed by virtue of position with the City

## **Arthur (Butch) M. Eason, III**

Member

Appointed November 25, 2014

## **Catheryn R. Whitesell**

Ex-officio Trustee represents the City Manager

Appointed by virtue of position with the City

# SYSTEM HISTORY

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



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

**NERS is a defined benefit plan, with eligibility based on factors such as age and years of service.** Defined benefit plans provide recipients a retirement income for their lifetime. This differs from defined contribution plans, such as 401(k)s, where a recipient can outlive their accumulated savings. Eligible NERS members may be entitled to receive a service retirement or disability pension, an ordinary death benefit as an active employee, in addition to possible benefits for beneficiaries.

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

**NERS members are required to meet the five (5) year vesting requirement to be eligible for a future retirement benefit.** Upon vesting, mandatory member contributions become an asset of the System to be used to pay benefits under the System. In the event of death or departure of an employee prior to vesting, member contributions, including accrued interest, shall be refunded. Interest was accrued at the rate of 0.39 percent during the Fiscal Year ended June 30, 2023.

**The City of Norfolk began making separate contributions in the amount of \$8.7 million annually to the System from the Section 115 Pension Trust Fund established in June 2021.**



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

# SYSTEM MEMBERSHIP

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

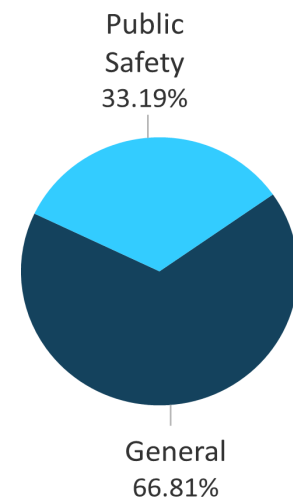
The NERS serves 8,241 active and retired members, including beneficiaries. The types of members covered by the System consists of retirees and beneficiaries receiving benefits, vested former members entitled to but not yet receiving retirement benefits, and active plan members. As of June 30, 2023, the membership consisted of 4,524 retirees and beneficiaries receiving benefits, 1,596 vested former members and 2,121 active members. Active NERS membership decreased by 845 members in FY 2023 due to the closure of NERS to new membership and approximately 400 NERS members making a one-time election to leave NERS membership and become participating VRS members.

## THE SYSTEM BY THE NUMBERS

### Plan Membership

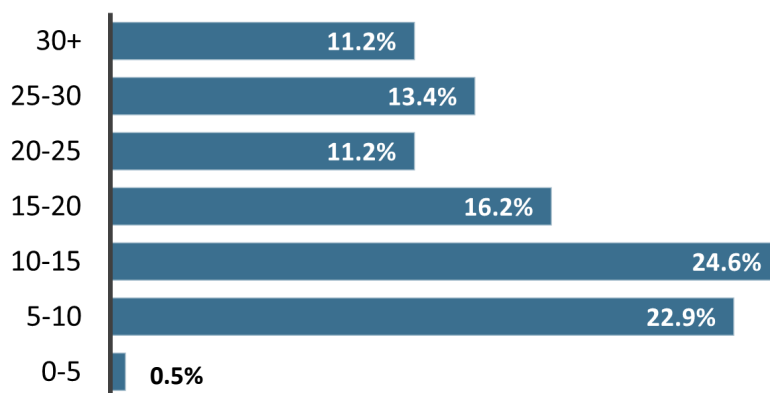
	FY 2023	FY 2022
Retirees and Beneficiaries	4,524	4,351
Vested Former Members	1,596	1,533
Active Members	2,121	2,966
<b>Total Plan Membership*</b>	<b>8,241</b>	<b>8,850</b>

### Active Membership by Type



\* Decline in membership due to the January 1, 2022, closure of the NERS .

### Years of Service at Retirement



### Active Membership by Gender\*



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

# BENEFITS AND SERVICES

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

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



Lantern Asia, Norfolk Botanical Gardens 2023, Photographer Andrew Cooper

**Members are vested after five (5) years of service and are eligible for benefits upon meeting retirement eligibility requirements.**

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

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

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

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

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

## **Committed to the Highest Ethical Standards of Conduct**

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



# STRATEGIC FINANCIAL MANAGEMENT

Over the past decade there has been a lot of focus on the long-term “legacy” costs of defined benefit public pensions and the resulting unfunded liabilities that are facing many public entities. The City has taken steps to curb the exposure including the closure of the NERS and the establishment of the Section 115 Pension Trust Fund. Total liabilities as of June 30, 2023, decreased by \$105.96 million or 95.3 percent, primarily as a result of no direct broker costs given all investments are currently in comingled or mutual funds. Remarkably, despite a fiscal year where a recession was forecasted by many economists, the



Norfolk City Hall

financial markets performed better than expected during Fiscal Year 2023. The actual return on a fair value basis was approximately 8.64 percent. On an actuarial value basis, the assets returned 5.09 percent compared with an assumed rate of return of 6.75 percent. The City consistently contributes the actuarially determined amounts to systematically pay off the unfunded liability of the NERS. Additions to the Plan increased for Fiscal Year 2023 by \$234.55 million from the prior year, due primarily due to a gain in investment income.

## FINANCIAL STATEMENTS

**NERS management is responsible for the preparation and fair presentation of the financial statements.**

CLA (CliftonLarsonAllen LLP) performed an independent audit of such financial statements and expressed an unmodified, or clean, opinion thereon, which means the financials are presented fairly.

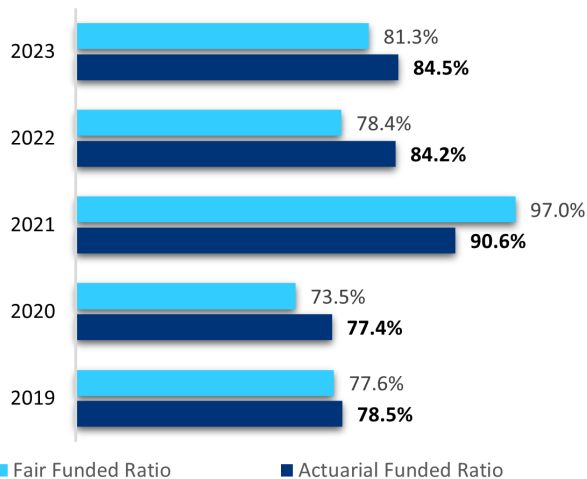
- **The statement of fiduciary net position presents the System’s assets and liabilities and the net position restricted for pensions (also known as funded ratio) as of June 30, 2023.** The assets comprise cash and cash equivalents, receivables and fair value of investments. Liabilities are comprised of accounts payable and accrued expenses, in addition to payables due to brokers for securities purchased, if any.
- **System assets exceeded liabilities at the close of Fiscal Years 2023 and 2022 by approximately \$1.24 billion and \$1.20 billion, respectively.** In Fiscal Year 2023, plan net position restricted for pensions increased by \$42.25 million or 3.5 percent from the previous fiscal year.
- **The System’s funding objective is to meet long-term benefit obligations through contributions and investment income.** The net position as a percentage of the total pension liability or funded status on an actuarial basis, was 84.5 percent and 84.2 percent, at June 30, 2023 and June 30, 2022, respectively.

Norfolk Employees’ Retirement System

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# FINANCIAL STATEMENTS (Continued)

## Funded Status for the Past 5 Fiscal Years (As of June 30, 2023)



One measure of a pension fund's health is its funded status.

The funded status provides a point in time measurement of the Plan's ability to pay for future benefit payments payable to NERS members.

One factor to keep in mind is that all benefits the System is obligated to pay are not due and payable immediately. Funds are available for all current and future beneficiaries.

Rating agencies consider a funded status of 80 percent to be a well-funded Plan.

## Fiduciary Net Position Restricted for Pensions for the Past 5 Fiscal Years (As of June 30, 2023) (In '000s)



## Employees' Retirement System of the City of Norfolk Summary of Plan Fiduciary Net Position For the Fiscal Years Ended June 30, 2023 and 2022

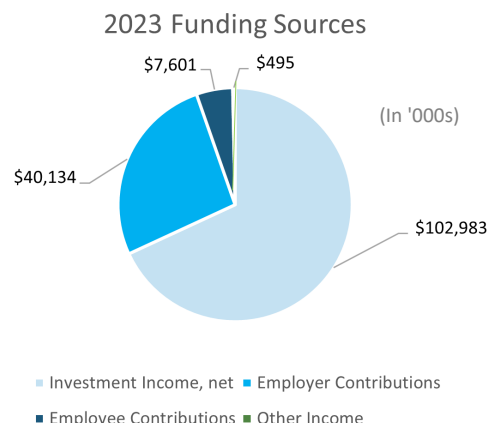
	FY 2023 (In '000s)	FY 2022 (In '000s)	Percentage Change
<b>ASSETS</b>			
Cash and cash equivalents	\$ 4,369	\$ 38,824	-88.7%
Receivables	587	61,123	-99.0%
Investments	1,245,205	1,213,924	2.6%
<b>Total Assets</b>	<b>1,250,161</b>	<b>1,313,871</b>	<b>-4.8%</b>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	5,251	3,927	33.7%
Due to brokers for securities purchased	-	107,281	-100.0%
<b>Total Liabilities</b>	<b>5,251</b>	<b>111,208</b>	<b>-95.3%</b>
<b>Plan Net Position Restricted for Pensions</b>	<b>\$ 1,244,910</b>	<b>\$ 1,202,663</b>	<b>3.5%</b>

# FINANCIAL STATEMENTS (Continued)

Additions increased for Fiscal Year 2023 by \$234.55 million from the prior year, due primarily to an increase in investment income.

The financial markets performed better than expected during the Fiscal Year ended June 30, 2023.

Total deductions for Fiscal Year 2023 were \$108.97 million, an increase of \$6.09 million over Fiscal Year 2022 deductions. The increase in pension benefits payments is a result of an increase in the number of new retirements, in addition to the 50.8 percent increase in refunds of contributions.



## Employees' Retirement System of the City of Norfolk Summary of Changes in Plan Fiduciary Net Position For the Fiscal Years Ended June 30, 2023 and 2022

	FY 2023 (In '000s)	FY 2022 (In '000s)	Percentage Change
<b>ADDITIONS</b>			
Investment Income, net	\$ 102,983	\$ (134,727)	176.4%
Employer Contributions*	40,134	41,457	-3.2%
Employee Contributions	7,601	9,364	-18.8%
Other Income	495	572	-13.5%
<b>Total Additions</b>	<b>151,213</b>	<b>(83,334)</b>	<b>281.5%</b>
<b>DEDUCTIONS</b>			
Benefit Payments	103,551	99,100	4.5%
Refunds of Contributions	4,410	2,924	50.8%
Administrative Expenses	1,005	848	18.5%
<b>Total Deductions</b>	<b>108,966</b>	<b>102,872</b>	<b>5.9%</b>
<b>Net Increase/(Decrease)</b>	<b>42,247</b>	<b>(186,206)</b>	<b>122.7%</b>
<b>Plan Net Position Restricted for Pensions</b>			
Beginning of the Year	1,202,663	1,388,869	
End of the Year	\$ 1,244,910	\$ 1,202,663	3.5%

\*Includes \$8.7 million contribution for FY 2023 from the Section 115 Pension Trust Fund.

### EXTRA EXPLANATIONS:

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

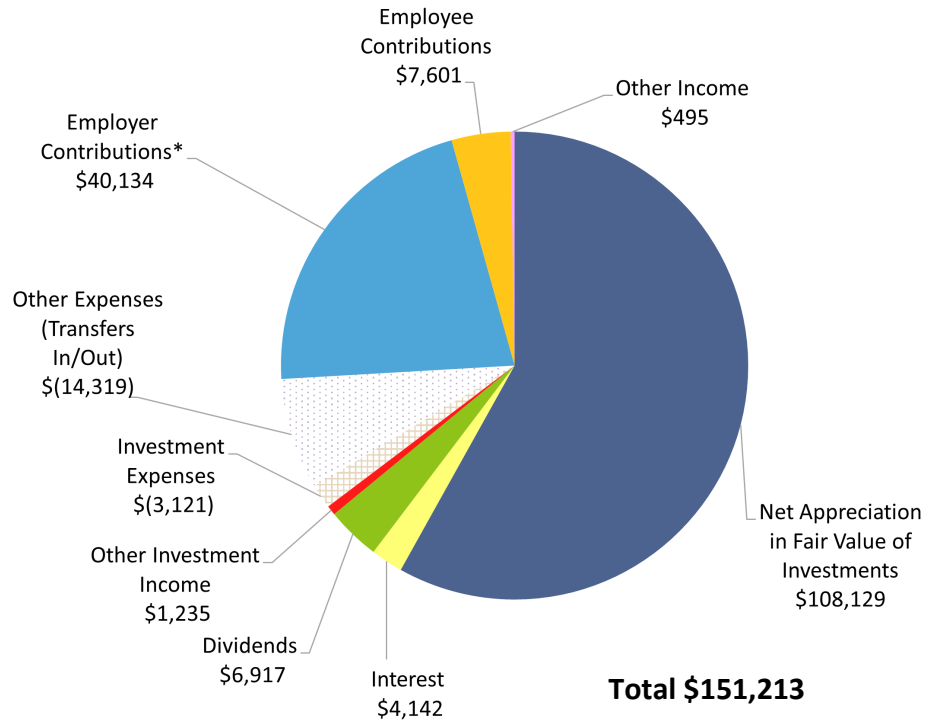
**Changes in Plan Net Position.** Reflects changes in resources available to pay benefits during the fiscal year.

# INCOME

As of June 30, 2023  
(In '000s)

The primary sources of additions to the net position are employer contributions, employee contributions and net investment income.

Contributions are a direct result of the actuarially determined employer contribution rate and five (5) percent of the covered payroll of active NERS employees.



\*Includes \$8.7 million contribution from the Section 115 Pension Trust Fund.

# CONTRIBUTIONS

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

## Total Annual Contributions

Fiscal Year	Employer Contributions* (In '000s)	Employee Contributions (In '000s)	Total Annual Contributions (In '000s)
2019	\$ 37,079	\$ 9,673	\$ 46,752
2020	38,494	9,838	48,332
2021	160,252	9,712	169,964
2022	41,457	9,364	50,821
2023	40,134	7,601	47,735

\*Fiscal Year 2021 includes \$119.6 million initial contribution from the General Obligation Bond issuance. Fiscal Year 2023 includes \$8.7 million contribution from the Section 115 Pension Trust Fund.

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# INVESTMENTS

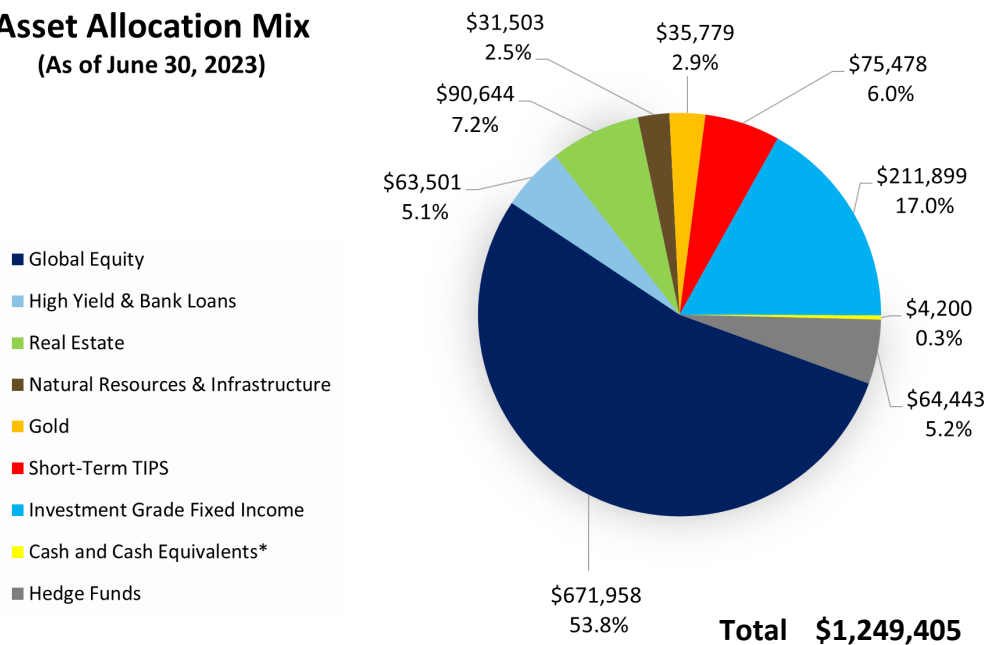
The investment program is designed to generate a long-term return that meets the System's objectives while minimizing risk. This structure and administration of the portfolio is defined by the prudent person standard. The standard states that the Board may invest the System's funds in every type of investment which persons of prudence, discretion, and intelligence, acquire or retain for their own account under similar circumstances. By establishing a well-diversified investment portfolio, the System has strengthened control over the fund's risk and return parameters. In fall 2022, the Trustees, with assistance of the Outsourced Chief Investment Officer (OCIO), adopted a new diversified asset allocation policy with a more actively managed roster. The independent OCIO monitors, evaluates and reports the performance of the investment managers and the aggregated total plan investment portfolio to the Board on a monthly basis.

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

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

The following charts shows the asset allocation mix at June 30, 2023.

## Asset Allocation Mix (As of June 30, 2023)



\*Excludes cash held in deposits.

The Board, with the assistance of the OCIO, manages investments with prudent care, constant attention, specialized expertise, and a concern for the financial security of the NERS membership.

# INVESTMENTS (Continued)

**Fiscal Year 2023 began with positive performance across global markets, especially in the United States (U.S.).** The second quarter of Fiscal Year 2023 started very strong for developed market equities, on returned signs that inflation may be peaking, monetary policy tightening remained relatedly slow, and hopes for a soft-landing of major economies. However, as the quarter progressed, the world received differing signals on inflation.

**Financial markets were volatile in the third quarter of the fiscal year, driven by investors continuing to adjust their interest rate and inflation expectations and the failure of Silicon Valley Bank and a few other regional banks. Ultimately, however, the swift emergency actions taken by the Federal Reserve, the Treasury, and other government agencies helped alleviate some of the concerns connected to the banking sector.** This, and a focus on slowing inflation and potentially peaking rates, led to most asset classes experiencing positive results for the quarter with riskier assets leading the way.

**Financial markets were mixed in the final quarter of Fiscal Year 2023 as investors continued to contend with the track of inflation, the path of monetary policy, lingering fears from the regional banking crisis, and an uncertain economic outlook.** Most equity markets posted positive returns for the quarter, while fixed income markets fell slightly, as rates rose, reflecting expectations for the Federal Reserve to continue its policy of tightening rates.

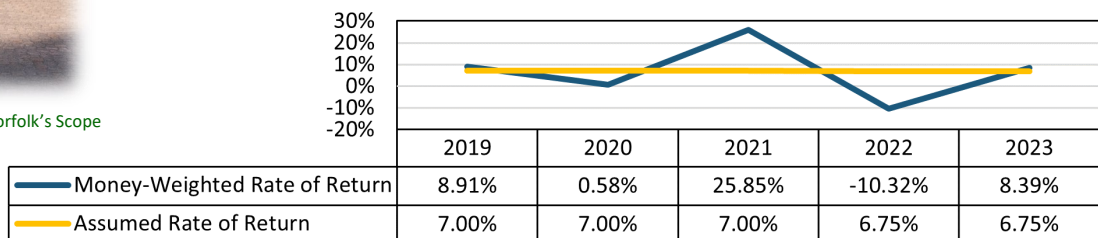
**The investment return results of each year are important to continue to provide sufficient income for benefit payments.** Strong investment returns strengthen the foundation by making assets available for investment, however if investment income cannot cover the benefit payments, NERS must use assets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



Virginia International Tattoo at Norfolk's Scope

This chart illustrates the NERS' portfolio performance over the last five (5) fiscal years. The System's Fiscal Year 2023 rate of return was 8.39 percent versus the long-term assumed rate of return objective of 6.75 percent (reduced from 7.0 percent in prior years).

**Investment Rate of Return**



Assumed Rate of Return reduced from 7.0% to 6.75% in Fiscal Year 2022.

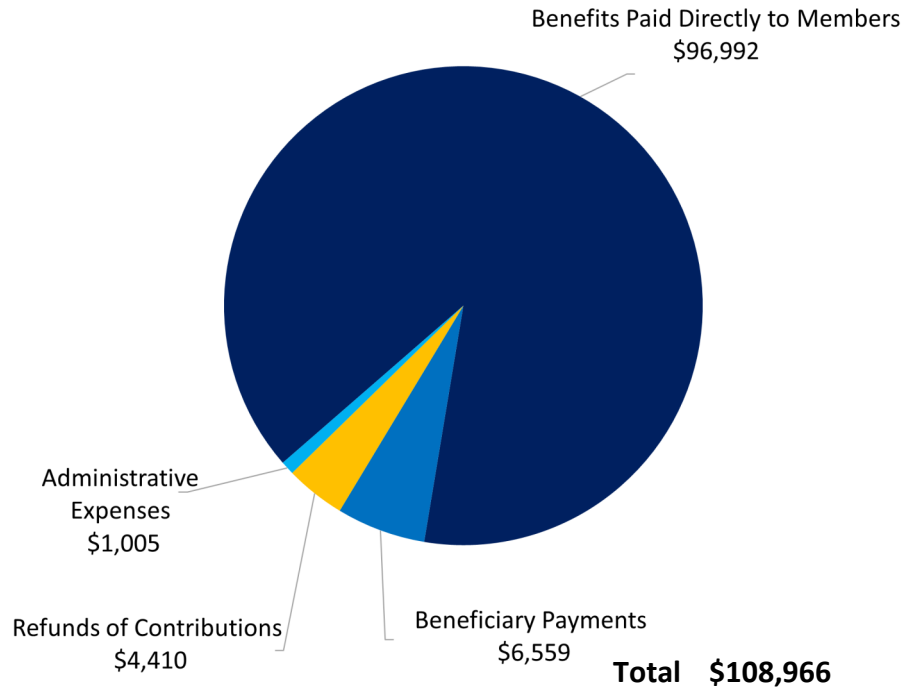
# EXPENSES

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

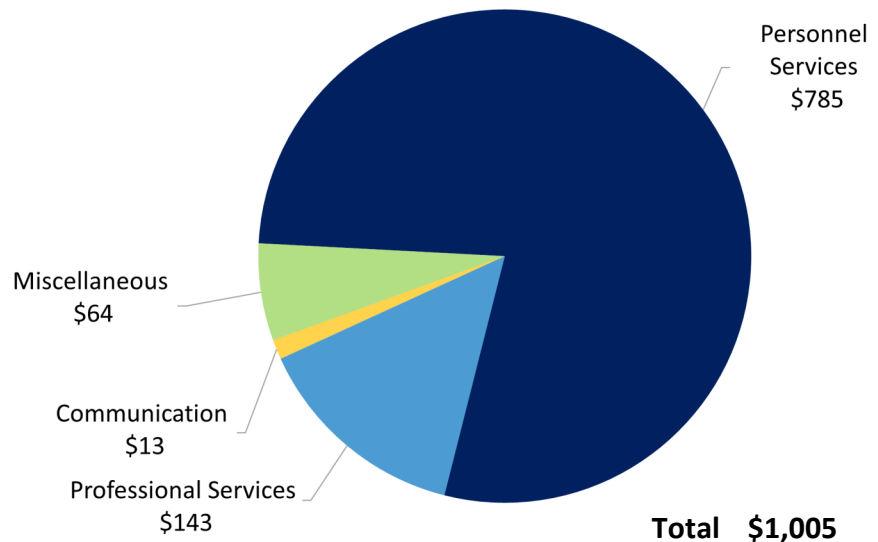
The increase in benefit payments is attributed to the increase in the number of new retirements and refunds of contributions.

Administrative costs related to the System's operations, include personnel, professional and communication services, as well as miscellaneous expenses.

**Pension Expenses**  
(As of June 30, 2023)  
(In '000s)



**Administrative Expenses**  
(As of June 30, 2023)  
(In '000s)

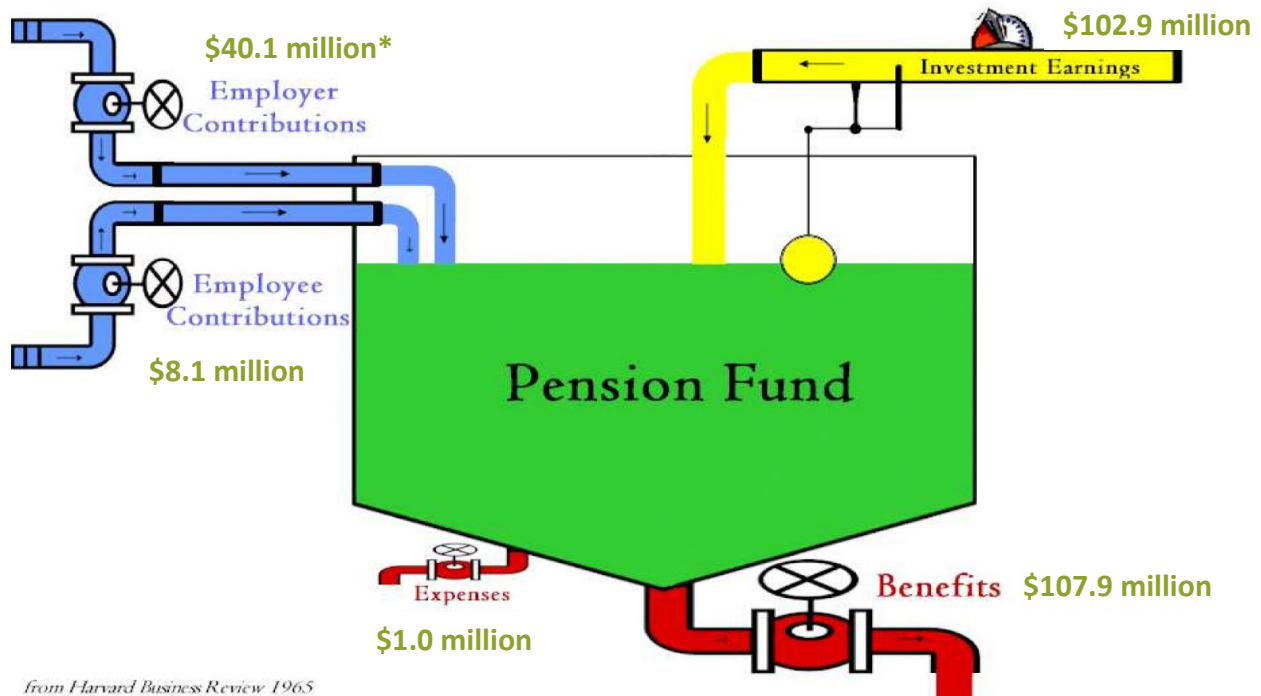


**Norfolk Employees' Retirement System**

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# FUNDED STATUS

It is important to analyze and monitor the long-term obligations of the NERS. The System's funding objective is to meet long-term benefit obligations through contributions and investment income. This is depicted in the graphic below with Fiscal Year 2023 information.



\*Includes \$8.7 million contribution from the Section 115 Pension Trust Fund.

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

The System's funding objective is to pay long-term benefits through contributions (and investment returns on such contributions) that remain relatively level from year to year. **The amount contributed is a direct result of the actuarially determined employer contribution rate and the five (5) percent of the covered payroll of active NERS employees.**

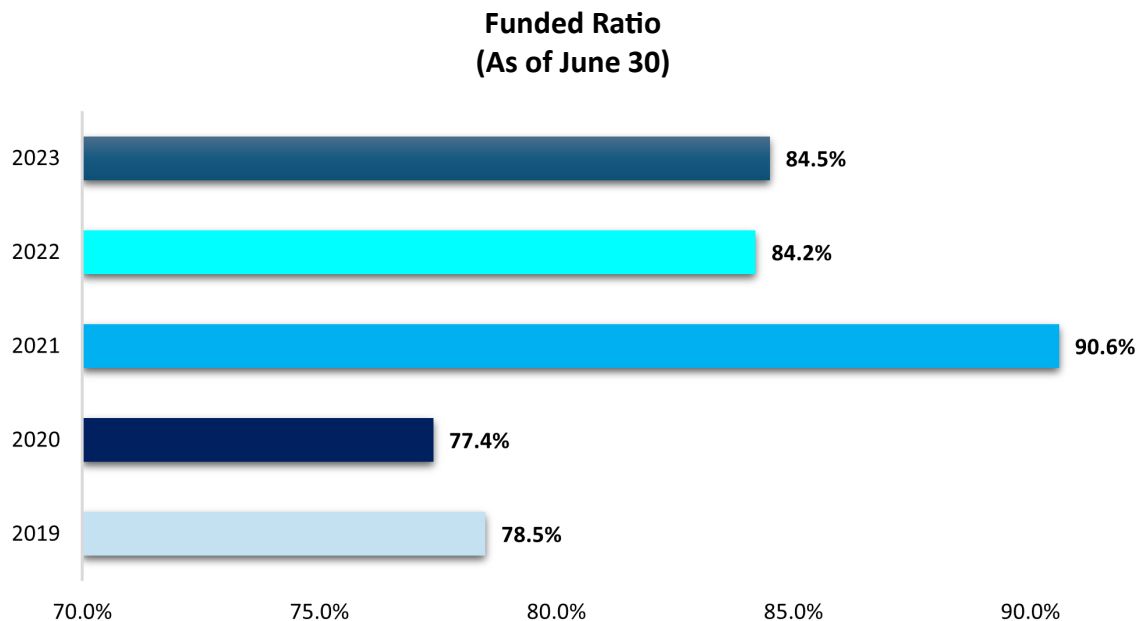
Using this methodology, the employer and active NERS employees each pay for retirement service accrued by active employees in any given year.

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



# FUNDED STATUS (Continued)

The actuarial funded ratio increased to 84.5 percent as of June 30, 2023, compared to a funded ratio of 84.2 percent as of June 30, 2022. Total liabilities decreased by \$105.96 million for the Fiscal Year 2023, primarily due to no direct broker costs given all investments are currently in commingled or mutual funds. Below is a chart showing the historical actuarial funding ratios of the NERS over the last five (5) fiscal years.



FY 2021 funded ratio increase was due to the inclusion of the City's one-time \$119.6 million contribution from the issuance of General Obligation Bonds.

The City is expected to continue to annually contribute to the NERS to amortize its remaining outstanding unfunded actuarial liability (UAL) in accordance with the adopted pension funding policy.

As of June 30, 2023, the Section 115 Pension Trust Fund, held by the City for the benefit of the NERS, totaled \$73.97 million in assets. Had this entire amount been contributed on June 30, 2023, and recognized as part of System's assets, the System's funded ratio would be 89.3 percent on an actuarial value basis compared to 84.5 percent.

Variations from year to year may be primarily due to changes in the System's actuarial assumptions and differences in assumed and actual results. System investments are diversified to help mitigate the effects of a volatile financial market, and investment returns are smoothed over a three (3) year period.

# RESPONSIBLE FINANCIAL REPORTING

## Certificates of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Employees' Retirement System for the City of Norfolk for its Annual Comprehensive Financial Report (ACFR) for the Fiscal Year ended June 30, 2022. This was the eighteenth consecutive year the System has received this prestigious award.

In addition to the ACFR, GFOA awarded the third consecutive Award for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) to the Employees' Retirement System for the City of Norfolk for the year ended June 30, 2022.

These awards are prestigious national awards recognizing conformance with the highest standards of creativity, presentation, understandability, and reader appeal for preparation of governmental financial reports. Recognition from industry organizations demonstrates NERS' commitment to excellence in financial reporting.



### 2022 Award for Outstanding Achievement



Elizabeth River Trail, Photo credit, @timezonetravelers Instagram

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

This PAFR is derived from information contained in the NERS Fiscal Year 2023 ACFR. The NERS management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP. The ACFR offers more detailed information about the System's actuarial and financial status, investments and statistics.

# CONTACTING RETIREMENT

Please visit the City's website at [www.norfolk.gov/retirement](http://www.norfolk.gov/retirement) to view the NERS Annual Financial Reports.

## Contact the Retirement Office

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

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

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

### VISION

To provide our members with a secure pension.

### MISSION

To be a trusted leader in the delivery of benefits to those serving the citizens of the City of Norfolk.

### VALUES

Accountability, Innovation, Integrity and Respect



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