

# **Comprehensive Annual Financial Report**

## **Employees' Retirement Fund**

**A Pension Trust Fund of the City of Newport News, Virginia**

***For Fiscal Year Ended June 30, 2007***

# CITY OF NEWPORT NEWS, VIRGINIA

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City of Newport News  
Employees' Retirement Fund

**LETTER OF TRANSMITTAL**

The Board of Trustees  
Employees' Retirement Fund  
Newport News, Virginia 23607

**March 20, 2008**

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Newport News' Employees' Retirement Fund (NNERF) as of and for the fiscal year (FY) ended June 30, 2007. NNERF is considered a part of the City of Newport News' financial reporting entity and is included in the financial statements (CAFR) of the City of Newport News as a pension trust fund, a fiduciary fund type. The City's CAFR, which is submitted to the Government Finance Officers Association for review under the Certificate of Achievement for Excellence in Financial Reporting program, is available upon request from the City's Department of Finance or online at [www.nngov.com](http://www.nngov.com).

Responsibility for the accuracy of the data, the completeness, and the fairness of the presentation rests with the management of NNERF. This presentation should prove helpful in understanding the fund, which continues to maintain a strong and positive financial position.

This report consists of five sections, which are described as follows:

- The **Introductory Section** contains this Letter of Transmittal, identification of the Board of Trustees and the Administrative Organization, and a list of professionals who provide services to the Board.
- The **Financial Section** contains the independent auditors' report, management's discussion and analysis, the financial statements of the Fund, certain required supplementary information and other supplementary information.
- The **Investment Section** contains a report on investment activity, investment policies, investment results, and schedules of fees and commissions.
- The **Actuarial Section** contains the independent actuary's certification letter, assumption tables, and schedules of valuation data.
- The **Statistical Section** contains significant data pertaining to the Fund.

### **Profile of the Fund**

The NNERF is a single employer, defined benefit, public employee retirement system established and administered by the City to provide pension benefits for employees of the local government,

**INTRODUCTORY SECTION**

including the Newport News School System. For those school teachers and administrative support personnel employed by the Newport News School Board, the City plan is a supplement to the Virginia Retirement System.

NNERF is a separate pension trust fund and is considered part of the City’s financial reporting entity. All full-time regular employees are members of this fund. For the year ended June 30, 2007, the total payroll of the City was approximately \$338.9 million, with approximately \$305.2 million covered by NNERF. At June 30, 2007, NNERF membership consisted of:

|                  | <b>Retirees<br/>and<br/>beneficiaries</b> | <b>Vested<br/>terminated<br/>employees</b> | <b>Active<br/>employees<br/>vested</b> | <b>Active<br/>employees<br/>non-vested</b> | <b>Total</b>  |
|------------------|---|--|--|--|---------------|
| General          | 771                                       | 564  | 1,205                                  | 739  | 3,279         |
| Police and fire  | 526                                       | 190  | 585                                    | 329  | 1,630         |
| Public utilities | 169                                       | 86   | 288                                    | 66   | 609           |
| School VRS       | 1,760                                     | 780  | 2,160                                  | 1,639                                      | 6,339         |
| School Non-VRS   | 595                                       | 116  | 682                                    | 411  | 1,804         |
| Total            | <u>3,821</u>                              | <u>1,736</u>                               | <u>4,920</u>                           | <u>3,184</u>                               | <u>13,661</u> |

**Benefits and Services Provided**

NNERF provides retirement benefits as well as death and disability benefits. All benefits vest after five years of credited service. Employees who retire at or after age 60 (50 for police officers, firefighters and deputy sheriffs) with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.0% of their final average salary for each year of credited service. Final average salary is defined as the average rate of salary received during the highest paid 36 consecutive months of credited service. Employees with 30 years (25 for police officers, firefighters and deputy sheriffs) credited service may retire at any age with full benefits. Employees (other than police officers, firefighters and deputy sheriffs) with 25 years of service may retire prior to age 60 and receive a reduced benefit. Covered employees do not contribute to NNERF.

The City provides a Benefit Statement to all active members on an annual basis. Throughout the year counseling is provided to all benefit applicants. Presentations are conducted during new employee orientations to introduce and explain the retirement benefits.

Benefits and contribution provisions are established by City Ordinance and may be amended only by the City Council. An actuarial service is employed to advise the City Council and the Retirement Board of the contributions necessary to fund the benefits.

**Accounting System and Internal Control**

Financial statements included in this report are the responsibility of the NNERF’s management and have been prepared in accordance with the principles of governmental accounting and reporting promulgated by the Governmental Accounting Standards Board (GASB).

The accrual basis of accounting is used to record assets, liabilities, and net assets, as well as additions (revenue) and deductions (expenses). Additions are recorded when earned regardless of the date of

## INTRODUCTORY SECTION

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collection. Deductions are recorded when liabilities are incurred regardless of when payment is made.

In developing the accounting system, consideration was given to the adequacy of internal accounting controls. These controls were designed to provide reasonable, but not absolute, assurance regarding the safekeeping of assets against loss from unauthorized use or disposition; and the reliability of the financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived; and the evaluation of cost and benefits requires estimates and judgments by management. Efforts are continually being made toward improving the controls to ensure a financially sound retirement system.

### **Funding Status**

A pension plan is considered adequately funded when sufficient reserves are available to meet all expected future obligations to participants. The NNERF funding objective is to meet long term benefit payments through annual employer contributions that remain relatively stable as a percentage of member payroll. Increased funding improves the ratio of assets and provides greater investment potential. The advantage of a well-funded plan is that participants are confident that assets are committed to the payment of their current and future benefits. The actuarial valuation used for this report period was completed with payroll data as of June 30, 2007. Information from this report is included in the Actuarial Section.

### **Investments**

The Board of Trustees has adopted a written Investment Policy that includes the guidelines and objectives for the Investments. The Trustees are empowered to invest NNERF assets utilizing the "prudent person" standard and to take appropriate action regarding the investment, management, and custodianship of the assets. The investment responsibilities include establishing reasonable investment objectives, developing investment policy guidelines, selecting investment managers and evaluating performance results to assure adherence to the guidelines and the achievement of objectives. Each investment manager must adhere to the guidelines established by the Trustees to ensure asset quality, diversification, liquidity and risk. Both annual and long term goals are established for each manager and attainment of the goals weighs heavily in terms of whether or not a manager's contract is renewed. Typically, managers who fall below the Board's minimum objectives over the long term are replaced.

The Board of Trustees has carefully exercised areas of responsibility by diversifying the assets. The Trustees recognize that the objective of a sound and prudent policy is to produce investment results which will preserve the NNERF assets and to maximize the earnings consistent to the projected needs.

An independent investment consultant firm evaluates the performances of investment managers based on three factors: comparison with an assigned benchmark that matches the manager's style; a ranking against a universe of similar managers; and adherence to the Fund's policy and guidelines. The managers represent a mix of asset classes that the Trustees believe will earn the actuarial assumption with as little risk as possible. Both portfolio performance and manager performance are

## **INTRODUCTORY SECTION**

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evaluated over a time period of at least one market cycle, usually assumed to be five years, or longer. The investment consultant reports his findings to the Committee on Investment on a monthly basis. In addition, the Fund's staff produces a monthly financial report for the Trustees which contains information on monthly and cumulative investment returns.

### **Professional Services**

Professional consultants are appointed by the Trustees to perform services that are essential to the effective and efficient operational/investment activities of the NNERF. An independent auditors' report and a certification from the actuary are included as part of this report. In addition, the

Trustees engaged an investment consultant to provide assistance on investments. The appointed professionals have also been included and are listed in the Administrative Chart.

### **Administration**

The nine voting members of the Board of Trustees govern the operation of the pension fund. Four members appointed by City Council and five members elected by the employees make up the voting members. One employee representative each is elected from general employees, waterworks, fire and police, public works and school employees, all serving five year staggered terms. The appointed members serve two year terms and are eligible to be appointed to service four consecutive two year terms. The Director of Finance is the ex-officio secretary of the board and the administrative head of the fund. The City Treasurer is the ex-officio treasurer of the fund. A retiree member advisor appointed by City Council, City Attorney and City Internal Auditor serves as advisors to the board.

The five members of the Investment Committee make recommendations to the board for the investment of the reserve or the sale of the securities of the fund. The committee consists of four members nominated by the Board and appointed by City Council and the City Manager. The appointed members serve a one year term and are eligible to be appointed to service eight consecutive one year terms.

### **Certificate of Achievement**

This is the first year that NNERF has submitted a separate Comprehensive Annual Report for the Certificate of Achievement for Excellence in Financial Reporting. In order to be awarded this Certificate, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for one year.

### **Acknowledgements**

The compilation and preparation of this report could not be accomplished without the dedicated services of the City of Newport News' staff of the Department of Finance. We would like to express our appreciation to all members of this Department, and to the many other City departments and agencies which have contributed to the completion of this report. We also acknowledge the members

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of the Board of Trustees and Investment Committee for their leadership, guidance, and establishment of policies for managing financial operations in a sound and progressive manner.

Respectfully submitted,



Philip Hatchett  
Chairman  
Board of Trustees



LaVerne Lovett  
Director of Finance  
City of Newport News

**INTRODUCTORY SECTION**

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**CITY GOVERNMENT OFFICIALS**

**City Council**

Joe Frank.....Mayor  
Charles C. Allen.. Vice Mayor  
Herbert H. Bateman, Jr..... Member  
William F. Haskins, Jr..... Member  
A. Madeline McMillan..... Member  
Sharon P. Scott..... Member  
Joseph C. Whitaker ..... Member

**Office of the City Manager**

Randy W. Hildebrandt..... City Manager  
Alan K. Archer.....Assistant City Manager  
William P. Mitchell, Jr. ....Assistant City Manager  
Neil A. Morgan.....Assistant City Manager

**Department of Finance**

LaVerne Lovett.....Director of Finance

**Other Officials**

Marty Eubank.....City Treasurer  
Charles D. Crowson, Jr..... Commissioner of the Revenue  
Charles G. Young..... Acting Real Estate Assessor  
W. Gregg Jones \* ..... Director of Budget and Evaluation  
Cathy S. Matthews.....Director of Internal Audit

\*Assumed Acting Assistant City Manager position August 15, 2007.

## INTRODUCTORY SECTION

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### BOARD OF TRUSTEES

**Philip Hatchett**

Chairman  
Citizen Trustee

**Kris Keyes**

Vice Chairman  
Public Utilities Trustee

**LaVerne Lovett**

Ex-Officio Secretary  
Director of Finance

**Marty Eubank**

Ex-Officio Member  
Treasurer

**Richard Caplan**

Legal Advisor  
Chief Deputy City Attorney

**Cathy Matthews**

Internal Auditor  
Director of Internal Audit

**Eugene Hiser**

Retiree Advisor

**Bill Higgins**

Citizen Trustee

**Captain Trent Sturgis**

Public Safety Trustee

**Melita Burge**

Schools Trustee

**Dee Bryant**

Public Works' Trustee

**Bill Keeler**

General Employees' Trustee

**Drew Forrest**

Citizen Trustee

**Jeffery Verhoef**

Citizen Trustee

The members of the Board are appointed and serve pursuant to Chapter 31 of the Newport News City Code which provides for nine (9) voting members. Four members appointed by City Council and five members elected by the employees make up the voting members. The appointed members must reside in the City and can not be a City employee or member of the fund. The appointed members serve two year terms and are eligible to be appointed to serve four consecutive two year terms. One employee representative each is elected from general employees, waterworks, fire and police, public works and school employees, all serving five year staggered terms. The Director of Finance is the ex-officio secretary of the board and the administrative head of the fund. The City Treasurer is the ex-officio treasurer of the fund. A retiree member advisor appointed by City Council, City Attorney and City Internal Auditor serves as advisors to the Board.

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### COMMITTEE ON INVESTMENTS

**McKim Williams**  
Chairman  
Citizen Member

**Thomas Brooks**  
Citizen Member

**Charles R. Spencer, Jr.**  
Citizen Member

**Brooke G. Tiller**  
Citizen Member

**Randy W. Hildebrandt**  
City Manager

**LaVerne Lovett**  
Ex-Officio Secretary  
Director of Finance

The committee consists of five (5) members, one of whom shall be the City Manager and the remaining four (4) members are appointed by City Council. The appointed members must reside in the City, have financial or investment background and can not be a City employee or member of the Fund. The appointed members serve a one year term and are eligible to be appointed to serve eight consecutive one year terms. The function of this committee shall be to make recommendations to the Board of Trustees for the investments of the reserve or the sale of the securities of the Fund. The Board shall not make any investments nor sell any securities of the Fund unless recommended in writing by the committee on investments.

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### INVESTMENT MANAGERS

**Brandes Investment Partners, LP**  
San Diego, CA

**Constitution Research & Management, Inc.**  
Boston, MA

**Earnest Partners**  
Atlanta, GA

**Lord Abbett & Company**  
Jersey City, NJ

**Morgan Stanley Asset Management**  
New York, NY

**Pier Capital**  
Stamford, CT

**Richmond Capital Management**  
Richmond, VA

**StoneRidge Investment Partners, LLC**  
Malvern, PA

**Templeton Investment Counsel, Inc.**  
Ft. Lauderdale FL

**Chase Investment Counsel Corporation**  
Charlottesville, VA

**DePrince, Race & Zollo, Inc.**  
Winter Park, FL

**Heitman Advisory Corporation**  
Chicago, IL

**Mellon Financial Service Corporation**  
Boston, MA

**Navellier & Associates**  
Reno, NV

**Prudential**  
Parsippany, NJ

**State Street Global Advisors**  
Boston, MA

**Tattersall Advisory Group**  
Richmond, VA

**Thompson, Siegel & Walmsley, Inc.**  
Richmond, VA

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**ADMINISTRATIVE ORGANIZATION**

**Administrative Staff**

**LaVerne Lovett**  
Director of Finance

**Tonya O'Connell**  
Asst. Director of Finance

**Vanessa Olenik**  
Accountant II

**Susan Keyes**  
Administrative Coordinator

**Professional Services**

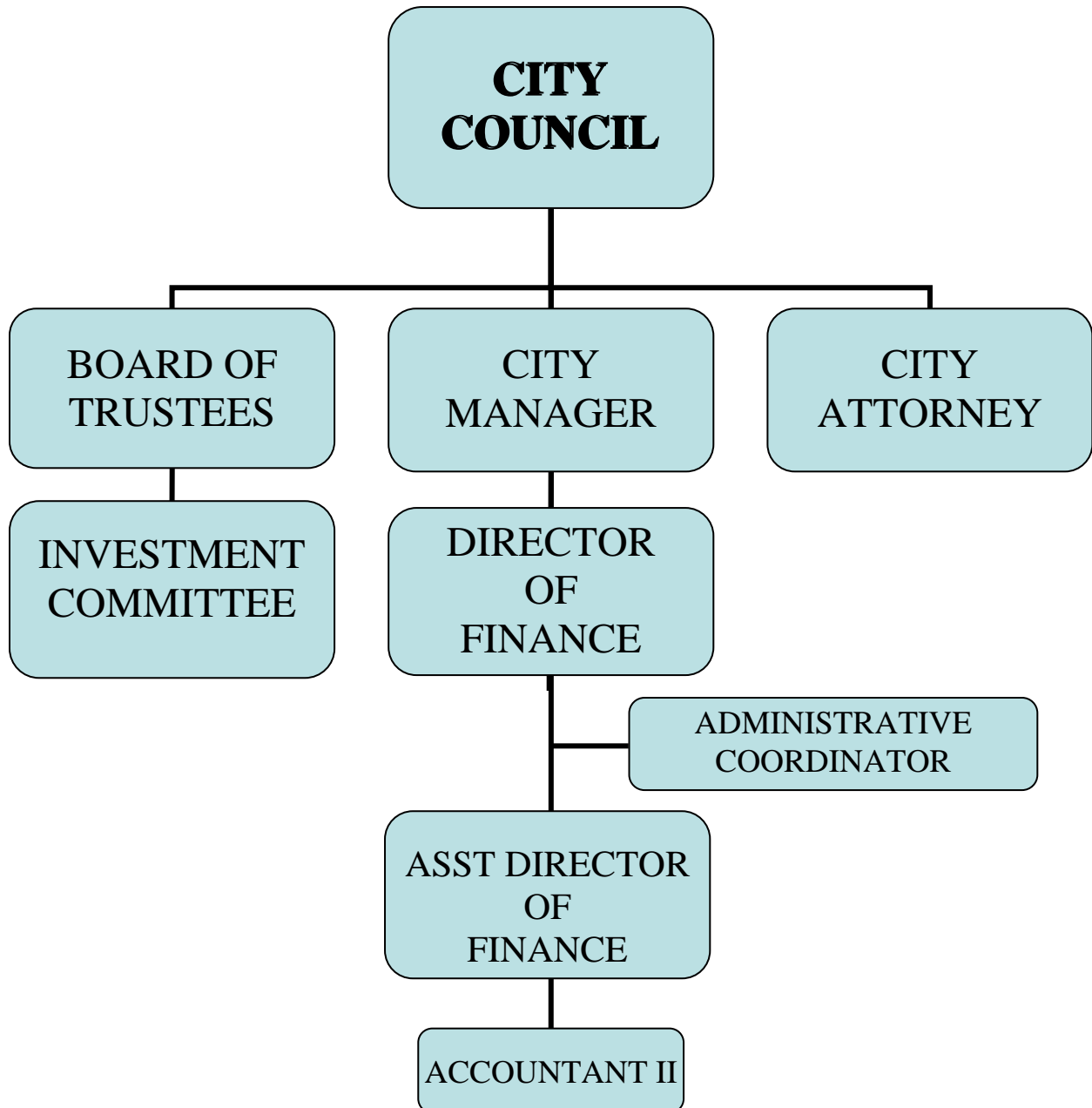
**Dahab Associates**  
**Consultant**  
Bay Shore, New York

**State Street Bank & Trust**  
**Custodian**  
Kansas City, Missouri

**Mercer Human Resource Consulting**  
**Actuary**  
Richmond, Virginia

**Cherry Bekaert & Holland, LLP**  
**External Auditors**  
Richmond, Virginia

**ORGANIZATIONAL CHART**





## Independent Auditors' Report

The Board of Trustees  
Newport News Employees' Retirement Fund  
Newport News, Virginia

We have audited the accompanying statement of plan net assets of Newport News Employees' Retirement Fund (the "Fund"), a pension trust fund of the City of Newport News, Virginia, as of June 30, 2007, and the related statement of changes in plan net assets for the year then ended, which collectively comprise the Fund's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the accompanying financial statements present only the Fund and do not purport to, and do not, present fairly the overall financial position of the City of Newport News, Virginia as of June 30, 2007, and the changes in its financial position, and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2007 and the change in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis, the Schedule of Funding Progress, and the Schedule of Employer Contributions are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Administrative Expenses on page 31 and the Schedule of Investment Expenses on page 32 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information is also a responsibility of the Fund's management. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

The introductory, investment, actuarial and statistical sections, as listed in the accompanying table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to auditing procedures applied in the audit of the Fund's basic financial statements and, accordingly, we express no opinion on it.

*Cherry, Beckett & Holland, L.L.P.*

Richmond, Virginia  
March 20, 2008

## FINANCIAL SECTION

### MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Newport News Employees' Retirement Fund (NNERF), we offer readers this narrative overview and analysis of the financial activities and funding status for the fiscal year ended June 30, 2007. This discussion is intended to be read in conjunction with the basic financial statements, which directly follow it.

#### FINANCIAL HIGHLIGHTS

- NNERF assets exceeded liabilities at the close of the fiscal year by \$837.3 million. Total net assets are held in trust to meet future payments.
- Net investment income increased 74.8% to \$119.0 million for the fiscal year ended June 30, 2007, compared to \$68.0 million for fiscal year ended June 30, 2006.
- Total deductions increased over the prior year from \$46.0 million to \$50.9 million, or 10.6%. Most of this increase was represented by increased health insurance benefits paid.
- NNERF in 2001 established a separate fund to recognize the costs and financial obligations incurred for post-retirement benefits other than pensions (OPEB).
- Actual contributions by the City of Newport News (City) and NN Public Schools (School) to NNERF of \$23.3 million did not meet the Annual Required Contribution (ARC). However, due to the increase in investment income, the Unfunded Actuarial Accrued Liability (UAAL) decreased by \$4.3 million for the fiscal year ended June 30, 2007.

#### STATEMENT OF PLAN NET ASSETS

The focus of the Statement of Plan Net Assets is to report all of the NNERF assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the assets available for distribution are improving or deteriorating. The following is a condensed comparative summary of net assets as of June 30<sup>th</sup>:

|                         | PLAN NET ASSETS       |                       |
|-------------------------|-----------------------|-----------------------|
|                         | 2007                  | 2006                  |
| <b>ASSETS</b>           |                       |                       |
| Cash                    | \$ 151,956,777        | \$ 96,379,242         |
| Receivables             | 6,729,927             | 6,964,562             |
| Investments             | 813,519,739           | 724,329,938           |
| Total Assets            | <u>\$ 972,206,443</u> | <u>\$ 827,673,742</u> |
| <b>LIABILITIES</b>      |                       |                       |
| Accounts Payable        | 7,331,935             | 7,651,733             |
| Securities Lending      | 127,583,576           | 78,618,934            |
| Total Liabilities       | <u>134,915,511</u>    | <u>86,270,667</u>     |
| <b>TOTAL NET ASSETS</b> | <u>\$ 837,290,932</u> | <u>\$ 741,403,075</u> |

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During FY2007, total net assets held in trust for future pension benefits increased \$95.9 million or 12.9% from the prior fiscal year. A similar increase of \$43.5 million or 6.2% was noted during fiscal year 2006. The majority of the increase can be explained by the market value of investments, which is reflective of a continued positive investment performance.

### STATEMENT OF CHANGES IN PLAN NET ASSETS

The focus of the Statement of Changes in Plan Net Assets is to report the financial activity of the NNERF for the fiscal year. The following table summarizes the comparative financial activity for the fiscal year.

|                         | 2007                 | 2006                 |
|-------------------------|----------------------|----------------------|
| <b>ADDITIONS</b>        |                      |                      |
| Contributions           | \$ 27,826,445        | \$ 21,471,108        |
| Net Investment Income   | 118,957,300          | 68,042,795           |
| Total Additions         | <u>146,783,745</u>   | <u>89,513,903</u>    |
| <b>DEDUCTIONS</b>       |                      |                      |
| Pension Benefits        | 50,116,511           | 45,303,820           |
| Administrative Expenses | 779,377              | 725,501              |
| Total Deductions        | <u>50,895,888</u>    | <u>46,029,321</u>    |
| <b>NET INCREASE</b>     | <u>\$ 95,887,858</u> | <u>\$ 43,484,582</u> |

### NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

|                       |                       |                       |
|-----------------------|-----------------------|-----------------------|
| Beginning of the Year | \$ <u>741,403,075</u> | \$ <u>697,918,493</u> |
| End of the Year       | <u>\$ 837,290,932</u> | <u>\$ 741,403,075</u> |

Contributions to NNERF are a percentage of the City and School's payroll and are determined by the department. The percentage of employer contributions to current year covered payroll was .95% for employees covered by the Virginia Retirement System (VRS) and 6.68% for all others. In addition to the payroll contributions, the City contributed an additional \$1.5 million in the fiscal year ending June 30, 2007.

The Fund's net investment income continued the trend of positive performance for the fiscal year ended June 30, 2007. Net investment income increased by \$50.9 million or 74.8% when compared to fiscal 2006 primarily due to the favorable market conditions.

Pension benefits increased, growing by 10.6% or \$4.8 million for the fiscal year end June 30, 2007. The rate of increase in pension benefits grew as a result of a 2.2% cost-of-living (COLA) adjustment

## FINANCIAL SECTION

and an increase in the number of retirees, as supported by the plan membership detailed below. The number of additional retirees increased from 3,625 retirees in fiscal 2006 to 3,821 retirees in fiscal 2007, an increase of 196 individuals.

### PLAN MEMBERSHIP

As noted in the Letter of Transmittal, the Newport News Employees' Retirement Fund (NNERF) is a single employer, defined benefit, public employee retirement system established and administered by the City to provide pension benefits for employees of the local government, including the Newport News School System. For those school personnel employed by the Newport News School Board, the City plan is a supplement to the Virginia Retirement System (VRS). The following outlines the plan membership as of June 30<sup>th</sup>:

### PLAN MEMBERSHIP

|                                     | 2007         | 2006         |
|-------------------------------------|--------------|--------------|
| <b>ACTIVE EMPLOYEES</b>             |              |              |
| General                             | 1,944        | 1,879        |
| Police & Fire                       | 914          | 877          |
| Public Utilities                    | 354          | 343          |
| Schools - VRS                       | 3,799        | 3,487        |
| Schools - Non VRS                   | 1,093        | 1,131        |
| <b>TOTAL</b>                        | <b>8,104</b> | <b>7,717</b> |
| <b>VESTED TERMINATED EMPLOYEES</b>  |              |              |
| General                             | 564          | 557          |
| Police & Fire                       | 190          | 186          |
| Public Utilities                    | 86           | 97           |
| Schools - VRS                       | 780          | 851          |
| Schools - Non VRS                   | 116          | 115          |
| <b>TOTAL</b>                        | <b>1,736</b> | <b>1,806</b> |
| <b>RETIREES &amp; BENEFICIARIES</b> |              |              |
| General                             | 771          | 715          |
| Police & Fire                       | 526          | 502          |
| Public Utilities                    | 169          | 169          |
| Schools - VRS                       | 1,760        | 1,666        |
| Schools - Non VRS                   | 595          | 573          |
| <b>TOTAL</b>                        | <b>3,821</b> | <b>3,625</b> |

### FUNDED STATUS

Of primary concern to most pension plan participants is the amount of money available to pay benefits. Historically, defined benefit pension plans have been under-funded when the employer

## **FINANCIAL SECTION**

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failed to make annual actuarially required contributions to the Plan. The City's contribution has been less than the annual required contributions. For the fiscal year ended June 30, 2007 the contribution shortfall based on actual contributions (\$23.3 million) in comparison with the annual required contributions less actuarially determined adjustments (\$51.1 million) was \$27.8 million.

An indicator of funding status is the ratio of actuarial present value of the assets to the actuarial present value of future benefits when using the aggregate method. An increase in this percentage over time usually indicates a plan is becoming financially stronger. However, a decrease will not necessarily indicate a plan is in financial decline. Changes in actuarial assumptions can significantly impact the actuarial present value of future benefits. Performance in the stock and bond markets can have a material impact on the actuarial value of assets.

The actuary uses a five-year average of market value to establish the actuarial value of the assets (used to determine the funded ratio). As of June 30, 2007, the market value (\$821.4 million) exceeded the actuarial valuation (\$746.1 million) of the assets by \$75.3 million.

### **ECONOMIC CONDITIONS AND OUTLOOK**

The City Manager has implemented a three-year plan to increase the contribution rate from a composite rate of 1.4% to 6.0%. The first phase of the plan was implemented in FY 2007, with the City contributing an additional \$6 million over the previous year. By FY 2009, the City will be contributing at the normal cost rate recommended by the actuary. In addition, the City Manager commissioned a committee to study, develop and recommend additional options to reduce the UAAL.

### **CONTACTING FINANCIAL MANAGEMENT**

The financial report is designed to provide users with an overview of the NNERF's financial performance and prudent exercise of the Board's oversight. Any questions regarding this report or requests for additional financial information should be directed to the Newport News Employees' Retirement Fund, 2400 Washington Ave., Finance Department - 7<sup>th</sup> Floor, Newport News, VA 23607.

## FINANCIAL SECTION

### NEWPORT NEWS EMPLOYEES' RETIREMENT FUND

(A Pension Trust Fund of Newport News, Virginia)

Statement of Plan Net Assets

June 30, 2007

#### Assets

|   |    |                           |
|---|----|---------------------------|
| Cash and cash equivalents               | \$ | 2,765,651                 |
| Cash and cash equivalents with trustee  |    | <u>21,607,550</u>         |
| Sub-total                               |    | 24,373,201                |
| Securities lending                      |    |                           |
| Short-term collateral, at market value- |    |                           |
| Corporate and government bonds          |    | <u>127,583,576</u>        |
| Total cash                              |    | <u>151,956,776</u>        |
| Receivables:                            |    |                           |
| Employer                                |    | 2,208,856                 |
| Interest and dividend                   |    | 1,906,530                 |
| Sales receivable                        |    | <u>2,614,541</u>          |
| Total receivables                       |    | <u>6,729,927</u>          |
| Investments, at market value:           |    |                           |
| Corporate and government bonds          |    | 209,010,202               |
| Common stock                            |    | 401,163,459               |
| International stock                     |    | 117,646,896               |
| International emerging markets          |    | 41,627,349                |
| Real estate                             |    | <u>44,071,833</u>         |
| Total investments                       |    | <u>813,519,739</u>        |
| Total assets                            | \$ | <u><u>972,206,442</u></u> |

#### Liabilities

|                                      |    |                    |
|--------------------------------------|----|--------------------|
| Accounts payable                     | \$ | 2,430,567          |
| Accrued vacation                     |    | 59,120             |
| Purchases payable                    |    | <u>4,842,248</u>   |
| Sub-total                            |    | 7,331,935          |
| Liabilities under securities lending |    | <u>127,583,576</u> |
| Total liabilities                    |    | <u>134,915,511</u> |

#### Net Assets

|   |    |                           |
|---|----|---------------------------|
| Net assets held in trust for pension benefits |    | <u>837,290,932</u>        |
| Total liabilities and net assets              | \$ | <u><u>972,206,443</u></u> |

See Required Supplement Schedule to Funding Progress

See accompanying notes to basic financial statements

## FINANCIAL SECTION

### NEWPORT NEWS EMPLOYEES' RETIREMENT FUND

(A Pension Trust Fund of Newport News, Virginia)

Statement of Changes in Plan Net Assets

Year ended June 30, 2007

|   |                           |
|---|---------------------------|
| Additions (decreases):  |                           |
| Employer Contributions:   |                           |
| City General Fund   | \$ 15,334,900             |
| City Contribution - General Fund                                  | 1,500,000                 |
| Waterworks Fund   | 1,426,524                 |
| School Operating Fund   | 5,047,142                 |
| Other Contributions:  |                           |
| Income from Leave Exchange  | 1,541,851                 |
| Employee Buy-back   | 857,644                   |
| Medicare Part D - City  | 529,103                   |
| Return of City Health Insurance Surplus                           | 1,589,281                 |
| Total contributions   | <u>27,826,445</u>         |
| Investment income:  |                           |
| Net appreciation - bonds  | 4,072,930                 |
| Net appreciation - stocks   | 88,685,158                |
| Interest  | 10,096,169                |
| Dividends   | 12,932,958                |
| Real estate operating income, net                                 | 7,535,138                 |
| Commission recapture  | 108,976                   |
| Total investment gain   | <u>123,431,329</u>        |
| Less investment expenses:   |                           |
| Other investment expenses   | <u>(4,474,029)</u>        |
| Net investment gain   | <u>118,957,300</u>        |
| Total increase  | <u>146,783,745</u>        |
| Deductions:   |                           |
| Benefits:   |                           |
| Service   | 34,912,465                |
| Occupational death  | 50,059                    |
| Nonoccupational death   | 65,450                    |
| Occupational disability   | 241,869                   |
| Nonoccupational disability  | 580,955                   |
| Reversionary annuity  | 2,267,644                 |
| Retirees insurance benefits                                       | 11,984,401                |
| Portability transfer  | 13,668                    |
| Total benefits  | <u>50,116,511</u>         |
| Administrative expenses:  |                           |
| Personal services   | 446,112                   |
| Board fees  | 5,167                     |
| Consultant fees   | 135,000                   |
| Actuary fees  | 133,090                   |
| Legal fees  | 57,013                    |
| Medical disability exam fees                                      | 2,995                     |
| Total administrative expenses                                     | <u>779,377</u>            |
| Total deductions  | <u>50,895,888</u>         |
| Net increase  | 95,887,857                |
| Net assets held in trust for pension benefits at June 30, 2006    | <u>741,403,075</u>        |
| Net assets held in trust for pension benefits at June 30, 2007 \$ | <u><u>837,290,932</u></u> |

See accompanying notes to basic financial statements.

## FINANCIAL SECTION

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### NOTES TO FINANCIAL STATEMENTS

#### **(1) SIGNIFICANT ACCOUNTING POLICIES**

##### **1. BASIS OF ACCOUNTING**

The financial statements of the Newport News Employees' Retirement Fund (NNERF or Plan) are prepared using the accrual basis of accounting. Contributions are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan, regardless of when paid. Since the City of Newport News, Virginia (City) makes the contributions, which are combined with investment earnings to provide the funding for pension benefits and administrative costs, the Plan's financial data is incorporated into the City's Comprehensive Annual Financial Report (CAFR).

NNERF financial statements have been prepared in accordance with the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 25 - Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, which requires basic financial reporting standards. These standards require two basic financial statements; (1) a statement of plan net assets and (2) a statement of changes in plan net assets. In addition, actuarially determined information about the funded status of the Plan and related funding progress is presented in two additional schedules; (1) a schedule of funding progress and (2) a schedule of employer contributions. GASB 25 establishes certain parameters for the measurement of all actuarially determined information.

##### **2. INVESTMENT VALUATION METHOD**

The investments of NNERF are reflected at fair value in the basic financial statements. Cash equivalent and short term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of corporate and government bonds are based on quotations obtained from major credit rating agencies. Instruments that do not have an established market are reported at estimated fair value. Purchases and sales of securities are recognized on the trade date, which is the date the order to buy or sell is originated.

##### **3. ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from the estimates.

#### **(2) NEWPORT NEWS EMPLOYEES' RETIREMENT FUND (NNERF)**

##### **1. PLAN DESCRIPTION**

The Newport News Employees' Retirement Fund (NNERF) is a single employer, defined benefit, public employee retirement system established and administered by the City to provide pension benefits for employees of the local government, including the Newport News School

## FINANCIAL SECTION

System. For those school teachers and administrative support personnel employed by the Newport News School Board, the City plan is a supplement to the Virginia Retirement System.

NNERF is a separate pension trust fund and is considered part of the City's financial reporting entity. The City issues a publicly available financial report that includes financial statements and required information for NNERF. That report may be obtained by writing to City of Newport News Finance Department, 2400 Washington Avenue, Newport News, VA 23607.

All full-time regular employees are members of this fund. For the year ended June 30, 2007, the total payroll of the City was approximately \$338.9 million, with approximately \$305.2 million covered by NNERF. At June 30, 2007, NNERF membership consisted of:

|                      | <b>Retirees<br/>and<br/>beneficiaries</b> | <b>Vested<br/>terminated<br/>employees</b> | <b>Active<br/>Employees</b> |                   | <b>Total</b> |
|----------------------|---|--|-----------------------------|-------------------|--------------|
|                      |   |  | <b>Vested</b>               | <b>Non-vested</b> |              |
| City general         | 771                                       | 564  | 1,205                       | 739               | 3,279        |
| City police and fire | 526                                       | 190  | 585                         | 329               | 1,630        |
| Public utilities     | 169                                       | 86   | 288                         | 66                | 609          |
| School VRS           | 1,760                                     | 780  | 2,160                       | 1,639             | 6,339        |
| School Non-VRS       | 595                                       | 116  | 682                         | 411               | 1,804        |
| Total                | 3,821                                     | 1,736                                      | 4,920                       | 3,184             | 13,661       |

NNERF provides retirement benefits as well as death and disability benefits. All benefits vest after five years of credited service. Employees who retire at or after age 60 (50 for police officers, firefighters and deputy sheriffs) with five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.0% of their final average salary for each year of credited service. Final average salary is defined as the average annual rate of salary received during the highest paid 36 consecutive months of credited service. Employees with 30 years (25 for police officers, firefighters and deputy sheriffs) credited service may retire at any age with full benefits. Employees (other than police officers, firefighters and deputy sheriffs) with 25 years of service may retire prior to age 60 and receive a reduced benefit. Covered employees do not contribute to NNERF.

Benefits and contribution provisions are established by City Ordinance and may be amended only by the City Council. An actuarial service is employed to advise the City Council and the Retirement Board of the contributions necessary to fund the benefits.

### Exchange of Paid Personal Leave for Service Credits (Applies to City Employees Only)

- A) On each July 1, a vested city member with a paid personal leave (PPL) balance of at least 240 hours (336 for 24-hour fire employees) on the preceding June 30<sup>th</sup> and who have taken at least 40 hours of PPL (56 for 24-hour fire employees) during the preceding fiscal year may exchange 40 hours of PPL (56 for 24-hour fire employees) for three (3) months of credited service.
  
- B) On each July 1, a vested city member who is within five years of retirement with a PPL balance of at least 480 hours (672 for 24-hour fire employees) and who have taken at least 40 hours of PPL (56 for 24-hour fire employees) during the preceding fiscal year may exchange 40 hours of PPL (56 for 24-hour fire employees) for three (3) months of

## FINANCIAL SECTION

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credited service. This right to exchange PPL for credited service is in addition to that provided in (A) above.

- C) On each July 1, a vested city member who is within five years of retirement and a PPL balance of at least 80 hours (112 for 24-hour fire employees) and have certified qualified previous service time (See Purchase of Prior Service Credits), may exchange PPL in excess of 80 hours (112 for 24-hour fire employees) to purchase qualified retirement credit. Eligible employees must have their prior service certified by the former employer.

### Purchase of Prior Service Credits

Employees with at least five years of credited service are eligible to purchase all or part of certain prior service credits. The types of prior service eligible to purchase are:

- 1) Time employed by the City under the CETA program.
- 2) Active duty in the armed forces of the United States.
- 3) Credited service in the Newport News Employees' Retirement Fund which was forfeited because of a refund.
- 4) Credited service with the Virginia Retirement System or any other political subdivision of Virginia.

NOTE: Any such service which is considered in the calculation of any retirement benefit in any other retirement system may not be purchased.

The cost to purchase prior service credit is as follows:

- 1) For General and Waterworks' employees: 12% of current annual compensation for each year to be purchased.
- 2) For sworn Fire, Police and Sheriff: 15% of current annual compensation for each year to be purchased. Service credit under the CETA program is 12%.

The purchase will increase your monthly retirement benefit since the amount of your benefit is based on your age, years of service credit and average final salary. Certified service credit may be purchase through payroll deductions, the exchange program (if eligible), a lump sump payment or any combination of the above. Service credit must be purchased while actively employed. Eligible employees may apply for prior service by completing an "Application to Purchase Service Credit."

## **2. CONCENTRATIONS:**

There are no investments in any one issuer that represents 5% or more of net assets available for benefits.

## **3. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE:**

NNERF funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate

## FINANCIAL SECTION

sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age actuarial cost method. The amortization period for the unfunded actuarial accrued liability has been reduced from 40 years to 30 years to comply with the requirements of GASB Statement No. 27.

Contributions for normal costs totaling \$23,308,566 were made by the employer during the year ended June 30, 2007. The percentage of employer contributions to current year covered payroll was .95% for employees covered by VRS and 6.68% for all others.

The percentage of normal costs to current year covered payroll was 5.89%. The employer's annual pension costs and net pension obligation to NNERF for 2007 were as follows:

|   |           |
|---|-----------|
| (000's Omitted)                             |           |
| Annual required contribution (ARC)          | \$ 51,297 |
| Interest on net pension obligation (NPO)    | 4,414     |
| Adjustment to ARC                           | (4,628)   |
| Annual pension cost (APC)                   | 51,083    |
| Contributions made                          | (23,309)  |
| Increase in net pension obligation          | 27,774    |
| Net pension obligation at beginning of year | 55,174    |
| Net pension obligation at end of year       | \$ 82,948 |

The annual required contribution for the current year was determined as part of the June 30, 2006 actuarial valuation using the entry age actuarial cost method. The amortization method used is level dollar open. The actuarial assumptions include (a) 8.0% investment rate of return (net of administrative expenses) (b) projected salary increase of 5.25% per year and (c) 3.0% per year cost-of-living adjustments. All assumptions include an inflation component of 3.0%. The assumptions did not include funding of post-retirement benefit. Actuarial assumptions have been changed to reflect the actuarial experience analysis for the period July 1, 1998 to June 30, 2003. The actuarial value of assets was determined under the average value method.

#### 4. THREE-YEAR TREND INFORMATION

| (000's Omitted)   |                              |                                  |                                   |
|-------------------|------------------------------|----------------------------------|-----------------------------------|
| Fiscal Year Ended | Annual Pension Cost<br>(APC) | Percentage of APC<br>Contributed | Net Pension<br>Obligation (asset) |
| June 30, 2007     | \$ 51,083                    | 45.6%                            | \$ 82,948                         |
| June 30, 2006     | \$ 42,090                    | 45.5%                            | \$ 55,174                         |
| June 30, 2005     | \$ 35,421                    | 38.5%                            | \$ 32,245                         |

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### (3) NEWPORT NEWS SCHOOL SYSTEM (NNSS)

#### 1. PLAN DESCRIPTION

In addition to the contributions to the NNERF, the NNSS contributes to the Virginia Retirement System (VRS or the System), which is an agent multiple-employer defined benefit pension plan administered by the System. The employees who are VRS eligible are entitled to a supplemental retirement from NNERF.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing the System at P.O. Box 2500, Richmond, VA 23218-2500.

#### 2. FUNDING POLICY

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual reported compensation to the VRS. This 5% member contribution has been assumed by the employer. In addition, the NNSS is required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial bases specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The contribution rate for the fiscal year ended 2007 was 9.79% of covered annual payroll for the NNSS.

#### 3. ANNUAL PENSION COST

For 2007, the annual pension cost of \$22,126,130 for the NNSS was equal to the required and actual contributions. The annual required contributions were determined as part of the June 30, 2005 actuarial valuation. The actuarial assumptions included (a) a rate of return on investment of 8%, (b) projected salary increases ranging from 4.25% to 6.10% per year, and (c) cost-of-living adjustments of 3%. Both (a) and (b) included an inflation component of 3%. The actuarial values of the respective entities' assets are equal to the modified market value of the assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The NNSS' unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 30 years or less.

#### 4. THREE-YEAR TREND INFORMATION

| <u>Fiscal Year<br/>Ending</u> | <u>Pension<br/>Cost<br/>(APC)</u> | <u>Percentage<br/>of APC<br/>Contributed</u> | <u>Net<br/>Pension<br/>Obligation</u> |
|-------------------------------|-----------------------------------|--|---------------------------------------|
| 6/30/2007                     | \$ 22,126,130                     | 100.00%                                      | -                                     |
| 6/30/2006                     | 17,188,757                        | 100.00%                                      | -                                     |
| 6/30/2005                     | 15,805,364                        | 100.00%                                      | -                                     |

## FINANCIAL SECTION

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### **(4) POST-RETIREMENT BENEFITS**

#### **1. PLAN DESCRIPTION**

The City provides health and dental insurance for City retirees under the City's group plans. The City contributes a capped dollar amount towards the premiums. On June 30, 2005, the cap was established and annually increased by the COLA. The retiree would be required to pay all additional costs above the capped amount. At age 65, the retiree's coverage converts to Medicare Extended. The City also provides life insurance at one-half salary without cost to eligible retirees. Those retirees who are not eligible will initially have life insurance coverage equal to one-half salary upon retirement, which will decrease 20% per year. Coverage will not be reduced below \$10,000.

The City provides health and dental benefits to retirees. Since 1958, the City has allowed employees to continue their coverage after retirement. Life insurance to retirees at no cost is provided by Ordinance Sec. 2-151 and 2-148.

The City funds the costs of retiree health and life insurance through the annual pension contribution amount. The actuary computes the current and next years' cost of these in the bi-annual actuary study. The pension plan then pays the premiums and administrative costs out of its funds.

The actual costs to the fund for the 1,466 retirees for fiscal year 2007 were: health \$7,059,152 (1,005 participating); dental \$364,809 (937 participating); and life \$1,320,150 (971 participating).

The School Board provides health and dental insurance for School Board retirees under the school's group plans. The School Board also provides life insurance for retirees not covered by VRS. The amount of coverage is \$10,000 or \$5,000 depending on the retiree's position at time of retirement, and the Board pays the entire cost. The actual costs for the 2,355 retirees for fiscal year 2007 were: health and dental \$3,158,252 (1,951 participating); and life \$82,038 (343 participating).

Since 1978, the School Board has allowed employees to continue their coverage after retirement. The life insurance benefit for non-VRS retirees was implemented on January 1, 1991.

The School Board funds the cost of retiree health, dental and life insurance through the annual pension contribution amount. The actuary computes the current and next years' cost of these on a pay-as-you-go basis in the annual actuary study and incorporates it in the percent of contributions required for the pension fund. The pension plan then pays the premiums out of its funds.

Vesting employees who leave City employment before meeting the age and service requirement to receive a pension are not eligible for post-retirement benefits.

### **(5) DEPOSITS AND INVESTMENTS**

#### **1. INVESTMENT POLICY**

The Pension Trust Fund (the Fund) can be invested in obligations of the U.S. or agencies thereof, obligations of the Commonwealth of Virginia, or political subdivisions thereof, corporate bonds rated A or higher by two of three nationally known security rating concerns,

## FINANCIAL SECTION

federally insured mortgages under Titles 203, 207, 220 and 221 of the National Housing Act, equities, certificates of deposit, guaranteed investment contracts and real estate. Pension Trust Fund investments are subject to restrictions placed by policies of the City Council and the Retirement Board (the Board).

At year-end, the Pension Fund's cash and investment balances were as follows:

|   | <u>Investments</u> | <u>Carrying amount</u> |
|---|--------------------|------------------------|
| Investments   |                    |                        |
| Common and international stocks                                   |                    |                        |
| Not on securities loan  |                    | \$ 459,266,090         |
| Corporate & government bonds - not on securities loan             |                    | 189,501,485            |
| Pension fund real estate trust funds                              |                    | 44,071,833             |
| Total investments   |                    | 692,839,408            |
| Cash and deposits   |                    |                        |
| Deposits with banks   |                    | 266,698                |
| Deposits with banks - repurchase agreements                       |                    | 2,498,953              |
| Investments on pension securities loaned, collateralized by cash: |                    |                        |
| Common and international stocks                                   |                    | 101,171,614            |
| Corporate and government bonds                                    |                    | 19,508,717             |
| Securities lending collateral - short-term investment pool        |                    | 127,583,576            |
| Pension trust fund money markets                                  |                    | 21,607,550             |
| Total deposits and investments                                    |                    | \$ 965,476,516         |

The Pension Fund's cash and investments as of June 30, 2007 are classified in the accompanying financial statements as follows:

|                                       |    |             |
|---------------------------------------|----|-------------|
| Cash and cash equivalents             | \$ | 2,765,651   |
| Cash and cash equivalent with Trustee |    | 21,607,550  |
| Securities lending                    |    | 127,583,576 |
| Investment                            |    |             |
| Corporate and government bonds        |    | 209,010,202 |
| Common stock                          |    | 401,163,458 |
| International stock                   |    | 117,646,897 |
| International emerging markets        |    | 41,627,349  |
| Real estate                           |    | 44,071,833  |
|                                       |    | 44,071,833  |
| Total deposits and investments        | \$ | 965,476,516 |

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### (6) Credit Risk of Pension Fund

The credit risk profile for the Pension Fund securities by investment type is as follows:

#### S & P's Ratings as of June 30, 2007

| <u>Investment Types</u>    |                       | <u>AAA</u>         | <u>AA</u>         | <u>A</u>          | <u>BBB</u>       | <u>Not Rated</u>   |
|----------------------------|-----------------------|--------------------|-------------------|-------------------|------------------|--------------------|
| Asset-backed securities    | \$ 2,153,961          | 1,590,044          | -                 | 563,917           | -                | -                  |
| Corporate Bonds            | 46,033,228            | 2,695,904          | 10,560,475        | 31,588,815        | 1,188,034        | -                  |
| Mortgage-backed securities | 77,001,275            | 73,528,137         | -                 | -                 | -                | 3,473,138          |
| Mutual Funds               | 151,387,839           | -                  | -                 | -                 | -                | 151,387,839        |
| Real Estate Inv. Trust     | 520,562               | -                  | -                 | -                 | -                | 520,562            |
| Short-Term                 | 21,340,903            | -                  | -                 | -                 | -                | 21,340,903         |
| U.S.Agencies               | 31,756,560            | 31,756,560         | -                 | -                 | -                | -                  |
| Exempt from disclosure     | 635,282,188           | -                  | -                 | -                 | -                | 635,282,188        |
| <b>Total</b>               | <b>\$ 965,476,516</b> | <b>109,570,645</b> | <b>10,560,475</b> | <b>32,152,732</b> | <b>1,188,034</b> | <b>812,004,630</b> |

#### *Concentration of Credit Risk - Pension Fund*

There were no investments in any one issuer that represented 5% or more of the total Pension Fund investments.

#### *Custodial Risk - Pension Fund*

The policy requires that all securities purchased for the Pension Fund shall be held by the City Treasurer or by the Pension Fund designated third party custodian. If held by a custodian, the securities must be in the City's or in the custodian's nominee name. The Pension Fund custodian holds investment securities in the Pension Fund's name. Accordingly, the Fund is not exposed to custodial credit risk.

#### *Foreign Currency Risk - Pension Fund*

The Pension Fund does not have a formal policy to limit foreign currency risk. Risk of loss arises from changes in currency exchange rates. The Pension Fund's exposure to foreign currency risk is as follows:

| <u>Investment</u> | <u>Currency</u>    | <u>Fair Value</u>    |
|-------------------|--------------------|----------------------|
| Cash equivalent   | Canadian dollar    | \$ 39                |
| Common stock      | Euro currency      | 12,724,043           |
| Cash equivalent   | Euro currency      | 458                  |
| Common stock      | Japanese yen       | 8,559,490            |
| Cash equivalent   | Japanese yen       | 46,983               |
| Common stock      | New Zealand dollar | 262,936              |
| Common stock      | Pound sterling     | 5,890,996            |
| Common stock      | Swiss franc        | 1,326,936            |
| Total             |                    | <u>\$ 28,811,881</u> |

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### ***Interest Rate Risk – Pension Fund***

The Fund monitors interest rate risk taken by our fixed income managers on a quarterly basis. The manager uses duration as a measure of debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of investment's full price.

### ***Securities Lending Transactions Risk – Pension Fund***

State statutes do not prohibit the Pension Fund from participating in securities lending transactions, and the Board has, via a Securities Lending Authorization Agreement, authorized State Street Bank and Trust Company (State Street) to lend the Fund's securities to broker-dealers and banks pursuant to a form of loan agreement. Cash collateral received in respect of such loans was invested at the direction of the Board, in the Quality Fund, a pooled external investment vehicle. Please note the following:

(i) Method for Determining Fair Value: The fair value of investments held by the Quality Fund is based upon valuations provided by a recognized pricing service.

(ii) Policy for Utilizing Amortized Cost Method: Because the Quality Fund does not meet the requirements of Rule 2a-7 of the Investment Company Act of 1940, State Street has valued the Fund's investments at fair value for reporting purposes.

(iii) Regulatory Oversight: The Quality Fund is not registered with the Securities and Exchange Commission. State Street, and consequently the investment vehicles it sponsors are subject to the oversight of the Federal Reserve Board and the Massachusetts Commissioner of Banks. The fair value of the City's position in the Quality Fund is not the same as the value of the Pension Fund shares.

(iv) Involuntary Participation: There was no involuntary participation in an external investment pool for the fiscal year.

(v) Income Assignment: No income from one fund was assigned to another fund by State Street during the fiscal year.

During fiscal year 2007, State Street lent, at the direction of the Board, the Fund's securities and received cash (including both U.S. and foreign currency), securities issued or guaranteed by the U. S. Government or its agencies, sovereign debt of foreign countries and irrevocable bank letters of credit as collateral. State Street did not have the ability to pledge or sell collateral securities delivered; therefore, there cannot be a borrower default. Borrowers were required to deliver collateral for each loan in amounts not less than 100% of the market value of the loaned securities.

The Board did not impose any restrictions during the fiscal year on the amount of the loans that State Street made on its behalf. There were no such failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal Year. Moreover, there were no losses during the fiscal year resulting from default of the borrowers or State Street.

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During the fiscal year, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in a commingled investment pool. The average duration of such investment pool as of June 30, 2007, was 47 days and an average weighted maturity of 169 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On June 30, 2007, the Board had no credit risk exposure to borrowers. The collateral held and the market value of securities on loan for the Board as of June 30, 2007, were \$127,583,576 and \$124,272,278, respectively.

### **(7) UNFUNDED ACTUARIAL ACCRUED LIABILITY**

As of June 30, 2007 the Unfunded Actuarial Accrued Liability (UAAL) for the retirement plan was \$208 million, down \$4 million from the prior year. The gradual increase in the UAAL is attributed to a combination of factors recognized over the last five years. The contributing factors include recently recognized mortality changes, the under-funding by the City, benefit enhancements during the "good time", investment losses recognized during 2000/2001 and the change in the actuarial assumption rate of return from 8.5% to 8.0% implemented in FY2002. Lastly, in FY 2005 the amortization period was changed from 40 to 30 years.

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**Required Supplementary Actuarial Information**

**Schedule of Funding Progress (unaudited)  
Year ended June 30, 2007**

Historical trend information is presented herewith as required supplementary information. An actuarial valuation is performed annually at fiscal year end. Information from the six most recent valuations is presented below. This information is intended to help users assess the Fund's funding status, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employee retirement systems.

(000,000's Omitted)

| Actuarial<br>valuation date | Actuarial<br>value of<br>assets | Actual<br>accrued<br>liability<br>(AAL) | Overfund<br>(unfunded)<br>accrued<br>liability<br>(UAAL) | Funded<br>ratio | Covered<br>payroll | UAAL as a<br>percentage of<br>covered<br>payroll |
|-----------------------------|---------------------------------|---|--|-----------------|--------------------|--|
| June 30, 2007               | \$ 746                          | \$ 954                                  | \$ (208)   | 78%             | \$ 305             | -68.2%   |
| June 30, 2006               | 682                             | 894                                     | (212)  | 76%             | 298                | -71.1%   |
| June 30, 2005               | 625                             | 834                                     | (209)  | 75%             | 285                | -73.3%   |
| June 30, 2004               | 586                             | 726                                     | (140)  | 81%             | 282                | -49.5%   |
| June 30, 2003               | 586                             | 677                                     | (91)   | 87%             | 262                | -34.7%   |
| June 30, 2002               | 621                             | 601                                     | 20   | 103%            | 249                | 8.0%   |

**Schedule of Employer Contributions (Unaudited)  
(in millions)  
Year ended June 30, 2007**

| Fiscal year<br>end | Annual<br>required<br>contribution | Actual<br>contribution | Percentage<br>contributed |
|--------------------|------------------------------------|------------------------|---------------------------|
| 2007               | \$ 51.3                            | \$ 23.3                | 45%                       |
| 2006               | 42.2                               | 19.2                   | 45%                       |
| 2005               | 35.5                               | 13.6                   | 38%                       |
| 2004               | 27.9                               | 12.3                   | 44%                       |
| 2003               | 15.9                               | 11.7                   | 73%                       |
| 2002               | 11.3                               | 11.3                   | 100%                      |

**FINANCIAL SECTION**

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**Other Supplementary Information**

**Schedule of Administrative Expenses  
Year Ended June 30, 2007**

|                                |    |                             |                   |
|--------------------------------|----|-----------------------------|-------------------|
| Personal services:             |    |                             |                   |
| Staff salaries                 | \$ | 312,587                     |                   |
| Benefits                       |    | 85,902                      |                   |
| Office expenses                |    | 47,623                      |                   |
| Total personal services        |    | <u>                    </u> | \$ 446,112        |
| Board fees                     |    |                             |                   |
| Salaries                       |    | 4,800                       |                   |
| Benefits                       |    | 367                         |                   |
| Total board fees               |    | <u>                    </u> | 5,167             |
| Consultant fees                |    |                             |                   |
| Consultant fees                |    | 135,000                     |                   |
| Legal fees                     |    | 57,013                      |                   |
| Total consultant fees          |    | <u>                    </u> | 192,013           |
| Actuary fees                   |    | 133,090                     |                   |
| Total actuary fees             |    | <u>                    </u> | 133,090           |
| Medical disability exams       |    |                             |                   |
| Professional health services   |    | 2,995                       |                   |
| Total medical disability exams |    | <u>                    </u> | <u>2,995</u>      |
| Total administrative expenses  |    |                             | <u>\$ 779,377</u> |

**FINANCIAL SECTION**

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**Schedule of Investment Expenses  
Year Ended June 30, 2007**

|                          |                     |
|--------------------------|---------------------|
| Manager fees             | \$ 4,012,256        |
| Custodian fees           | 376,759             |
| Foreign tax              | <u>85,014</u>       |
| <br>                     |                     |
| Total investment expense | <u>\$ 4,474,029</u> |



November 5, 2007

Board of Trustees  
City of Newport News, Virginia Employees'  
Retirement System  
2400 Washington Street  
Newport News, Virginia 23607

Ladies and Gentlemen:

The City of Newport News Employees' Retirement System was created to provide retirement benefits for those employees who have earned a pension from the City. The Trustees, to set up the plan in a prudent manner, have issued policy and guidelines for their advisors. Under these guidelines, the System can invest in common and preferred stocks traded on any major exchanges, U.S. Government or agency issued bonds, corporate bonds rated A or better at the time of purchase, commercial paper rated A1-P1, mortgage and asset backed securities including collateralized mortgage obligations limited to unleveraged priority or sequential pay tranches and subject to the quality rating limitations for all debt securities, Rule 144-A corporate bonds rated A or better at the time of purchase, with the rights of registration attached. International investment managers may purchase international equity securities in ADR form or in direct form. Please note that "sub-prime mortgages" were therefore prohibited. The City of Newport News' policy and guidelines also preclude their international managers from purchasing shares of companies based in the USA without the Trustees' prior written consent.

To maintain a diversified plan, the Trustees have set forth certain limitations in the policy and guidelines. The maximum of total bond holdings in any corporation should not exceed 10% of the long term indebtedness of that corporation. Managers should advise the Trustees if an equity holding exceeds 15% of the advisor's portfolio.

The System is well diversified by security, by asset class, by investment manager and investment manager style. Current policy (adopted August 2006) allows for a target investment in domestic equities of 46%, international equities of 12%, emerging markets of 3%, real estate of 3.8%, timber of 5%, and bonds of 30%.

The Trustees have engaged Dahab Associates, Inc. to calculate, and monitor the returns on a regular basis. We have calculated the rates of return from monthly statements provided by the custodian bank. The returns are gross of management and custodian fees but net of transactions costs. They comply with the ICFA GIPS standards and the Bank Administration Institute's methodology. The System has earned an annualized 10.8% return during the last five fiscal years, exceeding its long term investment objectives of a nominal 8.0% return and earning a real rate of return of at least 2.0% above the average rate of inflation as measured by the change in CPI over a five year period. Risk characteristics are calculated quarterly using appropriate statistical methodology.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard E. Dahab", written over a horizontal line.

Richard E. Dahab, CFA  
President

## INVESTMENT SECTION

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### **Investment Performance, Policy, Statistics and Activity**

The City of Newport News has created and funded an investment portfolio to provide retirement benefits for those employees who through their years of service have earned a right to a pension from the City. The purpose of this fund is to provide for the accumulation of money in an actuarially sound fashion so that the burden on taxpayers will be spread over the years of the employees' service. The Investment Policy and Guidelines have been designed to set forth the policies and guidelines for those who administer and invest the funds in the portfolio.

#### **Investment Objectives**

The Board of Trustees has adopted the investment policies and guidelines, which outline the Fund's investment goals and objectives. In accord with a recent actuarial report, the Trustees have established long-term goals for the overall investment portfolio consistent with the liabilities of the fund. At a minimum, the Fund in aggregate needs to earn a compound rate of return over a long period of 8.0%. Furthermore, the Trustees expect the fund to earn a real rate of return of at least 2.0% above the average rate of inflation as measured by the change in the Consumer Price Index (CPI) over a five-year period.

While the Trustees acknowledge that market conditions can produce short periods where such returns are impossible to achieve, the advisers are expected to contribute to meeting the long term performance objectives of the system as well as others set forth in this document.

#### **Asset Allocation**

Based on the most current asset/liability simulation study, the Trustees feel that the following asset deployment will best be able to achieve the long-term goals of the system in terms of compound total rate of return and assumed risk:

|                          |       |
|--------------------------|-------|
| Large Cap Equities       | 37.0% |
| Small Cap Equities       | 9.0   |
| International Equities   | 12.0  |
| Emerging Market Equities | 3.0   |
| Bonds                    | 30.0  |
| Timber                   | 5.0   |
| Real Estate              | 3.8   |
| Cash                     | 0.2   |

This target mix has been chosen for the aggregate total portfolio. From time to time the actual mix will fluctuate based on market conditions, performance, and cash flow considerations. However, it is desired that the fluctuations and overall residual cash positions be kept to a minimum.

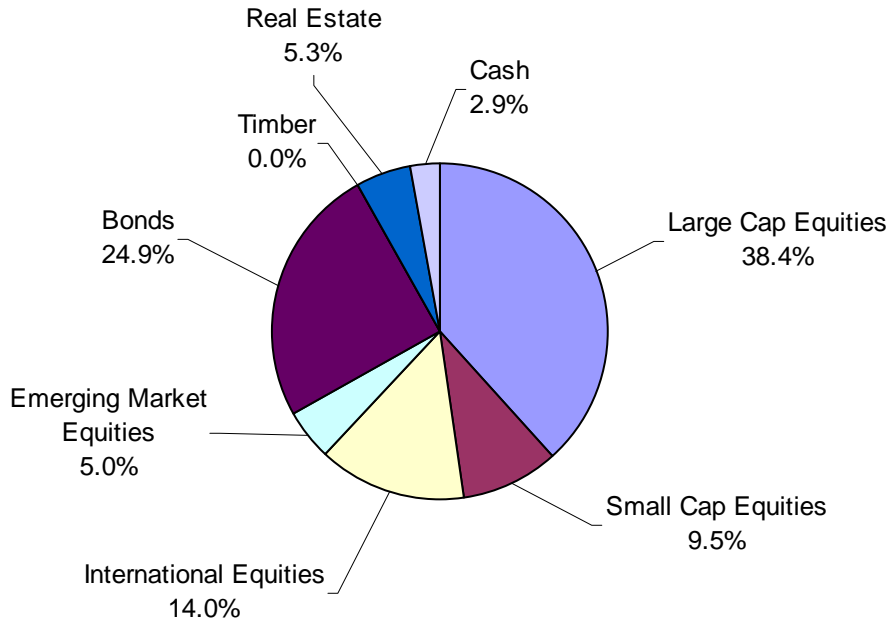
Each adviser has been apportioned funds assuming that he will be fully invested in his assigned sector with no more than 5-10% in cash equivalents. The advisers have not been hired to time the market and are not authorized to hold substantial cash positions for extended periods of time.

**INVESTMENT SECTION**

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**ASSET ALLOCATION BY ASSET CLASS**

June 30, 2007



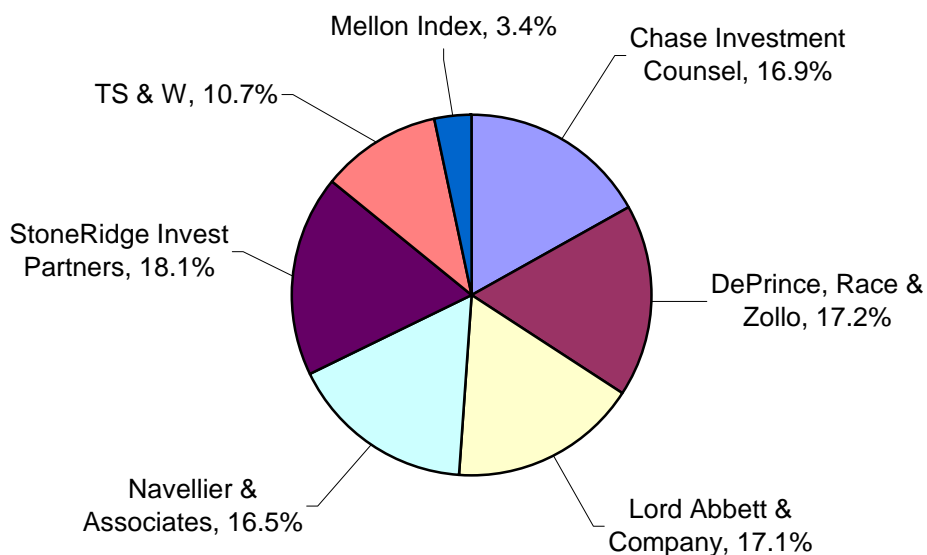
|                          |    |             |
|--------------------------|----|-------------|
| Large Cap Equities       | \$ | 321,469,103 |
| Small Cap Equities       |    | 79,694,354  |
| International Equities   |    | 117,646,898 |
| Emerging Market Equities |    | 41,627,349  |
| Bonds                    |    | 209,010,202 |
| Timber                   |    | -           |
| Real Estate              |    | 44,071,833  |
| Cash                     |    | 24,373,201  |
|                          |    | <hr/>       |
|                          | \$ | 837,892,940 |

**INVESTMENT SECTION**

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**INVESTMENT MANAGERS AND INVESTMENT ASSIGNMENTS**

**Large Cap Equities**  
June 30, 2007



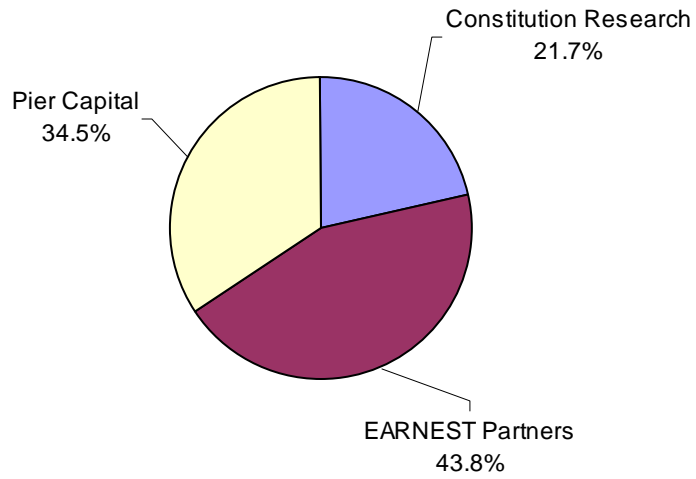
|                            |    |             |
|----------------------------|----|-------------|
| Chase Investment Counsel   | \$ | 54,331,573  |
| DePrince, Race & Zollo     |    | 55,297,115  |
| Lord Abbett & Company      |    | 55,089,633  |
| Navellier & Associates     |    | 53,060,828  |
| StoneRidge Invest Partners |    | 58,300,555  |
| TS & W                     |    | 34,403,289  |
| Mellon Index               |    | 10,986,110  |
|                            |    | <hr/>       |
|                            | \$ | 321,469,103 |

INVESTMENT SECTION

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Small Cap Equities  
June 30, 2007



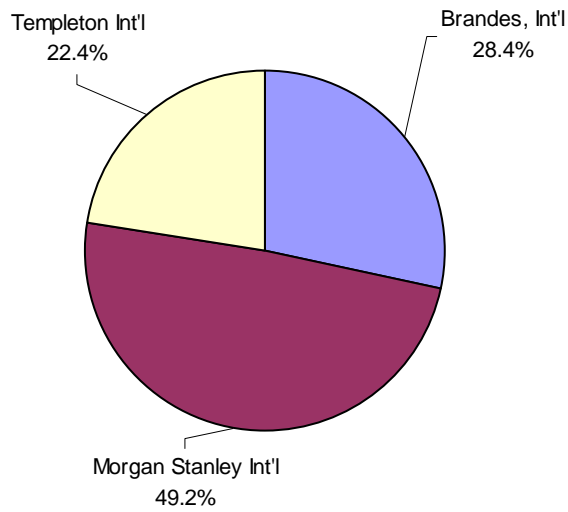
|                       |    |            |
|-----------------------|----|------------|
| Constitution Research | \$ | 17,325,044 |
| EARNEST Partners      |    | 34,912,958 |
| Pier Capital          |    | 27,456,352 |
|                       |    | <hr/>      |
|                       | \$ | 79,694,354 |

**INVESTMENT SECTION**

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**International Equities**  
June 30, 2007

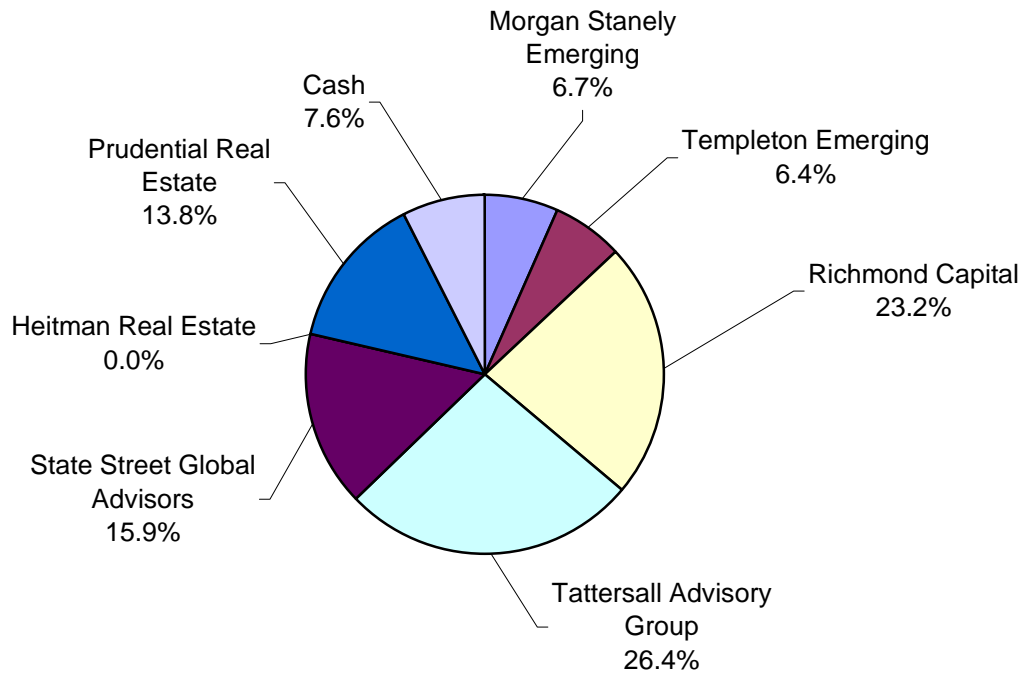


|                      |    |                    |
|----------------------|----|--------------------|
| Brandes, Int'l       | \$ | 33,437,184         |
| Morgan Stanley Int'l |    | 57,877,644         |
| Templeton Int'l      |    | 26,332,070         |
|                      | \$ | <u>117,646,898</u> |

**INVESTMENT SECTION**

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Emerging Market Equities, Bonds, Timber, Real Estate and Cash  
June 30, 2007



|                              |    |             |
|------------------------------|----|-------------|
| Morgan Stanely Emerging      | \$ | 21,338,637  |
| Templeton Emerging           |    | 20,288,712  |
| Richmond Capital             |    | 74,030,211  |
| Tattersall Advisory Group    |    | 84,309,331  |
| State Street Global Advisors |    | 50,670,660  |
| Heitman Real Estate          |    | -           |
| Prudential Real Estate       |    | 44,071,833  |
| Cash & cash equivalents      |    | 24,373,201  |
|                              | \$ | 319,082,585 |

## INVESTMENT SECTION

### SCHEDULE OF BROKER FEES AND COMMISSIONS

June 30, 2007

|                                     | Investments under<br>Management<br>at 06/30/07 | Fees         |
|-------------------------------------|--|--------------|
| <b>Investment Managers</b>          |  |              |
| Brandes, Int'l                      | \$ 33,437,184                                  | \$ 328,249   |
| Chase Investment Counsel            | 54,331,573                                     | 323,075      |
| Custodian Holding Comingle Composit | -  | 1,434        |
| Constitution Research               | 17,325,044                                     | 163,988      |
| DePrince, Race & Zollo              | 55,297,115                                     | 287,546      |
| EARNEST Partners                    | 34,912,958                                     | 273,633      |
| Lord Abbett & Company               | 55,089,633                                     | 383,873      |
| Mellon Index                        | 10,986,111                                     | 12,979       |
| Morgan Stanely Emerging             | 21,338,637                                     | 282,290      |
| Morgan Stanley Int'l                | 57,877,644                                     | 425,931      |
| Navellier & Associates              | 53,060,829                                     | 238,856      |
| Pier Capital                        | 27,456,352                                     | 265,928      |
| Prudential Real Estate              | 44,071,833                                     | 522,705      |
| Richmond Capital                    | 74,030,211                                     | 235,191      |
| State Street Global Advisors        | 50,670,660                                     | 18,127       |
| StoneRidge Invest Partners          | 58,300,555                                     | 303,366      |
| Tattersall Advisory Gp              | 84,309,331                                     | 261,102      |
| Templeton Emerging                  | 20,288,712 *                                   | -            |
| Templeton Int'l                     | 26,332,068 *                                   | -            |
| TS & W                              | 34,403,289                                     | 145,756      |
|                                     |  | \$ 4,474,029 |
| <b>Other Investment Services</b>    |  |              |
| Investment Advisor                  |  |              |
| Dahab Associates                    |  | \$ 135,000   |

\* Co-mingled managers fees & commissions are netted against investments as they are paid directly by State Street Bank.

# MERCER

 MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN

Stephen T. McElhane, FSA, EA,  
MAAA, FCA  
Principal

Three James Center  
1051 East Cary Street, Suite 900  
Richmond, VA 23219  
804 344 2600 Fax 804 344 2601  
steve.mcelhane@mercer.com  
www.mercer.com

December 21, 2007

Board of Trustees  
City of Newport News Employees' Retirement Fund  
Newport News, VA

Confidential  
via e-mail

Subject: 2007 Certification of Actuarial Valuation

Dear Members of the Board:

We certify that the information presented herein and in the actuarial valuation reports are accurate and shows fairly the actuarial position of City of Newport News Employees' Retirement Fund (NNERF) as of July 1, 2007, and the actuarial position of the Post Retirement Health and Welfare Benefits Fund as of July 1, 2006.

The actuarial valuation was based on participant data submitted by the City of Newport News Employees' Retirement Fund staff, which we examined for reasonableness. The financial information used in the valuation was provided to us by the City of Newport News finance department.

Actuarial valuations to determine the funding requirements and funded status of the Funds are performed annually. The most recent actuarial valuation was done as of July 1, 2007 for the Retirement Fund and as of July 1, 2006 for the Post Retirement Benefit Fund.

The Retirement Fund's required contribution rates are established which, over time, will gradually decrease as a percent of payroll if assumptions are met and the required rate is contributed. The required contribution rate has been determined to provide for (1) the normal cost developed as a level percentage of payroll, plus (2) a level dollar amortization of the unfunded actuarial accrued liability over 30 years, and expressed as a percentage of payroll. The City's contribution rate for the year ended June 30, 2007 was approximately 4.81% (shown as an weighted average) of covered payroll. As of July 1, 2007, the required contribution rate is 11.67%.

The required contribution rates for the Post Retirement Benefit Fund are established such that over time they will remain relatively level as a percent of payroll if assumptions are met

# MERCER

 MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN

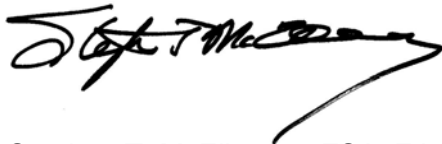
Page 2  
December 21, 2007  
Board of Trustees  
City of Newport News Employees' Retirement Fund

and the required rate is contributed. The required contribution rate has been determined to provide for (1) the normal cost developed as a level percentage of payroll, plus (2) a level percentage of pay amortization of the unfunded actuarial accrued liability over 30 years, and expressed as a percentage of payroll. As of July 1, 2006, the required contribution rate is 11.38%.

The actuarial assumptions and methods used in the valuation were adopted by the Board, based upon our recommendations. The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit and Note Disclosures for Defined Contribution Plans*, and in Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*.

We prepared all of the schedules shown in the Actuarial Section of the City of Newport News' Annual Report. We also provided the Schedules of Funding Progress and Schedules of Employer Contributions, which appear in the Financial Section of the City of Newport News' Annual Report.

Sincerely,



Stephen T. McElhaney, FSA, EA, MAAA, FCA  
Principal

Enclosure

**The information contained in this document (including any attachments) is not intended by Mercer to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer.**

G:\NNE\07\13

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS  
RETIREMENT FUND

The actuarial assumptions and funding method used in the valuation are summarized below. For the Retirement Fund, the actuarial assumptions are the same as those used in the July 1, 2006 valuation which reflect the actuarial assumption experience study for the period July 1, 1998 to June 30, 2003.

***Economic Assumptions***

For purposes of developing economic assumptions, an average future rate of inflation of 3.0% was assumed.

**1. Net Investment Earnings:** 8.0% total rate of return (based upon 5.0% real rate of return plus a 3.0% rate of inflation).

**2. Salary Increases:** For purposes of computing plan liabilities, salaries are assumed to increase at the rate of 5.25% per year (includes 2.25% merit and productivity increases plus 3.0% rate of inflation).

For purposes of projecting three year cost results, total city payroll is assumed to increase annually as follows:

|           |       |
|-----------|-------|
| 2007-2008 | 3.00% |
| 2008-2009 | 3.00% |
| 2009-2010 | 3.00% |

**3. Cost of Living Increases:** Based upon an average inflation assumption of 3.0%, the average annual automatic increase for retirees is assumed to increase at the rate of 2.0%.

**4. Expenses:** None (assumed to be paid from gross investment earnings).

***Demographic Assumptions***

**5. Mortality:**

|                        |          |  |
|------------------------|----------|--|
| Non-retired Members:   | Male:    | RP-2000 Mortality Table for active employees projected to 2010 by Scale AA.                                    |
|                        | Female:  | RP-2000 Mortality Table for active employees projected to 2010 by Scale AA.                                    |
| Service Pensioners:    | Male:    | RP-2000 Mortality Table for healthy annuitants projected to 2010 by Scale AA.                                  |
|                        | Female:  | RP-2000 Mortality Table for healthy annuitants projected to 2010 by Scale AA.                                  |
| Disability Pensioners: | Males:   | RP-2000 Mortality Table for healthy annuitants projected to 2010 by Scale AA with ages set forward five years. |
|                        | Females: | RP-2000 Mortality Table for healthy annuitants projected to 2010 by Scale AA with ages set forward five years. |

**6. Termination Rates:** Rates based on 1998-2003 experience as follows:

| GENERAL CITY AND WATERWORKS   |                         |                 |
|---|-------------------------|-----------------|
|   | Age Nearest<br>Birthday | 4 YOS<br>& More |
| For General City and Waterworks plan participants, 15% are expected to terminate during each of the first two years of employment, and 10% for the third year. Rates of turnover for plan participants who have at least four years of service are assumed to follow the rates in this table: | 25                      | 0.1000          |
|   | 35                      | 0.0768          |
|   | 45                      | 0.0354          |
|   | 55                      | 0.0156          |
|   | 65                      | 0.0024          |

| NON-VRS AND VRS   |                            |                 |
|---|----------------------------|-----------------|
|   | Age<br>Nearest<br>Birthday | 4 YOS<br>& More |
| For Non-VRS and VRS plan participants, 20% are expected to terminate during each of the first two years of employment, and 15% for the third year. Rates of turnover for plan participants who have at least four years of service are assumed to follow rates in this table: | 25                         | 0.1500          |
|   | 35                         | 0.1070          |
|   | 45                         | 0.0520          |
|   | 55                         | 0.0360          |
|   | 65                         | 0.0078          |

| FIRE & POLICE   |                         |                 |
|---|-------------------------|-----------------|
|   | Age Nearest<br>Birthday | 4 YOS<br>& More |
| For Fire and Police plan participants, 20% are expected to terminate during the first two years of employment, and 10% for the third year. Rates of turnover for plan participants who have at least four years of service are assumed to follow rates in this table: | 25                      | 0.0950          |
|   | 35                      | 0.0386          |
|   | 45                      | 0.0192          |
|   | 55                      | 0.0034          |
|   | 65                      | 0.0000          |

YOS = Year of Service

**7. Retirement Rates:**

Service Retirement: Rates are based on 1998-2003 Fund experience.

| Firemen and Police |      | All Other Members |      |
|--------------------|------|-------------------|------|
| Age                | Rate | Age               | Rate |
| 55                 | 0.10 | 60                | 0.15 |
| 56                 | 0.10 | 61                | 0.15 |
| 57                 | 0.10 | 62                | 0.25 |
| 58                 | 0.20 | 63                | 0.25 |
| 59                 | 0.20 | 64                | 0.25 |
| 60                 | 0.20 | 65                | 0.30 |
| 61                 | 0.20 | 66                | 0.30 |
| 62                 | 0.50 | 67                | 0.30 |
| 63                 | 0.50 | 68                | 0.30 |
| 64                 | 0.50 | 69                | 0.30 |
| 65                 | 1.00 | 70                | 1.00 |

Note: It is assumed that 20% of firemen and policemen who have 25 years of service will retire prior to age 55. It is assumed that 15% of all other members with 30 years of service will retire prior to age 60.

Disability Retirement:

Sample rates are as follows:

| Fire & Police |        | All Other Members |        |
|---------------|--------|-------------------|--------|
| Age           | Unisex | Male              | Female |
| 20            | .0009  | .0006             | .0004  |
| 30            | .0009  | .0006             | .0004  |
| 40            | .0013  | .0009             | .0006  |
| 50            | .0061  | .0043             | .0027  |
| 59            | .0000  | .0167             | .0104  |

Note: It is assumed that 50% of the disability retirements among firemen and policemen, and 10% of the disabilities among all other members, will be occupational.

**8. Marital Status:**

It has been assumed that 85% of the members are married, and that husbands are 3 years older than their wives.

**9. Eligible Dependents:**

No assumption has been made to determine the number and age of eligible non-spouse dependents of a member that would be entitled to

receive death benefits after retirement. The cost of this entitlement is immaterial.

### ***Actuarial Funding Methods***

- 10. Cost Method:** Normal Cost percentage is calculated using the Aggregate Entry Age Normal Actuarial Cost Method for all benefits. Short term projections of Unfunded Actuarial Accrued Liability (UAAL) and payrolls are made for the 3-year period covered by this valuation. UAAL is amortized on a “floating” basis as level dollar amounts over 30 years.
- 11. Asset Valuation Basis:** Three year moving market average. The Actuarial Asset Value is determined under the average value method. Asset appreciation or depreciation is only partially recognized in the year of occurrence. Asset appreciation (depreciation) is the sum of the realized and unrealized gains (losses) for a year.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS  
POST RETIREMENT BENEFIT FUND

The actuarial assumptions and funding method used in the Post Retirement Benefit Fund valuation are the same as used for the Retirement Fund valuation except as summarized below.

1. **Discount Rate:** 4.00%, representing the expected long term rate of return on the City's unrestricted funds.
  
2. **Annual Per-Capita Claims Cost:** Claims costs, including medical and pharmacy, by age were developed based upon Mercer Human Resource Consulting's Postretirement Medical Valuations Clearinghouse and the actual experience of The City of Newport News, Virginia retirees. Representative annual claims costs, which include administrative expenses, at specific ages for the plan year beginning July 1, 2006 are:

| Age | City  | Schools |
|-----|-------|---------|
| 60  | 8,897 | 8,627   |
| 61  | 9,120 | 8,842   |
| 62  | 9,348 | 9,064   |
| 63  | 9,581 | 9,290   |
| 64  | 9,821 | 9,522   |
| 65  | 3,810 | 3,101*  |
| 66  | 3,905 | 3,101   |
| 67  | 4,003 | 3,101   |
| 68  | 4,103 | 3,101   |
| 69  | 4,206 | 3,101   |
| 70  | 4,311 | 3,101   |

\*Current School Retirees receive a calculated percent of the maximum fund subsidy. It is assumed that future School retirees will receive 70% of the fund subsidy at retirement. For pre-Medicare retirees, the School is responsible for retiree plan costs less retiree contributions. For Medicare eligible retirees, the School is responsible for just the subsidy.

The Annual Per-Capita Claims Cost is assumed to be \$60 for School dental coverage and \$300 for City dental coverage at every age and is not offset by Medicare.

(The Annual Per Capita Claims Cost was increased from the July 1, 2004 valuation. The two-year increase for pre-65 rates was about 10% for the City and 19% for the Schools. The two-year increase for post-65 rates was about 31% for the City and 13% for the schools.)

# Actuarial Basis

## Summary of Actuarial Assumptions *(continued)*

- 3. Health Care Cost Trend Rates:** The future medical trends, other than aging, are assumed to follow the pattern below.

| Year Starting<br>July 1 | Medical Trend | Dental Trend |
|-------------------------|---------------|--------------|
| 2006                    | 10.5%         | 6.0%         |
| 2007                    | 9.5%          | 5.5%         |
| 2008                    | 9.0%          | 5.0%         |
| 2009                    | 8.5%          | 5.0%         |
| 2010                    | 8.0%          | 5.0%         |
| 2011                    | 7.5%          | 5.0%         |
| 2012                    | 7.0%          | 5.0%         |
| 2013                    | 6.5%          | 5.0%         |
| 2014                    | 6.0%          | 5.0%         |
| 2015                    | 5.5%          | 5.0%         |
| 2016+                   | 5.0%          | 5.0%         |

The ultimate medical trend for each year following 2011 is 5.0%. These trends apply to the Schools Fund Subsidy amount. Due to the indexing of employer contributions based on CPI, the ultimate trend for the City is assumed to be 2.0% in 2005 and beyond.

## 4. Retiree Medical Contributions:

**For the City:** The retiree contributions are described in the Plan Provisions section which follows.

Premium rates before any adjustments are as follows:

|        | Total     | City      | Retiree  |
|--------|-----------|-----------|----------|
| Single | \$ 492.84 | \$ 371.10 | \$121.74 |
| Family | 1,355.28  | 1,020.50  | 334.78   |
| Med 1  | 371.88    | 250.10    | 121.78   |
| Med 2  | 743.76    | 500.20    | 243.56   |

**For the Schools:** The average retiree contribution is assumed to be \$1,893 for retiree coverage and \$4,048 for dependent coverage. Contributions will increase with Medical trend. The average retiree contribution for dental coverage is assumed to be \$383 for retiree coverage and \$267 for dependent coverage.

**5. Retiree Life Contributions:**

Retiree life insurance is provided at no cost to the retiree.

**6. Plan Participation:**

**For the City:** It is assumed that 85% of eligible retirees will participate at retirement. 60% of eligible dependents will participate at retirement.

**For the Schools:** It is assumed that 75% of eligible retirees will participate at retirement. 55% of eligible dependents will participate at retirement. 35% of those school retirees who do not elect into the medical plan are assumed to elect dental coverage.

**Actuarial Funding Methods**

- 7. Cost Method:** Normal Cost percentage is calculated using the Projected Unit Credit Actuarial Cost Method for all benefits. UAAL is amortized on a “floating” basis over 30 years as a level percentage of payroll.
- 8. Asset Valuation Basis:** Market value of plan assets.

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

JULY 1, 2007

Age Distribution of Active Employees

**GENERAL EMPLOYEES**

| Age Group               | Number    | Total Annual Salary | Average Credited Service |              | Total Monthly Accrued Benefit | Total Monthly Projected Benefit |
|-------------------------|-----------|---------------------|--------------------------|--------------|-------------------------------|---------------------------------|
|                         |           |                     | Current                  | Final        |                               |                                 |
| Under 25                | 48        | 962,748             | 0.92                     | 30.44        | 2,192                         | 278,599                         |
| 25 - 29                 | 148       | 3,945,705           | 1.97                     | 30.46        | 15,321                        | 954,661                         |
| 30 - 34                 | 163       | 4,981,982           | 3.60                     | 29.73        | 33,202                        | 962,415                         |
| 35 - 39                 | 226       | 7,570,429           | 6.18                     | 27.77        | 85,304                        | 1,083,212                       |
| 40 - 44                 | 279       | 10,030,493          | 8.29                     | 24.77        | 148,104                       | 953,116                         |
| 45 - 49                 | 340       | 13,797,082          | 12.17                    | 23.35        | 301,944                       | 905,140                         |
| 50 - 54                 | 339       | 14,975,481          | 14.94                    | 21.53        | 396,059                       | 718,725                         |
| 55 - 59                 | 257       | 11,617,001          | 15.76                    | 18.81        | 314,905                       | 419,338                         |
| 60 - 64                 | 119       | 5,824,478           | 16.54                    | 17.08        | 170,660                       | 174,928                         |
| <u>Over 64</u>          | <u>25</u> | <u>1,392,539</u>    | <u>17.31</u>             | <u>17.59</u> | <u>46,585</u>                 | <u>47,023</u>                   |
| <b>Total or Average</b> | 1,944     | 75,097,936          | 10.44                    | 23.94        | 1,514,275                     | 6,497,158                       |

**FIRE & POLICE**

| Age Group               | Number   | Total Annual Salary | Average Credited Service |              | Total Monthly Accrued Benefit | Total Monthly Projected Benefit |
|-------------------------|----------|---------------------|--------------------------|--------------|-------------------------------|---------------------------------|
|                         |          |                     | Current                  | Final        |                               |                                 |
| Under 25                | 67       | 1,891,962           | 1.32                     | 25.46        | 4,945                         | 308,174                         |
| 25 - 29                 | 120      | 4,237,474           | 2.72                     | 24.94        | 18,905                        | 511,612                         |
| 30 - 34                 | 111      | 4,423,072           | 5.23                     | 22.80        | 35,954                        | 363,766                         |
| 35 - 39                 | 160      | 7,386,932           | 9.73                     | 21.73        | 108,183                       | 420,324                         |
| 40 - 44                 | 179      | 9,119,290           | 14.49                    | 20.75        | 210,006                       | 384,283                         |
| 45 - 49                 | 149      | 8,549,320           | 19.49                    | 21.58        | 265,584                       | 310,714                         |
| 50 - 54                 | 79       | 4,534,354           | 19.26                    | 19.57        | 138,982                       | 141,547                         |
| 55 - 59                 | 35       | 2,070,602           | 20.86                    | 21.17        | 71,810                        | 72,799                          |
| 60 - 64                 | 13       | 772,237             | 22.51                    | 22.51        | 27,135                        | 27,135                          |
| <u>Over 64</u>          | <u>1</u> | <u>32,640</u>       | <u>22.92</u>             | <u>22.92</u> | <u>1,186</u>                  | <u>1,186</u>                    |
| <b>Total or Average</b> | 914      | 43,017,881          | 11.62                    | 22.14        | 882,689                       | 2,541,538                       |

**WATERWORKS**

| Age Group               | Number   | Total Annual Salary | Average Credited Service |              | Total Monthly Accrued Benefit | Total Monthly Projected Benefit |
|-------------------------|----------|---------------------|--------------------------|--------------|-------------------------------|---------------------------------|
|                         |          |                     | Current                  | Final        |                               |                                 |
| Under 25                | 6        | 109,455             | 0.78                     | 30.45        | 231                           | 30,665                          |
| 25 - 29                 | 10       | 247,349             | 3.19                     | 30.49        | 1,522                         | 52,346                          |
| 30 - 34                 | 17       | 598,231             | 5.90                     | 30.20        | 5,330                         | 95,315                          |
| 35 - 39                 | 33       | 1,192,867           | 8.33                     | 28.27        | 16,698                        | 151,013                         |
| 40 - 44                 | 59       | 2,240,677           | 11.24                    | 26.63        | 40,610                        | 195,978                         |
| 45 - 49                 | 84       | 3,718,922           | 15.48                    | 26.27        | 91,826                        | 257,290                         |
| 50 - 54                 | 82       | 3,897,590           | 18.74                    | 24.58        | 121,553                       | 199,568                         |
| 55 - 59                 | 39       | 1,965,911           | 20.10                    | 23.08        | 64,723                        | 83,864                          |
| 60 - 64                 | 18       | 948,314             | 20.80                    | 21.24        | 32,705                        | 33,303                          |
| <u>Over 64</u>          | <u>6</u> | <u>266,749</u>      | <u>17.07</u>             | <u>17.57</u> | <u>5,746</u>                  | <u>7,078</u>                    |
| <b>Total or Average</b> | 354      | 15,186,065          | 14.61                    | 25.75        | 380,943                       | 1,106,421                       |

**NON-VRS SCHOOL**

| Age Group               | Number    | Total Annual Salary | Average Credited Service |              | Total Monthly Accrued Benefit | Total Monthly Projected Benefit |
|-------------------------|-----------|---------------------|--------------------------|--------------|-------------------------------|---------------------------------|
|                         |           |                     | Current                  | Final        |                               |                                 |
| Under 25                | 17        | 335,309             | 1.41                     | 30.41        | 906                           | 71,780                          |
| 25 - 29                 | 58        | 988,907             | 2.68                     | 30.54        | 4,195                         | 163,441                         |
| 30 - 34                 | 60        | 1,003,849           | 3.85                     | 29.93        | 6,067                         | 145,761                         |
| 35 - 39                 | 97        | 1,839,706           | 5.81                     | 27.60        | 14,689                        | 201,749                         |
| 40 - 44                 | 153       | 3,167,473           | 8.28                     | 25.09        | 43,730                        | 245,962                         |
| 45 - 49                 | 186       | 3,973,862           | 10.07                    | 22.25        | 65,539                        | 225,947                         |
| 50 - 54                 | 184       | 4,080,187           | 12.11                    | 19.44        | 83,773                        | 169,665                         |
| 55 - 59                 | 162       | 3,684,133           | 11.63                    | 14.66        | 71,199                        | 95,533                          |
| 60 - 64                 | 112       | 2,218,554           | 11.32                    | 12.28        | 42,719                        | 46,457                          |
| <u>Over 64</u>          | <u>64</u> | <u>1,189,059</u>    | <u>11.03</u>             | <u>11.03</u> | <u>20,535</u>                 | <u>21,170</u>                   |
| <b>Total or Average</b> | 1,093     | 22,481,040          | 9.33                     | 20.83        | 353,351                       | 1,387,465                       |

**VRS SCHOOL EMPLOYEES**

| Age Group               | Number    | Total Annual Salary | Average Credited Service |              | Total Monthly Accrued Benefit | Total Monthly Projected Benefit |
|-------------------------|-----------|---------------------|--------------------------|--------------|-------------------------------|---------------------------------|
|                         |           |                     | Current                  | Final        |                               |                                 |
| <b>Under 25</b>         | 83        | 2,448,645           | 1.11                     | 30.77        | 2,255                         | 83,552                          |
| <b>25 - 29</b>          | 446       | 15,973,718          | 2.51                     | 30.76        | 13,562                        | 477,696                         |
| <b>30 - 34</b>          | 390       | 14,722,728          | 4.27                     | 30.14        | 17,514                        | 383,905                         |
| <b>35 - 39</b>          | 448       | 17,859,341          | 6.40                     | 28.02        | 30,460                        | 347,659                         |
| <b>40 - 44</b>          | 439       | 17,155,565          | 7.10                     | 24.38        | 32,853                        | 236,440                         |
| <b>45 - 49</b>          | 542       | 21,308,289          | 9.96                     | 22.03        | 57,131                        | 201,745                         |
| <b>50 - 54</b>          | 603       | 27,526,254          | 13.24                    | 20.48        | 93,102                        | 193,916                         |
| <b>55 - 59</b>          | 523       | 24,723,754          | 14.82                    | 17.74        | 96,082                        | 125,122                         |
| <b>60 - 64</b>          | 275       | 13,136,855          | 16.40                    | 16.80        | 54,569                        | 55,503                          |
| <b><u>Over 64</u></b>   | <u>50</u> | <u>2,374,450</u>    | <u>17.92</u>             | <u>17.92</u> | <u>10,988</u>                 | <u>11,121</u>                   |
| <b>Total or Average</b> | 3,799     | 157,229,600         | 9.32                     | 23.79        | 408,514                       | 2,116,658                       |

SCHEDULE OF RETIRANTS, DISABLED RETIRANTS AND BENEFICIARIES  
AS OF JULY 1, 2007

| VALUATION ITEM<br>=====                                  | NNERF<br>TOTAL<br>===== | TOTAL<br>EXCLUDING VRS<br>===== | GENERAL CITY<br>EMPLOYEES<br>===== | FIRE AND<br>POLICE<br>===== | WATERWORKS<br>EMPLOYEES<br>===== | NON-VRS<br>SCHOOL<br>===== | VRS SCHOOL<br>EMPLOYEES<br>===== |
|--|-------------------------|---------------------------------|------------------------------------|-----------------------------|----------------------------------|----------------------------|----------------------------------|
| <b>RETIREEES, BENEFICIARIES, AND DISABLED PENSIONERS</b> |                         |                                 |                                    |                             |                                  |                            |                                  |
| Number of Members  | 3,821                   | 2,061                           | 771                                | 526                         | 169                              | 595                        | 1,760                            |
| Monthly Benefit Amount                                   | 3,527,967               | 2,874,277                       | 1,104,038                          | 1,136,350                   | 265,343                          | 368,546                    | 653,690                          |
| PV of Retirement Benefits                                | 440,128,156             | 373,885,671                     | 141,629,533                        | 160,704,117                 | 32,730,144                       | 38,821,877                 | 66,242,485                       |
| PV of Death Benefits                                     | 3,456,648               | 1,933,498                       | 772,662                            | 349,776                     | 136,880                          | 674,180                    | 1,523,150                        |
| PV of Pension Plan Benefits = L3 + L4                    | 443,584,804             | 375,819,169                     | 142,402,195                        | 161,053,893                 | 32,867,024                       | 39,496,057                 | 67,765,635                       |
| <b>VESTED TERMINATED MEMBERS</b>                         |                         |                                 |                                    |                             |                                  |                            |                                  |
| Number of Members  | 1,736                   | 956                             | 564                                | 190                         | 86                               | 116                        | 780                              |
| Monthly Benefit Amount                                   | 818,276                 | 598,087                         | 371,746                            | 131,369                     | 53,037                           | 41,936                     | 220,188                          |
| PV of Retirement Benefits                                | 35,634,262              | 28,346,589                      | 16,953,217                         | 7,728,807                   | 1,917,730                        | 1,746,835                  | 7,287,673                        |
| PV of Death Benefits                                     | 1,033,909               | 830,707                         | 560,409                            | 87,958                      | 98,141                           | 84,199                     | 203,202                          |
| PV of Pension Plan Benefits = L8 + L9                    | 36,668,171              | 29,177,296                      | 17,513,626                         | 7,816,765                   | 2,015,871                        | 1,831,034                  | 7,490,875                        |

## Participant Data for Post Retirement Benefit Fund

Distribution of Actives and Retirees as of July 1, 2006:

The study is based on retiree census data provided by the City of Newport News. The valuation was based on census data on 2,393 retirees, 926 spouses, 156 widows, 89 disabled, and 7,717 active employees. The inactive participants included in the valuation have postretirement medical, dental or life insurance coverage which is subsidized in some way by the City.

|  | <b>(Medical and/or Dental)</b> |                    |                        |
|--|--------------------------------|--------------------|------------------------|
|  | <b>Number</b>                  | <b>Average Age</b> | <b>Average Service</b> |
| <b>School Participants</b>                   |                                |                    |                        |
| Retirees                                     | 1,195                          | 67.4               | N/A                    |
| Spouses                                      | 481                            | 66.1               | N/A                    |
| Widows                                       | 14                             | 66.2               | N/A                    |
| Disabled                                     | 21                             | 56.1               | N/A                    |
| Actives                                      | 4,618                          | 45.0               | 9.3                    |
| <b>City Participants</b>                     |                                |                    |                        |
| Retirees                                     | 855                            | 65.8               | N/A                    |
| Spouses                                      | 445                            | 58.7               | N/A                    |
| Widows                                       | 142                            | 70.0               | N/A                    |
| Disabled                                     | 47                             | 52.2               | N/A                    |
| Actives                                      | 3,099                          | 43.7               | 11.6                   |
| <b>Participants with Life Insurance Only</b> |                                |                    |                        |
| Retirees                                     | 343                            | 76.4               | N/A                    |
| Disabled                                     | 21                             | 54.2               | N/A                    |

## SUMMARY OF NNERF PROVISIONS

- 1. Participating Employees**

Membership in the Fund is compulsory for all City and School Board employees except those employed on a contractual, seasonal or temporary basis. Membership is optional for elective City officials and for certain other persons.

Effective July 1, 1995, the Sheriff's Department was given the same benefit eligibility as Fire and Police Employees. Therefore, these employees are included within the valuation results for Fire and Police.
- 2. Contributions to Finance the Fund**

Contributions by members, previously required, were completely discontinued in 1978. All employee contributions remaining in the Fund were refunded as of January 1, 1983. The entire cost of Fund benefits is borne by the City and the School Board.
- 3. Service Retirement Eligibility**

  - (a) Optional

A member who has enough credited service to be vested (see provision 14 below) may retire at his option:

    - i) on or after age 60 (age 50 for firemen, policemen, and sheriffs), or
    - ii) at any age, upon completion of 30 or more years of credited service.
  - (b) Mandatory

Firemen and policemen must retire no later than age 63.
  - (c) Early Retirement

A member who has completed 25 or more years of service and who has not attained age 60 (age 50 for firemen, policemen, and sheriffs) may retire at his option on an actuarially reduced retirement allowance. Early retirement benefit for firemen, policemen, and sheriffs is not reduced.

**4. Service Retirement Allowance**

A yearly life annuity, payable monthly, determined by applying (a), or (b), subject to (c) below.

- (a) 2.0% of the member's average final salary, multiplied by his years of credited service
- (b) For members of the Virginia Retirement System (VRS),
  - 1) participant less than age 55: 2.0% of the member's average final salary, multiplied by his years of credited service less VRS offset (i.e., 1.7% of the member's average final salary multiplied by his years of credited service) or
  - 2) participant greater than or equal to age 55: 0.3% of the member's average final salary, multiplied by years of credited service. The result cannot be greater than 11% multiplied by member's average final salary.
- (c) Minimum \$330 per year.  
Maximum 75% of average final salary.

Notes

- 1. "Average final salary" means the average annual salary for the three highest consecutive years of earnings.
- 2. A member reaching mandatory retirement age with less than the minimum service required for vesting receives no retirement allowance.
- 3. In cases of early retirement the allowance is reduced by 1/2% for each month in the period between the retirement date and the first date on which the member would have been eligible for an unreduced benefit had he remained in service.

**5. Normal Form of Payment**

- (a) Single members                      Straight life benefit
- (b) Married members with  
less than 5 years of  
service                                      Straight life benefit
- (c) Married members with  
5 or more years of service              50% Joint and Survivor benefit (see *death benefit before and after retirement*).

- 6. Nonoccupational Disability Retirement Eligibility** Members under age 60 (age 50 for firemen and policemen) who have completed at least 5 but less than 30 years of credited service and who become disabled from a cause not compensable under Workers' Compensation, are eligible.
- 7. Occupational Disability Eligibility** Active members under age 60 (age 50 for firemen, policemen, and sheriffs) who become totally and permanently disabled, from a cause compensable under Workers' Compensation are eligible.
- 8. Nonoccupational Disability Retirement Allowance** A yearly annuity, payable monthly for life so long as the member remains disabled, computed as follows:  
  
4% of the member's Average Final Salary at date of disability for each of the first 5 years of credited service plus an additional 1% of such Average Final Salary for each year of credited service in excess of 5 years. For VRS participants, this amount is reduced by any disability retirement benefit payable under VRS provided that the NNERF benefit will be at least 0.11% of Average Final Salary for each year of credited service.
- 9. Occupational Disability Retirement Allowance** A yearly annuity, payable monthly for life so long as the member remains disabled, computed as follows:  
  
Two-thirds of the member's annual rate of salary at date of disability, reduced by
- Worker's Compensation payments
  - One-half of primary Social Security benefits
  - VRS disability benefits, and
  - Any other compensation payable by the City as a result of the disability.
- 10. Partial Disability Benefit** Any member who has satisfied the age and service requirements for disability retirement and who, although not deemed to be totally and permanently disabled, is mentally or physically incapacitated for the further performance of the duties associated with the member's position, may be awarded a partial disability benefit. The amount of the benefit is equal to a percentage of the disability retirement allowance that would have been payable if the member were totally and permanently disabled, with the percentage being equal to the degree of the member's disability. Partial disability benefits continue until the earliest of recovery, death, or retirement age. Non-vested partial disability benefits terminate at retirement age.

**11. Death Benefit  
Before Retirement**

(a) Ordinary  
Death  
Benefit

If a member dies in service from a cause not compensable under the Workers' Compensation Act, a lump sum benefit is payable equal to \$550 times his years of service, subject to a minimum payment of \$550 and a maximum of \$3,300.

In addition, if death occurs after completion of 5 years of service, the member's surviving spouse receives an annuity equal to 50% of any retirement annuity to which the member would have been entitled on date of death.

(b) Service  
Connected  
Death  
Benefit

In a member's death arises from a cause compensable under Workers' Compensation Act, the following benefits are payable:

- i) Spouse: 60% of member's rate of compensation at time of death, payable until death or remarriage.
- ii) Each Minor Child under Age 18 (or under Age 23 if a Full-time Student): 10% of member's rate of compensation at time of death.
- iii) If No Spouse or Minor Children: 60% of the member's rate of compensation at time of death becomes payable to his dependent parent(s).

Maximum Family Benefit #1 (for Spouse and Children)

80% of member's rate of compensation at time of death.

Maximum Family Benefit #2 (all Payees)

100% of member's final compensation rate less Social Security and Workers Compensation.

**12. Death Benefit After Retirement**

The following lump sums are payable upon death following retirement:

| Year After Retirement | Lump Sum |
|-----------------------|----------|
| 1st                   | \$3,300  |
| 2nd                   | 2,750    |
| 3rd                   | 2,200    |
| 4th                   | 1,650    |
| 5th                   | 1,100    |
| 6th & later           | 550      |

In addition, if the member had completed 5 or more years of service at time of retirement, an amount equal to 50% of the member's retirement allowance is continued to his surviving spouse as a life annuity. If the member is not survived by a spouse, or the surviving spouse dies, the surviving dependent, unmarried children will receive the benefit payable in equal shares until each such child attains the age of 18 or the age of 23 if enrolled as a full-time student at a recognized educational institution. If the member does not have any eligible children, the benefit shall be paid to a dependent mother or father.

**13. Employment Termination Benefit**

Any member who terminates employment after completing 5 years of credited service is entitled to a vested deferred retirement allowance beginning at age 60 (50 for a fireman or policeman), based upon his Average Final Salary and years of credited service at time of termination and on the benefit provisions then in effect.

**14. Postretirement Increases**

Retirees receive automatic increases based upon 100% of the first one percent increase in the CPI and 50% of any increase in the CPI in excess of one percent, with a maximum adjustment of 3.5%. A special increase of 3% was granted effective January 1, 1998. A special increase of 5% was granted effective July 1, 2001.

**15. Assets of the Fund**

The assets which constitute the Fund are deposited in an account known as the "City of Newport News Employees Retirement Fund", which is subject to the laws and regulations that apply to other city funds.

**16. Administration of the Fund**

Administration of the Fund is vested in a nine member Board of Trustees, of whom four are appointed by City Council and five are elected member representatives (*one for Firemen and Policemen; one for Waterworks employees; one for Department of Public Works employees; one for School Board employees; and the fifth to be elected by all other members*).

## Substantive Plan

### Nature of the Plan of Medical Benefits as of July 1, 2006

#### **Not Eligible for Medicare – City**

The City of Newport News, Virginia offers medical coverage to eligible retirees and their eligible dependents through Anthem's Keycare Preferred Provider Organization (PPO). Key elements of the in-network services are outline below.

#### Comprehensive Benefits:

|                          | Individual      |
|--------------------------|-----------------|
| Calendar Year Deductible | \$ 0            |
| Out-of-Pocket Maximum    | \$1,000         |
| Copay Schedule           |                 |
| **Doctor Visit           | \$ 10 per visit |
| **Specialist Visit       | \$ 20 per visit |
| **ER Visit               | \$ 50 per visit |
| **Hospital Inpatient     | \$200 per stay  |
| **Hospital Outpatient    | \$ 50 per visit |
| Coinsurance*             | 100%            |
| Lifetime Maximum         | No limit        |

\*Most services are covered at 100% coinsurance after a copayment. Exceptions are 80% for ambulance services, supplies, and equipment and 90% for tests.

\*\* Covered at 100% after copayment.

#### Prescription Drugs:

|   | Generic  | Brand Name | High Cost |
|---|----------|------------|-----------|
| Standard Copayments   | \$ 10.00 | \$20.00    | \$35.00   |
| Copayment for mail service maintenance drugs in 90 day quantities | \$ 20.00 | \$40.00    | \$70.00   |

Out of Network benefits have greater cost-sharing amounts.

#### **Those eligible for Medicare – City**

The city provides the benefits outlined above reduced by any amounts payable by Medicare (Medicare Carve-Out).

## Substantive Plan

### **Dental Coverage for City Retirees**

City retirees may elect dental coverage under the same cost sharing provisions as medical coverage. For future years, we assume that retirees will elect dental coverage at the same rate as medical coverage.

### **Those not eligible for Medicare – Schools**

The City of Newport News, Virginia offers medical coverage to eligible retirees and their eligible dependents through Anthem Blue Cross/Blue Shield. Key elements of the in-network services are outlined below:

|                             | POS                            | PPO                    | HMO                     | HMO Value               |
|-----------------------------|--------------------------------|------------------------|-------------------------|-------------------------|
| Calendar Year Deductible    | \$0                            | \$300                  | \$0                     | \$500                   |
| Out of Pocket Maximum       | \$2,500                        | \$2,000                | \$1,500                 | \$3,000                 |
| Copay Schedule:             |                                |                        |                         |                         |
| Doctor Visit                | \$10                           | \$10                   | \$10                    | \$25                    |
| Specialist Office Visit     | \$20                           | \$20                   | \$20                    | \$50                    |
| ER Visit                    | \$100 Copay<br>10% coinsurance | 80% coinsurance        | \$100                   | 70% coinsurance         |
| Hospital Outpatient         | \$100 Copay<br>10% coinsurance | 80% coinsurance        | \$100                   | 70% coinsurance         |
| Prescription Drugs:         |                                |                        |                         |                         |
| Mandatory Generic Formulary | No<br>3-Tiered Program         | No<br>3-Tiered Program | Yes<br>3-Tiered Program | Yes<br>3-Tiered Program |
| Generic Brand Copay         | \$10 / 25 / 40                 | \$10 / 25 / 40         | \$10 / 25 / 40          | \$10 / 25 / 40          |
| Mail Order Copay(90 day)    | \$20 / 50 / 80                 | \$20 / 50 / 80         | \$20 / 50 / 80          | \$20 / 50 / 80          |
| Retail Maintenance Copay    | N/A                            | N/A                    | N/A                     | N/A                     |

### **Those eligible for Medicare – Schools**

Upon reaching age 65, the employee will be converted to a Medicare Supplement Plan.

### **Dental coverage for School retirees**

School retirees may elect to use their medical plan allowance for dental coverage (in lieu of medical coverage). We value dental coverage for those retirees and dependents who currently are enrolled in the dental plan. For future years, we assume that a portion of retirees (who do not elect medical coverage) will instead elect to be covered under the dental plan.

## Substantive Plan

### Nature of the Plan of Benefits for Life Insurance Coverage

For those City and School participants who participate in the City sponsored life insurance coverage who are retired or eligible to retire on or before July 1, 2005, the life insurance benefit is 50% of salary. For those participants not eligible to retire before July 1, 2005, the life insurance benefit is initially 50% of salary, reduced 20% per year after retirement, however such coverage shall not be reduced below \$10,000.

For non-VRS school board retirees who participate in the school board sponsored life insurance coverage retiring before July 1, 1998, the life insurance benefit is initially 50% of salary. For Non-VRS School Board retirees who participate in the school board sponsored life insurance coverage retiring after July 1, 1998, the face amount of coverage is reduced 25% per year for 3 years.

### Cost Sharing Provisions

The cost sharing provisions include various deductibles and coinsurance provisions as shown previously.

**City** – Effective January 1, 2000 and continuing through June 30, 2005, 75% of the cost of a member's Medical Insurance premiums are paid by the City. At July 1, 2005, the amount of employer contributions were capped and indexed by CPI in the future. The index is based on the first 1% increase in the CPI plus ½% for each additional 1% increase in CPI. Such increase is limited to 3½% in any calendar year. For those employees who are not eligible to retire before July 1, 2005, medical premiums are paid according to the following schedule:

## Substantive Plan

| Years of Credited Service | Percentage of 75% Benefit Payment |
|---------------------------|-----------------------------------|
| Less than 11              | 0                                 |
| 11                        | 5                                 |
| 12                        | 10                                |
| 13                        | 15                                |
| 14                        | 20                                |
| 15                        | 25                                |
| 16                        | 31                                |
| 17                        | 37                                |
| 18                        | 43                                |
| 19                        | 49                                |
| 20                        | 55                                |
| 21                        | 64                                |
| 22                        | 73                                |
| 23                        | 82                                |
| 24                        | 91                                |
| 25 and greater            | 100                               |

**Schools:** The School Board annually determines the retiree's contribution to participate in the medical plan. The total contribution is based on the active premium rates. The retiree's portion of the active rate is based on the retiree's accumulated sick leave at retirement. Retirees with maximum accumulated sick leave will pay what an active employee would pay. Retirees with minimal accumulations would pay most of the total active premium rate. For pre-Medicare coverage, the School is responsible for the retiree claims and expenses less whatever the retirees pay. For post-Medicare coverage, the School's liability is limited to the portion of the active rate that is not paid by the retiree. This amount is used to buy coverage in the current Medigap market.

## Modifications to Cost Sharing Provisions

It was assumed for the purposes of this valuation that the City will in the future maintain a consistent level of cost sharing for benefits with the retirees until July 1, 2005. From July 1, 2005 and beyond, the City has limited its share of medical costs based on increases in CPI as described above. This may be achieved by adjusting the benefit provisions, contributions or both.

## Substantive Plan

### Employee Groups Covered

**City** – (Excluding Non-VRS School Board) – Employees are eligible to retire and receive postretirement medical and life insurance benefits at the earlier of:

- i. age 60 (or age 50 for police and firemen) with at least five years of service,
- ii. 30 years of service,
- iii. police and firemen with at least 25 years of service, regardless of age.

**School Board** – Non-VRS School Board Employees are eligible if they have a minimum of ten years of credited service with the school board and a minimum of twenty-four consecutive months of participation in the school board's health insurance program immediately prior to retirement.

## THE SOLVENCY TEST

The City of Newport News Employees' Retirement Fund funding objective is to be able to pay long-term benefit promises through contributions determined as a percent of salaries earned by members. In this way, City of Newport News in each year contributes towards retirement service accrued in that year by Retirement Fund members.

If the retirement system follows level contribution rate financing principles, the system will pay all promised benefits when due – the ultimate test of financial soundness.

A short-term solvency test is one means of checking NNERF's funding progress. In a short-term solvency test, the retirement Fund's present valuation assets are compared with: 1) active member contributions on deposit, 2) the liabilities for future benefits to persons who have retired and the liabilities for terminated employees with vested benefits, and 3) the liabilities for service already rendered by active members. In a system that has been following the discipline of level contribution rate financing, the liabilities for member contributions on deposit (liability 1), the liabilities for future benefits to present retirees and the liabilities for future benefits for terminated employees (liability 2) will be fully covered by present assets, except in rare circumstances.

In addition, the liabilities for service already rendered by members (liability 3) will be at least partially covered by the remainder of present assets. Generally, if the system has been using level contribution rate financing, the funded portion of liability 3 will increase over time; however, a decrease generally occurs in those years when substantial benefit improvements are granted, when full recommended contributions have not been made, or when they are actuarial experience losses. The funded ratio of the System based on total actuarial accrued liabilities (1+2+3) provides an indication of how well the System is funded.

The schedule below illustrates the progress of funding the accrued actuarial liabilities of City of Newport News Employees' Retirement Fund and Post Retirement Benefit Fund.

| Date                                | Active Member Contributions (Liability 1) | Retirees, Beneficiaries and Terminated Vested Members (Liability 2) |  | Employer Financed Portion of Active Members (Liability 3) | NNERF Total Liability (1+2+3) | Reported Assets <sup>1</sup> | Funding Ratio of Total Accrued Actuarial Liabilities |        |        |        |
|-------------------------------------|---|---|--|---|-------------------------------|------------------------------|--|--------|--------|--------|
|                                     |   |   |  |   |                               |                              | (1)  | (2)    | (3)    |        |
| <b>Retirement Fund</b>              |   |   |  |   |                               |                              |  |        |        |        |
| 7/1/1997                            | -   | 143,573,245   |  | 213,707,282   | 357,280,527                   | 406,989,383                  | -  | 100.0% | 123.3% | 113.9% |
| 7/1/1998                            | -   | 151,382,858   |  | 232,472,266   | 383,855,124                   | 478,369,992                  | -  | 100.0% | 140.7% | 124.6% |
| 7/1/1999                            | -   | 167,417,100   |  | 258,957,969   | 426,375,069                   | 544,773,712                  | -  | 100.0% | 145.7% | 127.8% |
| 7/1/2000                            | -   | 179,364,939   |  | 267,280,851   | 446,645,790                   | 608,634,547                  | -  | 100.0% | 160.6% | 136.3% |
| 7/1/2001                            | -   | 222,906,935   |  | 310,713,699   | 533,620,634                   | 635,859,569                  | -  | 100.0% | 132.9% | 119.2% |
| 7/1/2002                            | -   | 254,690,576   |  | 346,459,985   | 601,150,561                   | 620,890,873                  | -  | 100.0% | 105.7% | 103.3% |
| 7/1/2003                            | -   | 277,546,098   |  | 398,872,608   | 676,418,706                   | 584,553,243                  | -  | 100.0% | 77.0%  | 86.4%  |
| 7/1/2004                            | -   | 312,646,067   |  | 413,316,468   | 725,962,535                   | 586,410,600                  | -  | 100.0% | 66.2%  | 80.8%  |
| 7/1/2005                            | -   | 391,067,879   |  | 442,743,891   | 833,811,770                   | 625,216,418                  | -  | 100.0% | 52.9%  | 75.0%  |
| 7/1/2006                            | -   | 442,861,180   |  | 451,979,661   | 894,840,841                   | 682,591,211                  | -  | 100.0% | 53.0%  | 76.3%  |
| 7/1/2007                            | -   | 480,252,975   |  | 473,726,635   | 953,979,610                   | 746,080,456                  | -  | 100.0% | 56.1%  | 78.2%  |
| <b>Post Retirement Benefit Fund</b> |   |   |  |   |                               |                              |  |        |        |        |
| 7/1/2006                            | -   | 211,248,857   |  | 192,924,968   | 404,173,825                   | 12,700,199                   | -  | 6.0%   | 0.0%   | 3.1%   |

<sup>1</sup>For the Retirement Fund, the actuarial value of assets is based on the smoothing techniques adopted by the Board. The June 30, 2007 market value of net assets available for benefits for the Retirement Fund was approximately \$821,369,292.

STATISTICAL SECTION

NEWPORT NEWS EMPLOYEES' RETIREMENT FUND  
(A Pension Trust Fund of Newport News, Virginia)  
History of Active Employee Membership  
Year Ended June 30

| History of Active Employee Membership in Retirement Fund |        |        |        |        |        |        |
|--|--------|--------|--------|--------|--------|--------|
| Group  | 2007   | 2006   | 2005   | 2004   | 2003   | 2002   |
| General Employees  | 3,279  | 3,151  | 3,683  | 2,830  | 2,806  | 2,759  |
| City Police & Fire                                       | 1,630  | 1,565  | 1,785  | 1,418  | 1,371  | 1,297  |
| Public Utilities   | 609    | 609    | 675    | 581    | 584    | 571    |
| School VRS   | 6,339  | 6,004  | 7,211  | 5,364  | 5,125  | 4,860  |
| School Non-VRS   | 1,804  | 1,819  | 2,172  | 1,634  | 1,677  | 1,615  |
| Total  | 13,661 | 13,148 | 15,526 | 11,827 | 11,563 | 11,102 |

**STATISTICAL SECTION**

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND  
(A Pension Trust Fund of Newport News, Virginia)**

**Changes in Net Assets  
(in million dollars)  
Year Ended June 30**

|                                 | 2007     | 2006     | 2005     | 2004     | 2003     | 2002     |
|---------------------------------|----------|----------|----------|----------|----------|----------|
| <b>Beginning of Year</b>        | \$ 741.4 | \$ 697.9 | \$ 655.9 | \$ 582.1 | \$ 579.9 | \$ 636.0 |
| <b>Additions:</b>               |          |          |          |          |          |          |
| Contribution Payment            | 27.8     | 21.5     | 16.0     | 14.4     | 13.3     | 12.5     |
| Interest and Dividends Income   | 23.0     | 18.4     | 14.5     | 12.2     | 12.9     | 13.2     |
| Net Appreciation/(Depreciation) | 100.4    | 52.6     | 54.4     | 85.5     | 9.2      | (50.8)   |
| Investment expenses             | (4.5)    | (3.0)    | (3.5)    | (3.1)    | (2.7)    | (3.9)    |
| <b>Total Additions</b>          | 146.7    | 89.5     | 81.4     | 109.0    | 32.7     | (29.0)   |
| <b>Deductions:</b>              |          |          |          |          |          |          |
| <b>Benefit Payments</b>         |          |          |          |          |          |          |
| Recurring Monthly Benefits      | 50.0     | 45.2     | 38.7     | 34.6     | 29.9     | 26.5     |
| Lump Sum Death Benefits         | 0.1      | 0.1      | 0.1      | 0.1      | 0.1      | 0.1      |
| <b>Expenses</b>                 |          |          |          |          |          |          |
| Professional                    | 0.3      | 0.3      | 0.2      | 0.2      | 0.2      | 0.2      |
| Administrative                  | 0.4      | 0.4      | 0.4      | 0.3      | 0.3      | 0.2      |
| <b>Total Deductions</b>         | 50.8     | 46.0     | 39.4     | 35.2     | 30.5     | 27.0     |
| <b>Change in Net Assets</b>     | 95.9     | 43.5     | 42.0     | 73.8     | 2.2      | (56.1)   |
| <b>End of Year</b>              | \$ 837.3 | \$ 741.4 | \$ 697.9 | \$ 655.9 | \$ 582.1 | \$ 579.9 |

\* In accordance with GASB 44 implementation in fiscal year 2007, only six years of information is available for representation.

**STATISTICAL SECTION**

**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND  
(A Pension Trust Fund of Newport News, Virginia)  
Benefit Deductions from Net Assets by Type  
(in million dollars)  
Year Ended June 30**

|                           | <b>2007</b>      | <b>2006</b>      | <b>2005</b>      | <b>2004</b>      | <b>2003</b>      | <b>2002</b>      |
|---------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>Type of Benefit</b>    |                  |                  |                  |                  |                  |                  |
| Age and service benefits: |                  |                  |                  |                  |                  |                  |
| Retirees and Dependents   | \$ 37,180        | \$ 32,861        | \$ 28,870        | \$ 25,443        | \$ 22,732        | \$ 20,584        |
| Death Benefits:           |                  |                  |                  |                  |                  |                  |
| Dependents - duty         | 50               | 49               | 48               | 47               | 59               | 65               |
| Dependents - nonduty      | 66               | 47               | 45               | 29               | 24               | 19               |
| Disability Benefits:      |                  |                  |                  |                  |                  |                  |
| Retirees - duty           | 242              | 223              | 238              | 236              | 293              | 321              |
| Retirees - nonduty        | 581              | 515              | 512              | 487              | 444              | 442              |
| Insurance Benefits:       |                  |                  |                  |                  |                  |                  |
| Retirees and Dependents   | 11,984           | 11,427           | 9,047            | 8,144            | 6,425            | 5,191            |
| * Portability Transfers:  |                  |                  |                  |                  |                  |                  |
| Employees                 | 14               | 181              | 21               | 310              | 21               | -                |
| <b>Total benefits</b>     | <b>\$ 50,117</b> | <b>\$ 45,303</b> | <b>\$ 38,781</b> | <b>\$ 34,696</b> | <b>\$ 29,998</b> | <b>\$ 26,622</b> |

\*Members who are vested in NNERF and who have elected for the value of their retirement benefits to be transferred to a reciprocal plan. NNERF has reciprocal agreements with Virginia Retirement System, Richmond Retirement System and Roanoke Pension Plan.

Note: In accordance with GASB 44 implementation in fiscal year 2007, only six years of information is available for representation.

**STATISTICAL SECTION**

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**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND  
(A Pension Trust Fund of Newport News, Virginia)  
Retired Members by Type of Benefit  
Year Ended June 30, 2007**

| Amount of<br>Monthly Benefit | Number of<br>Retired<br>Members | Type of Retirement |           |           |            |
|------------------------------|---------------------------------|--------------------|-----------|-----------|------------|
|                              |                                 | 1                  | 2         | 3         | 4          |
| Deferred                     |                                 |                    |           |           |            |
| \$ 1 - \$ 250                | 1,132                           | 936                | 32        | 3         | 161        |
| 251 - 500                    | 1,034                           | 926                | 12        | 8         | 88         |
| 501 - 750                    | 462                             | 370                | 16        | 3         | 73         |
| 751 - 1,000                  | 233                             | 183                | 10        | 1         | 39         |
| 1,001 - 1,250                | 145                             | 120                | 8         | 2         | 15         |
| 1,251 - 1,500                | 136                             | 115                | 6         | 3         | 12         |
| 1,501 - 1,750                | 100                             | 88                 | 1         | 1         | 10         |
| 1,751 - 2,000                | 97                              | 91                 | -         | 1         | 5          |
| Over 2,000                   | 482                             | 476                | 1         | 2         | 3          |
| <b>Total</b>                 | <b>3,821</b>                    | <b>3,305</b>       | <b>86</b> | <b>24</b> | <b>406</b> |

**Notes:**

Type of retirement:

- 1- Normal retirement for age and service
- 2- Nonduty disability retirement
- 3- Duty disability retirement
- 4- Spouse & Dependent Beneficiary payment, death in service

**STATISTICAL SECTION**

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**NEWPORT NEWS EMPLOYEES' RETIREMENT FUND**

**(A Pension Trust Fund of Newport News, Virginia)**

**Average Benefit Payments**

**Fiscal Year Ended June 30, 2007**

| Retirement Effective Dates   | Years Credited Service |             |              |              |              |              |            |
|------------------------------|------------------------|-------------|--------------|--------------|--------------|--------------|------------|
|                              | <u>0-5</u>             | <u>5-10</u> | <u>10-15</u> | <u>15-20</u> | <u>20-25</u> | <u>25-30</u> | <u>30+</u> |
| Period 7/1/06 to 6/30/07     |                        |             |              |              |              |              |            |
| Average monthly benefit      | \$ 31                  | \$ 39       | \$ 88        | \$ 59        | \$ 237       | \$ 541       | \$ 548     |
| Average final average salary | \$ 4,063               | \$ 23,614   | \$ 28,594    | \$ 40,108    | \$ 42,851    | \$ 52,283    | \$ 56,143  |
| Number of retired members    | 48                     | 41          | 37           | 28           | 36           | 45           | 62         |

Note: In accordance with GASB 44 implementation in fiscal year 2007, only one year of information is available for representation.