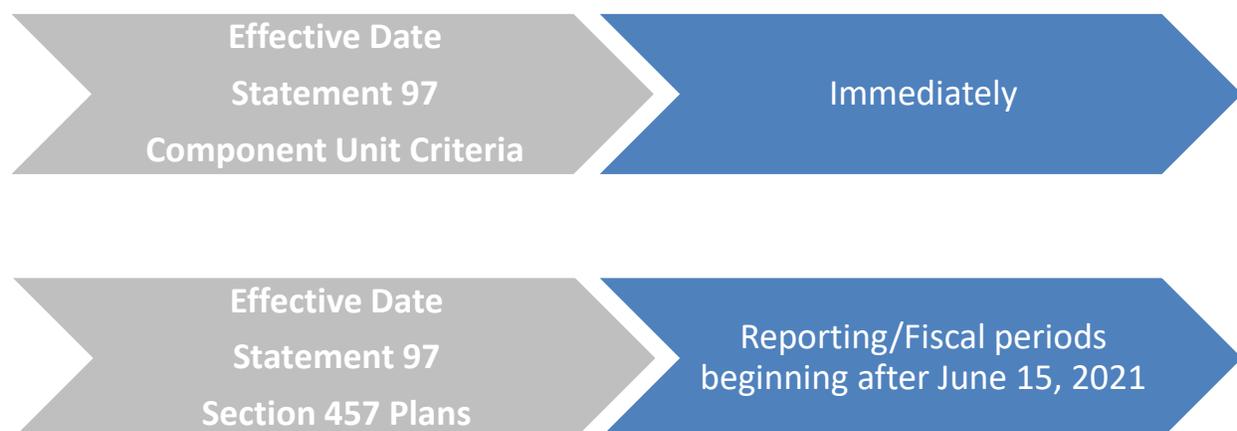


GASB Updates Component Unit & Section 457 Plan Guidance

On June 23, 2020, GASB released Statement 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, an amendment of GASB Statements 14 and 84, and a supersession of GASB Statement 32. Under the new rule, Section 457 plans should be accounted for as either a pension plan or other employee benefit plan, depending on whether the plan meets the definition of a pension plan. Accounting and financial reporting requirements for 457 plans that meet the definition of a pension plan are defined and investment valuation requirements for all 457 plans are modified.

Statement 97 limits the application of the financial burden criterion regarding contributions to post-employment benefit plans to only defined benefit pension plans and defined benefit other post-employment benefit (OPEB) plans that are administered through trusts. The statement also clarified how the absence of a governing board should be considered in determining whether a primary government is financially accountable for purposes of evaluating potential component units. This will reduce costs of reporting of certain defined contribution pension and OPEB plans as fiduciary component units. This supersedes certain previous guidance in Statement 84 and Implementation Guide 2019-2.



*Section 457 changes have two effective dates in order to align the effective dates with current guidance related to post-employment benefits (fiscal years) and fiduciary activities (reporting periods). The accounting and reporting changes would be effective for **fiscal** years beginning after June 15, 2021. Changes to the component unit assessment would be effective for **reporting** periods beginning after June 15, 2021.*

457 Plan Changes

GASB issued Statement 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, in 1997 due to changes in the tax code that required assets of 457 plans be “held in trust for the exclusive benefit of participants and their beneficiaries.” At that time, GASB viewed 457 plans as tax-deferred employee saving plans rather than pension plans, citing the lack of employer contributions. As tax laws continue to change and §457 plans have evolved to include employer contributions, GASB has updated its blanket conclusion that all 457 plans do not meet the pension plan criteria.

Under Statement 97, all pension plan accounting and reporting requirements would apply to 457 plans and related benefits provided if the 457 plan meets the pension plan definition as defined in Statement 67. Investments of all 457 plans would be valued as of the end of the plan's reporting period in all circumstances. Currently, a government can use the plan administrator's most recent report if it is impractical to get the valuations as of the government's financial report date. As a result of these changes, Statement 32 is completely superseded. Governments that have a 457 plan that meets the pension plan definition also must consider the reporting requirements of Statement 84, which is based on whether an arrangement is a pension plan.

Component Unit Clarifications

Statement 84, as currently written, requires a government that sponsors a defined contribution pension/OPEB plan to be reported as a fiduciary component unit of the sponsoring government if all the following criteria are met:

- Administered through a trust meeting Statement 67 or 74, paragraph three criteria
- Does not have a separate board and the sponsoring government is performing the duties of a board
- The government is legally required or otherwise assumes the obligation to make employer contributions (financial burden criteria)

Governing Board Update

When determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or another employee benefit plan, *i.e.*, certain §457 plans, if the primary government performs the duties that a governing board typically would perform, the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board. **Therefore, GASB has exempted defined contribution plans from the governing board evaluation criteria.**

Financial Burden Update

GASB has amended the financial burden criterion in Statement 84 to apply only to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph three of Statement 67, *Financial Reporting for Pension Plans*, or paragraph three of Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, respectively.

Transition

These changes should be applied retroactively by restating financial statements, if practicable, for all prior fiscal years or reporting periods presented. If restatement is not practicable, the cumulative effect, if any, of adopting these amendments should be reported as a restatement of beginning net position—or fund balance or fund net position, as applicable—for the earliest fiscal year or reporting period restated.

If a §457 plan meets the definition of a defined benefit pension plan, a government should use the transition provisions of Statement 67; Statement 68, as amended by Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*; or Statement 73.

In each fiscal year or reporting period that any requirement of this statement is first applied, the notes to financial statements should disclose the nature of the restatement (if any) and its effect or the reason for not restating prior fiscal years or reporting periods presented.

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