September 27, 2019

Mr. David R. Bean
Director of Research and Technical Activities
Project No. 3-33
Governmental Accounting Standards Board
401 Merrit 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Dear Mr. Bean,

On behalf of the Government Finance Officers Association of the United States and Canada (GFOA), we thank the Governmental Accounting Standards Board (GASB) for the opportunity to comment on the proposed Exposure Draft (ED), Internal Revenue Code 457 Deferred Compensation Plans That Meet the Definition of a Pension Plan and Supersession of GASB Statement 32. This response was prepared by GFOA’s standing Committee on Accounting, Auditing, and Financial Reporting (CAAFR) and Committee on Retirement Benefits and Administration (CORBA).

GFOA is supportive of the initiative to clarify and provide consistency in how Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) are reported. GFOA offers the following suggestions for additional clarification:

1. We recommend that the GASB include a discussion of why other retirement options, such as 401(k) and 403(b) plans are not included in the scope of this proposed standard.

2. In reading the ED and the definition of a pension plan, users could interpret the ED to mean that all Section 457 plans are subject to pension reporting. In paragraph B6 of the Basis for Conclusions, the Board states that employer contributions demonstrate a benefit and meets the definition of pension plan. In order to help users understand that not all IRC Section 457 plans would meet that criteria, and therefore, not be subject to the proposed standard, we recommend that GASB add “employer contributions, including employer guarantees of benefits or investment returns, demonstrate a benefit, in the form of retirement income, is being provided by the government and, meets the definition of a pension plan” into the standard. We further recommend that the definition of a pension plan also be amended to reflect the Board’s belief of what constitutes a pension plan. The GASB could also include in this proposed standard or in future implementation guidance, that a retirement plan that includes an employer contribution, including employer guarantees of benefits or investment returns, is a pension plan.

3. Some governments may in the past have provided employer contributions to an IRC Section 457 plan, but have discontinued that practice. We recommend that the proposed standard include language in the effective date section that governments use the facts and circumstances that existed at the beginning of the year of implementation. By adding this phrase, governments that are unsure if employer contributions have been made in the past would not have to spend time searching older records.

4. Paragraph 4 of the ED provides an example of how to report a trusted IRC Section 457 plan, following the guidance of GASB 67, as specified in paragraphs 22 and 25 of GASB 84. The ED should provide...
an example of how to report non-trusted IRC Section 457 plan, following the guidance of paragraphs 21 and 23 of GASB 84.

5. As stated in paragraph B13 of the ED, the Board believes that the incremental costs associated with implementing the proposed standard (e.g. additional note disclosures, fiduciary reporting, investment valuations) would be minimal. We would encourage the Board to reconsider this stance. The impact on small governments may be more than minimal and the incremental costs could become a deciding factor in whether to offer an IRC 457 plan to employees or not.

6. While not a majority, certain members of CAAFR had concerns/questions regarding a situation where if only one employee, as part of his or her compensation, receives an employer contribution to an IRC Section 457 plan, does the employer now have to follow pension reporting for the entire IRC Section 457 plan?

Thank you, again, for the opportunity to comment on this proposal and we would be happy to respond to any of your questions. Please feel free to contact GFOA’s Director of Technical Services, Michele Mark Levine, by telephone at 312.977.9700 ext. 6101 or email at mlevine@gfoa.org.

Sincerely yours,

Melanie S. Keeton, Chair, CPA
Committee on Accounting, Auditing, and Financial Reporting

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