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GASB Issues Guidance on Certain Component Unit Criteria and Section 457 Deferred Compensation Plans.

Norwalk, CT, June 23, 2020 — The Governmental Accounting Standards Board (GASB) today issued new guidance designed to reduce costs and increase the consistency and comparability of reporting state and local governments' fiduciary component units.

A primary goal of the Board in issuing [Statement No. 97](#), *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, is to mitigate costs associated with reporting certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and other employee benefit plans, such as certain Section 457 plans. Another important goal of the Statement is to improve the reporting of Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans.

Statement 97 requires that, for purposes of 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 other employee benefit plan), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically performs. Appointment of a voting majority is a criterion in existing standards used to determine whether a legally separate entity should be incorporated into the government's financial statements.

Under certain circumstances, a financial burden on a government also is a criterion in existing standards used to determine whether a legally separate entity should be incorporated into the government's financial statements. After further considering the perceived costs associated with applying existing standards (specifically, paragraph 7 of Statement No. 84, *Fiduciary Activities*), the Board, in Statement 97, decided to limit the application of the financial burden criterion regarding contributions to postemployment benefit plans to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts.

Prior standards presumed that all Section 457 plans were not pension plans and, therefore, were not subject to pension plan reporting requirements; similarly, benefits provided through Section 457 plans were not reported as pension benefits. Under Statement 97, however, Section 457 plans should be classified as either a pension plan or other employee benefit plan, depending on whether the plan meets the definition of a pension plan. It also clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities.

Statement 97 is available on the GASB website, www.gasb.org. Information on when the Statement takes effect is available on pages three and four of the document.

COVID-19-related resources for stakeholders, including an emergency toolbox, on the GASB website

at www.gasb.org/COVID19.

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