

October 1998

TO: County, City, Town and Village Chief Fiscal Officers  
School District and BOCES Business Officials

FROM: New York State Office of the State Comptroller, Division of Municipal Affairs

SUBJECT: Change in Accounting for Deferred Compensation Plans

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*If you have questions, please call Municipal Accounting Systems at (518) 474-6023.*

### **Summary**

Changes in Internal Revenue Code (IRC) Section 457 require local governments to hold deferred compensation **in trust** for employees and their beneficiaries. Previously, IRC Section 457 required that these assets remained the property of the employer until paid or made available to the participant; as such, they were held in an **agency** capacity and were subject to the claims of the government's general creditors.

### **GASB Statement 32**

In response to these changes, the Governmental Accounting Standards Board (GASB) issued Statement No. 32, **Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans** to establish new accounting and reporting standards. Statement 32 provisions are effective for financial statements beginning after December 31, 1998, unless employers implement the provisions of the new tax code earlier. *GASB Statement 32:*

- (1) rescinds GASB Statement 2 which had required plan assets and liabilities to be reported as agency funds.
- (2) requires governments **who are acting as the trustee** of a Plan to report it in an expendable trust fund because they meet the NCGA Statement 1 criteria for using a trust and agency fund (They hold assets as trustee or agent for individuals, private organizations, other governmental units, or other funds).
- (3) directs that governments that **hire an outside trustee** to hold the plan assets no longer need to report the plan in their financial statements.

**The practical effect is that most governments no longer need to report deferred compensation plans in their financial statements (even footnote disclosure is no longer required) because they hire outside trustees or administrators.**

### **Action Needed by Local Governments in New York State**

A local government in NYS can establish a deferred compensation plan in one of three ways:

- (1) by becoming a participating employer in the state-sponsored plan,
- (2) by establishing its own plan using the state plan as a model, or
- (3) by adopting another plan which complies with state and federal requirements.

*If you participate in the State-Sponsored Plan (situation 1 above)*

On October 1, 1997 the State Deferred Compensation Board created a Trust and Custody Agreement making Chase Manhattan Bank the Trustee and Custodian of the Plan. Since the Board is no longer the trustee of the plan, the Plan does not meet the criteria for reporting as an expendable trust fund. Participating local governments should note:

- (1) Statement 32 became effective for you on October 1, 1997 when the trust was created.
- (2) You should no longer report plan assets in account "TA 460 Deferred Compensation Plan Assets." Continue to use agency fund liability account "TA 17 Deferred compensation" and "TA-200 Cash" for payroll deductions which have not been transferred to the trustee.
- (3) In the fiscal year Statement 32 is implemented, you **may** include the following footnote disclosure: "During the year, Governmental Accounting Standards Board Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans" was implemented. Employees participate in the state-sponsored plan. Since Plan assets are held by an outside trustee, they are no longer reported in the financial statements. Previously, they were reported in an agency fund."
- (4) **In subsequent years, no footnote disclosure is required.**

*If you don't participate in the State-sponsored Plan (situation 2 or 3 above)*

You need to examine your Plan. First, determine whether a trust has been created. Remember one must be created by January 1, 1999 in order to qualify under the provisions of IRC Section 457. Then, determine whether plan assets are held by an outside trustee:

- (1) If they are held by an outside trustee, use the same approach as participants in the State Plan (see above), but note that your effective date is when you place assets in trust.
- (2) If by chance you are the trustee, report the Plan in a private purpose trust fund.

**The practical effect is that most governments no longer need to report deferred compensation plans in their financial statements (even footnote disclosure is no longer required) because they hire outside trustees or administrators.**

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