September 27, 2019

David Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Re: Project No. 3-33

Dear David:

On behalf of the National Association of College and University Business Officers (NACUBO), we submit the following comments on the Exposure Draft (ED) of the Governmental Accounting Standards Board, Internal Revenue Code Section 457 Deferred Compensation Plans That Meet the Definition of a Pension Plan and Supersession of GASB Statement 32. NACUBO’s comments on the ED were developed with input from our Accounting Principles Council (APC). The APC consists of experienced business officers from various types of institutions who, collectively, possess a thorough knowledge of higher education accounting and reporting issues and practices.

NACUBO is a nonprofit professional organization representing chief financial and administrative officers at more than 1,900 colleges and universities. In its capacity as a professional association, NACUBO issues accounting and reporting best-practice guidance for higher education institutions and educates more than 2,000 preparers annually on accounting and reporting issues and practices.

Overall Observations and Conclusions

We appreciate the time and effort that the Board and staff have devoted to this project. This effort has helped us understand the Board’s thinking concerning employer contributions for employee benefits that are available post-employment.

Specific Observations and Suggestions

Although paragraphs 6 and 7 in the “Basis for Conclusions” indicate that Section 457 plans with employer contributions are similar to defined contribution plans when employer contributions during employees’ active service leads to retirement income benefits, the definition referenced in paragraph 4 of the proposal falls short for such plans. Specifically, paragraph 4 proposes that a
Section 457 plan is a pension plan for accounting and financial reporting purposes if it meets the definition of a pension plan per paragraph 51 of Statement No. 67 or paragraph 128 of Statement No. 73. The referenced definition comes from the glossary and reads:

**Pension plans**: Arrangements through which pensions are determined, assets dedicated for pensions (if any) are accumulated and managed, and benefits are paid as they come due.

A closer examination of the definition reveals ambiguities; Section 457 plans do not appear to meet the above definition of a pension plan because:

(a) Arrangements through which **pensions are determined** implies a controlled amount [emphasis added]. A controlled amount more closely resembles a defined benefit plan.

(b) Benefits are not paid as they come due in tax-deferred savings plans such as Section 457 plans. Even with employer contributions, Section 457 of the Internal Revenue Code (IRC) allows withdrawals by employees either while actively employed or post-employment.

(c) Although assets are dedicated in trust-like arrangements, they are not actively managed to ensure post-employment income. The investments belong to the employee and can be directed by the employee. An employee can choose fixed-rate, low-return funds that may not keep pace with the future value of money estimates.

(d) Employer contributions are a current compensation expense; there is nothing future-oriented about the employer contribution. The employer contribution is an exchange for current service.

NACUBO recommends replacing the definition referenced in paragraph 4 with a definition that aligns with paragraph 3 of Statement No. 67. We also suggest that the definitions in the glossary of Statements No. 67 and 73 (paragraphs 51 and 128, respectively) be modified to describe tax-deferred savings plans (such as those covered under Sections 403b and 457 of the IRC) and that those definitions align more closely with those in Statements No. 67 and 84.

**Other**

The implementation date and the supersession of Statement No. 32 are reasonable.

In closing, we wish to express our appreciation for the opportunity to comment. We welcome the opportunity to participate at any of your public hearings and look forward to answering any questions the Board or staff may have about our response. Please direct your questions to me at 202-861-2542 or smenditto@nacubo.org.

Sincerely,

Susan M. Menditto
Senior Director, Accounting Policy