**Policy Summary:**
This policy addresses deferred compensation plans established under Section 457 of the Internal Revenue Code (IRC). Under IRC Section 457(g), all assets attributable to such deferred compensation plans are held in trust for the exclusive benefit of the participants and their beneficiaries. GASB issued Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* to address changes in IRC Section 457.

Under the State’s 457 plan, employees are allowed to defer a portion of their salary and the payment of federal income taxes on the deferred amounts. The employee contributions and earnings on those contributions are 100% vested at all times. All assets of the 457 plan are held in trust for the exclusive benefit of the participants and their beneficiaries.

The Employees’ Retirement System of Georgia (ERS) is the trustee of the State’s 457 plan and contracts with independent agents to administer the plan and invest the assets of the master trust. The State does not own the amounts deferred by employees or the related income on those amounts. All records detailing the contributions, earnings and balances for individual participants are maintained by the agent.

**Policy Requirements:**
**Accounting Requirements**
If an IRC Section 457 deferred compensation plan meets the criteria in GASB Codification Section 1300, *Fund Accounting*, for a pension (and other employee benefit) trust fund, it should be reported in that fund type in the statements of fiduciary net assets and changes in fiduciary net assets. Fiduciary funds should be used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs. The fiduciary fund category includes pension and other employee benefit trust funds. Pension and other employee benefit trust funds should be used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans.

As trustee for its 457 deferred compensation plan, the State of Georgia reports it as a pension and other employee benefit trust fund in the fiduciary funds category of the entity-wide CAFR.
Recognition and Measurement
IRC Section 457 plans are valued based on GASB guidance related to investments. ERS investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price. Investment income is recognized as earned.

Basis of Accounting
Funds that operate on a statutory basis must convert their accounting activity to the modified accrual and/or accrual bases of accounting for the Comprehensive Annual Financial Report (CAFR). Proprietary and fiduciary funds that do not operate on a statutory basis use the accrual basis of accounting throughout the year.

- Statutory Basis for Budgetary Compliance Reporting
  Not applicable

- Converting to Modified Accrual Basis for CAFR Reporting
  Not applicable

- Converting to Accrual Basis for CAFR Reporting
  Not applicable

- Accrual Basis for Funds Not Reporting on a Statutory Basis
  In the State’s CAFR, the 457 plan is reported in the fiduciary funds category as a pension and other employee benefit trust fund. Financial statements of fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting throughout the year.

Disclosure Requirements
Although the 457 plan is reported as a pension and other employee benefit trust fund, the GASB does not regard Section 457 plans as pension plans because there are no required employer contributions to the plans. These plans are more like tax-deferred employee savings plans. Therefore, Statement No. 32 does not require specific note disclosures.

General Accounting Procedures:
Identifying Transactions
Eligible employees may enroll in the 457 plan through the Peach State Reserves plan. As employee compensation is deferred, the State remits the 457 plan contributions to the agent that administers the plan. Participant contributions are invested according to each participant’s investment election. Based on the participant’s choices, the agent places the contributions into the selected tax-deferred investments which are available under the plan.

Accounting Transactions and Journal Entries
Employee contributions are identified through the payroll system based on enrollment records. There are no employer contributions to the 457 plan; therefore, no expenditures or expenses are reflected in the government-wide financial statements.

From the plan’s fiduciary accounting perspective, transactions related to plan activities are recorded using the economic resources measurement focus and the accrual basis of accounting. Journal entries for transaction level activity are based on the general guidance provided throughout the Accounting Policy Manual for similar activity. Please refer to the appropriate topical guidance within the manual for information about recording specific plan level transactions. For example:
Member contributions received or receivable are accounted for similarly to other revenues or receivables.
Benefits/refunds paid or payable and general administrative expenses are accounted for similarly to other expenses or payables.
Plan investments, and earnings and losses on those investments, are accounted for at fair value similarly to other investments.
Etc.

**Year-End Accounting Procedures**
ERS must provide the 457 plan audited fiduciary fund financial statements to SAO in compliance with the year-end reporting schedule.

**Authority:**
- GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*
- GASB Codification §1300, *Fund Accounting*
- GASB Codification §D25, *Deferred Compensation Plans (IRC Section 457)*

**Applicability:**
This policy applies to all organizations included in the State of Georgia reporting entity. Personnel with accounting and reporting responsibilities at these organizations must be knowledgeable of this policy.

**Definitions:**
**Deferred Compensation Plan** – An employer-sponsored long-term savings program authorized by Congress to provide a way for eligible employees to set aside (defer) a portion of their incomes before state and federal income taxes are assessed on that income, with the deferred pay accumulating tax-free until withdrawn, generally after separation from service or reaching age 70-1/2. Thus, the deferred compensation and related accumulation of earnings and dividends are tax deferred. Contributions are invested in the participant’s choice of investment options offered through the plan.