What is a dependent care flexible spending account?

It's also known as a dependent care FSA and it's part of your benefits package. This FSA lets you use pre-tax dollars to pay for eligible employment-related dependent care expenses.

Here's how an FSA works. Money is set aside from your paycheck before taxes are taken out. You can then use these funds to pay for eligible dependent care expenses throughout the plan year. You save money on expenses you're already paying for like day care and preschool.

Why is it a good idea to have a dependent care FSA?

If you have young children or dependent relatives, who are considered "qualifying individuals", you can benefit from this FSA. Setting aside pre-tax dollars means you pay fewer taxes and increase your take-home pay. You also save money on expenses that you're paying for out of your pocket. How much you save depends on your tax bracket. For example, if you're in the 30 percent tax bracket, you can save $30 on every $100 spent on eligible expenses like day care, after-school care, elder day care and much more. Find a full list of eligible FSA expenses at anthem.com.*

Who is a qualifying individual?

A qualifying individual is:

- Your dependent child under the age of 13 who lives with you for more than half the year
- Your spouse or other qualifying dependent who is physically or mentally incapable of self-care and lives with you for more than half the year

What if I'm divorced?

Having a dependent care FSA depends on if you're the custodial parent or not.

If you are the custodial parent – Your child is a qualifying individual even if you don't claim your child as a tax dependent. You can be reimbursed under a dependent care FSA.

If you are not the custodial parent – You cannot be reimbursed under a dependent care FSA, even if you claim your child as a tax dependent.

What is an "employment-related" expense?

The care provided to your dependent must be so you (or a spouse if you're married) can work or look for work. "Work" may include actively looking for a job. It doesn't include unpaid volunteer work or volunteer work for a nominal salary. Your spouse is considered to have worked if he or she is a full-time student for at least five calendar months during the tax year or if he or she is physically or mentally not able to take care of him or herself.

Fees you pay for dependent care when you aren't working because you're sick generally are not eligible for reimbursement. But, there is an exception to this rule. Temporary absences from work may be disregarded if you have to pay for dependent care expenses during your illness. Whether an absence is for a short time depends on the situation, but as a rule, the IRS says that an absence of up two weeks in a row due to illness or vacation is a short-term or temporary absence.

What if I work part-time?

As a rule, you must allocate (divide) expenses between the days you work and the days you don't. However, if you work part-time but are required to pay for dependent care expenses for a specific time frame (including non-working days), you do not have to allocate expenses between days worked and days not worked. Check out these examples:

Allocation required – You work three days a week and chose to put your child in day care five days a week to help you stay gainfully employed. Your cost for the childcare is $50 per day and $250 for the week. Because you work part-time and are not required to pay the full $250 expense, you must allocate your expenses according to your days worked. In this case, your allocated expenses equal $150 ($50 per day for the three days worked).

Allocation not required – The facts are the same as above, but in this case, the day care requires you to pay the full $250 weekly fee no matter how many days of the week your child is there. Here, the full $250 expense may be considered an employment-related expense and allocation of the expense based on days work is not required

What expenses are covered under a dependent care FSA?

Qualified expenses are incurred for the care of one or more eligible dependent children or relatives. Typical eligible expenses include:

- Before and after-school care
- Preschool or nursery school
- Extended day programs
- Au pair services (amounts paid for the actual care of the dependent)
- Baby sitter (in or out of your home)
- Nanny services (amounts paid for the actual care of the dependent)
- Summer day camp for your qualifying child under the age of 13
- Elder day care for a qualifying individual

Check out a complete list at anthem.com.*

What expenses are not covered?

Ineligible expenses include:

- Money paid to your spouse, your child under age 19, a parent of your child who is not your spouse, or a person who you or your spouse is entitled to a personal tax exemption as a dependent
- Expenses related to care for a disabled spouse or tax dependent living outside your home
- Educational expenses (such as summer school and tutoring programs)
- Tuition for kindergarten and above
- Food expenses (unless it can't be separated from care)
- Incidental expenses (such as extra charges for supplies, special events, or activities unless it can't be separated from care)
- Overnight camp

Find a complete list at anthem.com.*

How much can I put into my FSA?

The amount you put in is called an "election." It can't be more than the maximum amount set by the IRS. Right now, that maximum is $5,000 each plan year. If you're married and file separate tax returns, the maximum is $2,500.

How much you put in each year also cannot be more than the earned income limit. If you are single, the earned income limit is your salary. If you are married, the earned income limit is the salary that is the lowest – either your salary (minus your dependent care FSA contribution) or your spouse's salary.

My spouse also has a dependent care FSA. Can we both contribute up to $5,000?

No. If you are married and file a joint tax return, your combined maximum election amount is $5,000. As mentioned, if you are married but filing separate tax returns, the maximum amount is $2,500. Expenses reimbursed under your dependent care FSA can't be reimbursed under your spouse's dependent care FSA and vice versa. You can't "double dip" from both accounts for the same expenses.

Is school tuition an eligible dependent care expense?

No. Tuition fees for kindergarten and above aren't eligible. But expenses for before-school care, after-school care, and nursery school are eligible if the care mainly custodial that covers basic needs.

I pay my neighbor to watch my 13-year-old after school. Is this an eligible expense?

No. To be an eligible expense, the care must be for a qualifying individual. A child age 13 or older isn't a qualifying individual.

My 16-year-old daughter cares for my 8-year-old son after school. If I pay my daughter, can I be reimbursed for the expense?

No. You may not be reimbursed for paying an older sibling that you (or your spouse) can claim a personal tax exemption as a dependent. You also cannot be reimbursed for payments made to your child who is younger than age 19 at the end of the plan year.

If I have a dependent care FSA, do I need to report anything on my tax return at the end of the year?

Yes. You must list all people or organizations that provide care for your child or dependent. You do this by filing IRS Form 2441- Child and Dependent Care Expenses along with your Form 1040 each year (or Schedule 2 for Form 1040A).

Please note: The IRS may change these rules, so talk to your tax advisor for more details.

If I have a dependent care FSA, can I claim the household and dependent care credit on my tax return?

No. You may not claim any other tax benefit for the tax-free money you get under this FSA. This is true even if the balance of your eligible, work-related dependent care expenses (if any) may be eligible for the dependent care credit. Talk to your tax advisor to get more details.

I put $400 each month into my dependent care FSA, but my actual expenses are closer to $500 a month. Should I submit my claim form for $400 or for $500?

You should file your claim for the actual amount of the expense – in this case, it's $500. As long as you have enough funds in the FSA, you can get reimbursed for that amount. If not, the rest will be put on hold and paid when funds are in your account.

What if I have funds left over in the FSA at the end of the plan year?

The IRS has a "use-it-or-lose-it" rule. It requires that all money you put into your FSA must be used to reimburse qualified expenses incurred during that plan year. Funds that are left over after the plan year ends are forfeited. The unused portion of your dependent care FSA can't be paid to you in cash or other benefits. You can't transfer money between FSAs. To reduce the risk of losing money at the end of your plan year, carefully estimate your expenses when choosing your annual election amount.

How often are reimbursements made?

Your employer chooses the reimbursement schedule. It's in your Summary Plan Description (SPD).

Where can I get a reimbursement request form?

This form is at anthem.com.* Just log in to your account to find it.

What do I need to submit along with a reimbursement request form?

If the employee and provider certifications on the reimbursement request form are filled out and signed, you don't need to do anything else. If the provider certification is not completed and signed, you must submit an itemized statement from your dependent care provider. This statement must have the date(s) of service, the name(s) and date(s) of birth of your dependent(s), an itemization of charges, and the provider's name, address, and Tax ID/Social Security number.

What is the deadline to use this plan year's FSA funds?

It depends on the rules for your employer's FSA. With some FSAs, you can spend the money until the last day of the plan year. After that date, you forfeit any money left in the account. But some employers give more time to use the FSA funds after the plan year ends.

- The **run-out period gives you extra time to submit reimbursement requests** for eligible expenses incurred in the plan year. If you incur an eligible child care expense in June – the last month of the plan year – you may submit a reimbursement request for that expense during the run-out period. You will be reimbursed from the funds left in your dependent care FSA from the previous plan year.
- A **grace period extension gives you extra time to spend funds** left in your account from the previous plan year. If you incur an eligible child care expense in July – the month after the plan year ends, you may use the remaining funds from the previous plan year to cover that expense. The grace period lasts two months and 15 days, so in this example, the grace period ends on September 15. And remember, not all FSA plans include this feature (see the SPD).

Even if you have a run-out period or grace period, you should carefully plan how much to put in your FSA. Don't think of the grace period as an extension of the plan year. It's more like a cushion in case your expenses fall a little short of what you expected.

Not all FSAs include a run-out period or grace period, and the length of time can vary. Check your SPD for details about your FSA and when you can file claims.

Can I change my election amount?

Your election can't be changed during the plan year unless you have a change in status or other qualified event (defined by IRS rules). Your employer's FSA must also allow the change. A qualified change in status event includes:

- A change in legal marital status (marriage, divorce or death of your spouse)
- A change in the number of your dependents (birth or adoption of a child, or death of a dependent)
- A change in employment status of you, your spouse, or dependent
- An event causing your dependent to satisfy or cease to satisfy an eligibility requirement for benefits
- A change in residence of you, your spouse, or dependent

Two things need to happen for an election to be allowed. First, you must have a change in status or other qualified event. Second, your requested change must be consistent with the event. For example, if you have a baby, you could increase your FSA contribution. Please see your SPD for more about other qualified changes, consistency requirements, and exceptions that may apply.

You may also change your election if:

- There is a major increase or decrease in what you have to pay a third-party provider (other than a relative).
- You have a coverage change, such as changing dependent care providers.

Please note: All of the above assumes that your employer's FSA allows all changes permitted under the IRS rules. An employer may restrict mid-year election changes by the way the FSA is set up. Please see your SPD for specific rules that apply to your FSA. If you have a change in status or other qualified event, please contact your human resources or benefits representative for the forms you'll need fill out.

What happens if I stop working for this employer?

If you stop working for your employer or you lose your FSA eligibility, your FSA participation and your pre-tax contributions will end automatically. Expenses for services you have after your termination date are not eligible for reimbursement.

In some cases, your FSA may include a "spend-down" provision. If so, you can submit dependent care expenses incurred after you stop working for this employer, if you meet a list of requirements. This feature is not available in all FSAs. Please see your SPD for specific rules that apply to your FSA.

How do I keep track of my account activity?

Your account information is available anytime day or night by logging in to anthem.com.* You can find:

- Real-time account balance
- Claims status
- Reimbursement payment history

*If you are not enrolled in an Anthem health plan, you will need to log in to your Reimbursement Benefit Account at benefitadminsolutions.com/anthem. When logging in for the first time, please have on hand your Anthem Reimbursement Benefit Account number or Social Security number and date of birth.