

# Your Dependent Care Flexible Spending Account

## Dependent Care FSA

For many of today's families, the need for dependent care has become a fact of life. You may have dependents who need day care so that you can work. The dependent care costs may add up and be a significant part of your yearly expenses. A dependent care flexible spending account offers a way to better manage these expenses and gain real tax savings.

A dependent care flexible spending account allows you to direct part of your pay, on a pretax basis, into an account that can be used throughout the year to reimburse yourself for certain dependent care expenses incurred so that you can work outside the home. (Note: Dependent care expenses that are not work related, such as the cost of a Saturday night baby-sitter or overnight camps, cannot be reimbursed with a flexible spending account.)

Because this money goes into your dependent care account before federal income or Social Security taxes are withheld, you pay less in taxes and, ultimately, have more disposable income. In most cases, your money is exempt from state and local taxes, as well. (Check with your tax advisor to find out whether this tax exemption applies in your state.)

## How the Account Works

Each year, you decide whether or not you want to participate in a dependent care flexible spending account (DCA). Once you have made that decision, you then estimate the amount of eligible dependent care expenses you are likely to have during the year and decide how much of your salary you want to set aside to help pay for them. The amount you elect will be automatically deducted from your paychecks during the year and credited to your dependent care account. As you incur eligible expenses during the year and pay for them out of your own pocket, you reimburse yourself from your spending account with tax-free money.

## Contribution Limit

The IRS limits the annual maximum amount you can deposit in your dependent care FSA to \$5,000. If you are married and file a separate income tax return, the maximum annual reimbursement is \$2,500. If either you or your spouse earn less than these amounts, then your maximum contribution would be limited to the amount of your earned income or that of your spouse, whichever is less.

If your spouse has no earned income for a plan year, you cannot use this account unless your spouse is disabled or a full-time student for at least five months during the year.

## Eligible Expenses

Money set aside in an DCA can be used to reimburse only those dependent care expenses necessary because you, work. The work-related expenses you can pay through this account include:

- Funds paid to a baby-sitter in or outside your home, as long as the person providing care is not someone you also declare as a dependent.
- Services of a day care center and/or nursery schools that comply with all state and local laws.
- Cost for care at facilities away from home, such as family day care or adult day care centers for your adult dependents that spend at least eight hours a day at home.
- Funds paid to a housekeeper for providing care for an eligible dependent.
- Funds paid for day care before and after school though fees for kindergarten education are not eligible.

Eligible dependents include:

- Your dependent children up to their 13th birthday.
- Any individual living with you whom you claim as a dependent and who is physically or mentally incapable of self-care.

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### **Unused Funds**

If you have not used all of the money deposited into your flexible spending account for expenses incurred during the plan year, these remaining funds must be forfeited. You will have access to a variety of tools throughout the year to help you keep track of balances and claim filing information.

### **Effect on Other Benefits**

Your dependent care flexible spending account contributions will not affect any company benefits that are based on pay. These benefits will continue to be based on your salary before any amount is deducted. However, because you do not pay Social Security taxes on your flexible spending account contributions, those benefits may be slightly less when you retire or become disabled. It will depend on the length of time between now and when you retire or become disabled and whether your taxable income exceeds the Social Security maximum wage level.

### **Reimbursement From Your Account**

Expenses must be incurred in order to claim reimbursement from your dependent care flexible spending account. Expenses are considered to be incurred when the service is rendered and not when they are billed, charged or paid. If you submit a claim and your account balance is less than the amount of the claim, you will be reimbursed only for the amount of money available in your account. The remainder will be reimbursed as additional payroll deductions are deposited into your dependent care flexible spending account.

As a NueSynergy dependent care FSA participant, you can track account status through our online member portal at [www.NueSynergy.com](http://www.NueSynergy.com). You will be able to view payment information, including amounts awaiting payment, and next payment date.