Multnomah County
Employee Benefits

Guide to DCAP

January 1 through December 31

Dependent Care Assistance Plan (DCAP)
(Child Care or Eldercare Expenses)

ADMINISTERED BY:

PacificSource Administrators
PO Box 70168
Springfield, OR 97475

(800) 422-7038

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INTRODUCTION

This guide contains information about the **D**ependent **C**are **A**ssistance **P**lan (**DCAP**) offered by Multnomah County and administered by PacificSource Administrators. **DCAP** is for child care/eldercare expenses. **DCAP** operates under guidelines set by the Internal Revenue Service (IRS).

Nothing herein is intended as legal, accounting, or tax advice. For such services, you should consult a professional who can review your individual circumstances and provide appropriate advice.

PLAN PROVISIONS

Eligibility: All full-time and part-time permanent employees who are scheduled to work 20 or more hours per week are eligible provided they complete and return an enrollment form within 31 days of hire or during annual Open Enrollment. A new enrollment form must be completed each year, as re-enrollment is not automatic. New hires and newly eligible employees have 31 days from the date of hire or eligibility for benefits to enroll for participation in a partial year. Employees who do not complete and return an enrollment form by the deadline must wait until Open Enrollment for the next plan year, unless you experience a change in Family Status (see page 3).

Leave of Absences: If you are enrolled in DCAP and take a leave of absence where you become unpaid, your DCAP participation will end. Your DCAP participation will continue if you are on a leave of absence yet still in paid status. Please note however, that you must be working in order to receive reimbursement for DCAP. If you are on a leave of absence and not working for a period beyond two weeks, you can contact the Benefits Office and cancel your DCAP. Upon your return to work, you must complete a new enrollment form to resume your DCAP participation. Please contact the Employee Benefits Office for more information.

Participation Period: The **DCAP** plan year begins January 1, and ends December 31. If you enroll after January 1 due to a recognized status event or change in your eligibility, you will be notified of the effective date of your coverage, and it will continue through December 31. In order for you to receive reimbursement, covered services must be incurred during the plan year and while you are an active participant in the plan.

Contribution Limits: There are Fixed Dollar Limitations for **DCAP** including:

- If you are **single**, the maximum dollar amount you may set aside for dependent care expenses is $5,000.
- If you are **married** and file a **joint return**, the aggregate amount that you and your spouse may set aside for dependent care expenses is $5,000. If your spouse also participates in a **DCAP**, the combined reimbursements under both plans cannot exceed $5,000.
- If you are **married** and file a **separate return**, the maximum tax-free contribution to the **DCAP**, per participant, is $2,500.
- The maximum amount that can be funded through **DCAP** may not exceed your spouse's **earned income** (if you are married) if that income is less than the plan maximums listed above.
- Refer to IRS publications for tax filing requirements associated with participation in **DCAP**.

If your spouse is a full-time student or disabled, he or she shall be deemed, for each month during which the spouse is either disabled or a full-time student* at an educational institution, to be gainfully employed and to have earned income not less than: $250 per month, if you have one dependent requiring care; or $500 per month, if you have two or more dependents requiring care.
**For IRS purposes, your spouse is treated as a full time student if he or she is enrolled at an educational institution for at least five months of the year. Your spouse does not actually have to be a student in a particular month for reimbursements to be qualified for that month as long as he or she satisfies the five month requirement.*

<u>Separation of accounts</u>: **DCAP** and the Medical Expense Reimbursement Plan (MERP) are separate accounts. If you are participating in both accounts, your contributions will be specifically earmarked for each account. Funds designated for MERP cannot be shared with **DCAP**; and funds designated for **DCAP** cannot be shared with MERP.

<u>Use It Or Lose It</u>: If expenses incurred during the year are less than contributions made to your account, IRS regulations require that the unused portion of the account be forfeited - you must "**use it or lose it**." It is important to be conservative when determining how much money you wish to put into your account each year. You can carry balances from your account forward from month to month, but you must incur expenses that equal the full amount of your contributions by the end of the plan year.

Only expenses incurred while you are a participant can be reimbursed from your DCAP account. You have three months after the plan year ends to file claims incurred during that plan year. The deadline for filing claims for the previous year is March 31 (of the following year). DCAP funds are not eligible to be rolled over from year to year.

<u>Social Security (FICA) Taxes</u>: Neither you nor the County pays Social Security Taxes (FICA) on **DCAP** contributions. While this does increase your take-home pay, it may lower your Social Security benefits in the future.

<u>Dependent Care Assistance Plan (DCAP) and the IRS Dependent Care Tax Credit (CREDIT):</u> The Internal Revenue Code allows a choice of two tax relief options to people who pay for child care (or other dependent care) so that they can go to work. The first is the CREDIT, which allows you to subtract a percentage of your expenses from your tax liability when you file your tax return. The second is **DCAP**, offered through employers such as Multnomah County, which reduces your tax bill indirectly by reducing your taxable income. You need to compare your potential savings under the CREDIT with **DCAP** to determine which plan is best for you. The amount of savings under each plan varies according to income and tax rates. <u>In some cases you may be able to take advantage of both options.</u> You may wish to consult your tax advisor to help you determine whether the CREDIT or **DCAP** produces more savings in your particular situation. You must file an IRS 2441 Child Care Tax Credit form with your annual tax filing.

<u>Discrimination Testing Requirement</u>: The Internal Revenue Service provides that all **DCAP** programs must run <u>nondiscrimination tests</u> to assure that the plan does not favor highly compensated employees (HCEs). The definition of HCEs is determined by the IRS, may change annually, and the County must abide by their definition. In the event the plan is found to be discriminatory in favor of HCEs, all HCEs participating in the plan will lose the tax advantages associated with the plan.

The County will run these nondiscrimination tests at various times throughout the plan year. If you are a highly compensated employee and impacted by the results of these tests, you will be notified. The County may reduce or stop contributions for the HCEs at anytime, if deemed necessary to pass the nondiscrimination testing.

<u>Changes in Election</u>: According to IRS rules, once you begin depositing **pre-tax** wages into your account, your election amount must remain in effect for the rest of the plan year. You may change the amount you deposit into your account when you re-enroll during Open Enrollment. If you have a qualified change in family status or provider change, you may be allowed to make a change to your original election during the plan year.

<u>Changes in Family Status/Provider change</u>: You may be allowed to change your DCAP participation if you have a qualified family status change or provider change. This includes the following:

- Marriage, divorce, legal separation or annulment.
- Death of a spouse or child.
- Birth or adoption of a child.
- Employee/spouse change in hours or unpaid leave causing a change in need for dependent care.
- Taking of an unpaid leave of absence by a participant or spouse.
- Involuntary shift change, which affects the need for dependent care.
- Provider leaving the area.
- Employee leaving provider area.
- Any change in provider or change in provider cost or coverage. An election change will not be permitted for a change in provider cost if the provider is a relative of the employee.

To make a change in election, contact the Employee Benefits Office. You will be sent an Enrollment Change Form that must be completed, signed, and returned to the Employee Benefits Office within 90 days of the qualified family status change/Provider change. Your enrollment change must be consistent with a qualified family status change/Provider change. For example, if you adopt a child, you can increase but not decrease your **DCAP** contribution.

<u>Allowable Expenses</u>: For dependent care expenses to be eligible through **DCAP**, they must be incurred to allow you and your spouse, if applicable, to go to work. Typical allowable expenses include most day care, after school care, baby sitting, or adult day care, inside or outside the employee's home that are necessary for you to work.

- If you are single, you must be working or looking for work when your qualified dependents are receiving care.
- If you are married, you and your spouse both must be working or looking for work when your qualified dependents are receiving care. Your spouse is treated as working during any month he or she is a full-time student* or is physically or mentally not able to care for himself or herself.
- The purpose of the care must be to enable you to be gainfully employed.

**For IRS purposes, your spouse is treated as a full time student if he or she is enrolled at an educational institution for at least five months of the year. Your spouse does not actually have to be a student in a particular month for reimbursements to be qualified for that month as long as he or she satisfies the five month requirement.*

The expenses must also be incurred for the care of "qualifying individuals," as listed below.

<u>Expense Must Have Been Incurred During The Plan Year</u>: The expense cannot be reimbursed before you have been provided with the dependent care services. Being billed for or paying for dependent care does not qualify you for reimbursement if the care has not been received. For example, if you pay for September child care in August, you may not be reimbursed until all of the September services have been provided.

<u>Qualified Individuals</u>: Only expenses for the following individuals qualify for reimbursement from **DCAP**:

Your children under age 13 who:

- are related to you by blood or marriage, adopted or foster children; and
- reside with you for at least 6 months per year.

Your child(ren) age 13 or over, and other relatives (such as your parents) who:

- are unable to care for themselves;
- reside with you for at least 6 months per year;
- get more than half of their support from you; and
- are not a tax dependent child of another person.

Your spouse who:

- is unable to care for him or herself; and
- resides with you for at least 6 months per year

Other children age 13 or over, and non-related individuals who:

- are unable to care for themselves;
- reside with you for the entire year;
- get more than half of their support from you; and
- are not a tax dependent child of another person.

The qualifying individual, however, must generally be a member of the taxpayer's household. Expenses for a student at a boarding school or a patient confined to a nursing home, for example, are not allowed. Certain exceptions apply for children of divorced or separated parents -- if you have questions, consult an accountant, attorney, or qualified tax advisor.

Ineligible Expenses: The following are examples of expenses **not** eligible for the **DCAP**:

- Expenses for domestic partners** and their dependents are currently not recognized by the IRS as eligible expenses under this plan;
- Payments to your spouse, your child under age 19, or any dependent that can be claimed by you or your spouse on your tax return;
- Educational activities or classes not associated with preschool or day care arrangement;
- The cost of schooling for a child in kindergarten or above;
- Cost of summer school or tutoring programs;
- Summer camp expenses when the child stays overnight;
- Cost of food, clothing, education or transportation between your home and the provider facility (food and education are eligible if these amounts are incident to and cannot be separated from the dependent care cost);
- Care during non-working hours;
- Nursing homes;
- Medical expenses;
- Prepaid dependent care expenses (These expenses may be reimbursed as the dependent care services are received);
- Expenses incurred during an absence from work (except for a short, temporary absence);
- Expenses incurred prior to your enrollment or after your participation ends.

***Expenses of domestic partners who are disabled and recognized as an IRS dependent might be eligible for DCAP reimbursement. Consult your tax advisor to determine if your domestic partner qualifies.*

Reporting: To qualify for reimbursement, you must provide the dependent care provider's tax ID number, Social Security number or license number on your federal tax return. If you fail to do so, the DCAP reimbursements may be reclassified as taxable income by the IRS. You must file an IRS 2441 Child Care Tax Credit form with your annual tax filing.

Deposits: Deductions are taken each pay period and forwarded to PacificSource Administrators for deposit into your individual account.

Reimbursement Requests: When you have an eligible expense, you need to submit a reimbursement request to PacificSource Administrators as well as provide documentation of your expenses to receive reimbursement.
This can be submitted online, using the MyFlex portal. Visit http://psa.pacificsource.com/flex to log-on to your MyFlex account

If you prefer, you can instead submit your reimbursement request by fax or mail to PacificSource Administrators. Reimbursement forms will be included with your confirmation materials or may be obtained by visiting https://multco.us/benefits/flexible-spending-savings-plan-forms.
Documentation of expenses must be included with the form and may include an itemized bill or receipt for payment. Please make a copy of your reimbursement request and receipts, as PacificSource Administrators cannot return these documents. Submit completed reimbursement requests with appropriate documentation to:

PacificSource Administrators
PO Box 2797
Portland OR 97208
or Fax to (866) 446-6090

Regardless of the method used, reimbursement requests are processed daily by PacificSource Administrators. Checks are typically issued within 72 hours after the request is processed, and should reach you within one week. Reimbursement may be delayed if all required information is not included with the reimbursement request. If your reimbursement request exceeds your account balance for **DCAP**, the remainder will be paid as funds are deposited and available.

Direct Deposit of Reimbursement Requests: Direct deposit of your reimbursements is available**.** The Authorization for Electronic Funds Transfer (EFT)/Direct Deposit form is included with your confirmation materials. Please return the completed form directly to PacificSource Administrators with a voided check. You can also enroll in direct deposit by logging into your "MyFlex" account at http://psa.pacificsource.com/flex, clicking on the "profile tab", and editing your personal information by adding your banking routing number and account number.

PacificSource Administrators Customer Service: Once you have received your enrollment confirmation statement, you can access your **DCAP** account online at: http://psa.pacificsource.com/flex. You may email customer service questions to: psacustomerservice@pacificsource.comor call 1-800-422-7038.

Claims Appeal: Any person whose claim or request is denied, may appeal by writing to:

Plan Administrator
Multnomah County Employee Benefits
501 SE Hawthorne, Ste 400
Portland, OR 97214

Include a copy of your original reimbursement request form, and any additional documentation, with your appeal request.

Termination of participation: If you terminate employment with the County or go on an unpaid leave of absence (except for a short, temporary absence), your participation in **DCAP** will end. This is based on the IRS guideline that allows participation in **DCAP** when care is being provided which allows you to work. If you return to work, you may be eligible to re-enroll in **DCAP** following your return. If you are on a paid leave of absence, your DCAP contributions will continue unless you inform us that you want to stop your contributions. This is so that the maximum can still be taken out of as many paycheck deductions as possible. Please contact the Employee Benefits Office for at 503-988-3477 for more information, or if you have any questions.