PEEHIP

Public Education Employees' Health Insurance Plan

Dependent Care Flexible Spending Account

Preferred Blue® Accounts

More Choices for Consumers

A Dependent Care Account Can Save You Money

As part of your benefits program, you may use payroll deductions to create a pre-tax account to help pay for your dependent care expenses. You can set up a Dependent Care Account during the PEEHIP open enrollment period. This open enrollment period for the Dependent Care Account is from July 1 through September 30 with an effective date of October 1. The plan year is October 1 through September 30.

Money set aside in your Dependent Care Account will reduce your taxable income, providing you and your family more value for your dollar.

Dependent Care Account

This account reimburses you for expenses associated with the care of your children or other dependents while you (and your spouse) work or attend school full-time. The maximum annual amount allowed for this plan is $5,000 or $2,500 for married taxpayers filing separate returns. The minimum annual amount allowed for this plan is $120.

Participation in this account is voluntary. Setting up an account can provide tax advantages that your tax advisor can confirm and explain to you.

While a Dependent Care Account can save you money by using pre-tax dollars, it requires careful planning. Keep in mind that money deducted from your pay and deposited in your Dependent Care Account must be used for the appropriate expenses during the plan year of October 1 through September 30 while you have an active account. Money left in an account does not carry over to the next year, and it is not refundable to you at the end of the year. In other words, if you don't use it, you'll lose it!

Eligible expenses that can be paid from the Dependent Care Account include:

- Licensed nursery school and day care facilities for children
- Child care in or outside your home
- Day care for an elderly or disabled dependent

Expenses that are not eligible include:

- Over night camps
- Expenses for educational purposes (for example, kindergarten)
- Child support payments
- Food, clothing and entertainment
- Cleaning and cooking services provided by the caregiver

Helpful Information From the Internal Revenue Service

For a complete list of eligible expenses for Dependent Care Accounts, refer to IRS publication 503 "Child and Dependent Care Credit." You may call the IRS at the toll-free number listed in your local telephone directory or visit them on the web at **www.irs.gov** for a copy of this publication.

What About the Current Child Care Tax Credit?

The advantage of the Dependent Care Account is that it allows you to pay the eligible expenses with pre-tax dollars. There are other tax considerations that you must weigh when making decisions about this account, such as the Child Care Tax Credit.

The IRS allows you to take a credit on your federal income taxes for your work-related dependent day care expenses if you file an itemized return. Depending on your income and tax filing status, this Child Care Tax Credit may offer more, or less, tax savings than the Dependent Care Account.

You can use both the tax credit and the Dependent Care Account (not for the same expenses), but any tax credit you take reduces the amount you can contribute to, and claim from, the account. Only you can decide the method that is best for your situation.

How Does the Dependent Care Account Work?

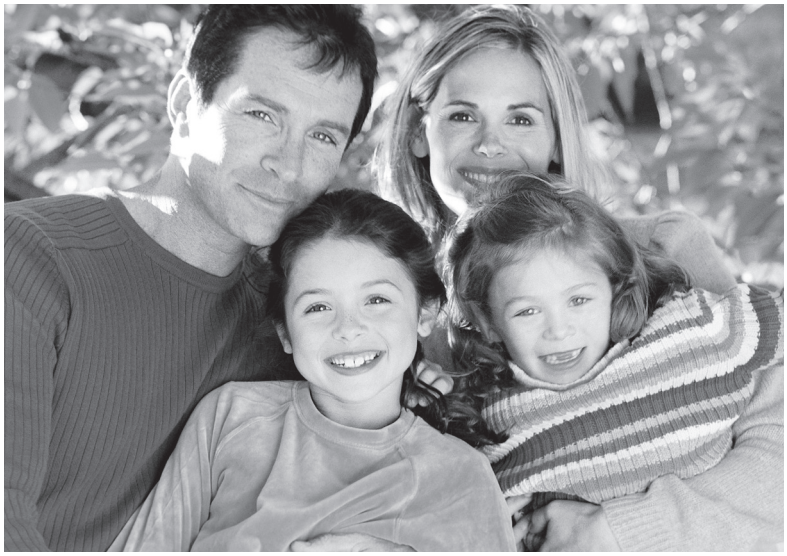
During the open enrollment period you decide if you would like to enroll in the Dependent Care Account and how much to contribute for the upcoming plan year. The amount you elect will be divided into 12 equal amounts. These funds are deducted from your pay before taxes are withheld and deposited in your account.

This account is administered by Blue Cross. Once you enroll, you will receive a welcome letter from Blue Cross with information about your account.

The money you pay out of pocket for dependent care services is reimbursed to you from your account. You may elect to have your reimbursement deposited directly into your checking or savings account. You will need to file a Request for Reimbursement form in order to be reimbursed.

The Dependent Care Account acts like a checking account in that reimbursements from the account cannot exceed the amount deposited in your account at the time your reimbursement is processed.

All reimbursement requests for eligible expenses must be received or postmarked no later than 105 days following the end of the plan year in order to be processed. However, remember the claim must be incurred prior to the earlier of the end of the plan year or the time you cease to be a participant. The DCA does not contain a “grace period” to use remaining funds.



How Can A Dependent Care Account Reduce My Taxes?

Dependent Care Accounts reduce your taxes by reducing your taxable income. Using these pre-tax accounts can make a significant difference in your take-home pay.

Example	**Without Account**	**With Account**
Taxable Income	$36,000	$36,000
Pre-tax Contribution Used for Expenses	0	-5,000
Taxable Income – Adjusted	$36,000	$31,000
Subtract Federal and Social Security Taxes*	-5,400	-4,650
After-tax Dollars Spent on Eligible Expenses	-5,000	0
Spendable Income	$25,600	$26,350
Your Tax Savings is:	**—**	**$750**

* Assumes combined tax rate of 15.00%

For illustration purposes only. Please consult your tax advisor for your specific tax situation.

The chart illustrates what would happen if your annual pay is $36,000 and you have $5,000 in eligible dependent care expenses.

Example: Dependent Care Account

Mary has one child. To enable her to work, she pays $200 per month for day care. Let's look at how a Dependent Care Account can help Mary.

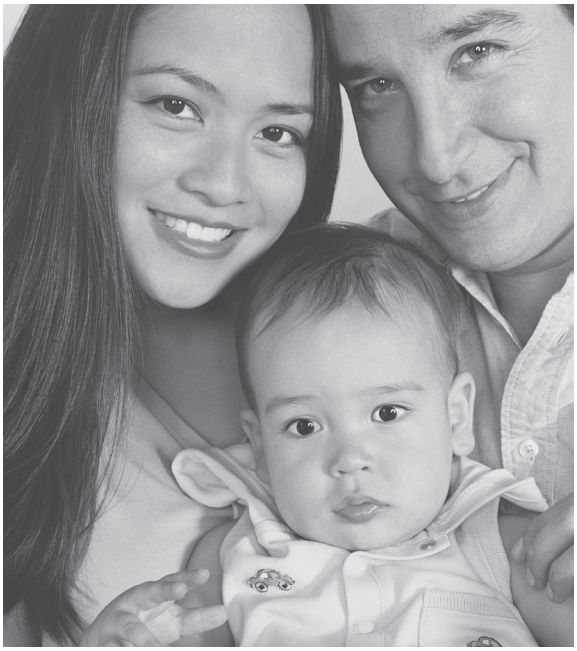
Employee Status:
Married, three federal exemptions

Monthly Salary:
$2,000

	Without Account	**With Account**
Monthly Gross Pay	$2000.00	$2000.00
Pre-tax FSA deduction	- 0	- 200.00
Taxable Gross Income	$2000.00	$1800.00
Less Taxes:		
FICA (7.65%)	153.00	137.70
Federal (15.0%)	300.00	270.00
State (4.4%)	88.00	79.20
Net Pay	$1459.00	$1313.10
Reimbursement from Health FSA	$0	$200.00
Spendable Income	$1459.00	$1513.10

Mary is paid monthly. She chooses to have $200 each pay period deducted from her gross salary. Because Mary's taxable income is now lower, her taxes are less.

After Mary is reimbursed from her Dependent Care Account, her total monthly spendable income increases. By the end of the year, Mary increases her **spendable income** by $649.20. ($1,513.10 - $1,459.00 = $54.10 x 12 months = $649.20)



Q

What are Dependent Care Accounts?

A

Dependent Care Accounts (DCA) are cafeteria plans established under IRS Code section 125, provided by PEEHIP, that allow you to pay for dependent care expenses with pre-tax dollars. This helps make these expenses more affordable while providing a tax savings.

Q

What are the advantages of a DCA?

A

DCA offers substantial benefits. Because the money comes out of your pay before taxes, taxable income decreases and you pay less in federal, state, local and Social Security taxes.

Q

What are the disadvantages of a DCA?

A

It is very important that you estimate your expenses carefully. Amounts deposited to your account that are not used during the plan year cannot be returned to you. Also, since you are reducing your Social Security contribution, there could be an effect on your future Social Security benefit. These reductions usually are not significant, but you should be aware of them.

Q

Are there any government forms to complete?

A

Yes, employees must complete the IRS form 2441 or the 1040A when completing income tax returns if they participate in the DCA.

Q

Can I change the amount I elect to contribute to my DCA?

A

Yes, you can change the amount you contribute annually during the Flexible open enrollment period. However, during the year, you may change your contribution only if you experience a qualified change in family status, as defined in the plan document, and request a change within 45 days of the qualifying event.

Q

What happens if I have not used all the money in my account by the end of the year?

A

IRS regulations dictate that any money left in the account at the end of the year is forfeited. This is commonly known as the "use it or lose it" rule. Although you will have a period to file for reimbursement for expenses incurred in the previous plan year, it is recommended that you file your expenses as early as possible. The DCA does not contain a provision after September 30 for a "grace period" to use remaining funds.

Q Do I need receipts in order to receive reimbursement?

A Yes, dependent care claims require a paid receipt or a personal statement itemizing charges from the provider. In addition, the statement must include the provider's name, tax identification number or Social Security number, date(s) of service, amount charged and the name of the person receiving the care.

Q How do I file for reimbursement?

A Simply file a Request for Reimbursement form along with a receipt for all dependent care services. Contact Customer Service at 1-800-213-7930 to request a form, or visit our website at **AlabamaBlue.com** or PEEHIP's website at **www.rsa-al.gov.**

Requests for reimbursement can be submitted on our website at **AlabamaBlue.com**, with the **Alabama Blue** mobile app on your smart phone, or by mail/fax to:

Blue Cross and Blue Shield of Alabama
Preferred Blue Accounts
P. O. Box 11586
Birmingham, Alabama 35202-1586
Fax to: 205-220-7991
Toll-Free Fax: 1-877-889-3610

Q Can the DCA reimburse my dependent care provider directly?

A No, the DCA cannot make a payment directly to your day care provider on your behalf. All reimbursements must go directly to the member.

Q Do I have to keep track of how much money is in my account during the year?

A No, Blue Cross will do it for you. If you are not currently an online user for your DCA, you will receive a statement of your account balance with each reimbursement. Statements are also sent quarterly when there is no recent reimbursement to advise you of your account balance. This is an added step to help plan expenses and reduce the amount of unused funds at the end of the year. If you would like to become an online user for your DCA to view your account balance and begin receiving online account statements, visit **AlabamaBlue.com** or download the **Alabama Blue** mobile app.

Q If I leave my job, may I still participate in the DCA program?

A No, If you leave your job, you are not entitled to continue the DCA. Participants are not eligible to continue under COBRA. Membership ends when employee terminates employment, retires, goes on leave of absence or dies.

Q

If I have a question regarding my account, who do I call?

A

Contact Blue Cross and Blue Shield of Alabama Customer Service at 1-800-213-7930, Monday - Friday between the hours of 7:45 am to 5:00 pm CST.

Q

Who is eligible to use the DCA?

A

To be eligible, a participant must be an active full-time or permanent part-time employee during the time the eligible dependent receives care. Retired members are not eligible to participate in the FSA accounts. Participant must meet one of the following requirements:

- Is a single head of the household.
- Is a married person whose spouse also works.
- Has a spouse who is a full-time student at least five months during the year while the employee works
- Has a spouse who is physically or mentally unable to provide his/her own care
- Be divorced or legally separated and has custody of the child most of the time even though the former spouse may claim the child as a dependent for income tax purposes

Q

Who is considered an eligible dependent for reimbursement?

A

An eligible dependent must share his or her principle place of residence with the participant and be one of the following:

- A qualified child dependent under age 13 who lives with the participant for more than half the year
- A qualified child dependent, a qualified relative dependent, or your spouse who is physically or mentally incapable of caring for him or herself and who lives with the participant for more than half the year

If you have any questions regarding your dependent qualifications, please consult a tax advisor.

Q

What kind of care is eligible for reimbursement?

A

Expenses may be reimbursed for services provided:

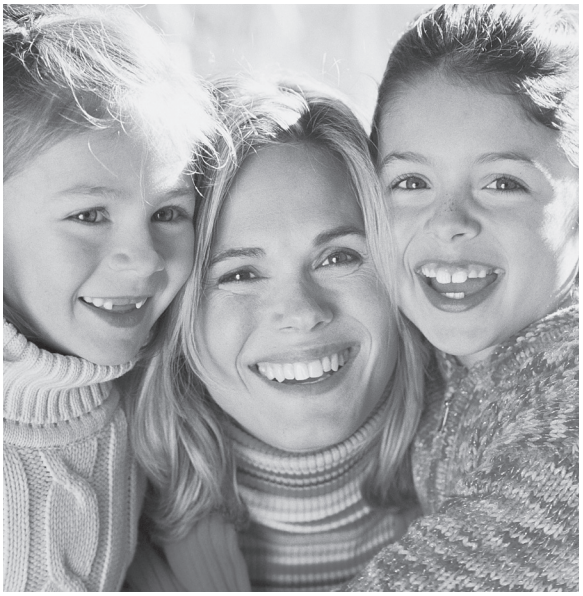
- Inside or outside the home by anyone other than the member's spouse, a person listed as the member's dependent for income tax purposes or one of the member's children under age 19
- In a dependent care center or a child care center, which meets all applicable state and local regulations
- By a housekeeper whose services include, in part, providing care for a qualifying individual

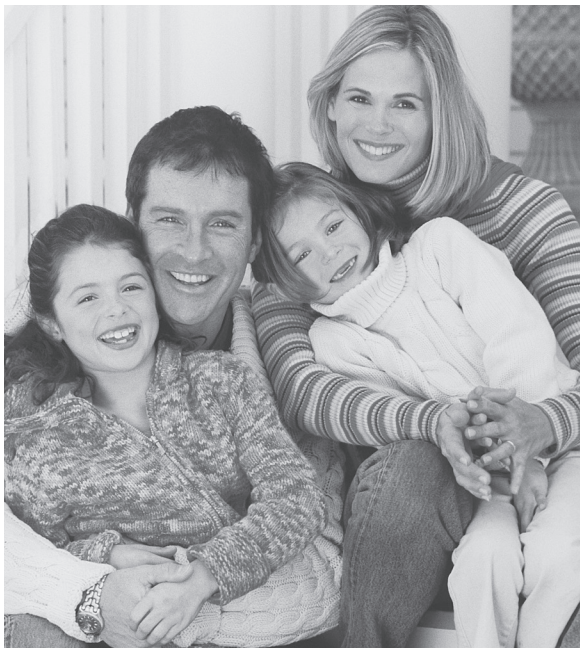
Q **What if the dependent care provider does not claim the income as earnings?**

A In order to receive reimbursement, the Social Security or tax ID number of the care provider must be provided on the federal income tax return. As a result, the provider will have to pay taxes on that income.

Q **Does my dependent care provider have to meet any special requirements for me to participate?**

A The documentation submitted to Blue Cross must include the Social Security number or tax ID number and a signature or formal documentation from the dependent care provider. When completing the IRS form 2441 for filing your income tax return, you must give the ID number of the dependent care provider, which would be the Social Security number for an individual or the tax ID number of the provider providing the care.





Q **Can I receive the full amount of my day care expense?**

A Your payroll deduction amount is the maximum amount you can receive from your DCA. If your expense is greater than the payroll deduction amount, you will only receive reimbursement for the payroll deduction amount.
The expense over the deduction amount will be credited and reimbursed to you after the next payroll deduction.

Q **Must I pay a bill first and then be reimbursed later?**

A Yes, under the DCA, an expense must be incurred and paid before it is reimbursable.

Please note that enrollment in your Dependent Care Account does not automatically renew. You must re-enroll each plan year.

If you have any questions about your Dependent Care Account, call:

1-800-213-7930

File reimbursement requests:

AlabamaBlue.com

or

Alabama Blue mobile app

or mail/fax to:

Blue Cross and Blue Shield of Alabama
Preferred Blue Accounts
P. O. Box 11586
Birmingham, AL 35202-1586

Fax: **205-220-7991** • Toll Free Fax: **1-877-889-3610**

PEEHIP

Public Education Employees' Health Insurance Plan

BlueCross BlueShield of Alabama

An Independent Licensee of the Blue Cross and Blue Shield Association

MKT-260 (Rev. 11-2014)