Dependent Care Reimbursement Account (DCRA)

This brochure is intended to provide highlights of the California State University (CSU) Dependent Care Reimbursement Account (DCRA) Plan. There are many important rules regarding this plan, so please read this material carefully. Complete details of the plan are provided in the official plan document, which is at all times the ruling plan document. If you have questions about the plan, or wish to review a copy of the plan document, contact your campus Benefits Representative.

OVERVIEW

The CSU Dependent Care Reimbursement Account (DCRA), a voluntary benefit for eligible employees, offers you the ability to pay for eligible out-of-pocket dependent care expenses with pre-tax dollars. If you enroll in the plan, the contributions you make to your account are deducted from your pay before federal, state and FICA taxes are calculated. Your taxable income is reduced, and consequently, your taxable income reflected on your annual W-2 statement is reduced. Expenses eligible to be reimbursed from the Dependent Care Reimbursement Account include certain expenses for dependent care if the care is required in order for you (your spouse or domestic partner) to work. The "Eligible Expenses" section of this brochure provides more information on reimbursable expenses.

DCRA plan enrollment is based on calendar year from January 1–December 31.

Please Note: **If you wish to participate in this plan, you must enroll each year you want to participate because your annual enrollment will not automatically renew.**

The annual open enrollment period is normally September–October. The effective date of the plan coverage will be January 1–December 31 of the following year.

ELIGIBLE EMPLOYEES

You are eligible to enroll in the Dependent Care Reimbursement Account if you are in an Executive, Management Personnel Plan (MPP), Confidential or other nonrepresented position, or are covered by a collective bargaining agreement that provides the benefit. Rehired annuitants and employees under the Faculty Early Retirement Program (FERP) are not eligible to participate.

ENROLLMENT AND EFFECTIVE DATE OF COVERAGE

Employees may enroll in the plan within 60 days of hire, or due to a subsequent change in status (see explanation under the "Change in Status" section of this brochure) or during open enrollment.

For new employees that are enrolled after the plan year begins, participation in DCRA will be for the remainder of the plan year, and coverage will become effective on the 1st of the month following enrollment (subject to campus and State Controller's Office processing timelines).

Once coverage begins, you will not be able to change your contribution amount unless you have had a change in status.

HOW TO ENROLL

You will need to obtain a Dependent Care Reimbursement Account Enrollment Authorization Form from your campus Benefits Representative. **On the form, list the amount you want deducted each month from your paycheck on a pre-tax basis.** You will be charged a small administrative fee that is deducted from your salary on an after-tax basis.

YOUR DEPENDENT CARE REIMBURSEMENT ACCOUNT (DCRA)

The CSU Dependent Care Reimbursement Account provides reimbursement for eligible dependent care expenses from your pretax income, via a special tax-free account set up for this purpose.

Each month, the dollar amount you preselect is deducted from your salary before federal, state and FICA taxes are withheld. These deductions are held in your personal Dependent Care Reimbursement Account until you incur eligible expenses and file a claim for reimbursement. Even when paid out as reimbursements, the funds remain tax-free. Tax-free Dependent Care Reimbursement Accounts are governed by a number of rules, most of which are set by the Internal Revenue Service (IRS) and can be changed only by that agency.

ELIGIBLE EXPENSES

Dependent care expenses will be eligible for reimbursement through your DCRA provided the care is required in order for you to be gainfully employed. If you are married, your spouse also must be employed or actively looking for work, unless he/she is physically and/or mentally unable to care for him or herself or is a full-time student. In addition, the Internal Revenue Code stipulates the following:

If you were divorced, legally separated, or lived apart from your spouse for all of the last six months of the preceding tax year, you may pay for dependent care for an eligible dependent child through your DCRA if:

1. You have custody of the child for the longer period of the year; and
2. You pay more than half the cost of the child's support; and
3. You are entitled to claim the child as a dependent on your income tax form or have legally waived your right to do so.

You can be reimbursed for the cost of care provided outside your home if the care is for your eligible dependents under age 13 or any other eligible dependent who regularly spends eight (8) or more hours per day in your home. However, you are not required to use a day care center; care also may be provided in your home or someone else's home. If care is received through a day care center, the day care center must provide care for six (6) or more individuals who do not live there and must receive payment for providing services to those individuals. In addition, the day care center must comply with all state and local licensing laws and regulations.

Expenses for household services may be eligible if the services are partly for the care of the qualifying dependent.

You can also be reimbursed for certain elder care expenses that are provided for a tax dependent that allow you (and spouse or domestic partner) to go to work. Generally, the dependent must live with you at least eight (8) hours per day (so this person cannot live in a nursing home), and the types of care can be in-home or at some sort of daily elder care facility.

Your provider must supply you with a name, address and Social Security number (SSN) or a Taxpayer's Identification Number (TIN). You will need this information when you file your income tax return for the year, even though you are not claiming a tax credit for your expenses.

Expenses for care provided by your spouse, by someone you are entitled to claim as a dependent for income tax purposes, or by your child under the age of 19 at the end of the tax year, are not eligible for reimbursement through your DCRA.

Expenses must be incurred within the plan year and while you are covered under the DCRA. **Expenses are considered "incurred" when the services are provided, not when the bill is paid or received.**

INELIGIBLE EXPENSES

Some expenses that are not eligible for reimbursement under the DCRA plan include:

- expenses for sleepover camp;
- nursing home expenses;
- educational expenses;
- separately billed charges for activities, transportation, food, clothing, etc.; and
- any other expenses that are not eligible for deduction on your federal income tax return.

ELIGIBLE DEPENDENTS

Eligible dependents for whom DCRA reimbursements can be claimed are:

1. A child under age 13, for whom you or your spouse are entitled to claim dependent status on your federal income tax return. (See the first item under "Eligible Expenses" above for the rule on dependency in cases of separation and divorce);
2. A spouse who is physically or mentally unable to care for him/herself; or
3. A dependent who is physically or mentally not able to care for himself or herself and for whom you can claim an exemption on your federal tax return.

Please Note: DCRA is governed by federal IRS rules (based on Internal Revenue Code Section 125), which do not recognize registered domestic partner as a marital status. Therefore, you only may claim reimbursement for expenses paid for your domestic partner if he/she is a qualified tax dependent under IRS Section 152.

CHANGE IN STATUS

Once the plan year has begun, you cannot make changes in your authorization unless there has been a change in your status, as defined by the IRS.

Please note that your election must be on account of and consistent with one of the following events:

- Change in Marital Status – Marriage, divorce, death of spouse, legal separation or annulment;
- Death of domestic partner;
- Change in Number of Dependents – Birth, death, adoption or placement for adoption of a child, legal custody, domestic partner, or loss of legal custody or domestic partner;
- Termination/Commencement of Employment – The beginning or the end of employment of the employee, spouse, domestic partner or dependent;
- Change in Work Hours – Change in work schedule including a reduction or increase in hours, full-time/part-time switch, start/stop of unpaid leave of absence or a strike or lockout of employee, spouse, domestic partner or dependent;
- Dependent begins or ceases to meet eligibility Your dependent satisfies (or ceases to satisfy) dependent eligibility requirements for DCRA;
- Significant increase or decrease in cost of your dependent care provider (as long as provider is not a relative); or
- Change in dependent care provider.

If you have a change in status, you may increase (up to the appropriate IRS limit), decrease, start or stop your contributions by filing a new Authorization Form within 60 days of the status change. Any change you make must be on account of and consistent with the change in status.

If you stop your contributions, you may continue to submit any eligible expenses incurred before you stopped participating for the remainder of the plan year or until your account is exhausted, whichever comes first. (The same rule applies if you should terminate your CSU employment for any reason.)

AMOUNT YOU CAN CONTRIBUTE

You can contribute any amount from a minimum of $20 per month to a maximum of $416.66 a month ($5,000 a year). However, if you are married but file a separate tax return, your annual maximum is $2,500.

Please Note: The federal tax rules regarding DCRA described in this section do not apply to registered domestic partners or same-sex married couples.

The IRS requires certain other limits in special situations.

If you or your spouse earned income of less than $5,000 a year, your maximum contribution is equal to that person's earned income.

If your spouse is a full-time student for at least five months of the year, or is incapable of self-care, and you have one dependent, your spouse is deemed to have income of $250 for each calendar month that your spouse is disabled or a full-time student. If you have two or more dependents, your spouse is deemed to have income of $416.66 for each such calendar month.

Please Note: These limits may be lower for employees who are classified as "highly compensated employees." If you should fit the qualification, you will be notified of the limit on your DCRA contributions. All contributions made to your DCRA by payroll deduction are exempt from federal, state and FICA taxes. They will, however, be taken into account for your CalPERS deductions. DCRA contributions will have no impact on any other employer-provided benefits that may be based on your salary. There may be some impact on your Social Security benefits as discussed in the section titled "Effect on Social Security."

COMPARING DCRA CONTRIBUTIONS WITH THE TAX CREDIT

Dependent care expenses may qualify for a tax credit on your income tax return. The credit you can claim is based on your adjusted household gross income and the number of eligible dependents you have. You should consider which method will offer you the greatest tax savings.

Currently, the maximum tax credit is $3,000 for one dependent and $6,000 for two or more dependents. The amount of expenses eligible for the dependent care tax credit will be reduced, dollar for dollar, by the amount of expenses reimbursed through a DCRA. For example, if in this tax year you have one dependent for whom you pay $4,000 in dependent care expenses during the year, and decide to pay $3,000 through your DCRA, you will lose all tax credit eligibility and the additional $1,000 in expenses cannot be claimed as a tax credit, even though the expenses were different from those claimed under the DCRA.

Therefore, there is no established rule about who may benefit from one method or another; your own situation can be determined only by a close look at your records. Personal tax situations vary, so you should carefully consider the impact a DCRA will have on your tax status. You may want to consult a financial planner or tax advisor.

EFFECT ON SOCIAL SECURITY

Depending upon your salary, your Social Security deductions may also be reduced by your contributions to a DCRA. This means your Social Security benefits at retirement may also be reduced slightly, because you have paid Social Security taxes on a lower wage. You also should take this into consideration as you make your decision about enrolling. For more information, you may also want to consult your tax advisor or financial planner.

IRS DEPENDENT CARE REPORTING REQUIREMENTS

The Internal Revenue Service requires taxpayers who claim either a dependent care credit or a DCRA exclusion to report certain information with their income tax returns on form 2441 (1040 filers) or Schedule 2 (1040A filers). The information required includes the name, address and Taxpayer's Identification Number (TIN) of the care provider. For individuals, their Social Security numbers (SSNs) are their TINs. For others, the employer identification number (EIN) is generally the correct TIN. However, the TIN is not required for dependent care provided by certain tax-exempt organizations. If the required information is not supplied, the taxpayer will lose the credit or exclusion, unless he or she can show that due diligence was exercised in attempting to furnish it.

Any one of the following documents may be used to show due diligence:

1. A completed Form W-1O, Dependent Care Provider's Identification and Certification. This is an IRS form that individuals should give to each of their care providers to complete and return;
2. A copy of the care provider's Social Security card or driver's license;
3. A recently printed letterhead or printed invoice from the provider if it includes the name, address and TIN of the provider; or
4. A copy of the completed Form W-4, Employee's Withholding Allowance Certificate, if the provider is the taxpayer's household employee.

HOW TO PLAN YOUR CONTRIBUTIONS

If you are already paying dependent care expenses, you probably know your annual expenditures. By looking at your records for the past year, and inquiring about any increase in fees planned by your provider, you can estimate your contributions.

If dependent care expenses will be a new item in your budget, because you are expecting a baby or planning to take charge of a disabled relative, you will need to investigate available resources and their costs.

You must estimate your eligible expenses very carefully. As noted earlier, your authorization is irrevocable during the plan year unless you have a change in status event. In addition, any money left in your DCRA after your expenses have been paid for the enrollment period will be forfeited. In addition, the IRS prohibits the transfer of funds from one pre-tax account to another. If you participate in both the Health Care Reimbursement Account and the Dependent Care Reimbursement Account, you cannot use your Dependent Care Reimbursement Account for reimbursement of health care costs, or vice versa.

HOW TO CLAIM REIMBURSEMENT

CSU Dependent Care/Health Care Reimbursement Account claim forms are available from your Benefits Representative or the Claims Administrator, ASI. Claim forms may also be downloaded from the CSU benefits portal at www.calstate.edu/hr/benefitsportal and ASI's website at: www.asiflex.com. ASI can be contacted toll-free at (800) 659-3035.

You can file a claim for reimbursement online with your ASI-assigned user ID and password, or by completing the form and attaching an itemized bill for your dependent care expenses. If you wish to keep your originals, you may submit photocopies of your bills.

Each claim must include the name of the employee, the name of the dependent receiving care, the name and address of the person or facility providing care, dates of care, amounts charged, and the tax identification number of the care provider. (See the previous section, "IRS Dependent Care Reporting Requirements," for an explanation of provider tax identification numbers.) Claims cannot be paid without such verification of expenses, and copies of canceled checks are not sufficient documentation.

If the bill you are submitting is more than the amount currently in your DCRA, fill in the total amount of the bill as the reimbursement amount you are requesting. Although your actual reimbursement cannot exceed the amount currently in your account, excess expenses will be pended and paid to you automatically, as soon as additional money is available in your DCRA account (within the same plan year).

Completed claims can be submitted to the Claims Administrator online, by mail or facsimile, as indicated on the form. Currently, reimbursements are paid three times per month based on the following schedule:

Claims Receipt Date	Reimbursement Date
25th of the month	5th of the following month
5th of the month	15th of the month
15th of the month	25th of the month

Your reimbursement will be either mailed to you, or electronically deposited in your savings or checking account (if you choose this option). There is no minimum reimbursement amount.

CLAIMS FILING PERIOD AND EXTENSION

You may file claims for expenses incurred during the plan year (January 1 – December 31) any time up to six months after the end of the plan year. Therefore, your claim(s) must be postmarked by June 30 following the end of the plan year or **any balance remaining in DCRA after June 30 will be forfeited**.

If you are enrolled in DCRA through December 31 of any plan year and have a remaining account balance, you can also file claims for reimbursement under the grace period extension for any eligible expenses that are incurred January 1 through March 15 of the following plan year.

Under the grace period extension, all DCRA claims for services incurred January 1st through March 15 of the following calendar year will automatically be processed against the previous plan year first if there is an account balance remaining after December 31 and filed by the claims filing deadline. However, you can request that a claim incurred January 1 through March 15 be applied to the current plan year (must be enrolled) rather than the previous plan year. **Such requests must be in writing and submitted with the claim for special handling**.

If you choose to not re-enroll in DCRA for the subsequent plan year, you can utilize only the remaining account balance in your account as of December 31 for reimbursement of eligible grace period claims that are incurred January 1 through March 15 of the following year.

Claims applicable to DCRA cannot be reimbursed from HCRA account balances, and vice versa.

Please Note: if your participation in DCRA is terminated prior to December 31, you are ineligible to file any claims under the grace period extension.

CLAIMS DENIAL AND APPEAL

You will receive written notice of any denied claims. You will have 180 days from the date of the written notice to file an appeal of that specific claim denial with the Claims Administrator. The Claims Administrator will provide you with a written notice of the resolution of the appeal within 60 days of the appeal.

TERMINATION OF YOUR PARTICIPATION/PLAN

Your participation in the Dependent Care Reimbursement Account will end as of the later of the following:

- At the end of the month in which you last contributed (for claim filing purposes, eligible expenses only will be reimbursed for services provided through the end of this period). For example, if you terminate in May, your last contribution to DCRA is taken from your May salary, and your participation ends June 30.
- The end of the current plan year if you fail to re-enroll during the annual open enrollment period.
- The date you have been reimbursed for the entire elected annual contribution amount, and have zero funds left in your account, following cancellation or failure to re-enroll.
- Upon termination of your employment.
- The date of your death.
- Upon termination of this plan.

This plan may be terminated by the CSU only as of the end of any plan year.

Any amounts credited to your account as of the end of the plan year, that remain unclaimed through the reimbursement process by the following June 30, will be forfeited.

FINAL NOTE

Through the Dependent Care Reimbursement Account, it is possible to pay for dependent care expenses on a tax-advantaged basis easily and automatically. If you carefully consider your decision to participate, you will find it a worthwhile addition to your CSU benefits package.

Refer to Internal Revenue Service (IRS) Publication 503 for additional information.

The IRS website address is: http://www.irs.ustreas.gov.