Dependent Care Flexible Spending Accounts (DCFSAs) can help workers save money on child care expenses by using pre-tax dollars, but few employees actually use the accounts, particularly low- to moderate-income (LMI) employees, because:

- DCFSAs are difficult to understand; figuring out if they are possible to use and worth the trouble is a complex task for families.
- Families face a “double-hit” if they use the accounts – they have to set aside pre-tax dollars for child care expenses and then pay out-of-pocket before getting reimbursed.
- Using a DCFSA may require certainty about a year’s worth of child care costs, with a possible penalty for over-estimating expenses (depending on each employers’ plan rules).
- DCFSAs can interact with tax credits, Medicaid, and federal/state poverty alleviation programs.

Action steps for employers to make DCFSAs more usable and effective at reducing the child care cost burden:

1. **Alert employees at risk of balance forfeiture at the end of the plan year**
   - Conduct audits of DCFSA balances at the end of the plan year and send alerts to employees who still have funds in their accounts. Employees may be cautious about using DCFSAs for fear that they will forfeit some of their contributions due to the use-it-or-lose-it provision.
   - Be sure alerts include guidance on the expense submission grace period and instructions for reimbursement.

2. **Assist employees in addressing qualifying events**
   - Communicate with employees about qualifying events rules throughout the year.
   - Make sure employees have clear and easily accessible information about qualifying events, including examples and FAQs.
   - Remind employees that they can change their contribution amounts at any time during the year if they experience a qualifying event.

3. **Help employees deal with the double-hit of setting aside pre-tax dollars for child care while paying out-of-pocket and waiting for reimbursement**
   - Implement a process for direct payments to child care providers rather than requiring employees to pay out-of-pocket and then apply for reimbursement. Direct payments can be facilitated through automatic transfers or by providing DCFSA-linked debit cards.
   - Provide employees with “seed money” matching contributions equal to one month of their DCFSA contributions. Seeding DCFSAs will allow employees to start the plan year with a balance already available for reimbursement, thus eliminating the double-hit.
**4 Address interactions with tax credits, Medicaid, and federal/state poverty alleviation programs**

- Alert LMI employees to possible interactions with DCFSA use during open enrollment.
- Connect employees to community-based resources that can help them figure out if DCFSA use will interact with any tax credits (like the Earned Income Tax Credit or the Child and Dependent Care Tax Credit) or public programs that they regularly use.

**5 Advocate for federal and state policy change**

- Encourage lawmakers to propose employer tax credits for DCFSA matching contributions.¹
- Advocate for raising the annual contribution limit and linking future increases to the Consumer Price Index. In 2018, the typical family with young children has child care costs well above the current $5,000 yearly DCFSA limit.²
- Ask lawmakers to create refundable tax credits for “seed money” matching contributions for employers that contribute at the beginning of the year to LMI employees’ accounts. Seed money refers to a matching contribution equal to one month of LMI employees’ elected contributions; with money already in their accounts at the beginning of the year, employees can avoid mismatched timing between when child care payments are due and when their accounts contain the proper funds for reimbursement.


Suggested Citation