



Dependent Care Accounts

by George W. Gonser Jr., MBA, CDHC

A Dependent Care Account (DCA) is a component of a Section 125 Plan. DCAs are an increasingly vital funding mechanism which allows staff to contribute pre-tax monies into a fund which can be used for a variety of Dependent Care Needs. DCAs have grown in popularity over the past few years as more and more households have two working parents and thus have requisite child care costs. Child Care costs and Day Care costs are eligible expenses as long as the services are provided by an entity with a tax ID number or social security number. If Grandma or an Aunt watch Junior and don't bill you via their social security number or Tax ID number, then the expenses would not be eligible for a Section 125.

In a Section 125 plan, the government allows up to \$5,000 annually for Dependent Care Expenses to be set aside pre-tax. The eligible age for reimbursable expenses is 12 years old or less.

Do you send your children to day camps in the summer? Or do you send them to after school program? If so, you may be able to put pre-tax monies aside each pay period to fund these programs. If you care for an elderly parent, these expenses may be eligible also. Contact MDSIS to get a list of eligible expenses and exclusions.

Like POP and FSAs, DCAs are very attractive to both employees and Dental practice owners alike. Every dollar partitioned out of an employees salary that goes into their DCA saves employees a minimum of 28.65% and employers 7.65%.

For example purposes:

- An employee had a baby and is returning to work. Instead of paying for the day care with post tax dollars, she puts \$5,000 away for her day care needs via a series of pay roll deductions.
- The \$5,000 is broken up by the number of pay periods. If there are 26 pay periods, then \$192.37 is taken out of every pay period for the year.
- The employee simply pays for the day care bill and submits via mail or fax the paid receipt to the 125 vendor or TPA. The TPA reimburses the employee up to the amount of funds for the bill and available in the account.
- The entire \$5,000 must be utilized in the plan year or whatever balance is left will be lost.
- The savings on the \$5,000 by setting it aside pre-tax for the employee is \$1,485 (or more depending on the tax bracket) and the employer saves \$382.50. This is a win/win for the practice and the employee.

This component of the 125 plan further illustrates the savings to the employee and employer. Like POPs and FSAs, DCAs are a great employee retention and recruitment tool. If you currently don't have a Section 125 plan, you should get one. It will save you and your staff money!!!!

Contact MDS Insurance Services to discuss the program and how it can help your practice.

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