

Dependent care subsidies

Dependent care costs

Cost is a major issue in households where child care is needed. When compared to other household expenses, on average, child care costs rank fourth for working families in Maryland, after housing, income tax and food.

Statewide, families spend an average of 16 to 26 percent of their income on child care. For lower wage earners, child care may be the major household expense, exceeding what is paid for housing and food. The average weekly cost for care for a child from birth to two years old in a family child care program is \$106.04; and \$158.92 for center-based care.

Although care is slightly less expensive for an older child, it is still a major household expense. For example, for a child who is 2 to 5 years of age, the average weekly cost for care in a family child care program is \$89.71; for center based care for a child 2- 5 years of age the cost is \$97.93. Families facing such expenses find themselves in a bewildering dilemma and look for any assistance with paying for child care.

Families who are caring for aging relatives find themselves in a similar situation. Elder care, whether in-home or out-of-home adult day care settings or in more comprehensive residential settings, can put a tremendous strain on a working family's budget and time.

In responding to dependent care needs, employers can consider assisting their employees in many ways. Described below are several options to explore and possibly implement. Responsive dependent care programs can help to ease the burden on an employee's family and can help that employee be more productive instead of spending work time worrying about such care arrangements.

The Dependent Care Flexible Spending Account

The Dependent Care Flexible Spending Account (FSA) is a way for employees to shelter a portion of income from tax liability while using that money to pay for the care of a child or dependent adult.

Here is an example of the kind of annual tax savings someone with day care expenses might achieve through a Flexible Spending Account:

Anne is a working mother with a weekly salary of \$404, which translates into \$21,000 annually. Anne's weekly dependent care costs are \$100. Without an FSA, Anne pays approximately \$110 a week in taxes, including federal, Social Security, etc. (based on no withholding exemptions). By instituting a FSA at work, Anne would still pay \$100 for dependent care, but by putting money aside in a pre-tax spending account, Anne would not be paying income tax on that money. Anne would benefit by reducing her taxes by over \$27 per week.

As you can see from the example on the following page, the benefits of implementing an FSA for the employee are very real, with minimal work on the part of the employer. Even though the taxable pay will be lower, it will not affect other salary-related issues. The grade or base-pay will be the same, and this grade or base-pay will be used to determine merit increases, cost of living adjustments and other benefits such as life insurance and pensions. An employee may want to determine if the reduced taxable wage base will affect his/her future Social Security benefits.

| | Without the FSA | With the FSA |
|-----------------------------------|-----------------|--------------|
| Anne's Weekly Salary | 404.00 | 404.00 |
| Money put into FSA (per paycheck) | 0 | -100.00 |
| Taxable Income | 404.00 | 304.00 |
| Taxes | -111.10 | -83.60 |
| Take-home pay | 292.90 | 220.40 |
| Dependent care expenses | -100.00 | From FSA |
| Take home Pay | 192.90 | 220.40 |
| Extra Cash | | 27.50 |

(Example taken from Marriott International, Inc. 1998 Family Care Spending Account, Summary Plan Description.)

It is very important for employers to work with employees so that they can estimate eligible expenses for the coming year and plan contributions to the FSA realistically, so no money will have to be forfeited. Once an employee has been reimbursed for all eligible expenses, any unspent contributed money in the account will be lost. The monies set aside in a dependent care spending account must be spent that calendar year.

Subsidy programs for dependent care

A dependent care reimbursement/subsidy program is a valuable benefit to employees. A participating employer either reimburses an employee a portion of out-of-pocket dependent care expenses or pays a portion of the cost of dependent care directly to the care provider.

Guidelines must be established for determining reimbursement amounts and employee eligibility. The employer may base the subsidy on a percentage of an employee's salary; a fixed amount for all employees; or on a percentage of the actual child/adult care cost.

Vendor Program: A vendor program enables an employer to deal directly with a dependent care provider by paying a fee to reserve slots and a portion of the dependent care cost. Employees submit verification of use and payment is made directly to the provider. Frequently, dependent care centers offer discounts to organizations as a way to fill empty slots.

Small businesses that do not have the financial resources to subsidize dependent care cost or pay reservation fees can still develop a vendor program by establishing relationships with providers and developing compensation alternatives such as: community service to the care provider, sharing maintenance personnel, and so on.

Benefits

- Eases the financial burden of the employee
- Low administrative cost to the employer
- Easy accessibility even when employees are based in multiple work sites, or when employees reside in common geographic clusters, allowing dependent care services in various sites within a wide area
- Limits liability of the employer
- Possible discount on dependent care fees

Considerations

- May limit flexibility of employee to choose his or her own provider
- Slots may not be available if provider is filled to capacity
- Can be costly to employer if eligibility is not limited

Voucher Program: By participating in a voucher program, an employee can select his or her own dependent care provider. This is particularly important when the workforce has markedly different care needs, and/or when employees commute from a very wide geographical area and are not inclined to drive dependents to a distant provider. With a voucher program, the employer develops a program where both the employee and the employer contribute to the account. Employees submit verification of cost and the employer pays a portion of the cost, either by adding that amount to the employee's net pay or making direct payment to the provider.

Benefits

- Low start up and administrative cost
- Flexibility in provider choice
- Eases the financial burden of the employee
- Accessibility to convenient location
- Range of services can be greater than those provided at the work site
- Limits liability of the organization
- Cost of program is less than if direct on-site services were provided
- Can be responsive to employee needs

Considerations

- Costly to employer unless eligibility is clearly defined
- Logistics of setting up and using voucher can be tedious

Cafeteria Plan

In today's changing world, a "one-size- fits-all" benefits package no longer "fits." A cafeteria plan gives the employee the option to choose benefits that suit his or her family's needs. The employer determines a set dollar amount for each employee's benefit package. The employee then selects from a core package of benefits such as medical, disability, insurance, and retirement. The cafeteria benefit plan is most often considered an option for large organizations, but can also be a viable option for small and medium organizations as well. Cafeteria Plans/Section 125 Plans can include more traditional benefits such as medical, dental, vision, prescription, life insurance, and long and short term disability, but can also include other features such as flexible spending accounts for dependent care costs, and similar accounts for medical care costs.

Benefits

- Assists employees with various dependent care needs
- Assures equality among employee benefits

Considerations

- Administration and implementation of a comprehensive cafeteria plan is costly
- Financial assistance may have a limited impact if dependent care is not available or is inadequate

In Maryland a number of companies have recognized the value of a flexible benefits program that considers the varied needs of employees. TR Klein, a CPA firm in Baltimore, MD, with 10 employees recognizes the value of flexibility and offers employees child care subsidy for workers after the first year of employment. TR Klein also offers an on-site child care center. The U.S. Naval Institute in Annapolis, MD is sensitive to the varied needs of its 95 employees and provides a dependent care flexible spending account. Maryland Committee for Children, in Baltimore, MD, a private non-profit organization of 65 employees also offers a dependent care flexible spending account.

When employees know that their child or parent is receiving the best care available, they are able to focus on work and tend to be more responsible, productive, and loyal. Responding to employees' needs is not just the right thing to do; it makes sense to the organization's bottom line.

