

To participate, you **MUST ENROLL** in this plan each year.

Dependent Day Care Flexible Spending Account

The Dependent Day Care Flexible Spending Account (DDCFSA) is designed to benefit employees with young dependent children or disabled dependents of any age. Eligible day care expenses may be reimbursed for:

- your “qualifying child” (including a stepchild, foster child, child placed for adoption, or younger brother or sister) under age 13 who has the same principal residence as you for more than one-half of the year and does not provide more than one-half of his or her own support during the calendar year; or
- your qualifying child (as defined above) of any age, spouse or other dependent who receives over one-half of his or her support from you (e.g., your disabled elderly parent), who is physically or mentally incapable of caring for himself or herself and has the same principal place of residence as you for more than one-half of the year. To reimburse day care received outside of your home, your disabled dependent must spend at least 8 hours per day in your home.

Special rules apply for divorced or separated parents with dependent children. Generally, your child must be your dependent for whom you can claim an income tax exemption. In other words, you must have legal custody of your child for over one-half of the year for your day care expenses to be reimbursed through the DDCFSA.

Note: You should consult with your tax advisor if you have questions about whether someone qualifies as your income tax dependent.

When enrolling, you choose to contribute a set amount of money to your account through payroll deduction on a pre-tax basis. When you have an expense that qualifies for reimbursement, just submit a claim with any necessary documentation and you will receive a tax-free reimbursement.

With this account you are reimbursed with pre-tax dollars for child care or dependent adult care expenses you incur while working. If you are married, expenses are eligible expenses only if the expenses are necessary so that you and your spouse can work or attend school full-time. Your spouse also may be unemployed but actively looking for work.

To participate, you must enroll in this plan each year. DDCFSA Reimbursements are made by direct deposit

How to Use Your DDCFSA

You decide in advance how much money you want to put into your account for the full year. If you participate in the DDCFSA, your annual contribution cannot be less than \$120 a year. If you are single or if you are married and file a joint tax return, your annual maximum contribution is \$5,000 a year. If you are married and file a separate tax return, your annual maximum contribution is \$2,500 a year. These maximum limits comply with federal tax regulations. When enrolling, please remember to elect your annual contribution amount.

When filing a claim, attach a receipt that shows the amount of the charge and date of service with your dependent day care provider's tax identification number or Social Security Number.

Claims are processed each day (with the exception of holidays). Your reimbursement will be issued within one business day once your claim is fully processed and adjudicated. When the payment is issued the reimbursement will be direct deposited into your account within two business days (on average), excluding holidays. If you provide P&A Group your email address, they will automatically notify you when your claim is received and again when it is paid.

Claim reimbursement is based on the date you receive the dependent day care service, not the date you pay the invoice or the date you are billed, which must be within January 1, 2012 (or your plan effective date) and March 15, 2013, provided you remain active through December 31, 2012. **You will be reimbursed up to the amount currently in your DDCFSA on the processing date.**

When you enroll in the DDCFSA, you will receive a claims kit containing a claim form, and the procedures you need to follow when filing a claim. A list of eligible expenses is available online. You also may visit www.ncflex.org for this information.

Take Action

Remember to complete and sign your FSA claim form, if filing manually. Unsigned claim forms cannot be processed and will delay your reimbursement.

Direct Deposit

- DDCFSA Reimbursements are made by direct deposit.
- If you change banks or switch accounts, please notify your HBR or benefits department to avoid payment delays.

Eligible Dependent Day Care Expenses

Under tax laws, dependent day care expenses are eligible only if the expenses are necessary so that you and your spouse can work or attend school full-time. In addition, your spouse also may be unemployed but actively looking for work. If your spouse works part-time, your election may not exceed the lesser of your annual income or your spouse's annual income.

You can be reimbursed through your DDCFSA for:

- payments to nursery schools, day care centers or individuals who satisfy all state and local laws and regulations;
- payments for before-school care and after-school care beginning with kindergarten and higher grades;
- payments to relatives for care of a qualifying dependent(s); however, the relative cannot be your tax dependent or your child if under age 19 as of the end of the calendar year; and
- payments (in lieu of regular day care) to day camp (e.g., soccer, computers, etc.), but not overnight camps.

Eligible and Ineligible Expenses

Log on to www.ncflex.org for a complete listing of eligible and ineligible DDCFSA expenses. Go to Resources > Forms > FSA, then FSA Claims Kit—Expanded Version.

Ineligible Dependent day Care Expenses

Some common ineligible expenses include:

- tuition expenses for education of a qualified dependent beginning with kindergarten and higher grades;
- expenses incurred while you and/or your spouse are not working (except for short temporary absences like vacation and minor illnesses);
- expenses for overnight camps;
- transportation fees;
- prepayment for services not received while covered; and
- late payment fees.

IMPORTANT NOTE:

Extension of FSA Expense Period

Expenses can be incurred between January 1, 2012 (or your plan effective date) and March 15, 2013, provided you remain active for all of 2012. Prior year claims must be postmarked, faxed or submitted online by April 30, 2013.

Plan Carefully

Carefully consider your contributions to the DDCFSA. **Under IRS regulations, you will lose money remaining in your account after the deadline to submit eligible claims — April 30, 2013.**

Therefore, you should estimate carefully and conservatively, only setting aside money you feel certain you will spend out of your own pocket for dependent day care expenses during the plan year.

Termination of Employment

If you terminate employment or coverage during the plan year, you may submit claims for services incurred on or before your coverage termination date or the last month you have a payroll deduction, whichever is earlier. Services incurred after your termination date cannot be reimbursed. In accordance with IRS regulation, any unused money in your account is forfeited and remains with the State.

Important Issues

If both you and your spouse contribute to this plan or to a similar plan where he or she works, the IRS only allows a maximum family contribution of \$5,000 per calendar year.

Keep in mind your annual election cannot be greater than either your annual income or your spouse's annual income, whichever is lower.

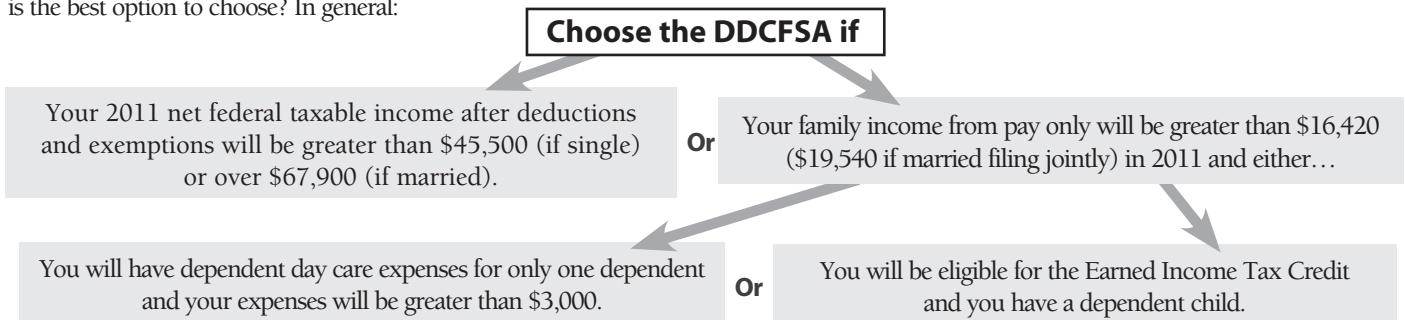
Certain IRS rules also affect the amount you may elect on a pre-tax basis:

- If your spouse is a full-time student or totally disabled, your spouse is treated as having income of \$250 a month (\$500 a month if two or more dependents receive dependent day care). If your spouse is actively looking for work, your spouse's income for the year must exceed your DDCFSA annual election.
- If you are considered highly paid by the IRS (earning over \$110,000 in the previous plan year of 2011 and indexed for inflation in future years), your pre-tax dependent day care election may need to be adjusted based on the results of IRS discrimination tests. If you are affected, you will be notified.
- If you are divorced or legally separated, you must have legal custody of your child for over half the year to participate in the DDCFSA.

Note: The NCFlex Convenience Card is no longer available for Dependent Day Care participants.

DDCFSA or Tax Credit: What Combination Is Right for You?

Both the DDCFSA and the tax credit are designed to save you money on your dependent care expenses by reducing your taxes. But which is the best option to choose? In general:



Eligibility for Earned Income Tax Credit: Several issues help determine eligibility for this tax credit. Typically, the main issue for eligibility is if your income from pay (minus any pre-tax benefit deductions) is low enough to qualify.

- If you have one dependent child, your 2011 family income from pay only must be less than \$35,463 (\$38,583 if you are married and filing jointly) to qualify.
- If you have more than one dependent child, your 2011 family income from pay only must be less than \$40,295 (\$43,415 if you are married and filing jointly) to qualify.

Pre-tax contributions you make for health care coverage and flexible spending accounts can help reduce your earned income to the threshold needed to qualify for the Earned Income Tax Credit — capitalized in the box above — or they can increase the amount of your credit.

The dollar amounts shown above are based on federal and North Carolina tax law and estimated 2011 tax brackets. The actual tax brackets may be different, depending upon inflation through August. You may want to consult your tax advisor for further assistance.

Tax Considerations

The DDCFSA is based on current tax laws and gives you the advantage of those laws. Please keep in mind the following tax considerations before participating in the DDCFSA:

- You may prefer to use your dependent day care expenses to claim a Child Care Credit when you file your federal and state income tax returns. The law permits you to use the Child Care Credit or the DDCFSA but not for the same expense. (Your Child Care Credit is reduced dollar-for-dollar by any amount you claim through the DDCFSA.) The spending account is an alternative way to save taxes for those employees who may prefer not to file for the Child Care Credit or who would receive greater tax savings through the DDCFSA.
- Plan participation may affect your future Social Security retirement benefits. This could happen if your taxable pay, after spending account contributions are taken out, is below the Social Security Taxable Wage Base. Most employees, the immediate tax savings is of far greater benefit than the long-term impact on Social Security benefits.
- Participation in the plan will not affect the amount you may contribute to a 401(k), 403(b) or 457 retirement plan.

2012 Child Care Credit

Please consider the following when deciding between using the Child Care Credit and the DDCFSA:

- The maximum eligible dependent day care expense under the Child Care Credit is \$3,000 for one child and \$6,000 for two or more children.
- The maximum Child Care Credit percentage is 20% to 35%, depending on your income.
- The adjusted gross income level at which the Child Care Credit begins to phase out is \$15,000.

Some of you may decide to use both programs. For example, if you have two children, and you have \$7,000 of day care expenses, you could receive tax savings on \$5,000 under the DDCFSA and \$1,000 as a Child Care Credit.

Refer to the DDCFSA vs. Tax Credit chart above for more information or ask your tax advisor which program or combination of programs offers you the greatest tax savings.

DDCFSA Worksheet

An important part of planning carefully is using a worksheet to identify your dependent day care out-of-pocket expenses for the upcoming plan year. The DDCFSA worksheet is also available online by visiting www.ncflex.org, under the “Forms” section.

To get an idea of your dependent day care expenses, take a look at your records for the past few years. Using this information, add any new types of expenses you anticipate and complete the following worksheet:

Upcoming Plan Year

Child care (children under age 13)	\$ _____
Dependent adult day care	\$ _____
FICA and other taxes you pay for the above care providers	\$ _____
Day camp (not overnight camp)	\$ _____
Cost for preschool (prior to kindergarten)	\$ _____

Total Annual Expenses:

= \$ _____

Your Annual Election:

= \$ _____

(Enter this amount in the Online Enrollment system)

Remember...

If you are single or married and filing jointly, the most you can deposit in the DDCFSA is \$5,000 in a calendar year. If you are married and filing separately, the maximum is \$2,500 a year. If both you and your spouse can contribute to this plan or to a similar plan where he or she works, the maximum family contribution is \$5,000.

Keep in mind your annual election cannot be greater than either your annual income or your spouse’s annual income, whichever is lower.

Certain IRS rules also affect the amount you may elect on a pre-tax basis:

- If your spouse is a full-time student or totally disabled, your spouse is treated as having income of \$250 a month (\$500 a month if two or more dependents receive dependent day care). If your spouse is actively looking for work, your spouse’s income for the year must exceed your DDCFSA annual election.
- If you are considered highly paid by the IRS (earning over \$110,000 in the previous plan year of 2011 and indexed for inflation in future years), your pre-tax dependent day care election may need to be adjusted based on the results of IRS discrimination tests. If you are affected, you will be notified.
- If you are divorced or legally separated, you must have legal custody of your child for over half the year to participate in the DDCFSA.