



# Implementing Dependent Care Flexible Spending Accounts for Active Duty Service Members

A dependent care flexible spending account (DCFSA) is a pre-tax benefit account that allows the employee to designate up to \$5,000 per plan year out of their paycheck for child care or adult care expenses. Eligible dependent care services include preschool, summer day camp, before- and after-school programs, and child or adult daycare including babysitting and nanny services.<sup>1</sup>

The National Military Family Association (NMFA) and the Military Officers Association of America (MOAA) recommend that the Department of Defense make DCFSA's available to active duty service members to improve child care affordability. DCFSA's, in addition to other child care policy changes to increase accessibility and affordability, will improve military family readiness.

## Why DCFSA's for Active Duty Service Members?

### Accessibility & Affordability

Child care affordability and accessibility issues have continuously escalated nationwide as child care costs rise faster than inflation<sup>2</sup> and the number of providers decline<sup>3</sup>. Between 2007 and 2020, the cost of child care rose at an average rate of 2.9% per year, which is higher than the overall inflation rate of 1.71% during this same period. Additionally, results from Childcare Aware of America's Picking up the Pieces report show 53% of states reported a decline in the number of child care centers between 2018 and 2019. Seventy-nine percent of states reported a decline in family child care (FCC) providers. The COVID-19 pandemic has significantly exacerbated both trends.<sup>4</sup>

The Department of Defense's (DoD's) 2019 Active-Duty Spouses Survey (ADSS)<sup>5</sup> indicates the military spouse unemployment rate sits at 22%, statistically unchanged since 2012, while the civilian unemployment rate declined from 8.3% in January 2012 to 3.5% in February 2020<sup>6</sup>. Higher rates of unemployment were among military spouses with children (25%). Additionally, 14% of spouses not looking for work indicated child care was too costly to consider working. Twelve percent of military spouses attribute child care problems to the reason they are only working part time. Forty-two percent of spouses with children under the age of 13 rely on child care to allow them to work.

According to Blue Star Families' 2019 Military Family Lifestyle Survey (MFLS), 27% of active duty service member respondents with children said this was a top military lifestyle stressor, and 58% reported they were not always able to find care that worked for their situation. Child care has also been a consistent barrier to military spouse employment, with 24% of spouses who wanted or needed to work reporting they were not doing so due to long child care waitlists. Additionally, 44% of unemployed spouses with children reported affordable child care as a barrier to employment.

DoD's child development centers (CDCs) serve approximately 25% of military children under the age of 5. DoD estimates that CDCs accommodate about 78% of those seeking care at these facilities<sup>7</sup>. Many families place themselves on CDC

<sup>1</sup> Dependent Care FSA, FSAFEDS, <https://www.fsafeds.com/explore/dcfsa>

<sup>2</sup> Bureau of Labor Statistics, Consumer Price Index.

<sup>3</sup> Child Care Aware of America, Picking up the Pieces Report (2019).

<sup>4</sup> United States Chamber of Commerce Foundation, COVID-19 Impact on Childcare (2020),

<sup>5</sup> <https://www.militaryonesource.mil/data-research-and-statistics/survey-findings/2019-spouses-survey/>

<sup>6</sup> Bureau of Labor Statistics, Civilian Unemployment Rate.

<sup>7</sup> Congressional Research Services: Military Child Development Program Background and Issues (2019).

waitlists while they seek care elsewhere. Many military families seek care off-installation due to these waitlists, to accommodate their unique work hours, continuity of care, or because of other family considerations. DoD's 2019 ADSS indicates 65% of families with children under the age of 13 receive child care off installation at civilian providers. Additionally, according to the 2019 ADSS, the following are the top reasons families did not use on installation military child care: availability (67%), inconvenient location (55%), affordability (36%), quality of child care (36%).

While the child care fee assistance program offered by the Services provides some financial relief to families using non-DoD providers, the cost to families is still higher than DoD providers.<sup>8</sup> Additionally, there have been different points in time where there are waitlists to receive fee assistance due to inadequate funding by the Services. Currently, there is a waitlist for the Navy fee assistance program. Further, each Service determines funding for their fee assistance program.

Additional gaps in the fee assistance program include a lack of affordable and available eligible providers. Currently, military families are only allowed to use fee assistance at nationally accredited child care facilities. The Military Child Care in Your Neighborhood (MCCYN+) pilot program is a step in the right direction to expand fee assistance to state accredited facilities, but more options are needed. Military families are unable to use this financial assistance for drop-in care, babysitting, or nanny services. Giving military families the option of a DCFSA would provide another tool to afford services not covered by current DoD programs. While the number of providers continues to decline nationwide, ensuring military families have access to as many options as possible is vital.

According to Child Care Aware of America's 2019 report, the average annual cost of child care per household by region is as follows:

- » South-\$18,442
- » Midwest-\$20,914
- » West-\$21,327
- » Northeast-\$26,102

### Retention

*"Child care (availability and affordability of quality care) remains the single largest stressor of my military career. To the point that I am considering resigning my commission in the next year or so in order to move closer to family or have a job that is more flexible with hours." —Active Duty Marine & Mother*

While affordability and availability of child care are challenges for most military parents, it can disproportionately impact female service members, single service members, and dual military families. It is important for DoD to consider the changing needs of service members as these demographic trends grow over time.

The number of single military parents has increased by 20,000 between 1985 and 2018. The number of dual military couples has more than doubled in this same period.<sup>9</sup> Additionally, a greater proportion of female service members are in dual military relationships.<sup>10</sup>

While the number of female active duty service members has grown 9%<sup>11</sup> to 16.5%<sup>12</sup> between 1980 and 2018; the increase has only taken small steps in recent years. Additionally, female service members are 28% more likely to leave the service than their male counterparts with family planning and dependent care being among their top reasons.<sup>13</sup> Between 2016 and 2017, 65-83% of parental related discharges were female service members.<sup>14</sup>

*"DoD has identified that female recruitment and retention is important to diversity in the military, but the services do not have plans that include goals, performance measures, or timeframes to guide and monitor current or future efforts to recruit and retain female active-duty service members." —Government Accountability Office*

In addition to these implications, DoD should consider trends in private sector compensation packages that drive competition for employees. Most federal agencies offer DCFsAs and in 2019 approximately 42% of civilians overall had access to this workplace benefit<sup>15</sup>.

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<sup>8</sup> Congressional Research Services: Military Child Development Program Background and Issues (2019).

<sup>9</sup> Congressional Research Services: Military Child Development Program Background and Issues (2019).

<sup>10</sup> 2019 Demographics Report: Profile of the Military Community. Department of Defense.

<sup>11</sup> Pew Research Center

<sup>12</sup> Government Accountability Office: GAO-20-61 (May 2020).

<sup>13</sup> Government Accountability Office: GAO-20-61 (May 2020).

<sup>14</sup> Government Accountability Office: GAO-20-61 (May 2020).

<sup>15</sup> Bureau of Labor Statistics

### Tax Considerations and Who Will Benefit from DCFSA's

The National Defense Authorization Act for FY 2006 Senate Report 109-69 directed the Secretary of Defense to produce a report on implementation of Flexible Spending Accounts. The report<sup>16</sup>, published in May 2007, indicates DoD was reticent to implement the benefit as it could exempt service members from also receiving certain tax credits, such as the Child and Dependent Care Tax Credit. This may be true for anyone, even civilians, using a DCFSA. The Office of Personnel Management (OPM) estimates DCFSA's provide beneficiaries with approximately 30% savings.

According to 2018 DoD demographics report, the active duty pay grade range with the most children is E-5 to E-6 followed by E-7 to E-9. The E-5 to E-6 ranks are in the 12% tax bracket, not considering additional family income. Service members in the 12% tax bracket may benefit more from the child and dependent care tax credit than a DCFSA. However, to be eligible for DCFSA's both parents must be employed or looking for work which increases the chance the military family falls into a higher tax bracket.

The 22% and above tax bracket (annual income over \$80,250) likely benefits more from an FSA than just the child and dependent care tax credit. Not including spousal income, this would include E-9, W-3, W-4, W-5, O-3 and above depending on years of service.

Service members earning at least \$43,000 include most E-6s and above and would be eligible to receive the minimum child and dependent care tax credit of \$600 (20% of \$3,000) per child.

FSAFEDS DCFSA savings calculator estimates that a family who maximizes the DCFSA in the 12% tax bracket will save \$600 per year and in the 22% tax bracket will save \$1,100 per year.

Service members could also combine both options by maximizing the DCFSA at \$5,000 and using the child and dependent care tax credit on the additional \$1,000 to reach the \$6,000 maximum tax savings threshold.

#### **Example:**

A service member and their working military spouse are stationed at Fort Bragg, NC with two children<sup>17</sup>. Their annual child care costs are \$18,442<sup>18</sup>.

They would be eligible for the Child and Dependent Care Tax Credit because their child care expenses exceed the \$6,000 threshold for two children.

If the family decides to maximize a DCFSA at \$5,000, they could still use the Child and Dependent Care Tax Credit on the additional \$1,000 that was not reimbursable from the DCFSA contribution which allows up to 20% or \$200 based on their adjusted gross income in addition to their 30% savings from their DCFSA. The [IRS Line 8, Form 2441](#) lists the percentages based on AGI to determine the tax credit received.

Overall, if the service member solely used the Child and Dependent Care Tax Credit, they would save \$1200 annually on child care. However, when combined with a DCFSA, they would save \$1,700<sup>19</sup>; a difference of \$500 more in savings.

### Implementation

At the time of the 2007 report, FSAFEDS was just a few years old and the report recommended a third-party administrator for the FSA program. With the FSAFEDS system established since 2003, we recommend DoD take advantage of this system that is already in place for federal employees. This would significantly reduce the overhead cost of administering this program. According to the Office of Personnel Management, federal agencies pay approximately \$30 per FSA account in administrative costs<sup>20</sup>.

The 10th Quadrennial Review of Military Compensation (QRMC)<sup>21</sup> recommended DoD implement DCFSA's and acknowledged the ease of implementing for military given a framework already exists with the federal employee DCFSA program.

The QRMC highlighted unique considerations when implementing a DCFSA program for service members that would differ from the program offered to federal employees. Specifically, the law should be modified to address forfeiture of unused DCFSA funds should the servicemember be deployed, have a PCS move or other qualifying life event.

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<sup>16</sup> [www.health.mil- PC/FSA for Uniformed Service Members Report on Findings, 05/15/2007](http://www.health.mil-PC/FSA%20for%20Uniformed%20Service%20Members%20Report%20on%20Findings,%2005/15/2007)

<sup>17</sup> Average number of children in a military family; DoD

<sup>18</sup> Average child care cost per household in the South; Childcare Aware of America 2019.

<sup>19</sup> Based on the average of 30% savings calculated by the Office of Personnel Management and an AGI over \$43,000.

<sup>20</sup> <https://www.opm.gov/retirement-services/publications-forms/benefits-administration-letters/2019/19-801.pdf>

<sup>21</sup> [https://militarypay.defense.gov/Portals/3/Documents/Reports/10th\\_QRMC\\_2008\\_Vol\\_II.pdf](https://militarypay.defense.gov/Portals/3/Documents/Reports/10th_QRMC_2008_Vol_II.pdf)

*“As long as military FSAs include provisions to provide some flexibility to service members facing deployment or a change of station, the QRMC believes that supplementing the in-kind benefits in the military compensation package with a flexible benefit would improve the value of the benefit package—at no additional cost to DOD and with only a small impact on the Treasury due to lost tax revenues.” —10th QRMC*

Upon implementation of a DCFSAs program for service members we would encourage DoD to include marketing and educational strategies as part of the implementation plan. We encourage DoD to share education information on Military OneSource, encourage service members to seek advice from free financial counselors on installation, and ensure marketing strategies are targeted towards the next generation of military families. Additionally, we encourage the department to gather data on who takes advantage of DCFSAs.

Considering the trends of increasing cost of child care and accessibility limitations, DoD should use every tool in their arsenal to ensure military families have access to as many options and resources as possible to secure child care. Many of the arguments against DCFSAs highlighted in DoD’s 2007 implementation report such as being only advantageous for certain groups and concern over loss of funds if not used are just as true for civilians and federal employees who use this program and should not be barriers to implementation for service members considering the landscape of the child care market.

## Who We Are

The National Military Family Association (NMFA) is on a mission to stand up for, support, and enhance the quality of life for every military family through bold advocacy, innovative programming, and dynamic and responsive solutions. For over 50 years, we have stood behind service members, their spouses, and their children because we believe supporting military families makes our country stronger. Through the support and programs we provide, and our respected voice on Capitol Hill and with the Departments of Defense and Veterans Affairs, our Association ensures every military family is empowered, resilient, and thriving.

National Military Family Association | 2800 Eisenhower Avenue, Suite 250, Alexandria, VA 22314 | 703.931.6632 | [MilitaryFamily.org](http://MilitaryFamily.org)

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The Military Officers Association of America (MOAA) is the nation’s largest and most influential association of military officers. It is an independent, nonprofit, politically nonpartisan organization. With more than 350,000 members from every branch of service - including active duty, National Guard, Reserve, retired, former officers, and their families - we are a powerful force speaking for a strong national defense and representing the interests of military officers at every stage of their careers.

MOAA’s highest priority is providing first-class service to our members. We are the leading voice on compensation and benefit matters for all members of the military community. We provide expert advice and guidance to our members.

MOAA | 201 N Washington St., Alexandria, VA 22314 | 703.549.2311 | [MOAA.org](http://MOAA.org)