

BANANAS HANDOUT

Raising Rates Without Raising Cain

Sooner or later all child care programs have to raise their rates. The better a provider knows and likes her parents, the harder that decision can be. At the same time, child care providers must value their work enough to insist on a fair return in exchange for the work and responsibility of caring for children. When do you raise rates? How do you do it? How much? Here are “our answers” to these questions.

When is the best time to raise rates?

Quite simply – when you are no longer making a reasonable profit after taxes. Tax time is a good time to evaluate your income and expenses. Check your net income after expenses and taxes for the current year as compared to the prior year (or two). Adjust these figures for variations like caring for fewer children one year or only operating part of a year. If you find that your net income is shrinking, you should consider raising your rates. (Remember, it is more difficult to compare annual income from different years if you have changed from a small to a large license.) Another time to consider a rate hike is when your expenses jump drastically, for example due to a dramatic rise in the cost of liability insurance. (More on that topic later.)

When shouldn't you raise your rates?

It isn't wise to raise rates when you have a number of openings. Your program is more attractive to new parents if your fees are at or even a little below the market rate. Increasing your rates won't result in more income if you can't fill your existing openings. (Remember you can always call BANANAS to get a quick idea of what other providers in your immediate neighborhood are charging. We only give out rate information – no program names.) Likewise, it's not advisable to raise rates every month or two. Most parents find it easier to accept an annual rate increase. There are some times of the year when it is psychologically particularly “ill advised” to raise rates, i.e., around Christmas or in April when the tax man is calling.

How should you raise your rates?

With ample advance notice – always. Parents need to budget just like you do. If you have included a period of notice in your contract with parents, by all means honor it. Even if you don't have a contract you use, still, be fair and give an advance warning. You can tell parents per-

sonally . . . you can send a note home . . . you can post a notice by the sign-in sheet . . . or all the above. **How** you inform parents is up to you. But don't neglect to give at least a month's notice or you may actually lose income by losing parents.

How much should you raise your rates?

Enough but not too much! Parents can't expect you to work for next to nothing. At the same time you shouldn't price yourself out of the market. When setting up your program budget, do not assume you will have full enrollment in your program at all times. Very few child care programs are always full. You must be able to pay your bills when your program is at 80% to 90% capacity. If you are a family child care provider caring for six children and you raise your rates \$5/week, you could generate \$1,560 a year if you are at full capacity all year. However, more reasonably, plan on generating less money than that because of occasional openings. Use these suggestions and your after-tax income from the prior year to help you determine how much to increase rates, or whether you need to raise rates at all.

How much explanation should you give parents about a rate increase?

That's up to you and depends in part on how much you raise your rates. A \$5-a-week increase after a year or more of stable rates will probably be understandable to parents. However, parents may ask for an explanation if you raise your rates \$20 a week (which will cost each family in your program an extra \$1,040 a year). Keep in mind that honesty is the best policy. When a program's liability insurance rises from \$450 to over \$1,000, a family child care provider caring for six children can cover the additional expense with a \$2/week increase. It wouldn't be wise to tell parents that a \$10/week increase is necessary, because most parents can multiply as well as you can.

That's not to say a \$10/week increase might not be justified to cover additional insurance and other rising costs. But don't blame the larger increase on insurance. Remember, too, that child care providers can deduct the full cost of paying for child care liability insurance at tax time. Increases in fully deductible items like liability insurance don't “hurt” family child care providers as much as increases in partially deductible items like rent or utilities.

If you have given a lot of thought to a decision to raise your rates and if you have done your homework (i.e. compared income from previous years, checked what the going rates are in your area, etc.), you shouldn't feel apologetic about a rate increase. You are in business just like the cleaners and the grocery store. You will have an immediate idea that your increase is totally out of line if you see your parents jumping ship for other programs. However, in most cases, when your increase is within reason and your services are valued by your parents, their dismay will evaporate. Do, however, expect some initial groans. Who likes prices to go up?

One final note:

The biggest complaints we get about not being able to "make it" financially come from providers licensed for 12 or 14 and providers who only care for two- to four-year-old children. If you have a large family child care licence but usually only have eight or nine children enrolled, it may be costing you money to hire an assistant and have the larger capacity license. Sometimes it makes financial sense to go back to a smaller license. And, if you can't get enough preschoolers to fill your program, consider caring for infants and toddlers as well. Close to 50% of our parent callers are looking for infant care. While you may prefer to run a preschool program, it doesn't make sense to persist in offering a service if there aren't enough "buyers" to make it profitable. Can you raise your rates without raising cain? We hope this Handout helps.

BANANAS has many additional resources for child care providers, including many Handouts, sample contracts and forms. Handouts are available at our office, by mail or from our website, www.bananasinc.org.

We also have a large Video Lending Library, with many business-related titles such as "*BUSINESS of Family Child Care*," or "*Your Family Day Care Home Series – Business Management*." See our website (click on "resources") for a listing of all videos and our video lending policy. You can also call and request our Video Lending Library List. Videos can be checked out at our office – not by mail – by paying a \$50 deposit.

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