CHAPTER EIGHT

How to Set Your Rates

In a national survey, parents using family child care were asked, "If your provider asked for $5 more a week, would you be able and willing to pay, or would you look for another provider?" If parents said that they would pay the extra $5 a week, then the survey raised the amount by another $5 a week and kept raising it until the parents finally said they would leave. The results: 71% of the parents surveyed said they would pay $10–$50 more per week to their current provider (see Study of Children in Family Child Care and Relative Care as cited in the Appendix). Does this mean that all providers should raise their rates by this amount? No. It's not that simple.

I have trained tens of thousands of providers across the country on a variety of business issues. I often ask the audience this question: "How many of you have lost a client because you raised your rates?" A few hands always go up. Then I ask, "How many of you with your hands raised now wish you had these clients back in your program?" Virtually every raised hand goes down. The biggest fear providers have about setting and raising their rates is that they will lose the client to another provider. But, in fact, when this does happen providers do not regret their decision.

We will never see a workshop for parents titled "How to Pay More for the Child Care You Now Receive." The responsibility for setting and raising rates will always rest with you. For many providers this is a difficult subject. But it is an important one. Ultimately, your marketing efforts may bring children to your program, but if you aren't charging enough to meet your own needs you may not be in business very long.

How to Think About Rates

Twenty years ago, most family child care providers charged by the hour, charged the same rate for all ages of children, did not charge parents if their child was sick, and did not charge for any vacations or holidays. Today the trend is toward more and more providers charging by the week, charging higher fees for infants than preschoolers, and charging for absences and some paid vacations and holidays. These trends are more pronounced in centers than in homes, and are more common in urban than in rural areas. The main reason for this change is a sharp increase in parent demand for child care and a growth in the number of providers who see their work as a professional career.

Despite these changes, family child care providers generally charge less, and in some cases, significantly less, than rates charged by centers. This difference cannot be explained by the quality of care. Many homes offer higher-quality care for children, especially for infants. The difference cannot be explained by the geographic location of child care programs or by the income level of the clients served. Homes and centers exist side-by-side in all communities, and both serve all income levels. The fundamental explanation for the differences in rates has to do with the reluctance of providers to treat themselves as a business and the failure of providers to market their program as a high-quality source of child care to parents.

Here are some basic guidelines to follow in thinking about your rates. They are not offered as rigid rules. You are free to make your own decision about whether they will work for your program.

➤ The shorter the amount of time you work, the more you should charge for your time. Your drop-in rate should be more than your hourly rate. Your hourly rate should be more than your daily rate. Your daily rate should be more than your weekly rate, and your weekly rate should be more than your monthly rate. Here is a sample rate schedule:

  Drop-in care (not on a regular basis): $3.00 per hour
  Hourly care: $2.50 per hour
  Daily care: $2.35 per hour
  Weekly care (55 hours a week): $115 per week ($2.09 per hour)
  Monthly care (242 hours a month): $423.50 per month ($1.75 per hour)

The reason for this type of rate scale is because it's much more difficult for you to manage your time and make ends meet if parents aren't bringing their child every day, every week. Some other tips:

➤ Charge by the week or month, rather than by the hour. Most providers offer their services for at least 11 hours a day, five days a week. If a parent fails to show up with a child one day, you must still work caring for the other children. Parents are paying you to be available to care for their child every day, whether they use your services or not. Parents often pay for other services even if they don't use them all of the time (apartment rent, magazine and newspaper subscriptions, cable television, and insurance, to name a few).

➤ Charge for days even if the child is absent for reasons of illness, parent vacation, or federal holidays. Most parents work for employers that offer paid time for such days.

Providers need time off to relax and spend time with their own families. Most centers charge for such days.

- Require the client to pay up front. Do not provide care unless you have already been paid for it. When you first open your home, ask clients to pay for the first week in advance. If clients currently pay you on Friday for that week of care, here's how to get paid in advance. Clients can continue to pay you on Friday. Ask them to pay you for an extra week's worth of care. If they can't afford to pay this all at once, spread out the payment for the extra week until it is affordable. Most clients could afford to pay an additional $5 a week until the extra week is paid up. Once you get the extra week of payment, the client continues to pay you on Friday, but they are actually paying you for the next week. If clients pay you by the hour, calculate an average weekly payment and ask them to pay this amount up front. If necessary, spread out the payments. Low-income clients who receive subsidies from the government do not control when payments are made. Ask these clients to pay their own co-payment (if any) up front. Offer payment terms if necessary. Advance payments enable you to cover the cost of food and supplies for the week.
- Establish a consistent time for payment: day of the week or month, and hour of the day. Set up each client on a payment schedule and stick to it. If a client wants to pay on a Thursday because of family circumstances, and this is acceptable to you, you should consider agreeing to this. A client is more likely to pay on time on a regular basis if the payment schedule fits their needs. You can set up different schedules for different customers.
- Require clients to pay for their last two weeks of care up front. When clients finally announce they are leaving, their advance payment entitles them to two free weeks of care, even if your rates have risen since. You do not have to pay interest to the clients on such advance payments. If the client can't afford to pay this all at once, spread payments over a number of weeks or months. Ask clients on subsidy to pay up front for two weeks of their co-payment (if any). Such a policy ensures that you will not be denied payment if a client decides to leave without giving you proper notice.
- Consider raising your rates for infants rather than raising your rates the same amount across the board. Infant care is in the greatest demand and family child care providers are more likely to be able to offer higher-quality care for infants than child care centers. Call your **Child Care Resource and Referral agency** to find out how your infant rate compares with other homes and centers.
- Consider charging a fee for other services you provide. Examples include late fee, late payment fee, registration fee, holding fee, and activity fee. A late fee reimburses you for overtime work. A late payment fee reimburses you for not getting your money on time. A registration fee pays you for the time spent screening parent calls and

interviews. A holding fee pays for your promise not to fill a space with another child, and an activity fee pays for admission and transportation costs on field trips and curriculum costs at home. Sometimes parents just compare weekly or hourly rates in choosing a child care program. Charging separately for these items may make it easier for you to appear more competitive. If you do not charge separately for these fees, make sure you point this out to prospective clients.

- Raise your rates every year. Put this policy in your written contract. Providers traditionally resist annual rate increases, and as a result their profit goes down as other costs increase. Raise your rates regularly even if the amount each year is small. Centers typically raise their rates annually.
- Consider periodically adding paid days to cover your time when you are closed because of sickness, professional days to attend training conferences, or more vacation time.

Despite all of the ideas just mentioned, it needs to be said that we live in a society that does not provide enough public support for young children. When children are old enough to attend first grade, our tax system offers free education. When students enter a college or university, the cost of post-secondary education is heavily subsidized by government, corporations, and private foundations. In contrast, there are few tax subsidies to help parents pay for preschool education. As a result, many parents have a difficult time paying for high-quality care, and many providers have a difficult time supporting themselves on what parents can afford to pay. Until there is more public support for young children, it will always be hard for providers to earn a living commensurate with the value of the service they deliver to society. Although providers should continue to press for the best possible rates from parents, they should also be advocates in the public policy arena to seek a more equitable child care financing system. The best way to do this is by joining with local, state, and national advocacy organizations, such as the Center for the Child Care Workforce which sponsors Worthy Wage Day on May 1. For more information, see Other Resources in the Appendix.

What Should You Base Your Rates On?

The factors that should determine your rates are the amount you want to earn after your business expenses, the going rate in your community (for both homes and centers), and the ability of clients to pay. Let's look at each one of these factors in turn.

How much do you want to earn providing child care?

Few providers even think of asking this question. Without setting a goal, however, you will probably not reach it. Take the time to think through this answer. What rate is too high? A rate that not enough parents will pay to keep you in business. What rate is too low? A rate that you cannot afford to live on. If you are following some of the marketing tips in this book and are communicating the benefits of your program to prospective clients, you probably should be charging at the high end of the going rate in your community (including what centers are charging). Your goal may be to earn a specific amount of money each year. Or you may want to set your goal to be paid an amount equal to what a teacher in a local child care center earns with the same training and experience as you have. We will use as an example a goal of earning $6 an hour, after business expenses (the current federal minimum wage is $5.15 an hour). Here's how to determine what your rate should be to meet this goal:

1) **Calculate your annual income goal**

   If you are just starting out as a provider, you probably can expect to work about 11 hours a day, five days a week, caring for children, and another 10 hours a week doing other business work like cleaning, record keeping, and meal preparation. This equals 65 hours a week, or 3,380 hours a year (with a two-week, paid vacation). If you have been in business for at least a year, look at line 4 of your previous year's IRS Form 8829, Business Use of Your Home. This represents the total number of hours you said you worked last year. Let's say you have 3,380 hours on this line. Multiply this by $6.00 per hour and the total is $20,280. This represents how much you want to earn after paying for business expenses.

2) **Determine your business expenses**

   If you have not been in business for at least a year, it is difficult to estimate your annual business expenses. There is a worksheet in the Appendix of the latest edition of the *Family Child Care Tax Workbook and Organizer* that can help you estimate this. A national survey determined that expenses represent about 37% of your income before taxes (see Economics of Family Child Care Study as cited in the Appendix). Using these numbers in our example you would estimate your business expenses at $7,500 ($20,280 x 37% = $7,500). Add this amount to the income goal of $20,280 to determine your actual gross income goal of $27,780. Remember, this goal is just an example. If you have been in business for at least a full year, look at the line titled "Tentative Profit" on your IRS Schedule C Profit or Loss from Business (line 29 on the 1998 form) from last year. This line represents your business profit. We won't include house expenses (property taxes, rent, mortgage interest, etc.) in this total because these would be expenses even if you were not in business. You might want to add to this amount money you want to set aside for retirement or for health insurance. We'll use the $7,500 figure of business expenses for our example.

3) Establish your weekly child care rate

By dividing the income goal of $27,780 by the number of children you care for, you can determine how much you will need to charge per week, per child. Here's the breakdown (assuming a two-week vacation):

2 children ($27,780/2 children/52 weeks) = $267 per week
3 children ($27,780/3 children/52 weeks) = $178 per week
4 children ($27,780/4 children/52 weeks) = $134 per week
5 children ($27,780/5 children/52 weeks) = $107 per week
6 children ($27,780/6 children/52 weeks) = $89 per week

In summary, using this example, if you wanted to earn $6 an hour for your work, you would have to charge an average of $89 per week if you cared for six children, and $107 per week for five children. Many providers are currently charging less than these amounts. These numbers would change if you worked fewer or longer hours and if your expenses were different. You would also need to adjust your rate if you charged different rates for the different age groups. The example also assumes that you maintain full enrollment for the entire year. See the Appendix for a chart of this exercise that you can use to calculate your own weekly rate.

Some parents don't like paying for a provider's vacation because they must pay double for the weeks their provider is gone. You may want to offer parents the option of paying a little more each week so that they won't have to pay you during the weeks you take your vacations. In our example, the provider is earning $390 per week (65 hours a week x $6 per hour = $390). To be paid for a two-week vacation, the provider needs $780. If the provider had two children and each parent paid an extra $7.80 per week, they wouldn't have to pay you during your two weeks of vacation ($780 divided by 50 weeks divided by two parents = $7.80). If you had three children, each parent would have to pay an extra $5.20 per week ($780 divided by 50 weeks divided by three parents). For four parents the amount would be $3.90; for five parents $3.10; and for six parents $2.60 per week.

Remember, this example is not meant to tell providers what rates they should charge. It is intended to help providers better undertand the relationship between their rates and their profit. Six dollars an hour, although more than many providers now earn, is still well below what teachers in public schools earn with sometimes similar training and experience.

If you have been in business for at least a year, here's how you can quickly determine how much you earned per hour last year, after business expenses. Take the number from the "Tentative profit" line near the bottom of your last year's Schedule C and divide it by line 4 on Form 8829. In other words, you are dividing your business profit by the number of hours you worked. Many providers will not be surprised to discover that they are earning much less than minimum wage.

What is the going rate in your community?

Child care rates tend to fluctuate widely, even in small communities. **For this reason,** it's probably not a good idea to pay close attention to the "average" **rate in your area.** Your local **Child Care Resource and Referral agency** or **government subsidy agency** can tell you the "average" rate. Ask them when the most recent survey was done. If it is more than six months old, you may want to take into account that current rates are probably a little higher. You want to look at the range of rates to give you a better idea of what clients are paying. Find out what is the range for the highest 20% of rates, and the next lowest 20%. This will tell you a lot. For example, let's say these are the weekly rates in your area for infant care in family child care homes:

Top 20%: $250, 210, 210, 200, 190, 190, 150, 145, 145, 145, 140, 140, 140, 140
Next 20%: $135, 135, 130, 130, 130, 125, 125, 125, 125, 125, 125, 125, 125

This tells us that most of these providers charge between $125 and $150 a week, but there are six providers who charge significantly more. Find out who these providers are and what they are doing to get their rates. Maybe these providers have high fees, but very few infants are enrolled. Or maybe they operate a well-organized, high-quality program that specializes in infant care. It could also be that these providers just decided to charge higher rates and the clients were willing to pay them. Compare yourself to the homes in these two groups to see where you belong. Because the cost of child care varies widely from one part of the country to another, the rates in this example may not be appropriate for your neighborhood.

Now look at the rates of infant care in the child care centers in your area. There are probably fewer centers to gather data on. Just survey those centers that are close enough to you to be your competition. Your CCR&R may have this rate information. Examine these centers to see how their service compares with yours. Are you offering as many benefits? Don't hesitate to compare the quality of your program with that of child care centers.

Conduct the same market research as above for toddler, preschool and school-age care.

What can clients afford to pay?

This factor is the most difficult one to measure. Look at the upper end of what clients could afford to pay. In doing so you may want to set your rates higher than what some clients will pay. There is no rule that says you must set your rates low enough so that no parent will be denied service. It is your decision if you want to keep your rates affordable to low-income parents. But most businesses operate knowing that some customers will not buy their service because of the price. Here are some tips on how to attract and serve higher-income parents:

- Offer a special service that few other providers offer. This might mean taking extended field trips or offering music lessons. If clients can't get your service anywhere else, you should be charging a premium price for it.
- The hours that you provide care are the most valuable commodity of your business. Consider offering odd-hour care, weekend care, or drop-in care to meet client demand. Ask your local CCR&R agency what hours are the most difficult for parents to find care. When a service is scarce, the price goes up.
- Focus on any unique benefits you are currently providing and use them to justify your higher rates. "I speak Spanish, which exposes children to a second language that will help them succeed in school."
- If you have never lost a client because your rates were too high, your rates are probably too low. You can never expect to make clients happy when you raise your rates, but many more providers have gone out of business because their rates were too low than because they were too high.
- It will probably take more time to find parents willing to pay a higher rate for your services. Your marketing efforts, therefore, should be planned to last longer before you will see results. You should run **ads** and distribute **business flyers** in neighborhoods where higher-income parents live. Your **business name** and the design of your marketing materials should be more professional and less folksy. You may want to promote your program as having a preschool curriculum, describe yourself as a teacher, and charge parents a tuition. This may mean modeling some of the ways in which child care centers create a professional relationship with parents.
- Although many providers complain that all clients care about is price, it is probably a myth that clients base their decision primarily on your rates. Parents continue to enroll in child care centers, which usually charge higher rates than homes. Clients are less likely to pay attention to rates when the following circumstances are true:
  - You are charging within an expected price range for child care services when compared with other homes and centers. Unless you are at the very high end of rates, this is probably true for you.
  - You are offering a service that is valuable at almost any price. Certainly child care meets this definition.
  - The service you are offering is desperately needed. This is probably true for infant care and evening care. It is less true for preschool care. Because preschool care is in much greater supply, the price is more competitive and clients will do more price shopping.
  - It is difficult for parents to compare their other options with your service. There is little information available to help clients adequately compare one child care program with another. Therefore, parents are less price conscious.

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- It is hard to find substitutes to your service. Parents can look in the yellow pages and find a child care center easily. With other options available, price becomes more important.
- Your care seems inexpensive to clients. This is probably not true for most clients.

Because you can relate to most of the statements above, it should mean that parents are not as price sensitive as you might think. Shouldn't parents expect to pay more for a home environment for their child, where there are fewer children and a consistent caregiver who is trained in how to care for children of different ages? Of course.

Talking to Parents about Rates

- If you decide to raise your rates, give clients an advance notice of at least one month. This is no time to surprise them.
- Don't raise your rates in April (when tax bills are due) or in December (when holiday expenses can be a burden).
- September is generally a good time to raise rates because this is when children often leave to begin school and you will probably need to fill an opening.
- You can raise your rates only for new clients and keep rates steady for current clients. There is no law that prevents you from charging different rates to different clients based on when the client first enrolled. If you do this you should assume that your clients will eventually find out what others are paying. As long as you have a justification for the different rate, you should be fine.
- Don't raise everyone's rates at the same time. If you do, you run the risk of losing more than one parent at the same time. Stagger rate increases so that only one family at a time is affected. You may want to pick the client's anniversary date as the time to raise rates. Note, however, that some providers regularly raise their rates for all clients every January or September without any problems.
- Instead of raising rates, you could charge annual fees for liability insurance, attendance at a family child care conference, NAFCC accreditation fees, or other special expenses.
- Don't try to over-justify your rate increase. No matter what you say, it may not convince the parent to agree with your reasoning. Just announce your new rates in writing. If clients ask why, tell them.
  - My costs have gone up (utilities, property tax, food).
  - It is a cost-of-living raise.
  - I have another year of experience in providing care.
  - I have introduced a new benefit to my program (computer, extra field trips, new curriculum).
  - I have taken additional training workshops in the past year.

- I am working longer hours caring for children or preparing activities.
- I am providing certain special services that are not common.
- I will be providing better care for your child this coming year because ______ (fill in your explanation).

➤ Sometimes clients look at what they are paying you each week, multiply it by how many other children are in your care, and conclude that you are making a lot of money. Of course they don't realize all the expenses you have to run your business. To better understand your business, you might want to prepare an income and expense chart like the one below. Lump the business expenses from your tax return into five or six categories as a percentage of your total income. The chart below is based on data collected from family child care providers in three cities for the report "Economics of Family Child Care" (as cited in the Appendix):

Income	Average (1992)
Parent fees	90%
Food Program	10%
Total gross income	100%
Expenses	
Food	35%
Employees, insurance	26%
Supplies, toys	17%
Professional fees/other	10%
Maintenance/repairs/equip.	7%
Transportation/gifts	5%
Total expenses	100% (37% of gross income)
Profit	63% of gross income

Note: The expenses do not include taxes or house expenses (property taxes, mortgage interest, etc.) that existed before the business began.

This chart shows that the average provider in this study kept only 63 cents on every dollar of income earned. Your financial chart may be very different. The point is that most providers must spend a lot of money on business expenses to operate successfully. When you are thinking about how much money you are making, you should always be looking at your profit, after business expenses. You may want to share some of the information on your own financial chart with your customers to help educate them about your business. Maybe you just want to share a couple of expense categories such as food and supplies/toys. You don't want to share this information as a sole justification of your rates, but many parents will be surprised at how much you must spend to stay in business.

➤ Don't argue with clients who say your rates are too high. They may be too high for the particular client you are talking to. You may want to mention ways in which your fees could be considered more affordable by pointing out the benefits of the federal child care tax credit, **child dependent care assistance plans**, any discounts you offer for second children, or any other special discounts you might offer.

- Your best way of communicating about your rates is to talk about the *value* of your service, rather than the price. The cost of providing quality child care is expensive. Parents can always find cheaper care somewhere else. You should continue to point out how the benefits of your service will help their child and that your rate takes this into account. Clients will pay more if they can see the value of your benefits and the quality of your service.
- Parents sometimes believe that if child care costs more, then it must be worth it. A few years ago a parent called a **Child Care Resource and Referral agency** looking for care for his infant. After getting several names from the referral counselor, the parent asked, "Which provider charges the most?" The counselor started to explain that he should check out all the providers and compare their services, when the parent interrupted to say, "You don't understand. I want to know who charges the most, because I think that provider will offer the best care." Parents, like many consumers, believe that they get what they pay for. Parents generally pay more to enroll their child in a child care center because they believe they are getting higher-quality care. In part this belief is based on the higher rates charged by centers. If you are charging less than a center and claiming that the quality of your care is better, some parents may wonder why you aren't charging more. When you price your work, you price your worth.
- Parents are reluctant to change their child care provider and are more likely to pay you an additional amount rather than be inconvenienced and search for another provider.

Everything in this chapter about setting rates applies even if your client is a relative or someone who was a friend before enrolling with you. Although you have a personal relationship with relatives and friends, you must still establish a business relationship when dealing with money. You should clearly set out your rate schedule and enforce it in the same manner. If it feels too uncomfortable to be in a business relationship with a relative or friend, then you should reconsider what you are doing. You may feel more comfortable providing care for free, or you may decide that you would rather not provide the care at all.

In the end, you deserve to be paid as a professional provider who is doing the important work of teaching young children and helping them develop into adults. You are worth it! It's up to you to do something about it.