

Reducing the Financial Toll of Emergencies

Emergencies can cause injuries, property damage and emotional trauma. They can also take a financial toll. Tom Copeland, trainer, author and advocate for the business of family child care care, offers five steps you can take to plan ahead so you recover as quickly as possible.

Establish an Emergency Fund

Emergencies are always unexpected. And they come with a cost. Therefore, it makes sense to save some money ahead of time to cover expenses associated with emergencies. You want to be able to pay for any insurance deductibles on your homeowner's and automobile insurance policies. You also want to have enough money to tide you over if you are forced to shut down your business for an extended period of time.

Start by establishing an emergency fund. Ideally, you want enough money in your fund to cover all insurance deductibles, plus basic living expenses for at least three months.

You probably don't have enough money now to fully fund your emergency fund. That's okay! Get started now by setting aside a small amount of money each month that will build up over time. Some family child care providers dedicate certain sources of money for their emergency fund. It can be a portion of your Child and Adult Care Food Program (CACFP) monthly reimbursement, parent registration fees or late payment fees. Any tax refunds, or other unexpected money you receive throughout the year, can also be added to this fund.

Put your emergency fund money in a separate account and don't touch it for any reason other than responding to an emergency. Because you'll need access to it in a hurry, don't invest this money in the stock market where it could lose its value, or in CDs where there is usually a penalty for early withdrawal. Instead, put it in a checking or savings account or a money market fund where there is little or no risk, but will allow you immediate access to the funds.

Small amounts of money add up. If you put aside \$50 a month, you'll have \$600 by the end of the year and \$3,000 in five years.



Emergencies will almost always cost you money that you didn't plan on spending when the year began. You can reduce the financial pain of an emergency if you follow these five steps and plan ahead.

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Conduct a Household Inventory

If your business or personal property is damaged or destroyed in a natural disaster or is lost due to vandalism or theft, you expect your insurance to pay for the cost of repairing or replacing your items. (Check with your homeowners' insurance agent to make sure your policy covers all items in your home that are used for your business, including your furniture and appliances.)

But, insurance won't pay for items if you can't identify what was lost, destroyed or damaged. Therefore, you want to conduct an inventory of all your household items, business and personal, so you can make an accurate insurance claim. You will need to record a description of the items and their value. You should consider making a photographic record of everything in your home.

Take pictures (or a video) of everything in each room, including your basement and garage. Open desk and dresser drawers and kitchen cabinets to take pictures of everything inside (particularly of valuable items such as jewelry). Take pictures of the inside of your closets, your backyard (patio chairs, grill, swing sets, etc.), and your laundry room. As you buy new items, take a picture of them. Put these pictures on a flash drive and put them in a safe deposit box. (The cost of the flash drive and part of the cost of the safe deposit box can be deducted as a business expense!) There are also tax advantages of conducting an inventory. You are entitled to depreciate the value of all your household items at the time you first started using them in your business. If you have been in business for a number of years and haven't taken this depreciation, it's not too late to do an inventory.

You can use IRS Form 3115 and recapture all previously unclaimed depreciation going back to your first year in business.

Keep Business Records in a Safe Place

Keeping good business records is a difficult task for most family child care providers. To ensure that your hard work doesn't go to waste, make sure you are storing the records in a safe place so they are not lost as a result of a natural disaster or fire. For tax purposes, you should save all your business receipts and records for at least three years. Save your tax returns for as long as you live. Put your business records in plastic containers (to protect them from water damage), or better yet, put them in a fire resistant file cabinet. An increasing number of providers are scanning their receipts and records onto their computer. If you do this, download these files onto a flash drive and put them in a bank safe deposit box to ensure their preservation. IRS rules say that you don't need to save paper copies of receipts if you scan them into a computer. You can save personal records (birth certificates, passports, wills, valuables, etc.) in a safe deposit box.



Identify a Backup Caregiver

After an emergency, you may need a backup caregiver to watch the children in your care for a short or long period of time. This can happen if you are physically injured or if your home is damaged. Plan ahead and identify a backup person now. Start your search for a backup caregiver by contacting your local child care resource and referral (CCR&R) agency. They may be able to identify persons for you. Talk to your child care licenser who can tell you what qualifications this person must have. You may want to line up several persons to be your backup to ensure that someone will be available after an emergency. Also, it's important to find out whether your commercial business liability insurance policy covers you if you are operating outside of your home, or if someone else is temporarily caring for the children.

Note: In most cases, your backup caregiver will need to be covered by workers' compensation at the time they start caring for children. Since you won't know when an emergency will happen, it's important to get this insurance now. It's unlikely that you will need this insurance if you don't pay the person for their work, but check with the state workers' compensation office to be sure. The cost of workers' compensation insurance is modest, and you may get a partial refund of the cost if you don't pay anyone by the end of the year.

Having a backup caregiver will reduce stress of the children in your care and your daycare parents after an emergency. It will also increase the chances that they will come back to your program once you are able to restart your business.

Set Policies on Parent and Staff Payments

If you have an emergency and must close your business for a day, a week, or a month, are parents required to pay you during this time? If you have paid employees, will you pay them if you are closed after an emergency? These are questions you want to answer before the emergency happens. If you haven't previously addressed these questions, you may face unnecessary stress in deciding what to do when an emergency arises. You can set whatever policies you want to answer these two questions. Most providers put in their contract that parents must pay for short-term closures such as a provider illness, vacation, holiday, personal days, funeral days, etc. You should consider adding natural disasters and other emergencies to the list of days that parents have to pay if you are closed. Requiring parents to pay for up to a week or so of closure is reasonable. You are also free to make your own decision about whether to pay helpers if you are closed because of an emergency. You are not required by law to pay staff for days you are closed. You may not want to put this in writing to give yourself maximum flexibility in dealing with emergencies. Paying salaries for one or two days may not be a big deal, but these costs can add up quickly and you don't want to commit yourself to this unless you have the necessary resources (perhaps in your emergency fund).



About the Author

Tom Copeland is a trainer, author, and advocate for the business of family child care. Learn more at www.tomcopelandblog.com. Special thanks to Elizabeth Downs, New England Insurance Services, and Debe Marofsky, Affiliated Insurance Services.