

Nine Steps to Headache-Free Fee Collections

“When I started out as a director, I was pretty lax about collecting fees. I was uncomfortable with confronting parents. As a result, we always had quite a few parents who were falling behind and inevitably many who left owing us money. Since then, we have adapted strict fee policies and enforced them consistently. Now we collect over 98% of the fees due to us.”

In surveying members of the Exchange Panel of 200, this was a consistent story — fee collections can cause major headaches, but these headaches can be avoided by taking the following nine steps.

STEP 1 **Spell out fee policies on day one.**

When enrolling a new family, explain to parents how the smooth operation of the center is dependent on all fees being paid on time. Fee payment schedules and procedures should be clearly presented verbally and then provided to parents in writing.

This discussion should cover not only when and how to pay fees but

also what actions the center will take when payments are delinquent, and what steps parents can take when they know they will have difficulty paying fees in a timely manner.

To avoid future misunderstandings and to underline the importance of these policies, many centers have parents sign a copy of the fee policies at enrollment. Some centers even require a positive credit check before finalizing enrollment.

STEP 2 **Keep in close touch with parents.**

Parents in two situations are most likely to fall behind in paying fees. First, there are parents who are

unhappy with the program and therefore feel little motivation to pay their fees on time. Second, families who are experiencing financial difficulties may be too embarrassed to ask for special consideration and, as a result, start falling behind.

One of the most effective steps you can take to avoid fee delinquencies is to maintain good relationships with parents. As director, you need to detect signs of disgruntlement early and deal with them before they get out of hand.

Likewise, if a director is on good terms with parents, they will feel more comfortable approaching him when they are in difficult straits. Directors have found that when they show understanding and work out a formal schedule of deferred fee payments at the outset of a problem, they are far more likely to experience success in collecting fees than when they only find out about a problem after parents start falling behind. In addition, working with parents in advance builds loyalty, whereas confronting parents in arrears often leads to resentment.

Some centers have a small scholarship fund so that fees for families in crisis can be partially subsidized for short periods of time. Some centers lower fees temporarily with the understanding (agreed to in writing) that the amount of the reduction will be made up over a set period of time when the crisis is over. Other centers assist families in securing assistance from public agencies, church groups, or other charitable organizations.

STEP 3 **Take the pain out of paying.**

The easier you make it for parents to pay their fees, the less likely it is that you will run into problems. Here are steps some centers take to ease the paying:

- Send out invoices with stamped return envelopes so parents can write out their checks and drop them in the mail.
- Provide parents the option of paying by credit card.
- Offer a discount for parents willing to pay well ahead.
- Have a locked box with a mail slot in the entryway so that parents can drop their payments when they pick up their children.
- Have a chair and table in the entryway so that parents can sit down and write out their checks.
- Offer a discount to parents willing to sign up for the automatic electronic transfer of fees from their checking accounts.

STEP 4 **Collect fees in advance.**

Today, most centers require parents to pay for service before it is provided. This makes it easier for the center to keep ahead of the curve on payments.

In our recent survey of Panel of 200 members, we found considerable variation in how such advance payment policies are administered. Some centers collect fees as much as two months in advance; some collect fees the first day of every month; some collect fees on Wednesday for the following week's service; and some collect on Monday for that week's service.

From an administrative point of view, collecting fees for a month in advance is clearly advantageous — there are less checks to process and less opportunities for payments to be late. However, for parents who have low incomes or who are paid on a weekly basis, paying a month in advance may be onerous.

Some centers have dealt with this dilemma by establishing a monthly fee policy and then working out biweekly or weekly payment plans for parents who can't pay on a monthly basis.

STEP 5 **Collect a deposit.**

It is now common practice for centers to collect a security deposit equivalent to two weeks' or one month's fees. This fee is held and applied toward a parent's final fee payment. For centers, this deposit provides some assurance that a family will not leave owing fees.

In instituting a deposit, be sure to investigate applicable state laws. Many states require that interest be paid to parents for deposits while that money is in the hands of the organization.

STEP 6 **Enforce late payment penalties.**

Many centers have successfully discouraged late payments by charging penalties. The range of the penalties charged by Panel of 200 members varies considerably. Most typical is a \$5 fee for late payments, although some charge as much as \$25. Some centers charge \$5 for the first delinquency and \$10 for each subsequent offense, while others charge a penalty in the range of 1.5% for overdue fees at the end of every month. Still other centers take an

altogether different approach, offering a discount to parents who pay their fees on time.

Factors to keep in mind regarding payment penalties include:

- If you enact a payment penalty, enforce it automatically whenever there is a violation. If you enforce it only occasionally, you will send the message that parents don't need to worry about it.
- Consider a progressive penalty. If you have a one-time penalty, once the fine has been levied there is little incentive to pay up. One center surveyed charges \$1 for every day a payment is late, another charges \$3 every two days.
- Whatever your penalty is, make sure it complies with state usury laws.

STEP 7 **Act quickly.**

Quickness counts. As one Panel of 200 member recounted, "I have found that I can avoid most serious problems by contacting delinquent parents immediately with a gentle reminder. Once a family falls more than a month behind, they seldom catch up."

For a parent who is late in paying only rarely, a written notice of delinquency will probably suffice. However, for chronic late payers, immediate personal contact may be required. Those who make a practice of not paying bills on time are not likely to be influenced by form letters, no matter how threatening.

When negotiating with a parent over a late payment, it is important not to show anger or disrespect. Work at maintaining the dignity of the parent, and your own dignity will remain intact.

STEP 8 Stop providing care.

The ultimate penalty, when all remedies have been exhausted, is to stop providing services for families who fail to pay their fees. Most centers have seldom, if ever, found it necessary to exercise this option, as its mere threat is often sufficient to produce action.

Panel of 200 members exercise varying degrees of patience before expelling a family. Most centers stop providing care after a parent falls a month behind, many after two weeks, and some as quickly as one week. Ideally, your deposit policy and your termination policy should be coordinated so that the deposit covers any unpaid balances upon termination.

STEP 9 Take legal action.

If a parent leaves your center owing you money, you have several approaches to consider to collect the balance due — you can continue pursuing payment on your own, you can turn the debt over to a collection agency, or you can sue in small claims court. Of these options, the first is least promising. If you haven't been able to convince a parent to pay while they were using your services, your chances of collecting after they leave are minimal.

Turning the account over to a collection agency is a painless alternative that may yield some results. Of course, you will have to share at least half of what is collected with the agency. And you need to be careful in selecting an agency because they will represent you in the community. If they use inappropriate collection techniques, this will reflect on your center.

Some centers have had success in suing parents in small claims court to recover unpaid fees. The advantage of this approach is that these courts operate informally — lawyers aren't required, both parties simply discuss the case with the judge. Panel of 200 members have had much success in winning judgments in small claims court.

One drawback of this approach is that winning a judgment does not guarantee payment. One director reported that in two decades they have taken parents to small claims court three times, won all three, and then never collected a penny. Other centers have found it necessary to go to the local sheriff to have judgments enforced.

Summary

While these nine steps may seem a bit on the extreme side, especially in a caring profession, they do avoid considerable grief and loss of income. Centers that consistently enforce the early steps in the process rarely need to resort to the stronger measures. Centers that demonstrate their willingness to go all the way seldom experience losses. Most importantly, centers that work closely with parents, and support them in times of stress, are rewarded with strong parent loyalty.

Credits

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