

Why do I need liability insurance and how does it help me?



CHILD CARE
COLLABORATIVE
OF IOWA

Understanding the need for liability insurance and how to find the best policy for you

Owners of child care businesses already have so many expenses, should they also pay for business liability insurance? The short answer is yes, liability insurance is a necessity, even for the smallest of businesses.

Many unexpected events can happen not only to children in your care but also to their families, or anyone on your property. A child could be injured on a play structure, or someone visiting your program could trip over a rug and hit their head. You must take steps to legally protect yourself, and your business, from the many different scenarios that could result in someone being injured.

In cases where children or others are hurt, they may need compensation for medical care, as well as compensation for pain and suffering. These events can result in lawsuits that can quickly exceed several hundred thousand dollars. Such legal actions could cause significant financial damage to your child care business. It is important to note that for home-based providers, your homeowner's or renter's policies will not cover the cost of these types of lawsuits, since they are associated with your business and not your home.

What kind of coverage should I have?

There are typically two types of liability insurance – general and professional. General liability insurance covers physical risks, such as someone being hit by a book falling from a shelf or a child getting cut on a piece of playground equipment. Professional liability insurance, which is separate, will cover circumstances when you don't do something properly or make an error, such as overheating a bottle of milk for an infant.

When choosing liability coverage there are many different potential costs that you will need insurance coverage for. Look for policies that cover key costs such as:

- Attorney's fees for defending against lawsuits, as well as legal expenses incurred from representation for administrative hearings with government agencies, such as licensing,
- Medical expenses for the injured party,
- Judgments regarding allegations of abuse and neglect,
- Issues with food preparation or the distribution of medication,

- Accidents occurring due to swimming pools, play structures, or toys,
- Injuries from any animals the children may come into contact with, and
- The actions of all employees and volunteers.

In addition to general and professional liability insurance, you can also purchase secondary insurance. Secondary insurance will cover the deductible for each claim (a deductible is how much you have to pay before insurance kicks in) and will help to limit your financial exposure. Deductibles are often overlooked out-of-pocket expenses and can sometimes be very high, so secondary insurance will prevent you from having to pay anything before your insurance coverage pays out.

When choosing which insurance coverage to purchase, other key numbers to know are the occurrence and aggregate limits. The occurrence limit is the amount the insurance will provide for each instance. The aggregate is the total amount over multiple incidents that insurance will cover. For example, if a child is cut by a sharp object, you would use the occurrence limit to know the maximum of how much they could receive. If a child was injured last week and two others separately this week, you will want to think not only about the coverage per occurrence for each of the three incidents but also the total amount of the three occurrences, which is the aggregate coverage. Tom Copeland, a now-retired leading authority on child care businesses, recommended at least \$1 million per occurrence and \$2 million in aggregate liability insurance coverage since incidents can add up quickly. Find out more at [The Importance of Business Liability Insurance](#)

How do I get liability insurance?

You may want to start by contacting your current insurance agent since there may be a discount for having more than one policy with them. You may also want to get a couple of different quotes to compare. Alternatively, there is a list of agents who work with child care providers here <https://www.tomcopelandblog.com/insurance-directory>. The advantage to having an agent who works with child care providers is that they will understand the unique needs of your business and the types of incidents that can occur. When choosing your policy, it is important that you have the agent explain what is and what isn't covered in detail. Think of situations that could occur and discuss if the policy you are considering would cover such scenarios.

Additional Information

For more information, visit the Child Care Collaborative of Iowa website at <http://www.midsioux.org/ccci> or email fmc@midsioux.org.

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