CHILD CARE & WORKFORCE: INSURANCE ANALYSIS

ECONOMIC AFFAIRS INTERIM COMMITTEE
ERIN SULLIVAN – MAY 2024

BACKGROUND AND PURPOSE

The Economic Affairs Interim Committee (EAIC) chose to study child care and the workforce during the 2023-2024 interim. At the March 2024 EAIC meeting, the committee requested further analysis on potential policy changes related to liability insurance for child care providers.

This paper reviews the insurance survey[1] conducted by Zero to Five Montana, which was the basis for the committee's interest in looking at insurance solutions for the child care industry, and analyzes the two potential models for consideration concerning liability insurance that were presented at the March 2024 EAIC meeting.

CHILD CARE INSURANCE SURVEY

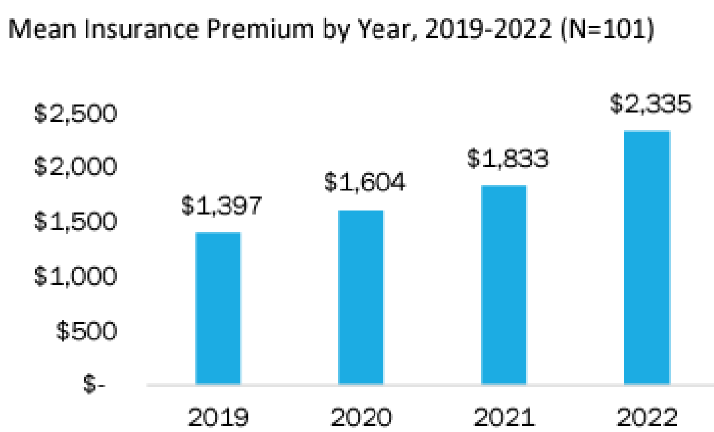
INSURANCE SURVEY HISTORY

Zero to Five Montana conducted an insurance survey in 2023 to ascertain child care providers' experience with obtaining and retaining insurance for their business. The survey was sent to the complete list of licensed and registered child care providers in the database maintained by the Department of Public Health and Human Services (averaging 900-1000 providers), and 142 child care providers responded to the survey.

INSURANCE STATISTICS

Nearly all respondents (98%) indicated they currently carry general liability insurance. 70% of the respondents elected to report their insurance premiums – the chart on the right shows a rising mean increase over the years:[2]

Figure 8. Reported Insurance Premiums Are Increasing Over Time



[1] See Appendixes A and B for an infographic and full summary of Zero to Five's insurance summary
[2] https://leg.mt.gov/content/Committees/Interim/2023-2024/Economic-Affairs/Meetings/January-2024/1.1.3-Insurance-Survey-Summary-Findings-14April23.pdf

OBTAINING & RETAINING INSURANCE

The Zero to Five survey asked respondents questions about experiences when obtaining, renewing, and potentially seeking new carriers for insurance.

Sixty (42%) of the 142 survey respondents reported they had been dropped by an insurance carrier at some point since 2019. Of the 60 respondents reporting dropped coverage, 37 providers stated the reason for the dropped coverage was because the carrier no longer covers child care in the state. The remaining 23 providers cited additional reasons for dropped coverage, including:

- insurance carrier requiring a 6:1 ratio despite an 8:1 ratio allowed by the state
- childcare provider uses wading pools
- inadequate sidewalk access outside of the building
- operating out of a mobile home
- dogs present in the child care facility

A separate survey question asked about child care providers seeking liability insurance from a new carrier during recent years, and nearly half – 49% - of the respondents reported applying for insurance at other carriers while 47% had not. Similar to the previous survey question, the majority of the reasons for new coverage denial was due to the carrier not covering child care. Other specific reasons cited in the survey were:

- carrier will not insure desired capacity of children
- lack of self-closure on fenced area
- carrier will not cover mobile homes

The Zero to Five survey provided additional observations, including a desire for more alignment between licensing requirements and insurance policies, rising premiums in other types of insurance policies, and benefits of using an insurance broker to assist in negotiating better rates.

REINSURANCE ANALYSIS

At the March 2024 EAIC meeting, the State Auditor's Office (SAO) provided a memo outlining the key characteristics of the Montana Reinsurance Association (MRA), which is a statutory association in Title 33, MCA for health insurance. The purpose of the MRA is "to establish a Montana-based public reinsurance program in order to stabilize the individual health insurance market, maintain competition, and reduce premiums." 33-22-1301, MCA.

The MRA is successful due to the ability of the program's funding through federal grant monies and health insurance premium assessments. According to the SAO, the MRA receives $28-30 million annually in federal dollars through the section 1332 waiver application, and the program additionally assesses member insurance companies 1.2% of premium.

The child care industry is seeking solutions for liability insurance, not health insurance. Establishing a state administered reinsurance program for liability insurance for the child care industry will require a funding source prior to implementation that is currently unavailable.

FUNDING SOURCES FOR REINSURANCE POOL

The state could look at a variety of funding sources to establish a reinsurance pool for the child care industry. The committee could draft legislation for a temporary funding source for a child care reserve to assist the industry under certain conditions, for example until the reinsurance pool is established to a point, for a certain number of years, or until the market is more competitive. The committee could look at existing state resources such as the coal trust, marijuana tax revenue, or general fund for funding sources, or could look at new revenue sources such as a new tax or fee.

CAPTIVE ASSOCIATION INSURANCE ANALYSIS

At the March 2024 EAIC meeting, the SAO provided a memo describing the captive insurance model and noted that, like the reinsurance model, the captive insurance model would likely need a funding source for startup costs and reserves, and suggested the committee look at what the legislature did for the school districts in 2023 in HB332. This includes providing an incentive for the industry to form an association, but including stipulations to access the incentive, including a minimum number of participants, cap on administrative costs, authorization from the CSI, and expiration date to qualify.

A committee consideration for the captive insurance model was to recommend the child care industry work with the SAO to determine the feasibility of forming an association to negotiate lower property and casualty premiums. According to Raise Montana, the industry has already been looking at this model as a possible shared service for providers, and currently provides telehealth services for its members. Raise Montana recently began the process of working with the SAO to collect information and evaluate options.

FUNDING SOURCES FOR A CAPTIVE ASSOCIATION

The funding source in HB332 utilized budget surplus funds available during the 2023 legislative session. Absent these funds, the committee could look at the same funding structure as the reinsurance pool to assist the child care industry in establishing a captive association model. Similar to both the reinsurance analysis and HB332, the committee could draft legislation to make the funding temporary, or available only under certain conditions.

CONCLUSION

No legislative action is necessary for the child care industry to form an association, which is a necessary first step in both potential models. The legislative options the committee can consider involve appropriating funds; however, may be premature as the amount of funds needed are unknown. A completed feasibility study or an established association may provide enough data to determine an appropriate amount of funds to request for future legislation from an individual legislator during the 2025 legislative session or as part of a follow-up study topic during the 2025-2026 interim.

An alternative option for the committee is to look at establishing a child care trust, similar to HB967 from the 2023 session. While HB967 failed to pass the House, the bill requested an initial amount of funds to establish the trust and was not reliant on what would be necessary for either the reinsurance or captive association models discussed above.

APPENDIX A: INSURANCE SURVEY INFOGRAPHIC

MONTANA CHILD CARE BUSINESS CONNECT

Small Business Support. Big Community Impact.

MT Child Care Provider Insurance Survey

In February of 2023, 142 child care providers in Montana responded to a survey asking about their experience with obtaining and retaining insurance for their business. Nearly half (42%) reported that they had been dropped by their insurance since 2019. And among the 69 providers that sought coverage from another carrier since 2019, 25 (or 36%) were denied coverage.

42% Dropped by their carrier since 2019

TOP REASONS DROPPED

62%	Carrier no longer covers childcare or preschool providers
23%	Carrier no longer covers childcare or preschool providers in Montana
15%	Other reasons*

Of the 60 survey respondents who provided open ended responses on reasons for dropped coverage, two-thirds (62%) reported that their carrier was no longer covering childcare or preschool providers, and nearly one quarter (23%) indicated that their carrier had dropped this coverage in the state of Montana. Fifteen percent noted other reasons for dropped coverage.

36% Denied coverage by another carrier since 2019

TOP REASONS DENIED

50%	Carrier no longer covers childcare or preschool providers
14%	Number of children in care exceeds carrier's cap
7%	Carrier won't insure mobile homes
29%	Other reasons*

Of the 28 survey respondents who provided open ended responses on reasons for insurance denial, half (50%) indicated that their carrier no longer covers childcare providers. Fourteen percent (14%) noted that the number of children they cared for or their child-to-provider ratio exceeds the carrier's cap, and two respondents (7%) were denied because the carrier would not insure a mobile home facility. Eight respondents (29%) provided other responses.

*Other reasons dropped: carrier requires 6:1 ratio, while state allows 8:1; provider uses wading pool; inadequate sidewalk outside of building; operating out of mobile home; dogs present; provider not present for last minute in-home inspection; no reason stated.

*Other reasons denied: lack of self-closure on fencing; lack of licensure for maximum number of children; provider was owned by a college; provider was caring for infants; provider failed to meet carrier's pillars of qualification; failure to qualify for transportation coverage due to too few cars or too many automobile claims.

MT Child Care Provider Insurance Survey

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RISING INSURANCE PREMIUMS

According to the 101 respondents providing insurance premium information on the survey, on average, premiums for liability insurance for their business have grown annually since 2019.*

MONTANA EXPERIENCE TRACKS WITH NATIONWIDE TRENDS

Montana providers' experience may mirror national trends. Data on all commercial general liability insurance premiums (inclusive of insurance for child care business and all other businesses) shows average premium increases of between 3.9% and 5.7% in each quarter of 2022. The commercial line of business in the insurance industry – including general liability insurance – has seen more than five years of consecutive quarterly premium increases.

Source: The Council of Insurance Agents & Brokers, Commercial Property/Casualty Market Index, Q4/2022

*The MCCBC Child Care Provider Insurance Survey findings are not based on a representative sample of child care providers in Montana. As such, survey findings may differ from the experience of the entire child care provider population in Montana.

APPENDIX B: INSURANCE SURVEY FINDINGS

INSURANCE SURVEY FINDINGS

ZERO TO FIVE MONTANA

INSURANCE SURVEY SUMMARY FINDINGS

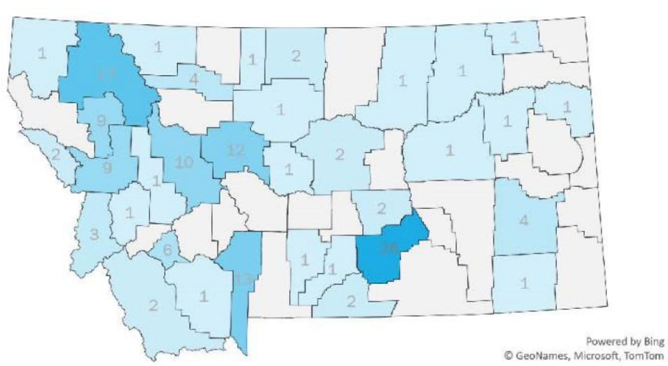
- Survey respondents represented a broad section of Montana counties, with the greatest number of responses from Yellowstone County and Flathead County.
- Most survey respondents were sole proprietor group providers with varying years of experience.
- Most respondents had licensed capacity of 15 or fewer, and two-thirds of providers had four or fewer employees.
- Most providers participate in Best Beginnings and CACFP.
- Almost all respondents currently have general liability insurance for their business.
- Insurance premiums are rising, from a mean of $1,397 reported for 2019 and $2,335 reported for 2022.
- Forty-one percent of survey respondents indicated that they had been dropped by an insurance carrier at some point since 2019.
- Most respondents who had been dropped by a carrier indicated that the reason for the drop in coverage was that the carrier no longer covers childcare or no longer covers the state of Montana.
- Additional reasons cited for drops in coverage included insurance carriers requiring a 1:6 ratio despite a 1:8 ratio allowed through state licensing, and program/facility citations, such as use of wading pools, operating out of a mobile home, or inadequate sidewalk access.

BACKGROUND INFORMATION

The MCCBC Insurance Survey yielded 142 responses. Eighteen percent of responses came from Yellowstone County, followed by 12 percent from Flathead County, 8 percent from Cascade County, and 7 percent from Lewis and Clark County.

Figure 1. Yellowstone and Flathead County Had the Highest Number of Survey Respondents

Number of Insurance Survey Responses by County (N=142)



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Most survey respondents (50%) were sole proprietors, followed by limited liability corporations (26%) and non-profits (12%). All respondents were licensed providers.

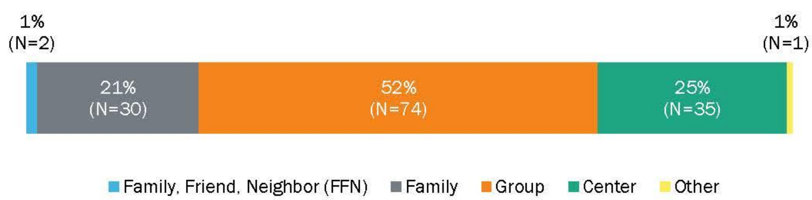
Figure 2. Most Survey Respondents Were Sole Proprietors

Percent of Insurance Survey Respondents by Type of Legal Entity (N=142)

Most survey respondents were group providers (52%), followed by centers (25%) and family providers (21%).

Figure 3. Most Respondents Were Group Providers

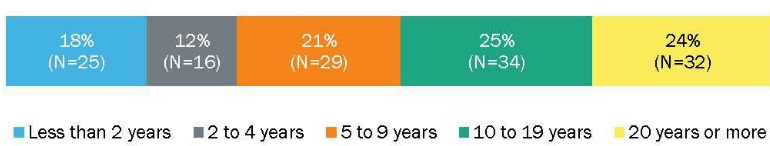
Percent of Insurance Survey Respondents by Type of Business (N=142)



Respondents represented a broad range of years in operation, with fairly even distribution across response options, with a mean of 13 years and a median of 9 years in operation.

Figure 4. Respondents Were Well Distributed Across Years in Operation

Percent of Survey Respondents by Years in Operation (N=136)



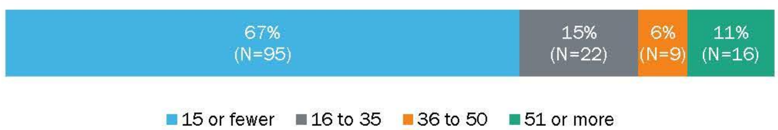
Respondents were largely owners or directors of the childcare business. Eighty-six percent of survey respondents owned the business; among those who did not own the business, most reported their title as Director.

PROGRAM INFORMATION

Two-thirds of survey respondents had licensed capacities of 15 or fewer, with 16 percent between 16 and 35 and 11 percent with capacities of 51 or more.

Figure 5. Most Respondents Had Licensed Capacities of 15 or Fewer

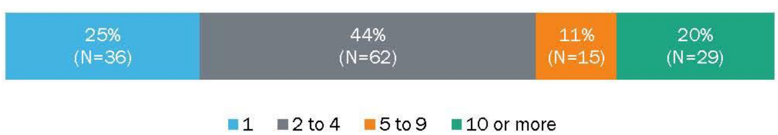
Percent of Survey Respondents by Licensed Capacity (N=142)



Seventy percent of respondents operated their business in their permanent family residence. Forty-four percent of respondents had two to four employees, one quarter had just one employee, and one-fifth had 10 or more employees. The mean number of employees across all respondents was 6, while the median number of employees was 3.

Figure 6. Nearly Half of Respondents Had Between Two and Four Employees

Percent of Survey Respondents by Number of Employees (N=142)

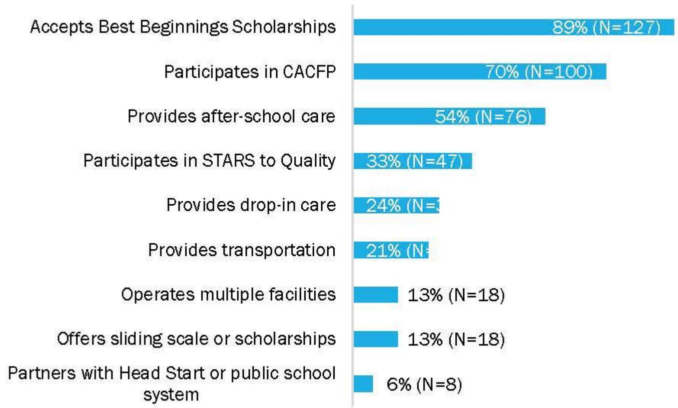


PROGRAM PARTICIPATION

Nearly 90 percent of respondents accept Best Beginnings Scholarships (89%), and 70 percent participate in the Child and Adult Care Food Program (CACFP). More than 50 percent provide after-school care. Participation in other programs and offerings varied.

Figure 7. Most Respondents Participate in Best Beginnings and CACFP

Percent of Survey Respondents by Program Participation and Offerings (N=142)

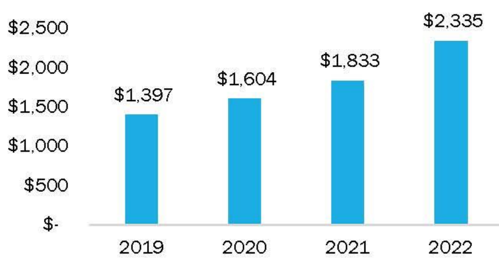


INSURANCE STATUS

Almost all respondents (98%) currently have general liability insurance for their business. Among respondents who reported insurance premium costs across four years of data, insurance premiums are rising, from a mean of $1,397 reported for 2019 and $2,335 reported for 2022.

Figure 8. Reported Insurance Premiums Are Increasing Over Time

Mean Insurance Premium by Year, 2019-2022 (N=101)



Forty-one percent of survey respondents indicated that they had been dropped by an insurance carrier at some point since 2019. Among those who had been dropped, 73 percent indicated that the carrier had provided a reason why their coverage had been dropped. Almost all respondents who described why they had been dropped cited reasons related to insurance carriers no longer providing childcare coverage or insurance carriers no longer covering the state of Montana. A few more specific reasons for dropped coverage included:

- Insurance carrier requiring a 6:1 ratio despite an 8:1 ratio required by the state
- Not providing coverage because childcare provider used wading pools
- Inadequate sidewalk access outside of the building

- Operating out of a mobile home
- Dogs present in childcare

Roughly half of respondents (49%) had applied for insurance at carriers other than their current carrier since 2019, while 47 percent had not. Twenty percent of respondents had been denied coverage by other carriers at some point since 2019. Among those who had been denied coverage, 82 percent were provided a reason by the carrier, and the vast majority indicated that the carrier no longer covers daycares. Other specific reasons for denial stated included: carrier will not insure desired capacity of children, lack of self-closure on fenced area, and carrier will not cover mobile homes.

Respondents identified several insurance carriers who had denied their business coverage since 2019, including (bolded carriers were identified by multiple respondents):

- Allstate
- **Farmers**
- **Capital Specialty**
- **Capital Indemnity**
- Catholic Mutual
- Cochrane and Company
- Farmer's Union
- Hanover
- Hartford
- **Hub International**
- Koefod
- Markel
- **Montana Vernon Fire Insurance**
- **Payne West**
- **Levitt**
- **State Farm**
- **United States Liability Insurance Company**
- USAA
- USLI

Note that several of these carriers, such as Markel, were also identified in a separate question as providing good coverage. Additional carriers identified as providing good coverage included Great American and Next Insurance, which was noted by multiple providers.

ADDITIONAL THOUGHTS

Respondents were able to provide any additional thoughts or comments related to insurance. Many respondents noted that insurance premiums had increased significantly, often doubling over the past year. They also indicated that many insurance policy capacity restrictions differ from state licensing regulations (e.g., they are able to provide licensed care for eight children according to state regulations, but can only get insurance for a 1:6 ratio, forcing them to operate under potential capacity if they want insurance), and providers desire more alignment between licensing and insurance policies. Several respondents noted that although liability insurance has been increasing in price, health insurance (especially for self-employed providers) and worker's compensation are also expensive insurance costs. Multiple respondents also described the benefits of using an insurance broker who can seek and negotiate insurance policies that meet the providers' needs, versus having to navigate the process independently.