



CROP INSURANCE OVERVIEW

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This is the sixth article in a series of six that provide an overview of agricultural risk management.

By definition insurance is the means of protecting against unexpected loss. Everyone has insurance; either you buy insurance from an insurance company, or you insure yourself. When you self-insure there are no premiums to pay, but in the event of a loss you pay the full amount. In other words, when self-insured you have a free policy with a 100 percent deductible.

There is a multitude of crop insurance products on the market and obtaining crop insurance is relatively easy. It involves determining the amount of protection desired and selecting the product and coverage level that will best provide that protection. Qualified and informed agents are available to answer questions and provide help and assistance in completing an application and explaining program requirements.

DETERMINING INSURANCE PROTECTION

True risk protection must be based on a farm's own production potential. Proving historical yield records is the most realistic method of estimating how much protection is needed, especially if a grower's yield is above average. The insurance yield for much of Federal crop insurance coverage is based on a producer's Actual Production History (APH). APH's are based on the average yield from the insured unit for four to ten consecutive years. For farmers who have less than four years of production records, variable transitional yields (T-Yields) are used to complete the minimum four-year database.

Crop insurance is an easy and effective tool to transfer risk to someone else. It is a way of protecting against unexpected loss due to a multitude of unavoidable natural events. Congress considers crop insurance to be a major risk management tool and has provided money to significantly subsidize the premiums farmers pay. There is a wide array of insurance products producers can choose from to meet their risk management needs.

Crop insurance is delivered by agents in the private sector. To obtain coverage, all one needs to do is contact an agent who will help the producer understand which products are available in the county, and the important features of each product. The agent will also provide the information and help necessary to complete an application for insurance.

To determine the amount of insurance protection, farmers must select a coverage level and a price election. Producers can insure a percentage of a yield (coverage level) and, for most products, can choose from 50-75% (85% for some crops) in 5% increments, of their APH yield. The price election is the price per unit of measure as issued by the US Department of Agriculture Risk Management Agency (USDA/RMA) prior to each crop year.

This price election is used to establish the insurance guarantee, premium, and to compensate the insured in the event a production loss occurs. Producers have a choice of various percentage level price elections established for each crop year (55% to 100% of USDA/RMA established or projected market price).

There are several options on how to divide land to determine APH yields and premiums under crop insurance. Each parcel of land for which claims are calculated is called an “insurance unit.” A unit is defined as that acreage of the insured crop in the county which is taken into consideration when determining the guarantee, premium, and the amount of any indemnity (loss payment) for that acreage. Unit structure is a very important aspect of maximizing the risk management protection offered by various insurance policies. Check with an insurance agent to find out how many and what types of insurance units your crops qualify for, and how this will affect your premiums. There are four types of unit structure: basic, optional, enterprise, and whole-farm units.

INSURANCE PRODUCTS

Multiple Peril Crop Insurance (MPCI)

MPCI is a broad-based crop insurance program administered by RMA and subsidized by the Federal Crop Insurance Corporation (FCIC). As the name implies, MPCI provides protection against an unavoidable loss in yield due to nearly all natural disasters. For most crops, that includes drought, excess moisture, cold and frost, wind, flood and damage from insects and disease. MPCI does not cover losses resulting from not following good farming practices, low commodity

prices, theft, and specified perils that are excluded in some policies. There are specific restrictions on some crops based on acceptable farming practices. Most MPCI programs guarantee a yield based on an individual producer’s APH. If the production to count is less than the yield guarantee, the insured will be paid a loss.

Catastrophic (CAT)

CAT insurance is the minimum level of multi-peril crop insurance coverage at 50% of a producer’s yield and 55% of the price, and meets requirements for a person to qualify for certain other USDA program benefits. The premium is 100% subsidized, but the farmer pays a \$100 per crop per county administrative fee. Farmers with limited resources may be eligible for a waiver of the fee for CAT coverage. Any crop insurance agent can assist producers in determining if they are eligible for a fee waiver.

Crop Revenue Coverage (CRC)

The most widely available revenue protection policy is CRC. This policy guarantees an amount of revenue (based on the individual producer’s actual production history (APH) x commodity price) called the final guarantee. The coverage and exclusions of CRC are similar to those for the standard MPCI policy. This final guarantee is based on the greater of the spring-time generated price (base price) or the harvest-time generated price (harvest price). While the guarantee may increase, the premium will not. Premium will be calculated using the base price. Since the protection of producer revenue is the primary objective of CRC, it contains provisions addressing both yield and price risks. CRC covers revenue losses due to a low price, low yield, or any combination of the two. A loss is due when the calculated revenue (production to count x harvest

price) is less than the final guarantee for the crop acreage.

Income Protection (IP)

IP is a revenue product that, based on the individual producer’s APH, protects against a loss of income when prices and/or yields fall. While IP looks a lot like CRC, it does not have the increasing price function of CRC. The guarantee and the premium will be calculated using the spring-time generated price (projected price). An indemnity is due when the revenue to count (production to count x harvest price) is less than the amount of protection.

Revenue Assurance (RA)

The coverage and exclusions of RA are similar to those for the standard MPCI policy. However, MPCI provides coverage for loss of production, whereas RA provides coverage to protect against loss of revenue caused by low prices or low yields or a combination of both. RA has the Fall Harvest Price Option (FHPO) available. This Option uses the greater of the fall harvest price (harvest-time generated price) or the projected harvest price (spring-time generated price) to determine the per-acre revenue guarantee. So, with the Option, RA works like CRC, without the Option, it works like IP. RA protects a producer’s crop revenue when the crop revenue falls below the guaranteed revenue.

Group Risk Income Protection (GRIP)

GRIP is based on the experience of the county rather than individual farms, so APH is not required for this program. A GRIP policy includes coverage against potential loss of revenue resulting from a significant reduction in the county yield or commodity price of a specific crop. When the county yield

estimates are released, the county revenues (or payment revenues) will be calculated prior to April 16 of the following crop year. GRIP will pay a loss when the county revenue is less than the trigger revenue. Since this plan is based on county revenue and not individual revenue, the insured may have a loss in revenue on their farm and not receive payment under GRIP. Beginning with the 2004 crop year, the GRIP Harvest Revenue Option (HRO) Endorsement is available. This optional endorsement offers “upside” price protection by valuing lost bushels at the harvest price in addition to the coverage offered under GRIP.

Group Risk Plan (GRP)

Like GRIP, GRP coverage is based on the experience of the county rather than individual farms, so APH is not required for this program. GRP indemnifies the insured in the event the county average per-acre yield or payment yield falls below the insured's trigger yield. RMA will issue the payment yield in the calendar year following the crop year insured. Since this plan is based on county yields and not individual yields, the insured may have a low yield on their farm and not receive payment under GRP.

Adjusted Gross Revenue (AGR)

AGR is a non-traditional, whole farm risk management tool that uses a producer's historic IRS Schedule F tax form or equivalent information as a base to provide a level of guaranteed revenue for the insurance period. It provides the producer with protection against low farm revenue due to natural disaster or market fluctuation. Covered farm revenue is income from agricultural commodities reported on the Schedule F tax form, including incidental amounts of income from animals and animal products (not to exceed



35% of farm revenue) and aquaculture reared in a controlled environment. Incidental livestock income represents the crop production value fed to livestock. AGR-Lite is a streamlined version of AGR available in limited states offering protection to smaller farms.

Private Named Peril (Crop-Hail)

Private stand-alone insurance policies provide protection against specifically named perils and are paid based on a percentage of damage multiplied by the liability or protection purchased less the deductible. Examples of private, non-subsidized crop insurance programs may include crop-hail, wind, or fire insurance, which offer protection for one specific peril (e.g., hail), and various programs which supplement federally subsidized insurance. The part of a crop damaged by a named peril may be less than the deductible on an MPCCI policy. In this instance, crop-

hail insurance can fill the coverage gap. An MPCCI policy protects against losses severe enough to significantly drop the whole farm's yield average. Crop-hail insurance, on the other hand, gives supplemental, acre by acre protection that more accurately reflects the actual cash value of damage from hail.

These products are not federal or state government products and the premiums are not subsidized. However, private products are regulated by the insurance departments in each state and companies must comply with all state insurance laws.

IMPORTANT DEADLINES

Sales Closing: To participate, a person must apply for insurance on or before the applicable sales closing date. This is the last date to apply for crop insurance coverage for any FCIC

policy, or make changes in coverage from the previous year. Growers need to decide by this date the type of policy and the level of protection they want. Sales closing dates vary by crop and by state.

Final Planting Date: Last day to plant unless insured for late planting.

Acreage Reporting Date: After the crop is planted, producers must report (by type and or varietal group, if applicable) the number of acres insurable and uninsurable for which the insured grower has a share.

Premium Billing Date: Although premiums are payable on the day after the sales closing date, the policy holder will not be billed until the premium billing date. Generally this date falls near harvest.

End of Insurance Period: Following this date, the farmer no longer has any production or revenue guarantee on the crop. This date is the earliest date the crop is harvested, abandoned, or totally destroyed, the day the final adjustment on losses is made, or a specific calendar date set in each crop policy.

Date to File Notice of Damage: This is the last date to give notice of probable loss in order to receive an indemnity payment. Notice is required within 72 hours of the discovery of the damage, but not later than 15 days after the end of the insurance period.

Policy Termination Date: If premiums or administrative fees are not paid by this date, the insurance coverage for the following year will be terminated.

Cancellation Date: Last date to give written notice to the insurance company if the grower does not wish to carry crop insurance the next year. Otherwise, in most cases the policy will renew automatically for another year.

Production Reporting Date: To keep your APH up to date, you must certify each year the acreage planted and the total production from the previous year.

PROCESS OF GETTING INSURANCE

Insurance Cycle

A specified date early enough that neither party to the insurance contract has knowledge of the crop's production prospects for the year. The application for insurance includes the crop for which the insurance is sought, the county in which it is to be grown, the coverage level and price election at which the crop is to be insured. Historical records will be needed to verify production potential and to establish an APH (actual production history).

The next step is to plant the crop prior to the final planting date. After the crop is planted, insured producers must file an acreage report with their insurance provider to certify the number of acres planted, the farming practice (for example, irrigated, non-irrigated, etc.) where appropriate, and any other information required to insure that crop in that area.

After RMA accepts the acreage reports, it calculates the amount of subsidy and credits the appropriate amounts to insured farmers and their insurance providers. Premiums and any fees that insured farmers are required to pay are generally billed after the acreage report has been filed and processed. The amount of the premium that is owed depends on several factors, including the number of acres planted, APH yield, level of protection selected and the farming practice.

It is the insured's responsibility to follow good farming practices and care for the crop through the growing season and harvest. If a loss occurs they are responsible to inform their agent and continue to care for the crop and obtain consent before any insured acreage is destroyed. An adjuster will verify the loss and an indemnity will be calculated and paid

according to the terms of the policy. If no loss occurs, the farmer harvests the crop and reports the actual production to the agent for updating and recalculation of the APH.

Insurance policies are continuous and if an insured wishes to discontinue insurance for the next year, they must do so by a specified date known as the cancellation date. The cancellation date is usually the same as the sales closing date, though minor differences occur on some crops.

Finding an Agent

Crop insurance is sold only by agents in the private sector. Use the Risk Management Agency's website (www.rma.usda.gov) to locate an agent in your area, or ask other growers or professionals (such as lenders) you do business with for their recommendations.

Check with the insurance agency where you purchase other types of insurance. Often you can obtain crop insurance through an agent you already use for your homeowner's, automobile, fire, health, or life insurance needs. Many insurance agencies have agents who specialize in crop insurance.

ADDITIONAL INFORMATION

The RMA website (www.rma.usda.gov) has numerous factsheets and other information on the Federal Crop Insurance Program. The site also contains an agent locator that will identify the agents located in your area, and a list of the insurance providers and their contact information (phone, fax, address, website). The website of each provider also contains information about the various insurance products and how they work.

The Risk Management Education website maintained by the University of Minnesota is an excellent source of information on risk management and crop insurance. This information can be accessed at www.agrisk.umn.edu. **TODAY**