



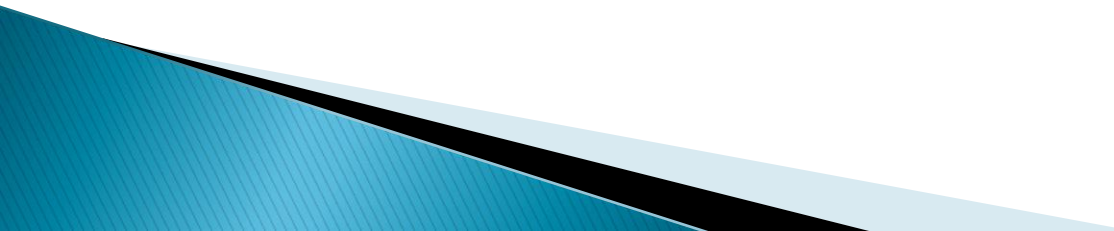
# Crop Insurance Briefing

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In partnership with  
USDA Risk Management Agency  
[www.rma.usda.gov](http://www.rma.usda.gov)

# Why all the Fuss over Crop Insurance?

- ▶ Major education effort – USDA/RMA
  - RMA = Risk Management Agency
  - Administer crop insurance programs
  - RMA subsidizes crop insurance rates to make it more affordable and appealing to farmers
  - Includes Organic Farmers
  - **Farmers must have at least CAT or NAP coverage in order to be eligible for any assistance payments in the event of a disaster!**

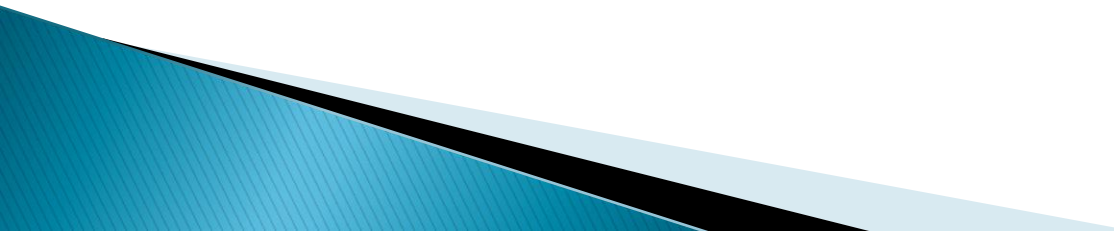
# The Education Part...

- ▶ RMA funds education efforts
  - ▶ Aimed at farmers & service providers
  - ▶ Goal...to increase the ag community's knowledge of crop insurance options
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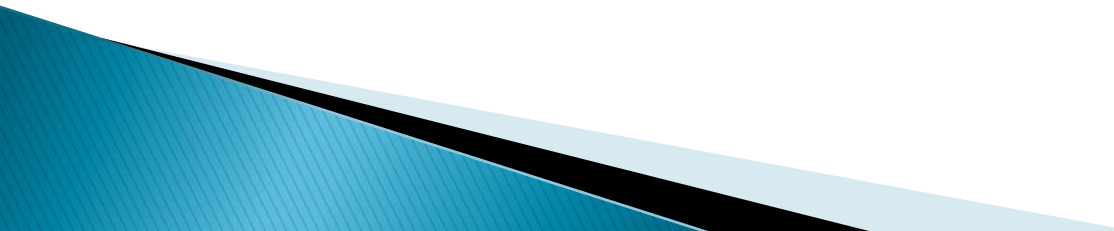
# Overview: What is RMA's Role in Crop Insurance?

- ▶ RMA directs programs
  - Writes: Policies, Procedures, Rates, Rules
- ▶ Private Companies:
  - Sell, Service, and do Crop Loss Adjustments
- ▶ RMA & Private Companies Share Risk
  - RMA subsidized rates
  - Private firms sell at RMA approved rates

# How Does Crop Insurance Work for Farmers?

- ▶ Farmers buy insurance from private vendors
  - ▶ Choose policy, coverage, and rate level
  - ▶ Farmers receive indemnity payments from Insurance Company for confirmed losses
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# Choosing a Coverage Level

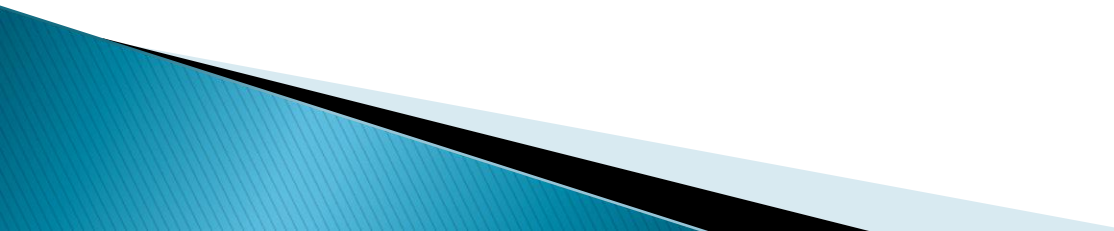
- ▶ How much can you afford to lose?
  - ▶ Weigh the cost of a loss versus the cost of an insurance premium.
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# Premium Example

- ▶ County: Addison
- ▶ Crop: 100 acres of corn silage
- ▶ APH = 18 tons/acre

Coverage Level	Premium Cost/acre
CAT Coverage (\$100 administrative fee)	\$0.00
50%	\$4.31
55%	\$5.60
60%	\$6.66
65%	\$9.29
70%	\$11.60
75%	\$15.83

# Cost of Loss vs Cost of Premium

- ▶ 75% Coverage level costs \$15.83/acre
  - ▶ 25% crop loss on 18 tons/acre would be worth \$144/acre
  - ▶ So loss of \$144/acre versus premium cost of \$15.83/acre.
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# Crop Insurance Lingo

## ▶ Quick Definitions...

- Coverage Levels– range (50% to 85%) of a producers average yield, average revenue or inventory value protected
- Guarantee– The amount of production or revenue that is guaranteed to the producer

# More Lingo and Terms

## ▶ Quick Definitions...

- Price Election– Price paid to farmer in the event of a crop loss, \$32.00 for corn silage
- Premium– The amount paid to obtain a crop insurance policy
- Indemnity– The amount paid to the producer for confirmed insurable losses

# More Lingo and Terms

## ▶ Quick Definitions...

- CAT Coverage – The minimal coverage available on most crop insurance policies
- Buy-Up Coverage – Any coverage which goes beyond CAT
- Administrative Fee –
  - CAT \$100 per crop per county
  - Buy-Up Coverage – \$30 per crop per county

# Crop Insurance Subsidies

<b>Coverage Level %</b>	<b>Subsidy % since 2001</b>	<b>% Farmer Pays</b>
<b>50</b>	<b>67</b>	<b>33</b>
<b>55</b>	<b>64</b>	<b>36</b>
<b>60</b>	<b>64</b>	<b>36</b>
<b>65</b>	<b>59</b>	<b>41</b>
<b>70</b>	<b>59</b>	<b>41</b>
<b>75</b>	<b>55</b>	<b>45</b>

# Crop Insurance Policies

- ▶ APH Plans...Actual Production History
  - Apples, Field Corn, Corn Silage, Small Grains (Barley and Wheat), and Peaches
- ▶ CRC...Crop Revenue Coverage
  - Corn and soybeans grown for grain
- ▶ Dollar Plans...
  - Forage Seeding, Fresh Market Sweet Corn, and Nursery
- ▶ AGR and AGR-Lite
  - Adjusted Gross Revenue and
  - Adjusted Gross Revenue Lite

# Farmers Use Crop Insurance Vermont 2000–2007

- ▶ Total policies 529, up from 432
- ▶ Acres 70,343 up from 50,472
- ▶ Dollar Protection
  - \$5.45 M in 2000 to \$13.67 M in 2006
- ▶ Premiums paid: \$7.5 M in 7 years
- ▶ Farmers paid only 30% of this (\$2.2 M)
- ▶ 8.7 M paid out to farmers!
  - \$1,155,426 in 2007

# 2007 Vermont Crop Insurance

Crop	# of Policies	Insured Acres	Total Acres	Percent of Acres
Corn	480	68,773	92,000	74.8%
Apples	26	1,017	2,700	37.7%
Sweet Corn	4	95	1,100	8.6%
Peaches	1	1	NA	NA
AGR/Lite	7	Liability	\$798,440	

# Crop Insurance Policies

- ▶ Corn – silage and grain
  - ▶ Apples
  - ▶ Sweet Corn
  - ▶ Peaches
  - ▶ AGR and AGR–Lite
  - ▶ Nursery
  - ▶ Spring and Fall Forage Seeding
  - ▶ Spring Wheat and Barley
- 



# How Does APH Work for Corn Silage?

## ▶ How Do They Work? ...Corn APH Example

- APH.... Guarantees a producer a percentage of their 5 year production History

Example:

5 year history	= 16 tons/acre
Acres	= 50
Coverage	= 75%
Guarantee	= 16 tn * 50 ac * 75% = 600 tn
Current Production	= 10 tn/ac = 500 tn
Deficit	= 100 tn of corn silage
Price Election	= \$32.00/tn
Payment	= 100%
Indemnity Payment	= 100% * \$32.00 * 100 tn = \$3200

# Sweet Corn Example

- ▶ How Do They Work?...Sweet Corn Example
  - Dollar Plans...Guarantees a Dollar Amount of Coverage

Example...sweet corn

Acres = 50

Coverage Level = 70% or \$1,141 per acre (70% of \$1,630)

Guarantee = \$1,141 \* 50 ac = \$57,050

Actual Production = \$400/acre \* 50 = \$20,000

Indemnity = 57,050 - 20,000 = \$37,050

# AGR/Lite Insurance

- ▶ AGR...Adjusted Gross Revenue
  - Insures the 5-year average gross revenue from the producer's Income Tax Statements (Schedule F)
  - Protection against low revenue due to unavoidable weather and market losses
  - Provides Crop Insurance for crops that are not currently insurable

# AGR/Lite Provisions

- ▶ AGR's Insurance Year is...
  - Calendar or Fiscal Year that corresponds to the producer's IRS tax year
  - Insurance begins January 1, 2007 for calendar year filers
  - Claims: settled after filing with the IRS for the tax year (April 2008)

# Newest Program – AGR Lite

- ▶ How AGR–Lite differs from AGR
  - No 35% limitation on receipts from animals or animal products for AGR–Lite
  - The purchase of individual crop insurance is the producers' option for AGR–L (mandatory for some crops under AGR)
  - 2 years of historical commodity information needed for AGR–Lite (5 years for AGR)

# Difference from AGR

- ▶ How AGR-Lite differs from AGR
  - Maximum policy coverage is \$2,051,000 gross revenue vs \$13 million for AGR
  - AGR-Lite permits grouping of commodities for diversification credits
  - Single Commodity producers can choose higher coverage under AGR-Lite
  - Coverage of organic farming practices for AGR-L

# AGR Lite Details

- ▶ AGR-Lite...When does it make sense?
  - Grower of otherwise uninsurable crops
  - Simplification
  - Interested in protecting the bottom line
  - Poor or indeterminable yield records
  - When other plans cost too much
  - For Catastrophic animal health protection

# AGR and AGR-Lite Example

## ▶ AGR Example:

- Whole Farm Revenue...Protects your average revenue reported to the IRS

Example:

Average Adjusted Gross Revenue = \$100,000

Coverage Level = 75%

Guarantee = \$75,000 (0.75 \* 100,000)

Farm Revenue = \$65,000

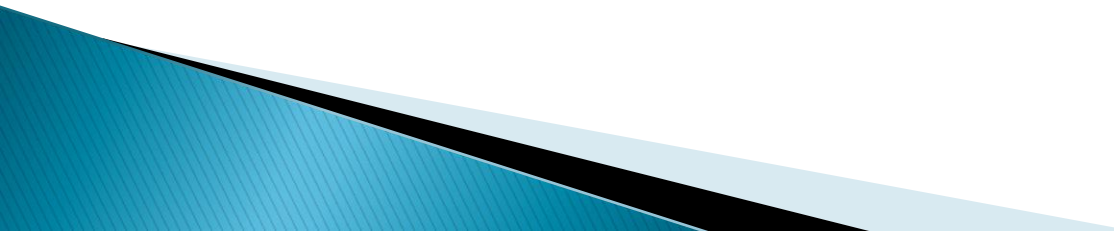
Loss = \$10,000 (75,000 - 65,000)

Payment Rate = 90%

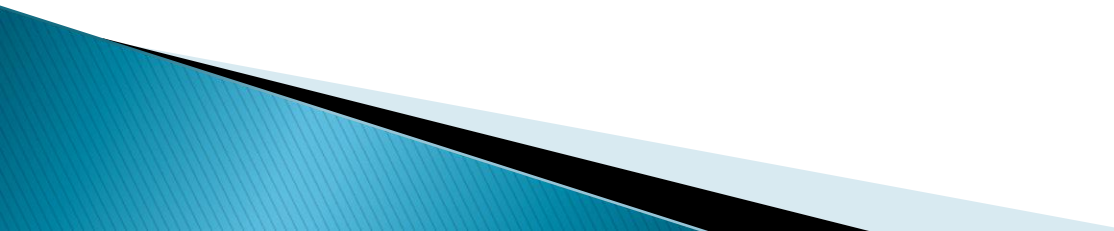
Indemnity = \$9,000 (10,000 \* .90)



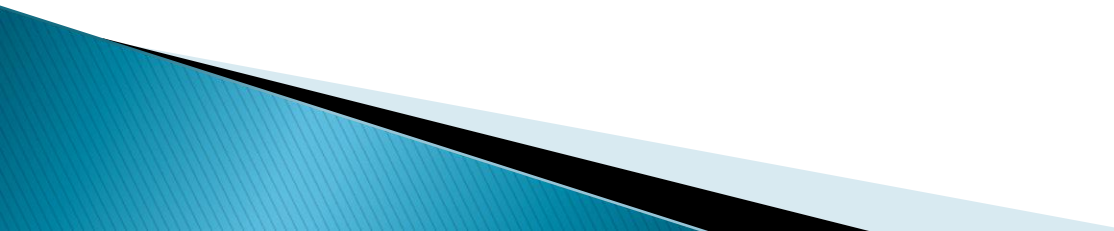
# Sales Dates to Remember

- ▶ November 20
    - Apples and Peaches
  - ▶ January 31
    - Adjusted Gross Revenue
  - ▶ March 15
    - Adjusted Gross Revenue–Lite, Spring Wheat and Barley, Corn, Sweet Corn, Spring Forage Seeding
  - ▶ May 1
    - Nursery
  - ▶ July 31
    - Fall Forage Seeding
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# CONCLUSIONS:

- ▶ Crop Insurance much like Truck Insurance
  - ▶ Hope you do not have a wreck
  - ▶ Not needed if you can stand loss of wreck
  - ▶ Can be life saver if you are highly leveraged and cannot stand risk
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# CROP INSURANCE

- ▶ It is meant to protect against losses
  - ▶ It is not meant to enhance income like an investment
  - ▶ Guaranteeing revenue should be the bottom line of all risk management strategies
  - ▶ Contact a crop insurance agent for more information.
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# **Crop Insurance Provides Peace of Mind**



**Allowing Producers and Lenders to sleep better knowing their investments are covered**

*Contact UVM Extension at (802)656-0346 or Your Local  
FSA Office For A List of Agents and More Information*

***Thank You!!***

