Managing Farm Risk

Risk is a natural part of farming in Vermont. Types of risk that farmers face are:

- **Production Risk**: What will our crop yield be this year?
- **Marketing Risk**: Will we be able to sell our crops for a fair price?
- **Financial Risk**: What do we do about inflation or exchange rate changes?
- **Legal Risk**: What are we liable for? What do we do if someone is hurt on the farm? Are there environmental risks?
- **Human Resource Risk**: Can we retain our employees? What happens to the farm when we stop farming?

Ways to manage risk …

- **Diversify**: Grow a variety of crops. Have off-farm employment to diversify income sources. Consider on-farm renewable energy production. Use non-farm investments to diversify asset portfolio.
- **Purchase Crop Insurance**: Protect against loss of yield or income due to unavoidable events such as extreme weather, some types of pest damage, market fluctuations, etc.
- **Invest in New Technologies**: Invest in technology such as irrigation or frost protection in order to reduce the risk of low yield. Be sure to have a maintenance plan for all equipment!
- **Develop a Business Plan and Detailed Budget**: Have a farm business plan to help identify risks ahead of time and outline ways to deal with problems before they occur. Include a detailed budget in the plan to see how your farm is faring at any point in time and whether business plan strategies are working.
- **Consider Alternate Marketing Strategies**: Cooperatives, Community Supported Agriculture, and other marketing contracts may help stabilize prices.
- **Develop good neighbor and employee relations**.
- **Limit Environmental Risk**: Use best farm practices to limit environmental risk and protect the farm from legal action.
- **Develop a Farm Transfer Plan**: Ensure that the land will be farmed after your retirement.

Crop Insurance

Types of Insurance:

APH Plans (Actual Production History) - Covers loss of yield due to natural causes. Payment based on a percentage of the predicted price of the yield amount insured by the farmer.

CRC Plans (Crop Revenue Coverage) - Protects against a decline in market prices as well as shortfall in production. Payment occurs when the dollar value of production falls below the dollar guarantee of your insurance plan.

Dollar Plans - Protects against declining value due to loss of yield. Payment occurs when annual crop value is less than the dollar amount insured.

AGR or AGR-Lite (Adjusted Gross Revenue) - Protects against low whole farm revenue due to natural disasters or market fluctuations. Most farm-raised crops, animals, and animal products are eligible.

NAP (Non-Insured Assistance Program) - NAP coverage is available for producers of non-insurable crops and provides assistance in the event of low yield, loss of inventory, or prevented planting due to natural disasters. Enrollment in NAP costs $100 per crop, but this fee may be waived for limited resource farmers. For more information or to enroll in NAP, contact your local Farm Service Agency.

Insurable Crops:

Apples
Barley
Corn Silage
Field Corn
Fresh Market Sweet Corn
Forage Seeding
Nursery
Peaches
Wheat

HOWEVER ...

Consider these options for farms growing crops not insured in their county or for those raising livestock!

AGR
AGR-Lite
NAP
Request for Actuarial Change

For more details and to find out which of these plans might work for you contact your local crop insurance agent or call UVM Extension at 866-622-2990.

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More Information

The process:

- Farmers buy insurance from private vendors.
- Choose policy, coverage, and rate level.
- Farmers report losses to insurance company immediately following loss.
- Farmers receive indemnity payments from insurance company for confirmed losses.

Cost and Return:

Premiums paid for crop insurance vary depending on the level of coverage chosen by each farmer. This premium is subsidized by the federal government.

Catastrophic Coverage is 100% subsidized!
CAT coverage pays 55% of the established price of the commodity on crop losses in excess of 50%. The only cost to the farmer is a $100 administrative fee. For more coverage than CAT provides, your premium share at different coverage levels is as follows:

Coverage Level %	50	55	60	65	70	75
Premium Subsidy	67	64	64	59	59	55
Your Premium Share	33	36	36	41	41	45

And remember …
You must apply for crop insurance to be eligible for any government payments should a disaster occur!

Examples from Real Farms:

- In 2007, 13 Vermont apple growers signed up for CAT coverage. Each paid $100 for the administration fee and altogether they received $33,084 in indemnity payments.

- In 2006, just over 100 farmers insured their corn crops at the 50% coverage level. These farmers altogether paid $26,805 for their share of the premium. When Vermont's corn crop suffered from late spring rains, the farmers were able to report losses and receive a total of $440,815 in indemnity payments.

- Crop insurance is another way of reducing farm risk by providing a safety net should uncontrollable events occur. There may be years when the premium paid will exceed the indemnity received. This is why it is important to have a detailed farm plan, to determine what is too much risk, and to decide whether crop insurance is right for your farm.