Crop Insurance Basics Fact Sheet

1. Crop Insurance Webinars

The objective of these webinar sessions is to help Pennsylvania farmers and ranchers manage risk, by understanding crop insurance products sufficiently to make informed purchase decisions.

This presentation will be recorded and viewable after the Webinar at https://cropinsuranceinamerica.org/pennsylvania-crop-insurance-webinars/

2. Crop Insurance Basics – Scheduled for January 8, 2019

The objectives for this webinar are:

1. Provide farmers with tools to manage their risk.
2. Assist the farmer in making an informed decision.
3. Provide information on how to contact and engage the services of a crop insurance agent.

3. Summary of Top Crops in Pennsylvania

Based on the latest 2018 Risk Management Agency (RMA) statistics, over 639,000 acres are planted to corn in Pennsylvania, followed by soybeans, pasture, rangeland, forage (PRF), and wheat. Liability for corn is over $241 million followed by soybeans with $112,595,000 million. The apple crop places third in liability with over $49 million in liability. The acreage and policy count are low for Whole Farm Revenue Protection (WFRP) and grapes, however, the liability for those crops is higher than wheat for the state of Pennyslvania. Wheat currently has a liability over $9 million.

4. Indemnity Statistics

The lastest summary (dated December 3, 2018) from the Risk Management Agency reports the following causes of loss and the corresponding loss ratio:

Drought – 40.25%
Excess Moisture – 28.29%
Hail – 7.9%
Price decline – 5.17%
Other products – 3.02%
Heat – 2.81%
Cold Wet Weather – 2.58%

These statistics are based on a nationwide summary.

5. Basic Insurance Definitions

Since this is a Crop Insurance Basics webinar, it is important to review basic insurance definitions and how those terms relate to crop insurance.

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 youself.

Insurance is the pooling or combining of enough small unpredictable risks so that over time the losses for the combined group become statistically predictable. The basis of any insurance is the "law of large numbers." This basic law of mathematics means that as the number of exposures or participants increases, or as the size of the pool increases, the average results become more stable. Hence, what is a risky, uncertain, and burdensome possibility for an individual becomes in the combined pool a measurable, relatively constant, and manageable event that can be statistically estimated.

By paying a proportionate share of the loss for the group as a whole, it is possible for an individual to avoid a loss that, if borne alone, potentially could cause major financial problems or complete business failure. The relatively small premium paid by the individual is considered the expense of avoiding the full adverse effects of the particular risk being insured.

As discussed above, insurance is the pooling of small unpredictable risks. Certain criteria must be met for risks to be insurable:

1. The loss would result in economic hardship.
2. Sufficient number/quality of units must be exposed to the same peril.
3. Occurrences must be accidental or unintentional.
4. The loss must be definite in time and place and must be capble of being measured with reasonable accuracy.

6. Federal Crop Insurance 'Primer'

The purpose of insurance is to provide protection against economic loss arising from adverse events. For crop insurance adverse events may be drought, hail, heat & other causes of loss.

RMA offers different plans of insurance, so the farmer can choose the best type of protection to cover his/her risk. The most popular plans of insurance are:

- Yield Protection
- Revenue Protection
- Revenue Protection with Harvest Price Exclusion
- Whole-Farm Revenue Protection
- Actual Production History

Additional plans of insurance offered are:

- Area Yield Protection
- Area Revenue Protection
- Area Revenue Protection with Harvest Price Exclusion

Each plan is a contract and is an agreement between the insured and the Approved Insurance Provided (AIP). Under this contract, the insured agrees to insure all eligible acreage of the crop planted in the county and the provider agrees to indemnify the insured against losses that occur during the crop year. Losses must be due to unavoidable perils. For Yield or Revenue protection, insurance covers loss of yield or revenue exceeding a deductible amount.

7. Relationship between RMA, AIPs, Agents and the Insured

The Federal Crop Insurance Corporation's (FCIC) role is to establish provisions, rules, regulations, and rates. The Risk Management Agency (RMA) oversees the crop insurance programs, administers premium discounts and provides support and outreach.

Approved Insurance Providers (AIP) contract with licensed agents to market crop insurance and the agent receives commission. AIPs sign a reinsurance agreement with RMA to sell and service the crop product.

Crop Insurance agents provide product and premium information to the insured. Their responsibilities include collecting information pertaining to the application, production and acreage report. Each agent is required to attend mandatory training every year for updates to the crop insurance program.

The insured (farmer) must report required information as contained in the contract. Premiums and fees must be paid by set deadlines. It is important that farmers follow appropriate farming practices and notify the AIP in the event of a loss.

8. Insurance Plans

Actual Production History (APH) plan provides protection against a loss in yield due to nearly all natural disasters. This plan guarantees a yield based on the individual producer's actual production history. Actual production history is 4-10 years of historical yields for the insured unit. Price elections for the Actual Production History plan are established by the RMA.

Catastrophic Risk Protection (CAT) is not a coverage plan, but an endorsement that provides the minimum level of coverage offered by RMA. The coverage level is limited to 50% and only 55% of the price election is provided. An administrative fee of $300 is charged for each crop planted in each county insured.

The Yield Protection (YP) plan protects against a loss of production. This plan works the same as the APH plan but the price is established according to the crop's commodity board of trade/exchange.

Revenue Protection provides protection against a loss of revenue caused by price increase or decrease, low yields or a combination of both. Coverage guarantees an amount based on the farmer's APH and the greater of the projected price or harvest price. Both prices are established using the applicable board of trade/exchange.

Indemnities may be due when the calculated revenue (farmer's production times the harvest price) is less than the revenue protection guarantee for the crop acreage.

An additional revenue plan excludes the harvest price. The producer does not receive the benefit of upward price movement with the Revenue Protection with Harvest Price Exclusion plan. Again, like the Revenue Protection plan, this product provides protection against low yields; however, protection is only provided against price <u>decrease</u>.

Generally, crops such as corn, soybeans, and wheat (check with a crop insurance agent for other crops) are covered under both revenue plans.

Whole-Farm Revenue Protection (WFRP) is the final individual plan of insurance. All farm revenue is insured together under one policy. Individual commodity losses are not considered, it is the overall farm revenue that determines losses. Revenue from all commodities produced on the farm during the insurance year is covered. This includes animal and animal products and commodities purchased for resale. Premium subsidy is available and depends on farm diversification.

This product is well-suited for:

- Highly diverse farms
- Farms with specialty commodities
- Farms selling to direct markets, specialty markets, regional or local markets, and farm-identity preserved markets

Upon enrollment farmers will need to turn in five years of farm tax forms, supporting records such as organic certification, inventory or accounts receivable information along with beginning inventories of stored commodities and livestock.

Other plans of insurance include area plans. This type of coverage is based on the experience of an entire area, generally a county. Area plans provide protection against widespread loss of revenue or loss of yield in a county. It is important to note that individual farm revenues and yields are <u>not</u> considered under area plans. The National Agricultural Statistical Service (NASS) county data is used to set the expected and actual county yields used for this plan.

9. Crop Insurance Cycle

The insurance cycle begins with the application process. A crop insurance agent will assist the farmer in completing the crop insurance application no later than the sales closing date. Coverage is continuous, from year to year, and can be cancelled by providing a written notice. For successive years, changes to coverage must be made on or before the sales closing date.

Coverage requirements are next in the cycle. Farmers must report actual production history, along with crop acreage information to establish the amount of coverage and premium for each insured crop. Deadlines must be adhered to.

The cycle continues with premium billing. Annual premium is earned and payable at the time insurance coverage begins. Generally, premium is not owed in advance on the policy providing coverage until after harvest. A bill is issued based upon the information contained in the acreage report. The bill will contain both premium and administrative fees that may be due.

The claims process marks the next continuation in the cycle. Notice of damage or loss of production must be filed for each unit by the farmer within 72 hours of initial discovery, but not later than 15 days after the end of the insurance period. The end of the insurance period is the last date the insurance coverage ceases for the crop

The final process in the insurance cycle are program changes. Crop insurance policy changes may be made by RMA from one year to the next. Farmers may review the changes with their crop insurance agent and continue coverage, change the policy coverage or cancel insurance. Policy updates must be by written notice on or before the sales closing date.

10. Basic Provision Highlights

The Basic Provisions, generally known as the Common Crop Insurance Policy, details the rules and regulations set forth by the RMA. Policyholders should read the policy thoroughly to understand the requirements and the policy language.

11. Finding a Crop Insurance Agent

It is important to establish a relationship with a crop insurance agent to discover how to best manage your risk. All crop insurance products, including CAT endorsements, are available from private crop insurance agents.

A list of crop insurance agents is available on the RMA website. Go to the RMA website, www.rma.usda.gov/, and click on 'Find an Agent' on the top of the screen. Click on the highlighted RMA Agent Locator. The user may choose to filter their choices by distance, specialty, language, and agent name.

Contact a local crop insurance agent before March 15 and discuss:

- Crop insurance plans and how they fit your risk management needs
- Calculate coverage and cost to determine the coverage that is right for you
- Complete an application