

2008

Crop Insurance

For Those Who Choose To Manage Risk

INSIDE:

- Price And Weather Volatility Increase Risks
- It Doesn't Cost To Ask
- How To Evaluate Crop-Hail Insurance
- Risk Management Checklist
- And More



Prices Plus Dry Weather Equals Greater Volatility

Delaware farmers squeezed by new risk environment

This summer's dry weather has compounded what was already a high-risk season for Delaware farmers even before they began planting.

Last winter's biofuels-driven surge in prices for corn, soybeans, and wheat meant that even small percentage market fluctuations could mean significant changes in the bottom line. Growers of those three crops are now operating in a much more volatile marketing environment.

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A comparison of Crop Revenue Coverage (CRC) for a hypothetical Kent County (Delaware) farm illustrates the situation and the CRC advantage over yield based Actual Production History (APH) coverage because it guarantees revenue, not just yield. (These examples do not factor in the Delaware Crop Insurance Cost Share premium reduction or some of the producer options available.)

\$2.59 vs. \$4.06

In 2006, a Kent County farmer growing 100 acres of non-irrigated corn, with an approved yield of 125 bushels per acre, selected CRC at the 70% level at the 2006 base price of \$2.59. (The base price is the February average price of corn on the Chicago Board of Trade (CBOT) December contract.) His premium for this coverage was \$11.27 per acre (\$1,127), after Federal subsidies are deducted. The resulting revenue guarantee was \$226.63 per acre (\$22,663). The guarantee is calculated using 70% of the 125 bushel per acre yield (87.5) times the base price (\$2.59).

Had he selected APH coverage, our farmer could raise 87.5 bushels per acre (70% of his approved yield) and would not be eligible for a loss payment, regardless of price. In contrast, if he raises the 87.5 bushel per acre, but the harvest price (the October average for the CBOT December contract) used to calculate revenue dropped 10% to \$2.33, a \$22.66 per acre (\$2,266) loss payment would have resulted.

In 2007, the base price for corn is \$4.06. Using the same coverage criteria as in the 2006 example, this year our farmer has a \$355.25 per acre (\$35,525) guarantee on his 100 acres. His premium is \$17.06 per acre. If his yield this fall is 87.5 bushels per acre, and the harvest price is 10% less (\$3.65), a \$35.87 per acre (\$3,587) loss payment is the result.

Remember that in both these examples the yield loss under the APH plan was not triggered. It was the drop in price that made the difference.



Now consider that this year's corn yields, for many farmers, will be well below the yield guarantee on their crop insurance policies, and the price of corn has been dropping well below this year's \$4.06 base price.

Those who invested in high levels of CRC coverage are probably sleeping a lot better than those who did not.

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*This article is reprinted courtesy of the Delaware Department of Agriculture, from the September edition of their newsletter.

Photo by Kohl Threlkeld



Phillip Iott

"I can sleep better at night because I have crop insurance."

Phillip Iott grows corn, soybeans, and wheat in Monroe County, Michigan. The crop yields the last four or five years have been very good on his farm. But that didn't stop him from buying revenue insurance at the 85 percent level.

"It may cost a little more, but right now, with as dry as it's been, I'm kind of glad I have it," Iott said. With the revenue policy, Iott can more aggressively market his crop. "I can forward contract up to what I have protected by my crop insurance policy and not worry so much about what happens."

Iott understands crop insurance isn't something you can get rich on. He's used crop insurance for many years and understands the long-term value in doing so. "It's there to cover you in a year that you have a drought or can't get your crop planted." And with higher input costs, he understands that a one-year hit with bad crops could put him out of business without crop insurance. It's a gamble that Iott isn't willing to take.



WOULDN'T YOU MAKE THE CALL?

Less than two-tenths of one percent of all the producers, agents, and adjusters involved in the crop insurance program try to defraud their neighbors and their fellow taxpayers. But those few hurt us all. If you see someone damaging your reputation and robbing from the public's trust in the crop insurance program, call the toll-free hotline, 1-800-424-9121 or e-mail usda_hotline@oig.usda.gov.

REPORT CROP INSURANCE FRAUD
1-800-424-9121

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Pasture, Rangeland, and Forage Insurance

The new pilot program for Pasture, Rangeland and Forage protection is already insuring over 24 million acres in selected counties in Alabama, Colorado, Idaho, North Dakota, Oklahoma, Oregon, New York, Pennsylvania, South Carolina, South Dakota, Texas and Wyoming.

The Risk Management Agency (RMA) is expected to expand the program to more counties and states soon.

There are two versions of this program, one based on a Rainfall Index and one based on a Vegetative Index. Both programs are area based products that trigger indemnities without the farmer or rancher needing to report or prove their loss.

The policies are being used by both dairy and beef producers as well as those who produce hay for others.



The USDA estimates that the United States holds some 580 + million acres of pasture and rangeland as well as over 60 million acres of hay land.

To find out if these programs are available in your area, contact a private crop insurance agent. ■

It Doesn't Cost To Ask

Crop insurance policies are tools that can help producers accomplish a wide variety of jobs. Ask your private crop insurance agent how a crop insurance policy can help you...

- **Protect against crop disasters**
- **Market more profitably**
- **Improve access to credit**
- **Guarantee a minimum level of income**
- **Reassure partners and family**
- **Provide peace of mind**

Over 100 crops are insurable. Even diversified, multiple crop operations can be insured. And there are all kinds of pilot projects underway.

To insure all those different crops and different

types of farming operations, there are many different kinds of crop insurance policies. Knowing how to use those policies may seem as complicated as learning how to speak another language, but it doesn't have to be.

Along with all the crop insurance tools that are available come well-trained, certified crop insurance agents and adjusters.

What most producers need is enough information to ask their crop insurance agent good questions. Your crop insurance agent will be able to answer those questions and help you choose the right tools for the job you want done. It doesn't cost anything to ask. ■

HOW TO EVALUATE CROP-HAIL INSURANCE

Hail is the one catastrophe that is most likely to totally destroy a part of your crop and leave the rest looking fine. The part hail takes out may well be less than the deductible of your Multiple Peril Crop Insurance policy or it may not lower your yield enough for a revenue insurance policy to kick in.

Crop-Hail insurance can fill that gap.

While MPCl and revenue protection policies protect you against losses severe enough to significantly drop the yield per insured unit, Crop-Hail insurance gives you acre-by-acre protection that can be up to the actual cash value of the crop.

If you buy 65/100 (65 percent of yield and 100 percent of price) or greater for your MPCl, you can, under many policies, delete the hail coverage and replace it with private hail coverage. Many find it

more effective to leave MPCl hail coverage in place and get a companion Crop-Hail policy to cover their MPCl deductible.

Crop-Hail is especially important to those with group policies, like GRIP, which leaves individuals exposed to spot losses due to hail.

You can also buy additional Crop-Hail coverage during the growing season (prior to damage) to protect added profit potential from bumper crop yields or higher-than-normal crop values.

Even if your frequency of hail damage is low, remember that Crop-Hail coverage is rated for your area. It is an inexpensive way to protect against hail damage. ■



Photo by Peter Kent



Garland Veasey

Even Universities invest in crop insurance.

Garland Veasey is the Director of Research Farm Services at Clemson University in South Carolina. For him, investing in pasture and hayland insurance was a very timely choice.

"The 2006 crop year and following winter was so abnormally dry we used most of our normal carry-over to just get through. All of our back-up was gone. It was an easy decision for us to enroll in the program."

"To be able to purchase crop insurance at just a fraction of the per acre cost of fertilizer, really put things in perspective."

"Our first segment loss payment allowed us to recoup the cost of our entire yearly premium and covered most of our spring fertilizer application."

"I ran ten or more scenarios on the web based calculator system that helped me select different production and coverage levels across the grids."

"I would encourage anyone who depends on forage to look into this program."

Risk Management Checklist

Do I understand what the major risks are for my farm and the likelihood of them occurring?

List Risks:

1. _____
2. _____
3. _____
4. _____

- Have I identified reliable sources of outlook information?
- Do I have four or more years of production records to prove my yields?
- Have I certified my production history with my crop insurance agent?
- Does my landlord/partner/etc. have adequate insurance coverage on their portion of exposure?
- What coverage level do I need? _____%

- Have I learned about all of the products that are available, including revenue insurance?
- Have I considered Crop-Hail insurance?
- Have I considered insurance supplementals?
- Does my crop insurance agent understand my marketing and financial plans?
- Do I understand the important crop insurance deadlines and what is required of me for each?

Financial Considerations

What percentage of my crop can I sell with confidence before harvest? _____%

Does my operating loan include enough money to cover my crop insurance premium?

What size of loss can I experience and still meet my cash flow requirements? _____

What will be the impact on my net worth if I don't have adequate crop insurance coverage?

Marketing Plan

Have I prepared a written marketing plan that includes:

- production cost estimates and break-even prices at various yield levels?
- minimum selling price under various strategies?
- a clear pricing objective?

- a clear profit objective?
- a scheduled appointment with my introducing broker, elevator operator, or co-op, if appropriate?

Deadlines

- Sales closing date: last day to apply for coverage...
Crop/date: _____
Crop/date: _____
- Cancellation date: give notice if I don't want insurance next year...
Crop/date: _____
Crop/date: _____
- Production reporting date: actual production history must be reported by...
Crop/date: _____
Crop/date: _____
- Final planting date: if unable to plant, I must contact agent by...
Crop/date: _____
Crop/date: _____
- Acreage reporting date: report acreage planted...
Crop/date: _____
Crop/date: _____
- Payment due date: interest charges are due beyond...
Crop/date: _____
Crop/date: _____
- Date to file notice of crop damage: damage must be reported by...
Crop/date: _____
Crop/date: _____
- End of insurance period: latest date of coverage...
Crop/date: _____
Crop/date: _____
- Debt termination date: insurance coverage for next year will be canceled if payment is not made by...
Crop/date: _____
Crop/date: _____

Photo by Kyle Nosal



Melvin Baile, Jr.

"We had big losses in the 1997 drought, especially the green beans," said Melvin Baile, Jr., who farms in Maryland.

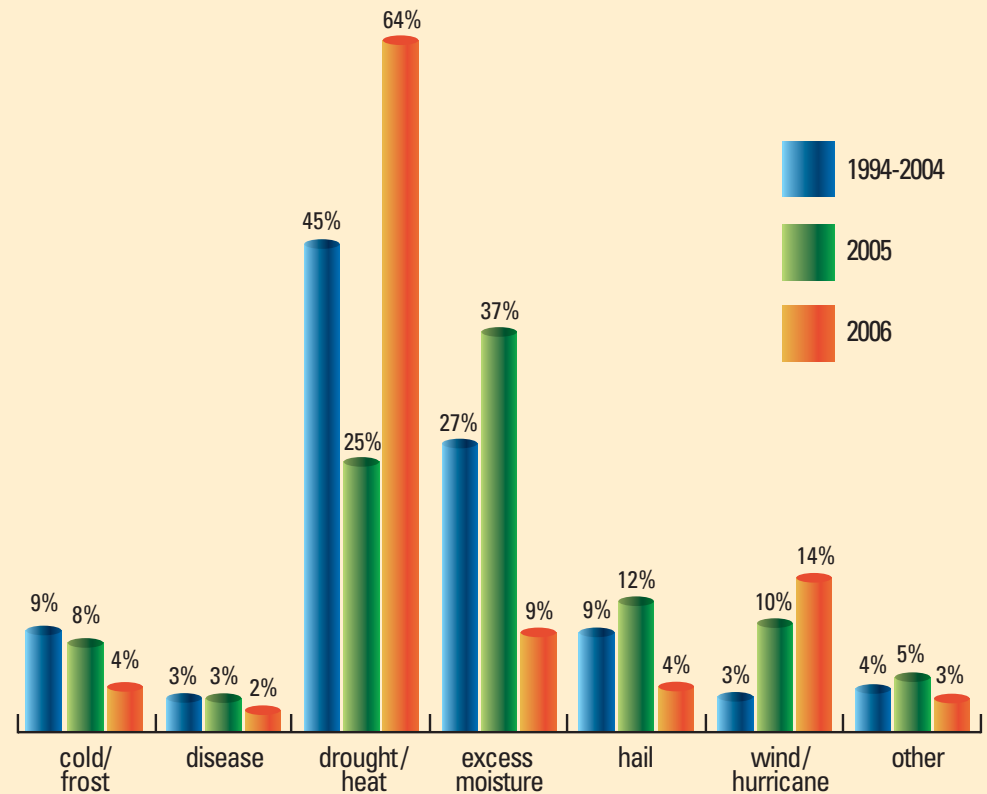
The only crop insurance he had was the Catastrophic or CAT coverage.

"The federal disaster relief was not nearly enough to cover our variable costs, let alone our fixed costs."

Baile had to go to the bank to borrow the money he needed to keep going. It took five years to pay back the loan that covered those losses.

"Now I can't imagine farming without crop insurance," he said, adding, "It has also improved my relationship with my loan officer. When you can demonstrate that you have enough crop insurance to cover your variable costs, you have a much better relationship with your lender."

CAUSES OF CROP LOSS



This example demonstrates that averages tell very little about what will happen in any given year.

This publication is produced by National Crop Insurance Services, a not-for-profit trade association representing the interests of private companies providing crop insurance protection for farmers.

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