2012 Made it Two Catastrophic Years in a Row—Here’s What Congress Heard After 2011

Crop insurance has become the powerful risk management tool that Congress designed it to be, garnering widespread support from all segments of agriculture, banking and most importantly, farmers, said Ruth Gerdes during her testimony to the House Subcommittee on General Farm Commodities and Risk Management.

The growth of Federal Crop Insurance is an outstanding success story,” said Gerdes, president of The Auburn Agency Crop Insurance Inc., farmer and crop insurance agent from Auburn, Nebraska. Gerdes explained that from the time the modern public/private partnership was forged in 1980, the program has grown “from an insignificant nuisance among farm programs covering less than 12 percent of the nation’s cropland to a robust program covering 83 percent of all cropland acres and providing bankable protection to America’s best, most dynamic and most productive farm families.”

Former USDA Chief Economist Keith Collins told the Subcommittee that “the expanding role of crop insurance in the farm safety net signals several key features that farmers and policymakers find attractive.” Collins explained that these include the requirement that a producer has to consciously elect to manage risks, the availability of insurance plans that can be designed to fit individual farm risks, the idea that producers share in the program costs, and accountability that comes with cost sharing.

“It was a good thing for taxpayers and farmers that crop insurance was so effective, given the level of loss experienced by farmers last year. Tim Weber, president of Great American Insurance Company’s crop division, told the Subcommittee that the fact that farmers are in their fields today is proof certain that crop insurance is the risk management tool that Congress envisioned.

“The 2011 crop year, one of the most destructive weather years in recent history, taught us that crop insurance is absolutely critical,” said Weber. “With large farm losses and record-high indemnity payments, farmers who might otherwise be out of business are back in the fields for the 2012 crop year,” he said.
Enterprise Units Increasingly the Answer

“The one big thing that came out of the Farm Bill that many people don’t think about is the Enterprise Unit subsidy,” said Gary Schnitkey, a farm management specialist. “It greatly reduced premiums and we have seen a tremendous shift from Basic and Optional Units to Enterprise Units.”

Since the introduction of additional subsidies in 2012, Enterprise Units have grown to cover nearly 50 percent of eligible acres for a total of over 140 million acres.

The reason for this surge in Enterprise Units is the increased premium subsidy. For many producers it cuts premium costs in half, which allows them to buy higher levels of coverage.

Enterprise Units are the lowest cost crop insurance coverage available for corn and soybean producers.

How it works

The Enterprise Unit recognizes that when a producer consolidates insurance units, small individual farm losses may not result in an indemnity. Under this plan, the producer self-insuresthe smaller isolated losses, but when a severe disaster occurs, that would have caused all Basic and Optional Units to be in a loss category, the loss payment would be identical to having individual farm Basic and Optional Units.

The Risk Management Agency’s rules for how to qualify for Enterprise Units changed in 2011. The complete, detailed explanation is in the box below.

The important thing is to explore these options with your crop insurance agent. There is a reason so many producers are making the switch to Enterprise Units. The numbers from 2012 show that they are using the lower premiums to buy higher levels of crop insurance protection.

Enterprise Insurance Unit—Combo policy

Enterprise Unit (EU): An EU consists of all insurable acreage of the same insured crop in the county in which the insured has a share on the date coverage begins for the crop year.

(3) Qualifications (Sec. 10 C. Crop Insurance Handbook).

To qualify for EUs:

(a) The EU must contain all of the insurable acreage of the same insured crop in:

1. Two or more sections, if Optional Units (OU) are available by sections;
2. Two or more section equivalents, if OUs are available by section equivalents;
3. Two or more FSA Farm Numbers (FN), if OUs are available by FSA FNs;
4. Any combination of two or more sections, section equivalents, or FSA FNs, if more than one of these is the basis for OUs;
5. One section, section equivalent, or FSA FN that contains at least 660 planted acres, based on the type of parcel that is utilized to establish OUs; or
6. Two or more units as established by a Written Unit Agreement or Unit Division Option.

(b) Each of the above [(a)1-(a)6] that are used to qualify for the EU must have planted acreage that constitutes at least the lesser of 20 acres or 20 percent of the insured crop acreage in the EU. If there is planted acreage in more than two sections, section equivalents, FSA FNs or units established by written agreement, these can be aggregated to form at least two parcels to meet this requirement. For example, if sections are the basis for OUs and the insured has 80 planted acres in section 15, 10 planted acres in section 34, and 10 planted acres in section 35, sections 34 and 35 may be aggregated to meet the 20 acres/20% requirement.

(c) The crop must be insured under revenue protection or yield protection, unless otherwise specified in the Special Provisions (SP); and

(d) Must be an additional coverage policy (CAT is not eligible for EU).

For additional information or clarification, contact a crop insurance agent. List available at: http://www3.rma.usda.gov/apps/agents/
Risk Management Checklist

**Crop, Revenue, and Livestock Insurance Deadlines**

If you do not know all the dates in this section, you should contact your crop insurance agent for help.

1. Do I know all critical dates and sign-up deadlines?
2. Sales closing date – last date to apply for coverage is:
3. Cancellation date – last date to give notice if I do not want insurance next year:
4. Production reporting date – actual production history must be reported by:
5. Final planting date – if unable to plant, I must contact my agent by:
6. Acreage reporting date – I must report my acreage planted to my agent by:
7. Payment due date – interest charges will be incurred after:
8. Final date to file notice of crop damage – any perceived damage must be reported no later than:
9. End of insurance period – latest date of coverage for current year’s crop:
10. Debt termination date – insurance coverage for next year will be canceled if payment is not made by:
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

More than 120 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.
You have a lot at stake in making sure your crop insurance acreage reporting is accurate and on time.

If you fail to report on time, you may not be protected. If you report too much acreage, you may pay too much premium. If you report too little acreage you may recover less when you file a claim.

Crop insurance agents often say that mistakes in acreage reporting are the easiest way for producers to have an unsatisfactory experience with crop insurance.

Don’t depend on your agent to do this important job for you. Your signature on the bottom of the acreage reporting form makes it, legally, your responsibility. Double check it for yourself. Also make sure that your crop insurance and FSA reports are identical (provide written explanation of any differences). The law requires that they be compared.

Make sure that you receive and retain a signed copy of the reports that you file as this is critical to correct any errors that may show up later.

What is an acreage report?
The acreage report is the basis for determining the amount of insurance provided and the premium charged. An annual acreage report for each insured crop in which you have an ownership share in the county must be submitted to your insurance company (through your agent) on or before the acreage reporting date for that crop.

The acreage report shows: the crops you have planted; acreage prevented from planting; what share you have in those crops; where the crops are located; how many acres you planted; the dates you planted them; what insurance unit they are located on, and the cultural practice followed (i.e. irrigated, double cropped, etc.).

You may not revise this report after the acreage reporting date.

Remember
Acreage reporting is your responsibility. Doing it right will save you money.

Always get a copy of your report immediately after signing and filing it with your agent and keep it with your records.

Remember, it is your responsibility to report crop damage to your agent within 72 hours of discovery.

Never put damaged acreage to another use without prior written consent of the insurance company. You don’t want to destroy any evidence of a possible claim.

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Track Your Basis for Better Marketing

The price you get for the grains you deliver to your local buyers starts with the Chicago Mercantile Exchange (CME). The difference between that CME price and the local price is the “basis.”

Understanding the patterns of your local basis can help you know when to sell and when to hold. When you are quoted a local price you should check to see if the current basis is strong or weak (compared to the average). A strong basis is a signal that the price may be better than expected. A weak basis is a signal from the market that they really don’t want your grain at this time.

Crop insurance, particularly revenue-based crop insurance, allows you to not only protect your expected revenue, but also allows you to more confidently sell your grain well before harvest.

Check the chart on the right to see how often spring futures prices for corn have been higher than the harvest time price.

Monitor your basis to help you know when to sell and sell with confidence when you are protected by crop insurance.

Get Acreage Reporting Right—It Saves You Money

Revenue Protection (RP) Provides the Best Protection

Comparison of Spring vs. Harvest Corn Prices by Year

Whenever the spring price is higher than the harvest price; there is a potential revenue loss.

When the harvest price is higher than the spring price; it would take a yield loss to have a loss.
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 crop insurance 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 MPCI, you can, under many policies, delete the hail coverage and replace it with private hail coverage. Many find it more effective to leave MPCI hail coverage in place and get a companion Crop-Hail policy to cover their MPCI 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.

### Causes of Crop Loss

- **Drought/Heat**: 39%
- **Excess Moisture**: 27%
- **Decline in Price**: 5%
- **Disease**: 2%
- **Other**: 5%
- **Cold/Frost/Freeze**: 9%
- **Wind/Hurricane**: 3%
- **Insects/Wildlife**: 1%
- **Hail**: 9%

Average Cause of Loss 1989-2010

Each individual year is distinctively different from this average.