Federal Crop Insurance: The Basics

Presented by

Shawn Wade

Director of Communications

Plains Cotton Growers, Inc.

4517 West Loop 289

Lubbock, TX 79414

WWW.PLAINSCOTTON.ORG

Why Federal Crop Insurance?

Every year farmers face the threat of damage to their crops from drought, hail, flood, insects, and other natural disasters.

PCG

What is Federal Crop Insurance?

The federal crop insurance program is a subsidized insurance program that provides financial protection to producers against crop losses caused by natural disasters such as drought or flood. The crop insurance program is authorized by the Federal Crop Insurance Act ("FCIA") "to promote the national welfare by improving the economic stability of agriculture through a sound system of crop insurance and by providing the means for research and experience helpful in devising and establishing such insurance."

Purpose and Importance

The purpose of the program is to promote, support, and regulate sound risk management solutions to strengthen and preserve the economic stability of American agricultural producers through a public-private partnership that provides producers with essential tools to manage the risks they face. USDA's Risk Management Agency (RMA) administers the program, which is delivered by private-sector insurance companies that sell and service the crop insurance policies through an agent workforce in the locations where intended beneficiaries live and farm.

Standard Reinsurance Agreements (SRA) require private sector delivery partners to serve all farmers who seek crop insurance.

Crop insurance plays a large and essential role in the Federal government's efforts to ensure the economic stability of agriculture.

Agricultural lenders frequently require crop insurance as collateral for farm loans

PCG

The Crop insurance program is valuable for agricultural producers as a risk management tool.

Definitions / Acronyms:

Insured crop. The crop for which coverage is available under the Basic Provisions and the applicable Crop Provisions as shown on your application for insurance.

Deductible. The amount of loss incurred before insurance coverage begins, determined by subtracting the coverage level percentage you choose from 100 percent. For example, if you elected a 65 percent coverage level, your deductible would be 35 percent (100% - 65% = 35%).

Additional coverage. Crop insurance coverage equal to or greater than 65 percent of the approved yield indemnified at 100 percent of the expected market price, or a comparable coverage as established by the Federal Crop Insurance Corporation (FCIC).

Limited coverage. Coverage that is 50 percent or more, but less than 65 percent, of the approved yield indemnified at 100 percent of the expected market price (or a comparable coverage as established by FCIC).

Supplemental Coverage. Private insurance companies have developed a variety of policies that supplement the coverage available under the standard MPCI policies. The most common supplemental policy is companion hail insurance, which generally has a lower deductible loss trigger than MPCI, but for hail damage, only.

Definitions continued …

Approved Insurance Provider (AIP). The private company that ha entered into a Standard Reinsurance Agreement (SRA) with the Federal Crop Insurance Corporation/USDS to sell, deliver and implement risk management programs offered by the FCIC.

Agricultural Experts. Persons who are employed by the Cooperative State Research, Education and Extension Service or the agricultural departments of universities, or other persons approved by FCIC, whose research or occupation is related to the specific crop or practice for which such expertise is sought.

Actual Production History (APH). A process used to determine production guarantees…..

Replanting. Performing the cultural practices necessary to prepare the land to replace the seed or plants of the damaged or destroyed insured crop and then replacing the seed or plants of the same crop in the insured acreage The same crop does not necessarily mean the same type or variety of the crop unless different types or varieties constitute separate crops or it is otherwise specified in the policy..

Practical to replant. Our determination, after loss or damage to the insured crop, based on all factors, including, but not limited to moisture availability, marketing window, condition of the field, and time to crop maturity, that replanting the insured crop will allow the crop to attain maturity prior to the calendar date for the end of the insurance period. It will be considered to be practical to replant regardless of the availability of seed or plants, or the input costs necessary to produce the insured crop such as those that would be incurred for seed or plants, irrigation water, etc.

Definitions continued …

Price election. The prices contained in the Special Provisions or an addendum. They are used to compute the value per pound, bushel, ton, carton, or other unit of measure so that premium and indemnity can be determined.

Production guarantee (per acre). The number of pounds, bushels, tons, cartons, or other unit of measure determined by multiplying the approved yield per acre by the coverage level percentage you elect.

Good farming practices. The cultural practices generally in use in the county for the crop. Practices required for the crop to produce at least the yield used to determine the production guarantee or amount of insurance. These practices are recognized by the Cooperative State Research, Education, and Extension Service as compatible with agronomic and weather conditions in the county.

Approved Yield. The actual production history (APH) yield, calculated and approved by the verifier, used to determine the production guarantee by summing the yearly actual, assigned, adjusted or unadjusted transitional yields and dividing the sum by the number of yields contained in the database, which will always contain at least four yields. The database may contain up to 0 consecutive crop years of actual or assigned yields.

Types of Insurance

Producers can choose from among the following general types of crop insurance:

- Multiple Peril Crop Insurance (MPCI) , or
  Actual Production History (APH)

- Crop Revenue Insurance (CRC)

- Group Risk Plan (GRP)

- Catastrophic Insurance (CAT)

- Supplemental Insurance - Hail is most commonly
  used type in the High Plains.

Multi-Peril Crop Insurance (MPCI)

- MPCI protects against losses to crop yield only.
- APH and/or County T Yield is used in the coverage calculation.
- Uses a Market Price election to calculate MPCI coverage level.
- Producer selects coverage level between 50 to 85% in five percent increments to establish deductible level and production threshold below which loss payments would be triggered.
- Catastrophic Risk Protection (CAT) is the lowest level of coverage under MPCI and has a loss trigger/deductible of 50% of the producers APH and payment rate equal to 55% of the price election.
- Includes Skip-row Provisions for Dryland Production

Crop Revenue Coverage (CRC)

- CRC protects against revenue loss due to yield loss and/or price fluctuation by converting your bushel guarantee per acre to a dollar guarantee per acre.
- APH and/or County T Yield is used in the coverage calculation for CRC.
- CRC yield coverage choices range from 50 to 85% in five percent increments.
- CRC coverage includes the choice of Basic, Optional, or Enterprise Unit structures.
- Premiums apply to CRC. Premiums are subsidized by the federal government. Premiums are based upon the Base Price and remain the same even if the Harvest Price is different than the Base Price.
- Replant and prevented planting coverage is included in CRC coverage.

Group Risk Protection (GRP)

- GRP coverage is based upon whether or not the county, not the insured, experiences a yield loss. GRP indemnifies the insured in the event the county average per acre yield or payment yield falls below the County NASS Yield.

- GRP does not offer individual farm or producer coverage. Unit structure is the county.

- The GRP indemnity payment is based upon the relationship between the NASS Yield and the county-wide average produced for a given year for a given crop.

- GRP does not require calculation of the growers APH.

- GRP is used most often to insure crops such as forage crops, but is available for cotton and several other commodities grown in the High Plains.

- Coverage/trigger levels range from 70% to 90%, in 5% increments.

PCG

Units

Basic unit. All acreage of the insured crop in the county on the date coverage begins for the crop year:
1) In which the insured has 100 percent crop share; or
2) Which is owned by one person and operated by another person on a share basis. (Example: If, in addition to the land you own, you rent land from five landlords, three on a crop share basis and two on a cash basis, you would be entitled to four units—one for each crop share lease and one that combines the two cash leases and the land you own.) Land which would otherwise be one unit may, in certain instances, be divided.

Optional unit. For an additional premium, growers may subdivide their basic units by practice, section or section equivalents.

Enterprise unit. All acreage of the insured crop in the county in which you have a share on the date coverage begins for the crop year. An enterprise unit must consist of:
1) Two or more basic units of the same insured crop that are located in two or more separate sections, section equivalents, or FSA farm serial numbers; or
2) Two or more optional units of the same insured crop established by separate sections, section equivalents, or FSA farm serial numbers.

Important Dates

Sales Closing. A date in the Special Provisions by which an application must be filed. This is the last date a producer may change their crop insurance coverage for a crop year. Texas High Plains = March 15

Acreage Reporting. The date by which the insured is required to submit an acreage report. Texas High Plains = July 15

Final Planting Date. The date(s)* in the Special Provisions by which the crop must initially be planted in order to be insured for the full production guarantee or amount of insurance per acre.

*** High Plains has 3 defined Final Planting dates: May 31, June 5, June 10**

Late planting period. The period that begins the day after the final planting date for the insured crop and ends 25 days* later, unless otherwise specified in the Crop Provisions or Special Provisions.

*** All Texas cotton counties now have a 7-day late Planting period specified in the Special Provisions**

What Happens When Cotton Fails To Emerge Due To Drought?

Producer Responsibilities:

- Notify Insurance Provider

- Schedule Appraisal

- Adjustment will be deferred
  - Minimum Deferral period 8 days from end of the Late Planting Period

What Happens When A Loss Occurs?

Options: Keep / Replant / Fail

Producer Responsibilities After A Loss:

- Notify Insurance Provider of Loss

Early Season Losses:

- If grower preference is to Replant - Producer MUST obtain permission to replant the damaged stand
- If replanting is not a consideration - Producer should ask the AIP to schedule loss adjustment. Adjustment will be scheduled/deferred based on reported cause of loss.

  - Deferral period depends on cause of loss:

    Hail - min. 5-7 days; Other causes - usually 1-5 days

  - Adjustment Method - Stand Count and/or Hail methods apply

PCG

What Happens When A Loss Occurs?

Options: Keep / Replant / Fail

Producer Responsibilities After A Loss:

- Notify Insurance Provider of Loss

Mid- & Late Season Losses:

- Producer should ask the AIP to schedule loss adjustment.
- Adjustment will be scheduled/deferred based on reported cause of loss.

  - Deferral period depends on cause of loss:

    Hail - minimum 5-7 days

    Other causes - usually 1-5 days

  - Adjustment Method will depend on crop stage

    Stand-count / Boll Count / Hail Methods

1st crop - 2nd crop Provisions

- If the producer's 1st crop can not be planted, is hailed out and can not be replanted, the producer can elect to plant a 2nd crop.

- The 2nd crop does not have to be insured.

- If the 2nd crop is insured, the producer would receive 35% of the loss on the 1st crop. Later in the year, if there is no loss to the 2nd crop, the producer can collect the remaining loss (up to 100%) on the 1st crop.

- If the 2nd crop is insured and fails, the producer receives 100% of the crop loss on the 2nd crop and keeps the 35% loss payment on the 1st crop.

Plains Cotton Growers, Inc.

4517 West Loop 289
Lubbock, TX 79414
www.plainscotton.org