Department of Agricultural Economics

Understanding Crop Insurance: What Every Producer in Kentucky Needs to Know

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Crop Insurance

Agricultural producers face many types of risks. Yield and price risk represent the two most important risks facing producers. Producers can purchase crop insurance to reduce yield and/or price risk. Crop insurance protects yields against unavoidable perils such as but not limited to: drought, heat, hail, excess moisture, frost, freeze, insects, etc. Crop insurance protects against prices by using futures contracts on commodity exchanges such as the Chicago Board of Trade.

Choosing and signing up for crop insurance requires an understanding of options available in the program. It is the purpose of this article to build a basic understanding of crop insurance and available options. While reading, take special care in understanding choices such as insurance plan type, coverage and price levels, and unit structure.

Each policy requires an application, with a due date that varies by crop but can be found on RMA's website (www.rma.usda.gov under "actuarial documents") or through your crop insurance agent. It is vital that the application is correct, because changes to it may reduce your indemnity at claim time – so carefully submit and review this information with your crop insurance agent.

Brief History

Crop insurance has been available since the 1930's but it wasn't until the 1990's that the U.S. government emphasized the use of crop insurance by offering many new products and enhanced premium subsidization. This emphasis signaled a turning point in U.S. agricultural policy, where crop insurance started to represent the most important risk management program available to agricultural producers. The U.S. government subsidizes crop insurance to assist producers in managing their business risks.

The Risk Management Agency (RMA) arm of the United States Department of Agriculture (USDA) develops and oversees the Federal Crop Insurance Corporation (FCIC), while private companies under contract with RMA service crop insurance policies for producers, sold through independent agencies.

Application

On the application, you select from many options, including insurance plan type, coverage and price levels, and unit structure. The following description of each option will provide a foundation to understanding what each option means.

Insurance Plan Type

Plan types typically fall under one of the three following categories yield insurance, revenue insurance, or group risk plans. Yield insurance, or multiple-peril crop insurance (MPCI, also referred to as "Actual Production History", or APH) protects against only yield losses. RA and CRC are the most widely utilized plans for corn, soybeans and wheat in Kentucky.

Revenue insurance protects against revenue losses (i.e., yield multiplied by price) caused by declines in either yields or prices. The three most popular types of revenue insurance are: Crop Revenue Coverage (CRC), Revenue Assurance (RA), and Income Protection (IP). Plans are basically the same with differences being found in the details. CRC protects against yields and whether the price goes up or down between planting and harvest – RA with the Harvest Price Option (HPO) works the same way but calculates prices a little different than CRC.

RA without the HPO and IP only protect the farmer if the prices go down – if the price go up from planting to harvest, the farmer could have a yield loss and no indemnity because indemnity payments are calculated using the harvest price which is assumed to be greater than the price determined at planting- base price.

Base and harvest prices are determined by the Risk Management Agency. For revenue assurance, the base price for corn is determined by taking the average of the daily settlement of the December futures prices during February. The harvest price for corn is determined by taking the average settlement of the December futures prices during November. Base and harvest prices for soybeans and wheat are determined using the same method using different futures prices during different months.

Group risk plans differ from yield and revenue plans in that they are based on the average yield for the entire county, not individual production. It is important to note that with group risk plans, it is possibly for an individual farmer to suffer a yield loss but not have an indemnity if the entire county on average does not have a loss.

Coverage and Price Levels

Coverage levels and price levels will help determine premium, or cost to insure, and are used to determine your guarantee per acre. Available coverage levels differ by plan type, but generally are between 50-85% in 5% increments. Your Actual Production History or APH (average of a minimum of four and a maximum of ten years of production by unit) multiplied by your level equals your Guarantee, or coverage. For example, if your APH was 50 bushels an acre and you elected 50% coverage level, your guarantee would be 25 bushels per acre. Selecting higher coverage levels result in higher guarantees.

For revenue insurance plans producers can also select the level of price protection, generally between 55% - 100%. The price level determines your guarantee as revenue. APH multiplied by selected price equals your revenue guarantee. So in the example above, if the announced price was $5, and you chose to insure 100% of the price, your revenue guarantee would be $5 per bushel x 25 bushels per acre = $125 dollars per acre). Generally, producers generally select 100% for the price level. Selecting higher coverage and price levels results in a higher revenue guarantee and the more you pay in premium.

Unit Structure

Unit structure is probably one of the most important choices the producer will make when determining their crop insurance policy. Unit structure determines whether you insure the farm as individual policy's which could be by farm serial numbers all the way up to one policy for the whole-farm. There are four available types of units: optional, basic, enterprise, whole-farm.

Optional units allow the producer to insure production separately by farm serial numbers, or section/township/range – optional units requires production be kept separate by unit. This is imperative to APH and guarantee determination. If production is not kept separate, the units are combined into basic units and lose optional coverage. Optional units benefit the farmer by further reducing risk, since losses are figured by unit.

Basic units insure production separately by crop, county (or parish), and entity/share. Basic units do not allow the producer to insure cash rent corn in two different farm serial numbers separately.

There are two other unit structures available – enterprise and whole-farm. Both of these must be allowed by the Special Provisions of Insurance (county/crop specific guidelines available on RMA's website in the Actuarial Documents or through your agent) to be available in the county. Enterprise units combine all acres of an enterprise, say corn, in the county to be insured as one policy. Requirements to have enterprise units are:

- 2 or more basic or optional units of same insured crop located in 2 Farm Serial Numbers or section/ township/ranges.
- All acres must be on acreage report.
- The basic/optional units must each have insurable acreage of the same crop.
- Insured must comply with reporting provisions for enterprise unit.

There is a significant premium discount available for enterprise units – your agent can give you details according to your crop and county.

Whole Farm units combine all acres of all insured crops in the county to be insured as one policy. To have a whole-farm unit, the insured must report acreage for each optional/basic unit that makes up the whole farm unit.

APH

Your Actual Production History, or APH, must be turned in after your application. APH is the average of the past 4-10 years of production history. It is imperative to provide production history to create the best possible APH.   If the minimum of 4 years are not available, your APH will be determined by "T yields", or transitional yields that represent the county average yield which estimated and provided in the county actuarial table. For 0 years of production history, 65% of the T-yield is applied, with one year of production history the remaining three missing years receives 80% of the T-yield, with two years of production history the remaining two missing years receives 90% of the T-yield, and with three years of production history the remaining one missing year receives 100% of the T-yield.

Acreage Report

On the acreage report, you must list all acres, what share you have in them, who you share with, and the plant date. Also any high-risk acres need to be identified on the acreage report, which your agent can determine. This information needs to be as accurate as possible because at claim time it will be either compared to what the Farm Service Agency (FSA) has on file, or the claim adjuster will measure the acres if that is not available. If there is a discrepancy of what was reported, a "Misreported Information Factor" will be applied which will decrease the amount of the indemnity.

Policy

With the above information from your agent, the Approved Insurance Provider (AIP) will accept and create your policy. All of your choices and information will be calculated to provide your guarantee per acre and premium amount due. You will receive a "Schedule of Insurance" which will show what is covered in your policy.

Claims

When a loss occurs on your farm, it is vital that you notify your agent immediately – you are required by your policy to turn in the loss timely, and if it is not turned in on time it will not be adjusted or paid. It is recommended that you keep proof that you turned in the claim, whether you turn it in writing or note the date/time you called your agent about it – this is just in case it does not get to the company for any reason.

There are 3 main types of claims; Prevented Plant, cannot plant due to adverse conditions; Replant, already planted and lost crop, there is still time to replant in season; and Production, acres were planted and cared for but yield is below guarantee. It is very important that on any claim, you do not destroy the crop or replant it before a crop insurance adjuster gives you the okay to do so – if you do, the claim may not be paid.

Important Dates

It is important to understand the following dates – your agent can supply these, or they can be found on RMA's website (Tools and Calculators, Dates Inquiry System) and their meaning. Please note that dates can vary by crop and county.

Sales Closing Date – Crop insurance application is due.

Final Planting Date – Crop must be planted by this date, each day it is late a penalty is placed on the amount of coverage.

Acreage Reporting Date – Your acreage report is due that requires information such as: list of crops which were planted, number acres planted to each crop and share of crop (100 percent or percent crop share).

End of Insurance Date – The crop is no longer covered after this date, losses must be turned in to your agent before this date.

Termination Date – This will be on your billing statement, it is when you must pay your premium. Note that premiums are typically due in the fall after the crop was planted.

Common Errors

There are several common errors that can either lower your indemnity (claim amount paid) or void the claim entirely.

Misreported Information Factor (MIF)

The MIF is applied when your acreage report is inaccurate on one unit by 10% or more. The larger the difference will result in more money taken out of the claim. This can be avoided by checking and double checking the number of acres turned in and comparing your acreage report to what you turn in to the FSA office. Crop insurance companies will check your policy against what the FSA office has at claim time.

Share/Production Sold

Crop insurance companies use sales tickets to determine how the share in the crop is divided – if you have listed 100% share in a crop, and when it is sold somebody else receives 50% of it, your share will be lowered to 50% by the company and you will only receive that percentage of the indemnity.

Identification Number ID#

At claim time an adjuster will verify your social security or tax ID number. Also it again will be reviewed against FSA paperwork in the office. If it does not match what you turned in on your application, your entire policy can be voided (unless it was a keying error). Check and double check your Tax ID # on your crop insurance application!

Commingling

When crops are combined for storage or delivery, detailed records must be kept – the insurance company needs to know exactly how much of the production came from each unit. These records need to be dated and maintained in a manner that can be divided into units. If not, the unit structure will be changed (combined) and the production will be averaged out over all combined units which could turn a loss into no loss.

Destroying Without Consent

If the crop is destroyed without consent (before the adjuster okay's it), the claim cannot be paid. At that point, the insurance company has no way to know what it would have produced or that it was really destroyed.

Late Claim

If a claim is turned in late, it usually cannot be paid – deadlines vary by crop and county, but the safest way to avoid this problem is to turn it in immediately when the crop is damaged.

Poor Farming

"Poor Farming Practices" are determined by the insurance company at claim time, to avoid this you must genuinely attempt to care for the crop and keep records when possible that you have done so (i.e. pesticide receipts). If it is determined that the loss occurred due to poor farming practices and not natural conditions, the loss will be denied.

Not General to Area

This most frequently occurs with Prevented Planting claims, but can also occur on Replants and Production claims. Basically, if you have a loss and none of the surrounding farms or even farms in the county do, the claim will be considered "not general to the area" – if you can document a viable reason for the loss (for example, your farm is in a valley and it flooded all of planting season), it will be considered for payment.

Not Paying Premium Waiting for Claim

Premium is due regardless of open claims. Periodically producers get their policy revoked and placed on the Ineligible Tracking System ITS (a government list that blocks those on it from all government programs), because they don't pay their premium thinking that an open claim will cover it. Premium is paid out of claims when possible, but if it has not been paid and the due date is near, you should pay it to be sure you are not placed on the ITS list.

Records

At times the insured will turn in their APH and not verify it with their agent. RMA does "spot checks" of policies, and companies are required to review a percentage of their policies. This review requires a thorough inspection of APH documentation. If the insured cannot provide such documentation, their APH will be lowered thereby lowering their guarantee which may result in previously paid claims to be repaid. Keep diligent production records to avoid this situation.

Summary

Your agent will be able to help you with the specifics of your crop insurance policy, but we hope that these guidelines will assist you in a general understanding of crop insurance. Table 1 provides a list of available options for crop insurance plans. It is suggested to review this table to get an understanding of the differences between plans. For the most part, if you maintain organized records and double check your application, claim time will be much smoother. Each year, carefully review with your agent which unit structure, plan, and levels you want, have your agent discuss yearly changes to crop insurance rules, and compare them to what is on your Schedule of Insurance– this will avoid potentially bad situations at claim time.

Table 1. Insurance Contracts and Options Available by Contract.

Base and harvest prices are determined by the Risk Management Agency. For revenue assurance, the base price for corn

		Multiple Peril Crop insurance (MPCI) or Actual Production History (APH)	Crop Revenue Coverage (CRC)	Revenue Assurance (RA)	Income Protection (IP)	Group Risk Protection (GRP)	Group Risk Income Protection (GRIP)
Provides Protection against		Individual Yield	Individual Revenue (yield multiplied by price)	Individual Revenue	Individual Revenue	Area Yield	Area Revenue
Unit Structures Available		Basic Optional Enterprise Whole Farm	Basic Optional Enterprise	Basic Optional Enterprise Whole Farm	Enterprise	One unit per county	One unit per county
Subsidy Level (percent of premium paid by RMA)	Coverage Level:						
	CAT	100%	*	*	100%	100%	*
	50%	67%	67%	*	67%	*	*
	55%	64%	64%	*	64%	*	*
	60%	64%	64%	*	64%	*	*
	65%	59%	59%	59%	59%	*	*
	70%	59%	59%	59%	59%	59%	59%
	75%	55%	55%	55%	55%	55%	59%
	80%	48%	48%	48%	48%	55%	55%
	85%	38%	38%	38%	38%	49%	55%
	90%	*	*	*	*	44%	51%
Payments are triggered by losses from:	Yield	Revenue (Yield and/ or Prices)	Revenue	Revenue	Revenue	County level yield	County level revenue

*Indicates coverage level is not available.

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