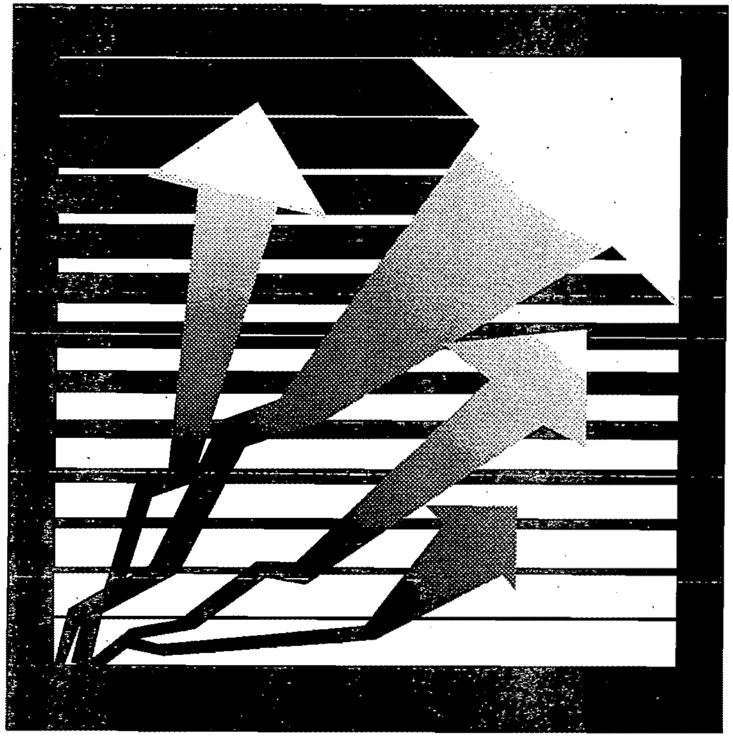
Crop Insurance: Making It Work for You

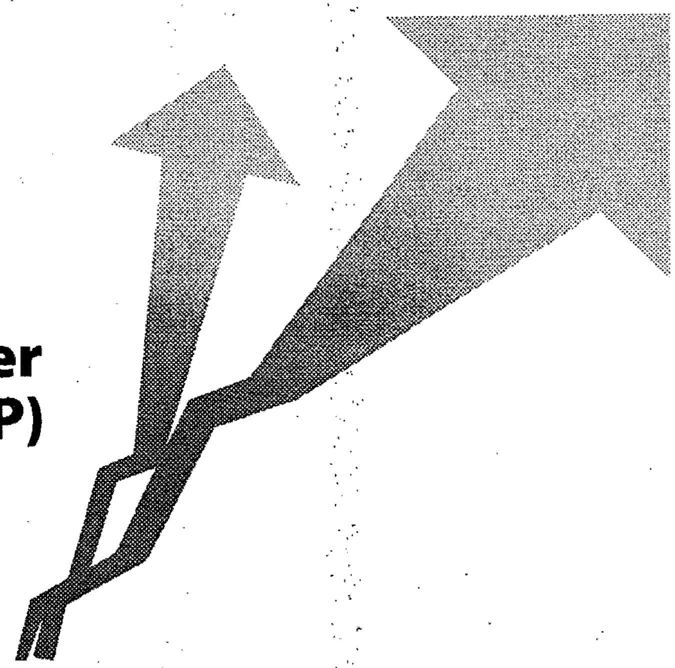


"I strongly recommend you consider buying higher levels of coverage..."

—Dan Glickman,
Secretary of Agriculture

Federal Crop Insurance Reform Act

- Multiple Peril Crop Insurance (MPCI)
- Noninsured Crop Disaster Assistance Program (NAP)

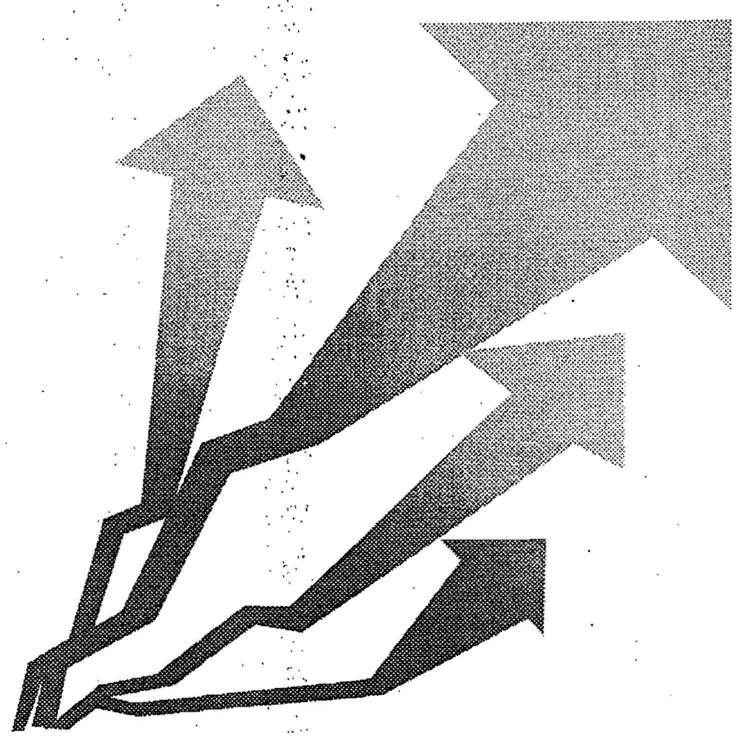


NAP Requirements

- Area crop loss must exceed 35% AND
- Individual crop losses must exceed 50 percent of the expected yield
- Payments are made at @ 60% expected market price
- Acres and Yields must be annually reported to FSA
- Contact local FSA office for acreage reporting deadlines

Multiple Peril Crop Insurance: Two Plans of Insurance

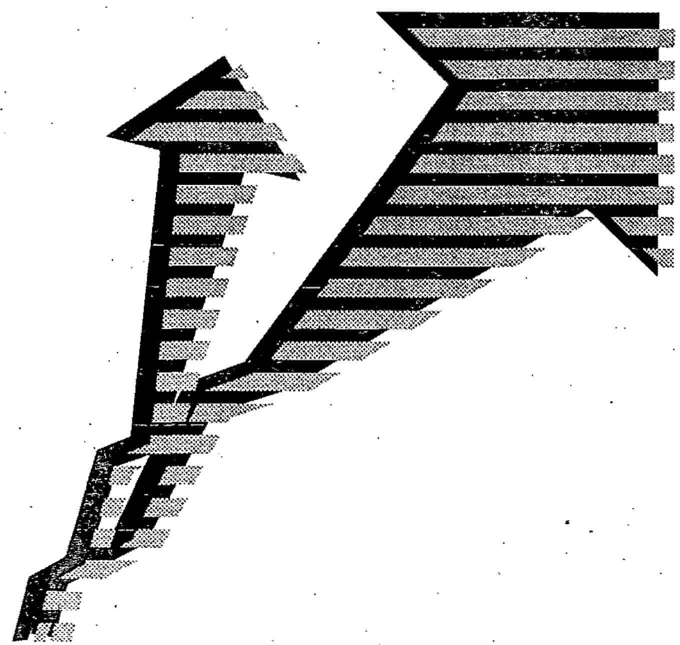
- Actual Production History Plan (APH)
- Group Risk Plan (GRP)



Group Risk Plan

- Coverage Levels (except forage) - 70,75,80,85,and 90 percent of expected county yield
- Dollar amount of protection up 150 percent of expected county revenue (for insured crop)
- Indemnities paid only when NASS county average yield is below selected trigger yield
- Fulfills insurance "linkage" requirements

Group Risk Plan



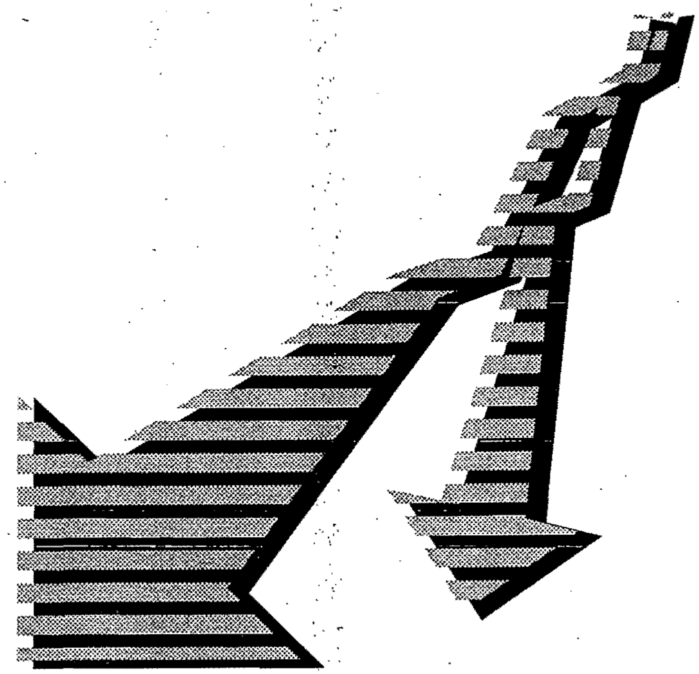
Advantages

- Federally subsidized
- Minimum Paperwork
  - No need to provide production records
  - No need to file a claim for payment

Group Risk Plan

Disadvantages

- Indemnity depends on NASS county average yield
- Your yields do not determine a loss



Group Risk Plan

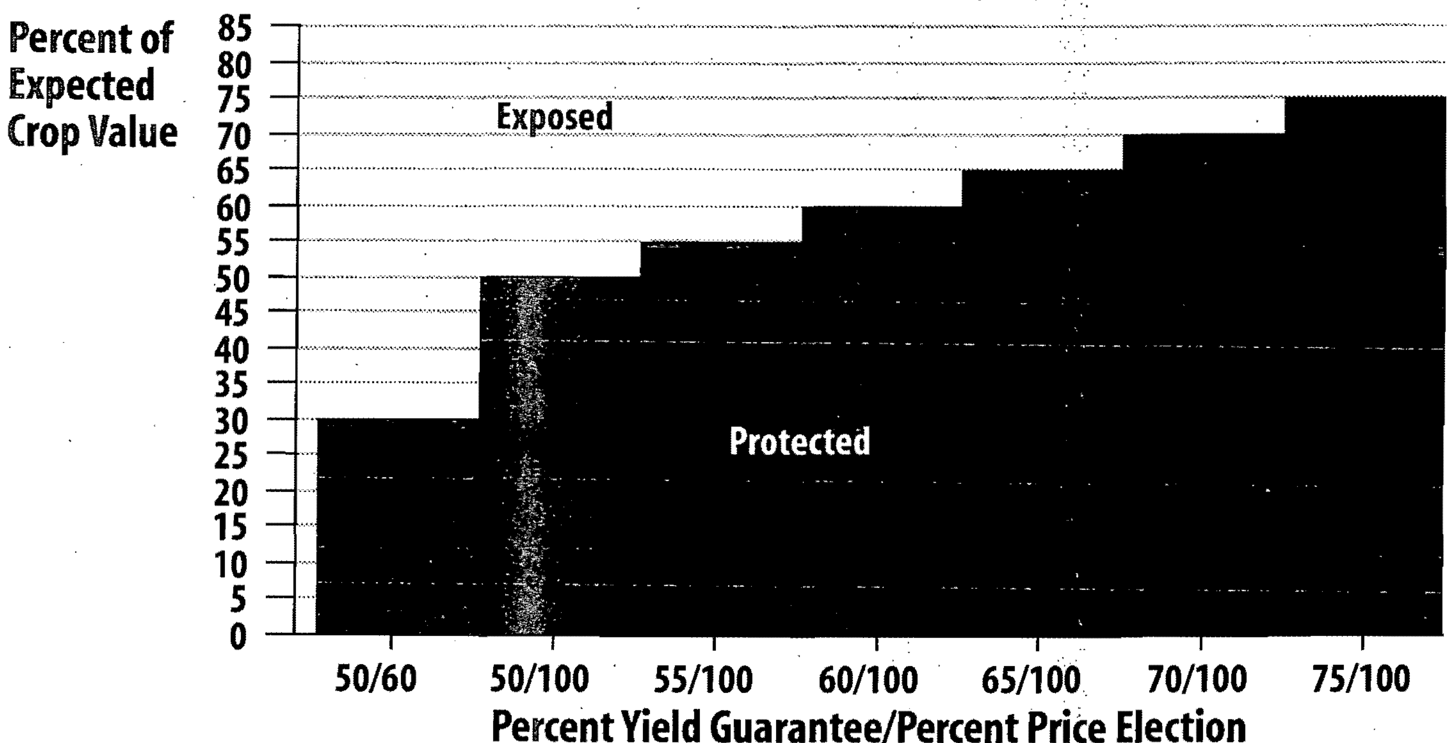
GRP might be your choice IF:

- Your yields follow county yields
- You don't want to provide production records
- The cost of insuring your crops with APH exceeds perceived risks

GRP Availability

Crops/County

Choosing Your Protection



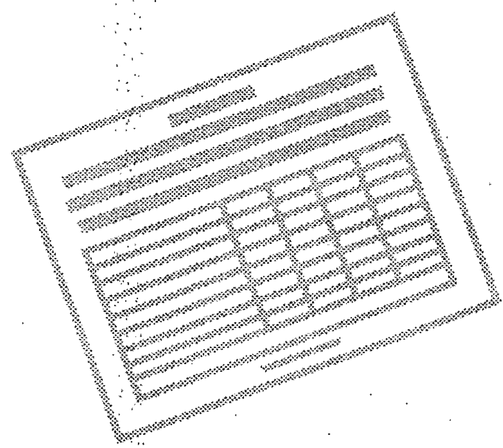
Actual Production History (APH)

- **The basis of your Protection**

  A 4–10 year average of your self-certified yields

  Consisting of:

  - **Actual yields**
  - **Transitional ("T") or Determined ("D") yields**



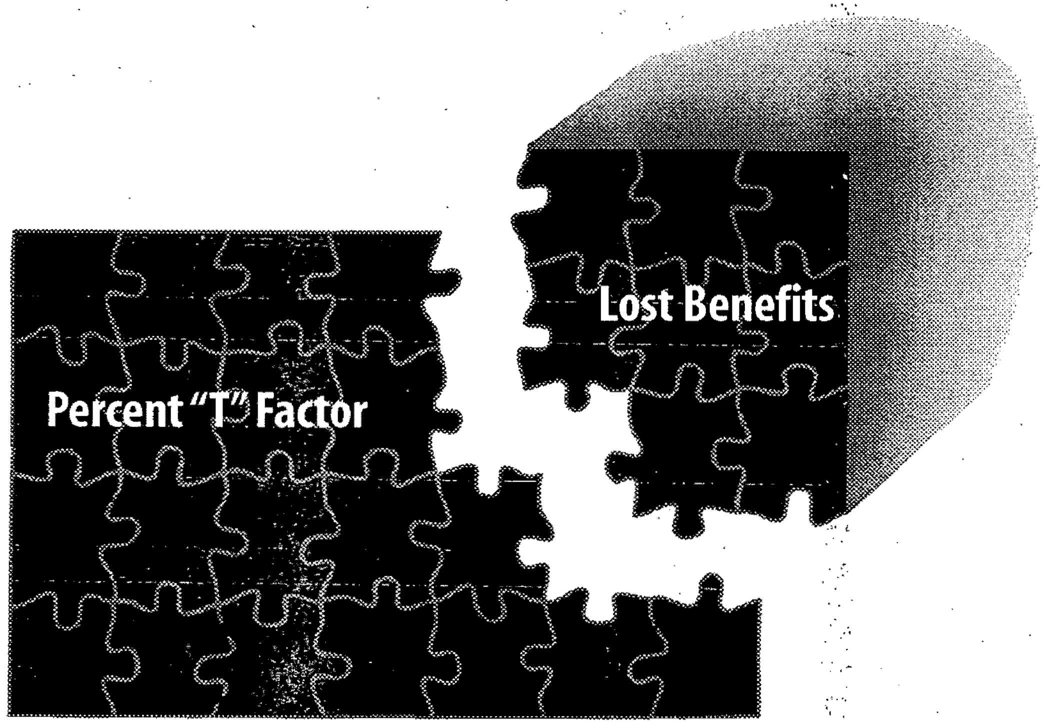
Calculating your APH

- No records, 65% of "T" Yield (Initially)
- 4 to 10 years of records, simple average
- Less than 4 years, use "T" or "D" Yields factored for missing years of production

Four Reasons to Report Production

- No production history averaged with 4 years at 65% of "T" or "D" Yield
- 1 year of production history averaged with 3 years at 80% "T" or "D" Yield
- 2 years of production history averaged with 2 years at 90% "T" or "D" Yield
- 3 years of production history averaged with 1 year at 100% "T" or "D" Yield

Percent "T" Factor = Lost Benefits



CAT Coverage

Assume no Yield History

Assume:

- $3 Expected Market Price
- 90 bushels "T" yield
- No yields reported
- ***100 bushels farm program yield***

Calculate:

"T" Yield	=	90 bushels
CAT Price Election	=	$1.80 (60% x $3)
65% of "T" Yield	=	58.5 bushels (65% of 90 bushels)
CAT Yield Guarantee	=	29.25 bushels (50% of 58.5 bushels)
Per acre CAT protection	=	$52.65 (29.25 bushels x $1.80)

17.55% of Farm Program Yield Protected

($52.65 CAT coverage ÷ $300 expected crop value)

CAT Coverage
Assume Yield History Reported

Assume:

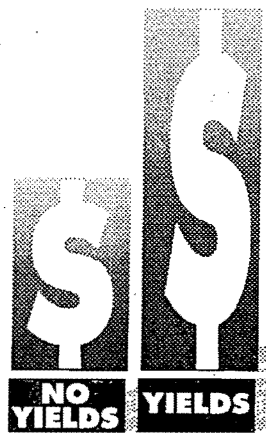
- 110 bushels APH yield
- $3 Expected Market Price
- ***100 bushels farm program yield***

Calculate:

CAT Price Election	=	$1.80 (60% x $3)
APH Yield	=	10 bushels
CAT Yield Guarantee	=	55 bushels (50% of 110 bushels)
Per acre CAT protection	=	$99.00 (55 bushels x $1.80)

★ ***33% of Farm Program Yield Protected***
($99.00 ÷ $300 expected crop value)

ShaZAMM!!!



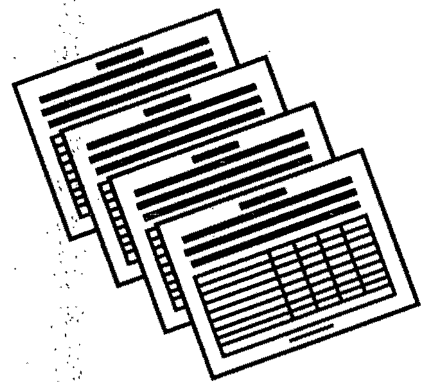
Insurance value increased 88%
—at NO additional cost!

(**$99.00** coverage per acre with yields ÷ **$52.65** coverage per acre without yields)

Self-Certification of Yields

Continuous crop years for which you have records

- **elevator or warehouse receipts**
- **farm management records**
- **settlement sheets**
- **ccc loan documents**



A percentage of production records are reviewed annually.

You must have records to support the amount of production your certify.

Buy-Up Options
Additional Benefits

- Elect coverage by Optional Units
- Protect up to 75/100
- Specialized coverage
  - hail/fire exclusion
  - replant payments (for certain crops)
  - options, options, options

Perspectives on Coverage

- ✔ 50/60 — minimizes producer's cost
- ✔ 50/100 — maximizes percentage of premium subsidy
- ✔ 65/100 — maximizes per acre premium subsidy
- ✔ 75/100 — maximizes protection

Building a Risk Management Plan

- What is my variable cost of producing the crop?
- What is the minimum cash flow I'll need in a bad year?
- What collateral will I need for operating loans?
- What will I need to pay off the loan?
- How much equity will I need to hold in cash reserves if I don't buy crop insurance?
- What percentage of my crop do I want to sell at higher pre-harvest prices?

See an agent!

Risk Management Strategies

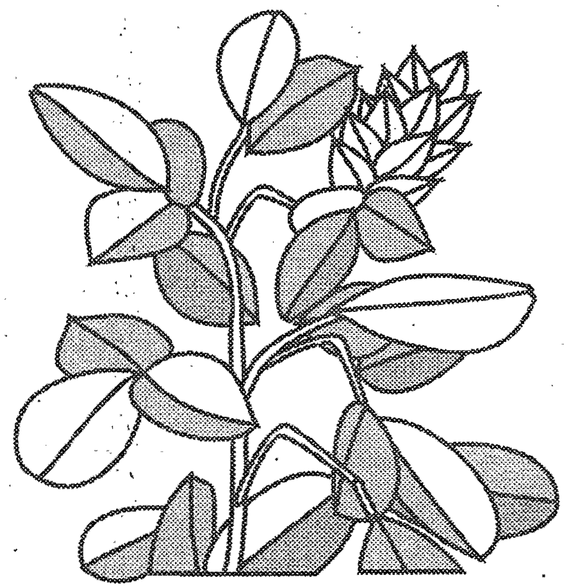
- Market Risk Management
- Production Risk Management
- Financial Risk Management

Market Risk Management

- Research
- Forward Pricing
- Commodity Options

Production Risk Management

- Crop Selection
- Production Practices



Risk Bearing Ability of Three Farmers

Item	Oscar Owner	Sam Sharerent	Bob Buyer
Total Assets	$500,000	$100,000	$500,000
Liabilities	-50,000	-50,000	-350,000
Net Worth	$450,0000	$50,000	$150,000
Debt/Asset Ratio	**.10**	**.50**	**.70**
Cash Requirements	$73,000	$54,000	$112,000
Expected Gross	$120,000	$60,000	$120,000
Cash Required/ Expected Gross	60.8%	90.0%	93.9%

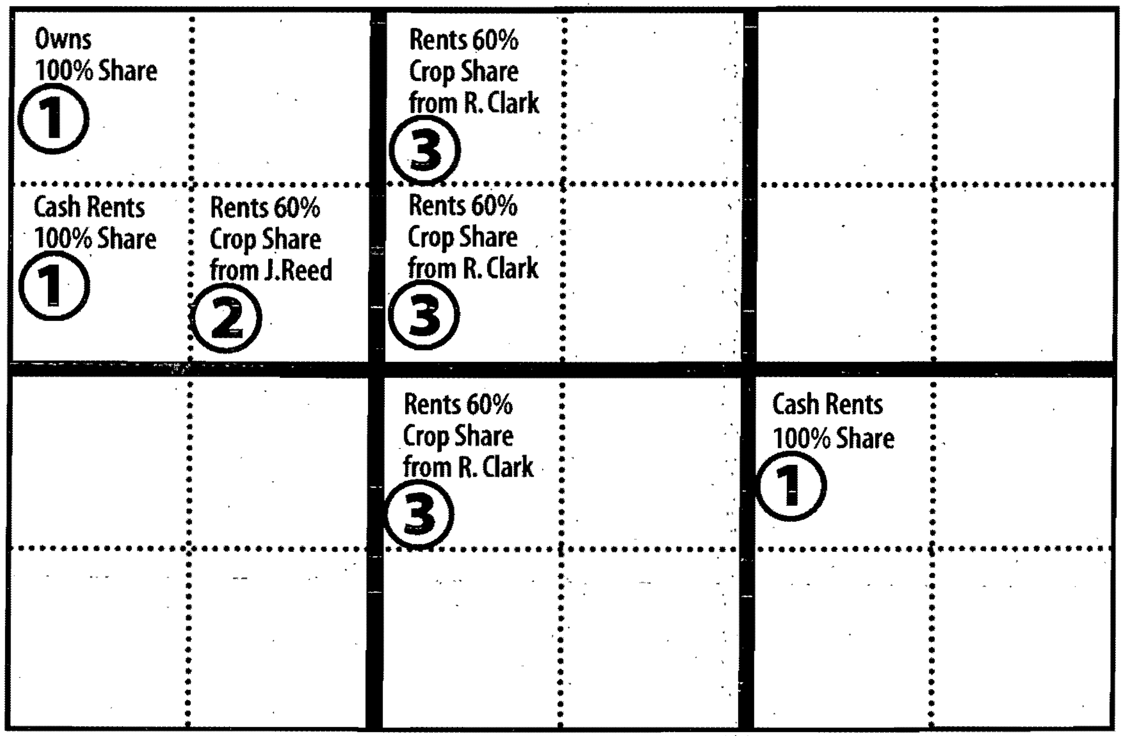
Building a Risk Management Plan

- What is my variable cost of producing the crop?
- What is the minimum cash flow I'll need in a bad year?
- What collateral will I need for operating loans?
- What will I need to pay off the loan?
- How much equity will I need to hold in cash reserves if I don't buy crop insurance?
- What percentage of my crop do I want to sell at higher pre-harvest prices?

See an agent!

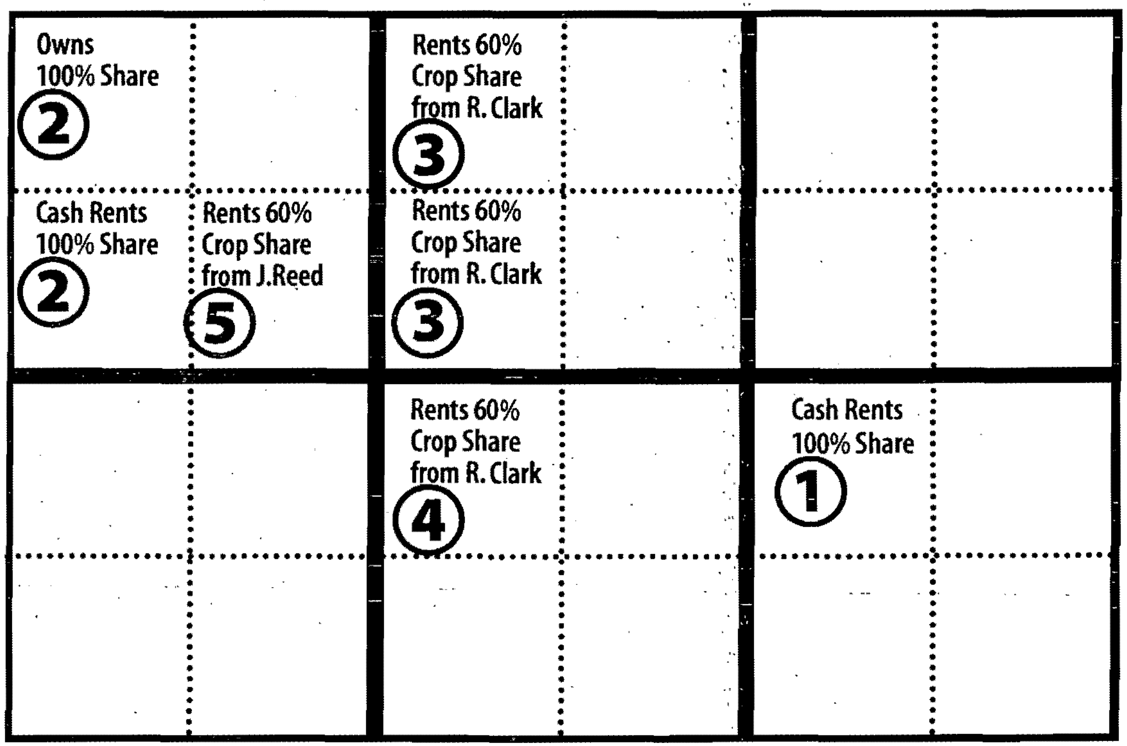
3 Basic Units (share/ownership)

Basic Units Example



5 Units (share/ownership/section)

Optional Units Example



Memorable Dates

Crop	Counties (If necessary)	Sales Closing	Final Planting	Acreage Reporting

Memorable Dates

Crop	Counties (If necessary)	Sales Closing	Final Planting	Acreage Reporting

More Memorable Dates

- Sales Closing
- Final Planting
- Acreage Reporting
- End of Insurance Period
- Payment Due
- Cancellation
- Production Reporting
- Valentine's Day
- Debt Termination
- Notice of Crop Damage Filing

Reporting Dates

Contact your local Farm Service Agency (FSA) Office today!

Crop Insurance: Making It Work for You

Cooperative effort by:

U.S. Department of Agriculture

Cooperative State Research, Education, and Extension Service

Farm Service Agency

Texas Agricultural Extension Service, Texas A&M University

Kenneth W. Stokes, Professor and Extension Economist

Crystal England, Extension Program Assistant

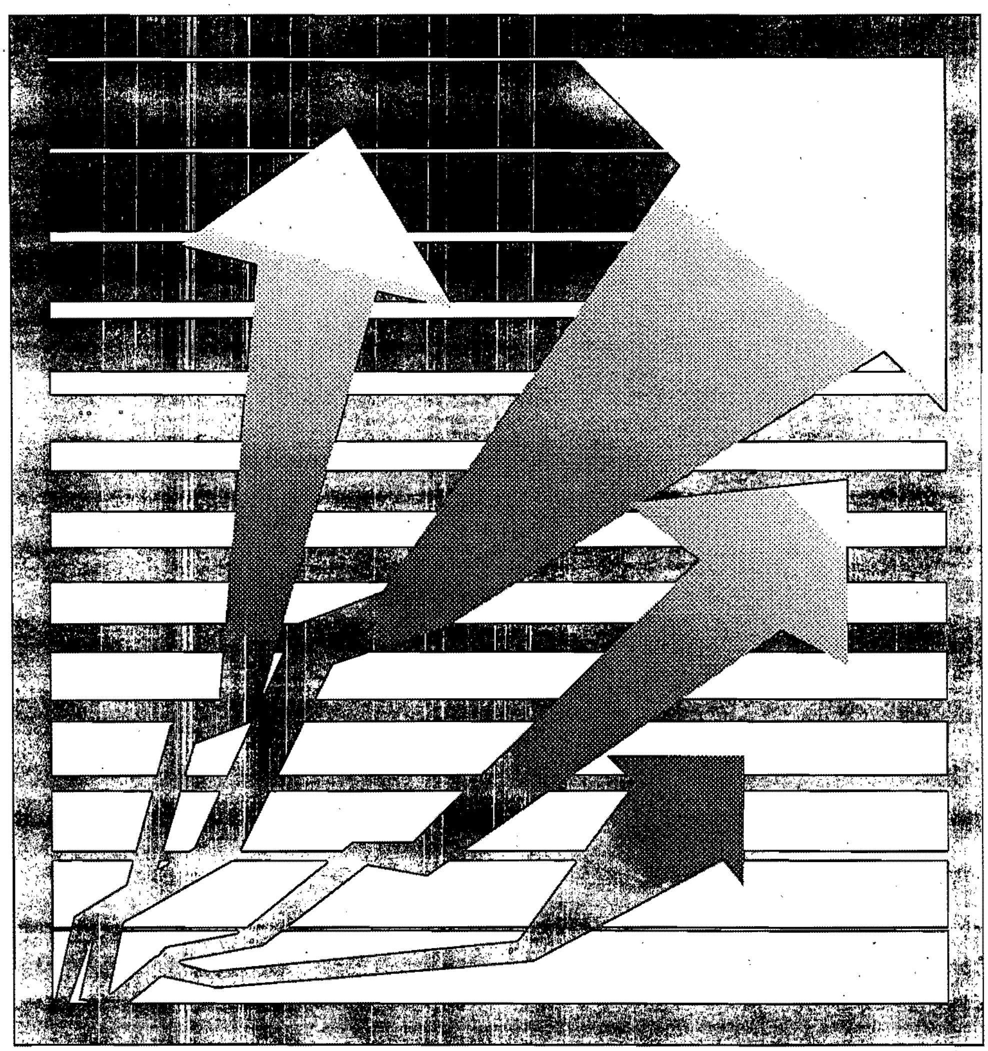
Exhibit 4

"Raising the Safety Net" (Information Piece)

CROP INSURANCE
Putting Farmers In Control

Raising the Safety Net

Alternatives to Catastrophic Coverage



United States Department of Agriculture

Farm Service Agency

Raising the Safety Net:
Alternatives to Catastrophic Coverage

INTRODUCTION

Producers have a variety of insurance products available to help manage their crop production risks. These products are the result of federal and private initiatives and provide the producer a wide range of product and coverage choices. Some of these products are summarized in the following pages. Not all products are available or applicable to crops and risks in your growing area. Contact an insurance agent to discuss availability.

To begin formulating your risk management plan, ask yourself these basic questions:

- What is my variable cost of producing the crop?
- What is the minimum cash flow I'll need in a bad year?
- What collateral will I need for operating loans?
- What will I need to pay off the loan?
- How much equity will I need to hold in cash reserves if I don't buy crop insurance?
- What percentage of my crop do I want to sell at higher pre-harvest prices.

Once you've answered these questions, a crop insurance agent will be able to design a plan to help meet your specific needs.

Federal Insurance Products

Obtaining either APH or GRP coverage satisfies the linkage requirement for participation in many USDA farm programs.

Federal crop insurance products are determined by federal law. These products are often referred to as Multiple Peril Crop Insurance (MPCI) and are administered by the United States Department of Agriculture's (USDA) Farm Service Agency (FSA). MPCI consists of two insurance plans, the Actual Production History plan (APH) and the Group Risk Plan (GRP). Obtaining either APH or GRP coverage satisfies the linkage requirement for participation in many USDA farm programs.

Within the APH program, are two categories of coverage, catastrophic risk protection (CAT) and additional coverage also known as "buy-up. "The amount of federal subsidy for buy-up policies is provided at two amounts—"limited" applies to policies providing less than the coverage equivalent of 65 percent yield and 100 percent price and "full" to 65 percent yield and 100 percent price or greater coverage. Table 1 and 2 provide a quick reference about the various coverage level and price combinations, administrative fees and subsidies.

THE ACTUAL PRODUCTION HISTORY PLAN

The APH plan of MPCI is available for most economically significant agricultural crops grown in the U.S.This plan provides protection for low yield and quality losses resulting from adverse weather and other uncontrollable production risks. Adverse weather includes hail, flood, drought, wind, and other weather events. Protection is also provided for uncontrollable production losses resulting from insects, and diseases, and other perils. Losses are measured by the amount of yield shortfall below the unit yield guarantee. Indemnities (loss payments) are calculated by multiplying the amount of yield shortfall by the crop price election selected when the policy is purchased.

Coverage levels are now 50, 55, 60, 65, 70, and 75 percent of actual production history.

- **Catastrophic Risk Protection - "CAT"**

  CAT is the minimum amount of coverage available under the APH plan—50 percent yield and 60 percent of the Farm Service Agency (FSA) maximum price. While similar in many features to additional coverage, there are some attractive features that are not available with CAT. These are the availability of coverage by units smaller than the acreage of a sharing entity, replanting payments, and optional coverages. While no premium is charged to the producer for CAT, there is an administrative fee of $50 per crop, subject to the limit of $200 per county or $600 for a single producer in all counties.

- **Additional Coverage - "Buy-Up"**

  Buy-up refers to the coverage choices greater than CAT—50 percent yield guarantee and 60 percent price election. The additional coverage provides a range of yield guarantees up to 75 percent and 100 percent of the price election.

Choosing a coverage

- Producers can choose the **crop/county combination** to be covered. These are independent choices and allow producers to select coverage for a crop in a county. The coverage will apply to all insurable acreage of the crop in the county in which the producer has a share on the date coverage begins for the crop year.

- Second, producers buying additional coverage select a **coverage level** for each crop/county combination. Coverage levels are now 50, 55, 60, 65, 70, and 75 percent of actual production history. To increase coverage, producers are encouraged to use records of actual production to establish yield guarantees.

- Third, producers also choose a **price election** between 60 percent and 100 percent of the price established by FSA. The price election is used to calculate premium and indemnities. It is not a guaranteed commodity price. For barley, corn, grain sorghum, oats, rye, soybeans, and wheat, the price election uses the maximum price. Generally, the maximum price is established by FSA about 30 days prior to sales closing.

Unit Definition

- Unit definition is a grouping of acreage with similar ownership and location characteristics within an entire farm. The insured unit is the basis on which the yield guarantee is established, premiums are calculated and losses are paid. There are two types of units, basic and optional.
  - A **basic** unit comprises all the insurable acreage of the insured crop in the county that has the same ownership entity. Insureds may elect to subdivide each basic unit into smaller acreage called **optional** units, under certain conditions.
  - If the insured maintains separate records of planted acreage and harvested production for each proposed optional unit, the basic unit may be subdivided into optional units by section, or by irrigated and nonirrigated practice. Optional units are only available with additional coverage. Insureds who elect APH coverage using only basic units will receive a premium discount of 10 percent.

Optional units are only available with additional coverage.

Establishing the Yield Guarantee

- The yield guarantee for each unit is established using at least four years of yield records building to ten years. There are two methods for the insured to establish the unit yield guarantee and the method used depends upon the number of years of actual yield records provided by the producer. An actual yield record is the producers certification of the planted acreage and harvested production for each proposed unit of the insured crop for a crop year.

Method 1
Assuming four or more years of actual records
Simply average the actual yields for the unit using records provided by the insured. The yield guarantee for each unit is recalculated annually using the additional year's records in the average yield calculations. Annual yield records will be retained to recalculate the guarantee for ten years.

Method 2
Assuming fewer than four years of actual records
Calculate the yield guarantee using the years of actual records and the appropriate "T" or "D" yield. The "T" and "D" yields are proxy yields established by FSA. If actual yields are not reported for each of the initial 4 years, then the insured's yield guarantee is calculated by averaging:

- No production history (initially) with 4 years at 65 percent of "T" or "D" yield
- 1 year of production history with 3 years at 80 percent of "T" or "D" yield
- 2 years of production history with 2 years at 90 percent of "T" or "D" yield
- 3 years of production history with 1 year at 100 percent of "T" or "D" yield

For example, consider a winter wheat producer who has only one year of actual production records that averaged 35 bushels per acre for the unit. The producer's yield guarantee would be calculated as the average of 35 bushels and three years at 80 percent of the "T" yield. If the "T" yield for the producer is 30 bushels, 80 percent of that is 24 bushels. The producers yield guarantee would be 26.8 bushels per acre, calculated as 35+24+24+24 divided by 4. If however, the producer had four years of actual records indicating yields of 35, 24, 30, and 28 bushels per acre, the yield guarantee would be 29.3 bushels per acre. In the second situation, the producer would also be able elect optional units if desired.

Table 1. Crop Insurance Reform: Coverages Subsidies and Processing Fees for APH

Actual Production History (APH)			
Level	Price Election	Subsidy	Fee
50%	60% (CAT)	All	Administrative
	100%	**Limited**	**Administrative**
55%	**91 to 100%**	**Limited**	**Administrative**
60%	**84 to 100%**	**Limited**	**Administrative**
65%	**77 to <100%**	**Limited**	**Administrative**
	100%	Full	Additional
70%	**72 to <93%**	**Limited**	**Administrative**
	93 to 100%	Full	Administrative
75%	**67 to <87%**	**Limited**	**Administrative**
	87 to 100%	Full	Additional

Shaded entries represent Additional Coverage choices with Limited Subsidy (Subsidy = Premium for 50/60 APH coverage). Other choices, except CAT, represent Additional Coverage with Full Subsidy (Subsidy = Premium for 50/75 APH coverage). Administrative Fee is \$50 per crop per county, but not to exceed \$200 limit per producer per county up to a maximum of \$600 per producer for all counties in which the producer has insured crops (50/200/600). Additional Fee is \$10 per crop.

THE GROUP RISK PLAN

The Group Risk Plan (GRP) is a departure from traditional approaches to crop insurance because it uses an index—the expected county yield—as the basis for protection. The assumption of GRP is that when the USDA's National Agricultural Statistics Services (NASS) county yield is low, most farmers in that county will also have low yields. When the yield for the insured crop in the county falls below the yield level chosen by the insured, the insured receives an indemnity.

GRP is not a product for every producer. It is an alternative to the individual farm level coverage provided by APH, with less paperwork and in some counties, less cost. The only paperwork required from the insured is an acreage report due shortly after the normal planting period. GRP might be a good choice for managing the risk of producers who:

Expected county yields are established by FSA from over 30 years of NASS county yields, adjusted for yield trends caused by new technology, improved farming practices, and other factors affecting yield.

- can not or do not want to furnish individual yield records to establish APH guarantees
- have individual farm yields that move in the same direction as county yields; or
- determine that the cost of insuring crops with APH exceeds their perceived risks

GRP coverage is only available through private insurance agents.*

Coverage Choices

- Choose the crop and county combination to be covered by GRP. The coverage will apply to the insureds share of all insurable acreage of the crop in the county. GRP coverage is available on eight crops (barley, corn, cotton, forage, grain sorghum, peanuts, soybeans, and wheat) in selected counties in 27 states. The availability of GRP coverage is limited because the program requires a long county yield history.
- Producers may choose one coverage level for each crop and county combination. There are five coverage levels—70, 75, 80, 85, and 90 percent—available for all crops. The choice of coverage level establishes the premium rate for protection, and is multiplied by the expected county yield to establish the "trigger yield" for potential indemnities. Expected county yields are established by FSA from over 30 years of NASS county yields, adjusted for yield trends caused by new technology, improved farming practices, and other factors affecting yield.
- Producers can select a dollar amount of protection for each crop county combination. The choice is any whole dollar amount between 60 percent and 100 percent of the maximum dollar amount of protection established by FSA. Generally, this amount is 50 percent greater than the expected county revenue—GRP expected county yield times the FSA established price. The amount of protection per acre is used to calculate the amount of protection for the GRP policy and the premium.

**Note: GRP CAT coverage is available for forage in Minnesota and Wisconsin. The GRP CAT for forage is 65 percent coverage level and 60 percent of the maximum dollar amount of protection established by FSA. The $50 administrative fee applies to the forage GRP CAT coverage and is available at the local FSA office or your provate crop insurance agent.*

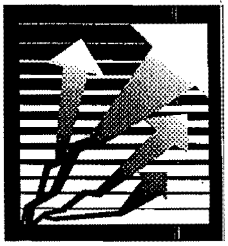
Indemnities

- Indemnities are paid when the NASS county yield for the crop county combination falls below the trigger yield— FSA expected county yield multiplied by the coverage level— of the GRP policy. Individual yield records are not needed to calculate GRP indemnities. The amount of indemnity is the percentage shortfall of the NASS county yield from the trigger yield, multiplied by the amount of protection for the policy. The formula for determining the percentage shortfall is the trigger yield, minus the county yield, divided by the trigger yield.
- Indemnity payments are made about six months after harvest of the crop when the county yield is below the trigger yield. FSA releases the county yield after the NASS estimated county yield is received and adjusted by FSA to the same basis as the GRP offer.

Table 2. Crop Insurance for GRP

Group Risk Plan (GRP)			
Level	Dollar Protection	Subsidy	Fee
* * No CAT Coverage * *			
70%	**60 to 100%**	**Limited**	**Administrative**
75%	**60 to 100%**	**Limited**	**Administrative**
80%	**60 to <95%**	**Limited**	**Administrative**
	95% to 100%	Full	Additional
85%	**60 to < 90%**	**Limited**	**Administrative**
	90 to 100%	Full	Additional
90%	**60 to <85%**	**Limited**	**Administrative**
	85 to 100%	Full	Additional

Shaded entries represent Additional Coverage choices with Limited Subsidy (Subsidy = Premium for 65/60 GRP coverage). Other choices represent Additional Coverage with Full Subsidy (Subsidy = 41.7 percent of the premium not to exceed the maximum dollar amount of 41.7 percent of the premium for 80/95 GRP coverage). Administrative Fee is $50 per crop per county, but not to exceed $200 limit per producer per county up to a maximum of $600 per producer for all counties in which the producer has insured crops (50/200/600). The Additional Fee is $10 per crop.



POLICY OPTIONS: CUSTOMIZING YOUR COVERAGE

Private initiative products consist of insurance policies that are developed and financed by the private insurance industry. There are two main classes of private initiative crop insurance products, MPCI Supplementals, and Crop-Hail. Recently, a third class of policies has been developed. These policies provide coverage for lost production or quality caused by specific measurable weather events such as temperature and rainfall.

MPCI Supplemental Coverage

There are two basic classes of supplemental policies—one provides coverage for production while the other provides coverage for price.

- The Federal Crop Insurance Act authorizes FCIC to allow private insurance companies to develop insurance policies which complement federally reinsured policies. In response to this legislation, over fifteen companies have developed APH supplemental policies. Each is unique, since the developing company decides which MPCI policy feature to enhance; although many possess similar features.
- The insurance company issuing a supplemental policy is responsible for claim payment and premiums. These companies also control where and for what crops coverage is offered. Producers interested in supplemental coverages should contact their crop insurance agent about availability, since supplemental policies are not available for all crops and growing regions of the country.
- There are two basic classes of supplemental policies—one provides coverage for production while the other provides coverage for price.

Production Coverage Supplementals

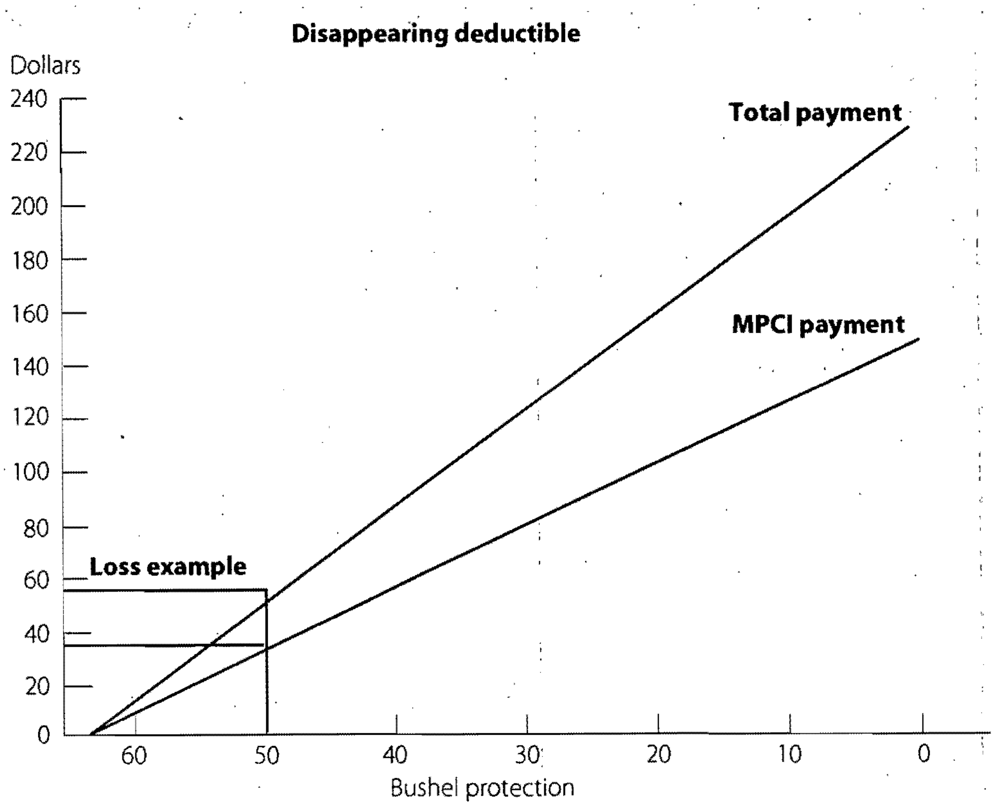
- There are two basic types of coverages available within this class of supplementals. One reduces the APH deductible (the difference between your yield guarantee and your APH average yield) when severe losses occur (Disappearing Deductible); the other offers a lower deductible for specific perils (Companion).

Disappearing Deductible

- This type of supplemental reduces the APH deductible in severe loss situations and has an amount of protection generally equal to the APH deductible. The basic features of this type of supplemental are the point at which losses are triggered (trigger point) and the Increasing Payment (IP) factor.
- The trigger point specifies the amount of APH loss needed before the supplemental policy begins payment. Disappearing deductible policies generally have one of two beginning trigger points. One coincides with the APH deductible (25, 35, or 50 percent loss) and begins payment when the APH deductible is exceeded. The other begins only after large losses, generally after a 65 percent loss.

- The Increasing Payment factor is the rate of loss payment for the supplemental. The amount of the IP factor causes the supplemental to pay a total loss when the APH is a total loss. To figure the amount payable by the supplemental, the IP factor is applied to the dollar amount of the APH loss. To evaluate the risk management value of this type of supplemental it is necessary to know the trigger point and the IP factor.
- A common feature of these supplementals is that the amount of protection equals the price election times the difference between the APH yield and the APH guarantee. Therefore, the insured would receive an indemnity equal to the APH yield times the selected price election when the APH unit is a total loss (see Figure 1).

Figure 1. Example of Disappearing Deductible



Example:

Budget Assumptions: The example is an owner-operated unit consisting of 50 acres of the insured crop with an average yield of 100 bushels per acre and an expected price of $2.30. Therefore, the budget projections are 5000 bushels production or $11,500 of revenue.

APH Coverage: The insured has selected the 75 percent coverage level and a $2.30 price election. The APH yield is 100 bushels. The APH unit guarantee is 3750 bushels (100 bushel APH × 75 percent coverage level × 50 acres) and the total protection is $8625 (3750 bushel guarantee × $2.30 price election).

Supplemental Coverage: The supplemental coverage selected has a loss inception point beginning at a 25 percent loss and an IP factor of .333. (This factor will pay the total protection in the event that the production for the unit is zero.) The supplemental coverage is $2875 (100 bushel APH × 25 percent × 50 acres × $2.30 price election).

Loss Example: Assume that the unit produced 2500 bushels (50 bushels per acre). APH loss payment is $2875 (3750 APH bushel guarantee – 2500 harvested bushels × $2.30 price election). The supplemental payment is $957 (APH payment of $2875 × the IP factor of .333). The total payment is $3832 ($2875 APH + $957 Supplemental).

Companion

- This class of supplementals is designed as a companion to the APH policy and modifies one or more of the APH features. The most common of this class is the companion hail policy. This policy is a modified crophail policy that provides hail coverage to the uninsured portion of APH. The modifications include a smaller deductible (5 percent) for the peril of hail rather than the minimum 25 percent or maximum 50 percent for APH, and an Increasing Payments factor that will pay the total amount of the companion hail protection when the loss exceeds the APH deductible.
- Companion hail policies have traditional crop-hail policy features such as "spot-loss" payments on an acre basis, loss determination as a percent reduction of potential yield, and coverage limited to the fair market value. Fair market value is the amount that a producer might expect at harvest and is calculated by multiplying the expected yield times the expected price per bushel. Recently, the underwriting rules have been liberalized so companion hail can be purchased without APH.

Example:

APH Coverage: The APH protection for the unit is \$8625 (3750 bushel guarantee × \$2.30 price election).

Supplemental Coverage: A companion hail policy is purchased in the amount of \$2,875 (\$11,500 budgeted revenue – APH protection of \$8,625). The companion policy is supplemental to a 75 percent coverage level APH policy and has an IP factor of 4.0.

Loss Example: Ten acres of the 50 acre unit is appraised at 10 percent damage. The payable loss is 20 percent (10 percent appraised damage – 5 percent deductible × 4.0 IP factor). The companion policy liability represented by the damaged acreage is \$575 (10/50 of \$2,875). Therefore, the claim payment of the companion hail policy is \$115 and the APH would pay nothing because the damage did not exceed the APH deductible.

While the price supplemental increases the price election for the insured crop, it does not pay until the crop loss exceeds the APH deductible...

Price Supplementals

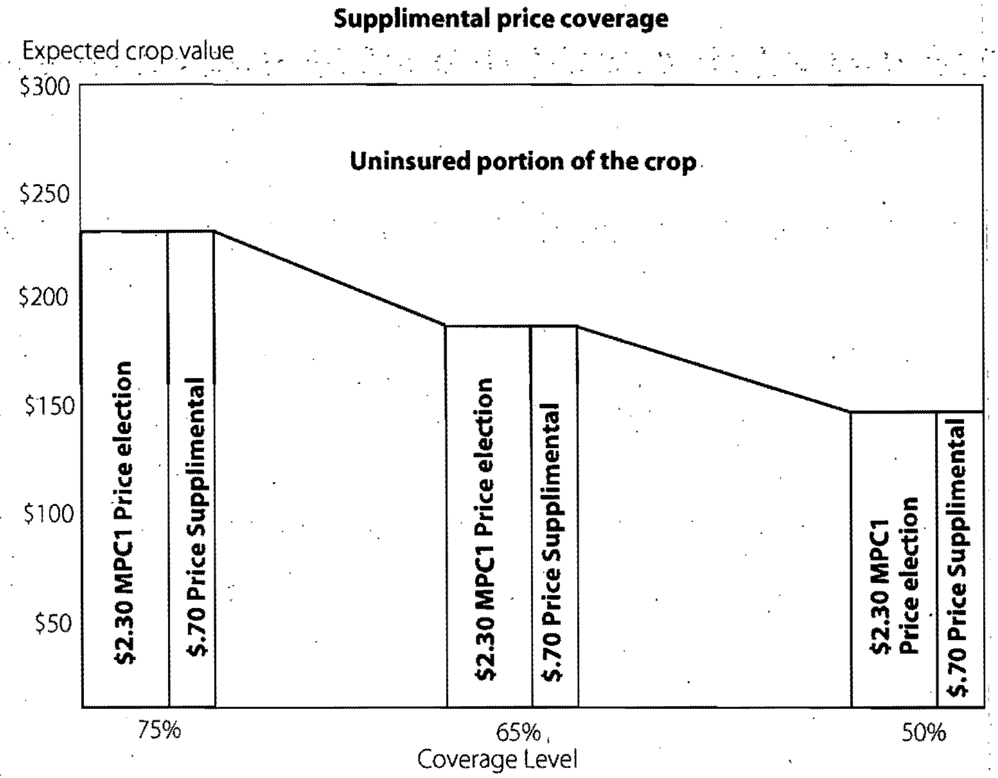
This class of supplementals enhances the price feature of the APH. Within this class, there are two distinct products. One increases the price election of the APH; the other is interactive with the grain prices of the Chicago Board of Trade or similar grain exchanges.

Price Election Supplemental

- This type of price supplemental provides an additional amount of coverage per bushel above the APH price election. Producers could use this product to insure the difference between the APH guarantee times the FSA price election, and the unit budget needs. Also, producers growing contract specialty crops or using futures contracts find this class of supplementals provide needed coverage.
- The price election supplemental is written with an APH cpolicy at the 50, 65, or 75 percent coverage level. The producer must elect the highest available FSA price election for the crop insured. In the event of a total crop loss, the APH and price election supplemental provides coverage up to the APH yield times the sum of the highest FSA price election and the price supplemental coverage. While the price supplemental increases the price election for the insured crop, it does not pay until the crop loss exceeds the APH deductible—100 minus the coverage level.
- Companies are reluctant to provide more coverage than the fair market value of the crop and have implemented underwriting rules to prevent overinsurance. Generally, the maximum coverage written by an insurance company for this class of supplementals will not exceed the APH yield for the unit, times the highest FSA price election. Another rule limits the supplemental coverage to the dollar amount resulting from multiplying the APH yield by the expected harvest price.

For example, a $.70 per bushel price supplemental could be purchased for the APH guarantee to insure a $3.00 forward contract when the APH price election is $2.30. Price supplemental losses are calculated after the APH loss is determined. The amount of loss for these supplementals is calculated by multiplying the APH bushel shortfall for the unit by the amount of per bushel coverage (see Figure 2).

Figure 2. Supplemental Price Coverage Examples

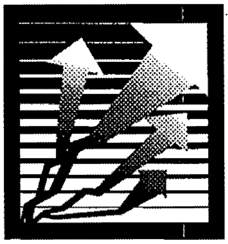


Example:

APH Coverage: The unit production guarantee is 3,750 bushels (100 bushels APH × 75 percent coverage level × 50 acres) and the price election is $2.30, providing $8,625 of protection.

Supplemental Coverage: The farm manager contracted the 3,750 bushels APH guarantee for $3.00 and desires to cover this risk. A price supplemental is purchased for $.70 per bushel times the APH guarantee which provides $2,625 of protection.

Loss Example: The unit produced 2,500 bushels. Therefore, the APH payment is $2,875 (1,250 bushels shortfall at $2.30 the price election). The price supplemental will pay $875 ($.70 per bushel for the 1,250 bushel shortfall). The total payment from both the APH and the price supplement is $3750.



Replacement Cost Supplementals

- This type of supplemental provides risk protection against upward price movement in the market when individual yields are below the APH unit guarantee. APH provides a fixed price per bushel insured and does not increase as the market value of the crop increases. Replacement cost supplementals provide cash value replacement protection for the APH yield guarantee. Replacement coverage is important for producers who have forward contracted grain or livestock producers who need the grain for feed.
- Losses are calculated from the shortage of production from the APH guarantee, times the supplemental market price (Commodity Futures Exchange Price minus the deductible). This enables farm managers to use the futures market for price protection up to the APH bushels guaranteed. Eligible claims under this supplemental require two concurrent events. First, there must be a payable APH loss for the insured crop. Second, the local market price at harvest must be greater than the APH price election.

Replacement cost supplementals provide cash value replacement protection for 100 percent of the APH insured bushels.

Example:

APH Coverage: The insured has an APH with a 75 percent coverage level, $2.30 price election, and a 50-acre unit with a 100 bushel APH yield. The APH unit guarantee is 3,750 bushels.

Supplemental Coverage: The farm manager has forward contracted 3,500 bushels at planting time for December delivery at $3.00. A contract price supplemental has been purchased with a movement limit of $1.00 and a 10 percent basis adjustment.

Loss Example: The insured harvested 2,500 bushel and the local market price at harvest was $3.00, or $7500. The APH payment is $2,875 (1,250 bushel shortfall × the $2.30 price election). The price risk supplemental would pay $875 which is $.70 per bushel ($3.30 board price – 10 percent basis adjustment – the $2.30 APH price election) × the 1,250 bushel shortfall of the APH guarantee. Total receipts for the farm are $11,250, $7,500 marketed grain + $2,875 APH indemnity + $875 price risk supplemental indemnity. The total receipts of $11,250 exceeds the forward contract of $10,500

Crop-Hail

Crop-Hail insurance was developed and is delivered totally by the private sector. This type of risk protection has been in existence since the early 1900's. The insurance company that issues the policy establishes the underwriting rules, rates, policy terms and conditions, and the adjusting procedure for this coverage. While there is great diversity among the crop-hail products offered by companies, there are many common elements. Crop-Hail is a named peril contract in that coverage is provided only for the perils named in the policy and all others are excluded. The basic crop-hail policy covers the perils of hail, fire, lightning, and transit.

Coverage Choices

The insured has great flexibility of coverage within the crop-hail program. The choices are crop, location, amount of protection and deductibles, and are determined by the policy issuing company. All companies provide offers for the major grain and hay crops, but the availability of coverage for specialty and vegetable crops is limited. For these crops, companies may limit their liability to a specific dollar amount, or refuse to issue a policy to cover some crops.

The amount of protection is limited by the company to the expected value of the crop. Generally, this is the potential yield of the crop in the area, times the expected market price. Companies establish maximum limits of liability that they will accept for a crop prior to the start of the policy writing period. Higher amounts of protection may be requested for cases that document the need for additional coverage. Limiting insurance is also a method for an insurance company to limit its exposure in a specific geographic area. It is not uncommon for several companies to write portions of the total insurance on the same risk.

Insureds may choose to insure site specific locations and these are listed on the Schedule of Coverage. Any locations on which the insured has a share of the crop and does not desire Crop-Hail coverage must be listed as uninsured locations on the Schedule of Coverage. The location of the insured crop is very important with the Crop-Hail insurance rating because part of the rate is developed from the specific location. The frequency, timing and severity of hail will have a rate impact. Additionally, the Crop-Hail rate is varied with the crop's susceptibility to damage.

The insured may choose from a wide variety of deductibles. They range from zero to 10 percent of the amount of protection. Many of the deductibles disappear as the amount of loss increases.

Early Season Losses

Sometimes there is the occurrence of early season hail that severely damages the young growing crop to the extent that replanting the destroyed crop is necessary. The crop-hail policy pays the insured for the expense of replanting the crop and also provides an award equal to the reduction of yield expected due to the later planting date.

Loss Adjustment Techniques

Losses of the crop-hail policy are measured as a percent of yield reduction. The loss adjustment procedure measures the damage to the plant caused by hail. This measurement is the reduction of stand and the removal of foliage and reproductive parts. As the plant become physiologically mature, the more susceptible it is to hail. Combine-ripe crops are especially vulnerable to shatter losses.

Catastrophe Loss Award

When losses exceed 70 percent on any acre, an additional amount of one-half percent in excess of 70 percent is paid. With this provision, the crop-hail policy will pay a total loss when the appraised loss is 90 percent.

APH and MPCI Combinations

Many producers have the need for catastrophic protection from several perils and choose either the APH or GRP plans of MPCI. Additionally, their farm is exposed to hail and they desire to carry hail coverage. Producers faced with this exposure can choose the MPCI and crop-hail coverages. They also have three combination choices:

- full coverage MPCI and crop-hail;
- APH and companion crop-hail
- combining the APH coverage and crop-hail.

Choices 1 and 3 are similar because producers receive the full benefit of APH or GRP and crop-hail because full premium is paid for both plans. Choice 3 is an APH/crop-hail combination resulting from the Federal Crop Insurance Act that provides an APH premium credit when an equal amount of crop hail coverage is purchased on the APH insured crop. The mechanics of Choice 3 is the substitution of the crop-hail coverage of the APH plan by private crop-hail coverage. The APH premium is reduced when substitute coverage is provided by a Crop-Hail policy.

CROP INSURANCE PRODUCTS QUICK REFERENCE

DISCLAIMER: The information presented in this reference is provided only as a reference about the features of several crop insurance plans. For exact information about specific features, please refer to the terms and conditions of the insurance contract.

FEATURE	CROP-HAIL	ACTUAL PRODUCTION HISTORY PLAN (APH)	GROUP RISK PLAN (GRP)
Maximum Amount of Protection	Actual cash value, not to exceed the underwriting limit or insured's interest.	Historical yield by practice × elected price × coverage level.	Maximum listed in FCIC actuarial table. Generally, 200% of the APH 75/100 protection.
Insured Item	Acre Spot loss coverage of area damaged by insured peril.	Unit Unit consisting of acreage aggregated by crop, county, sharing entity and, if records, by section or irrigated and non-irrigated practice.	County Acreage All acreage planted to the insured crop in the county.
Covered Perils	Hail, fire, lightning, and transit.	Multiple perils caused by adverse weather.	Multiple perils caused by adverse weather.
Coverage Technique	"Top Down" Covers up to the full value of the crop including profit.	"Bottom up" Covers expenses of producing a crop.	"County Yield Index"
Loss Trigger	Percent of loss in excess of deductible or minimum loss per peril.	APH yield times chosen coverage level.	Expected county yield from FCIC Actuarial Table times chosen coverage level.
Loss Measurement	Percent of yield potential estimated to be lost due to insured peril.	Determination of the harvested and appraised yield subtracted from the unit yield guarantee.	Percentage of yield shortfall of the county yield for the insured year from the trigger yield.
Sales Closing	Anytime prior to a loss, harvesting, or end of insurance period, subject to underwriting rules.	Administratively established date.	Administratively established date.

CROP INSURANCE PRODUCTS QUICK REFERENCE (Continued)

FEATURE	CROP-HAIL	ACTUAL PRODUCTION HISTORY PLAN (APH)	GROUP RISK PLAN (GRP)
Insurance Begins	12:01 AM following the signing of the application, or when 50% of the crop is visible.	Planting of each acre.	Planting of each acre.
Replant	Actual replant expenses. For some crops, an award for late planting may apply.	Replant expenses up to policy limit.	None
Claim Payment	Prior to harvest by appraisal. Payment is within 30 days of appraisal agreement.	Immediately after company release, or harvest. Payment is within 30 days of determination of harvested and appraised production from unit.	After NASS harvested production estimates are available. Payment is about six months after harvest.
Coverage Choices	Crop, amount of protection, deductibles, and acreage. (Insured must list acreage to be insured and acreage excluded from coverage.)	Crop, county, coverage level, and indemnity price. Must insure all acreage of insured crop in the county.	Crop, county, trigger yield, and amount of protection. Must insure all acreage of insured crop in the county.
Late and Prevented Planting Coverage	None	1% reduction of bushel guarantee per day for 10 days after final planting date, then 2% for next 15 days. Prevented planting coverage up to 50% of the initial coverage.	None
Additional Private Sector Coverages	Wind, vandalism and malicious mischief, stored grain, premium waiver due to accidental death or dismemberment, extended transit, extended coverage for processor crops.	Companion crop-hail, replacement cost coverage, disappearing deductible, increased price election, coverage level buy-up.	Replant coverage.

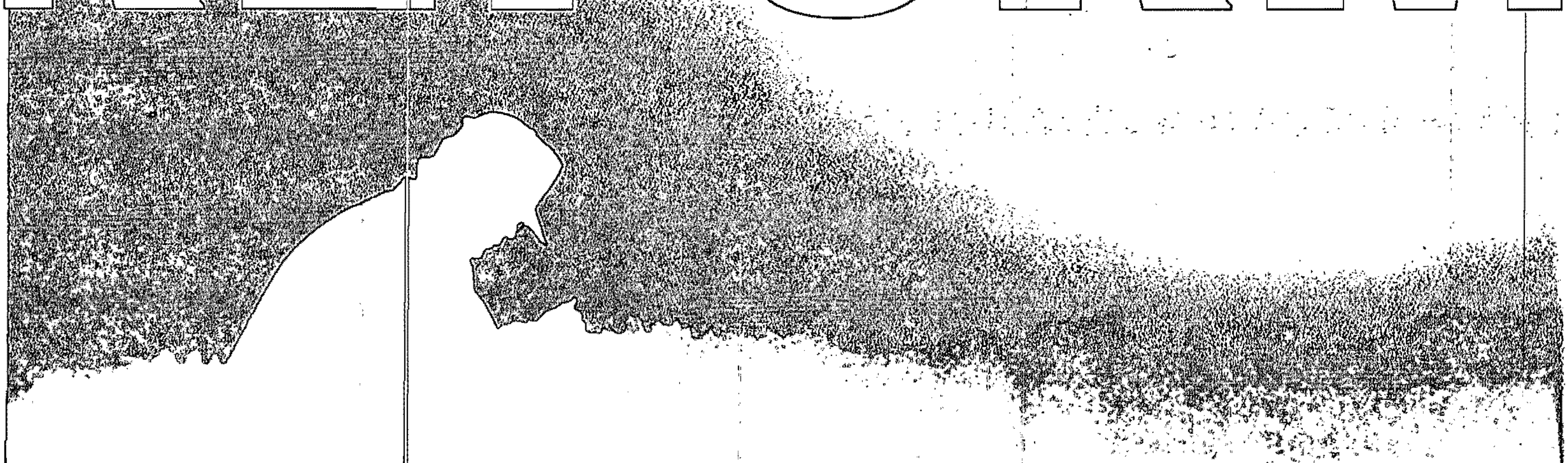
CROP INSURANCE

Putting Farmers In Control

Alan E. Baquet and
Kenneth Harrison

United States Department of Agriculture
Farm Service Agency
February 1996

Crop Insurance REFORM



Fact Book 1995

- **Catastrophic Crop Insurance**
  Replaces Disaster Assistance
- **Producers Must Sign Up**
  Before Deadlines or Risk Losing Other USDA Benefits
- **Increased Protection**
  Now More Attractive

PRESERVING AMERICAN AGRICULTURE FOR FUTURE GENERATIONS

THE FEDERAL CROP INSURANCE REFORM ACT OF 1994

CLINTON ADMINISTRATION PUTS FARMERS IN CONTROL

DISASTER ASSISTANCE MERGED WITH CROP INSURANCE

In the past, the Federal government provided two separate programs — the Federal crop insurance program and *ad hoc* disaster payments — in response to agricultural disasters. Farmers never knew if or when Congress would pass a disaster bill; and taxpayers had to pay for both programs. The new law, the Federal Crop Insurance Reform Act of 1994, combines the old USDA crop insurance program and the disaster assistance programs administered by ASCS into one program.

For the first time, disaster relief for insurable crops will not depend on events that you can't control. But, you must act to protect your crops. No one will act for you.

Under the new law, you are required to obtain at least the catastrophic level of crop insurance coverage (CAT) if you want to participate in most USDA programs. You'll only pay a small administrative fee for this basic, vital coverage. You will also be able to purchase additional crop insurance coverage that provides greater protection against crop losses.

Crop insurance is not currently available for all crops. To protect producers of noninsured crops, the new law creates a Noninsured Assistance Program (NAP). The NAP protection is similar to catastrophic coverage but will protect only in the event of area-wide losses.

This fact book outlines the basics of what you must do to be protected under the new catastrophic coverage as well as your options to buy additional coverage for less severe, but more frequent, crop losses.

KEY FACTS

✓ PROTECTION
Catastrophic coverage benefits are comparable to benefits previously provided by disaster assistance.

✓ COST
The cost to producers of catastrophic crop insurance is an annual processing fee of $50 per insured crop per county, up to $200 per county.

✓ LINKAGE
To assure wide participation, producers must buy at least the catastrophic crop insurance coverage to be eligible for most USDA programs.

✓ TO ENROLL
You can get catastrophic coverage from private crop insurance agents or from your local USDA office. Generally, only private agents can sell additional coverage.

✓ DEADLINE
Certain crops will have an extended sign-up deadline only for catastrophic coverage. Additional coverage is available up to each crop's sales closing date.

✓ RECORDS
Good production records can earn you more insurance coverage.

✓ NONINSURED CROPS
Under the Noninsured Assistance Program (NAP), you must still sign up for protection to be eligible for relief in the event of an area-wide disaster.

✓ ENDS DISASTER ASSISTANCE
The law has effectively eliminated authority for future disaster assistance programs (and the costs associated with those programs).

✓ REORGANIZATION
Your local USDA office is now the Consolidated Farm Service Agency (CFSA). The CFSA combines the commodity price support and production adjustment programs as well as the Agricultural Conservation Program and Conservation Reserve Program currently administered by the Agricultural Stabilization and Conservation Service (ASCS), the Federal crop insurance program, and the Farmers Home Administration (FmHA) farm credit programs into a single agency.

CATASTROPHIC CROP INSURANCE

WHAT YOU SHOULD KNOW

PROTECTION

Catastrophic policies guarantee 50% of your crop's average yield and, for each unit of loss, pay 60% of the expected market price that is established each year for each insurable crop. Unlike past disaster programs, catastrophic coverage will be based on your actual production history.

COST

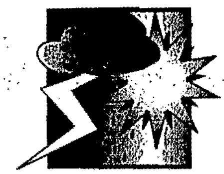
The only cost to you for catastrophic crop insurance is an annual administrative fee of $50 per insured crop per county (up to a maximum of $200 per producer per county).

ADDITIONAL COVERAGE

The new law also includes incentives for you to buy additional insurance coverage. This additional coverage will provide you with greater levels of protection against crop losses. For example, you could protect 75% of your crop at 100% of the expected market price. You should contact your local crop insurance agent to discuss additional crop insurance protection.

LINKAGE

You must obtain at least catastrophic crop insurance coverage if you want to participate in price support and production adjustment programs, certain Farmers Home Administration loans and the Conservation Reserve Program. To meet linkage requirements you must have catastrophic insurance on each insurable crop that has contributed or is expected to contribute 10% or more of the total value of all your crops. You will *not* be able to participate in most USDA programs if you do not obtain at least catastrophic coverage for insurable crops.



YOU MUST ACT BEFORE DEADLINES

The law takes effect immediately. There are deadlines (sales closing dates) for signing up for catastrophic coverage and for additional coverage. You should contact your local crop insurance agent or USDA office for information about crop insurance deadlines.

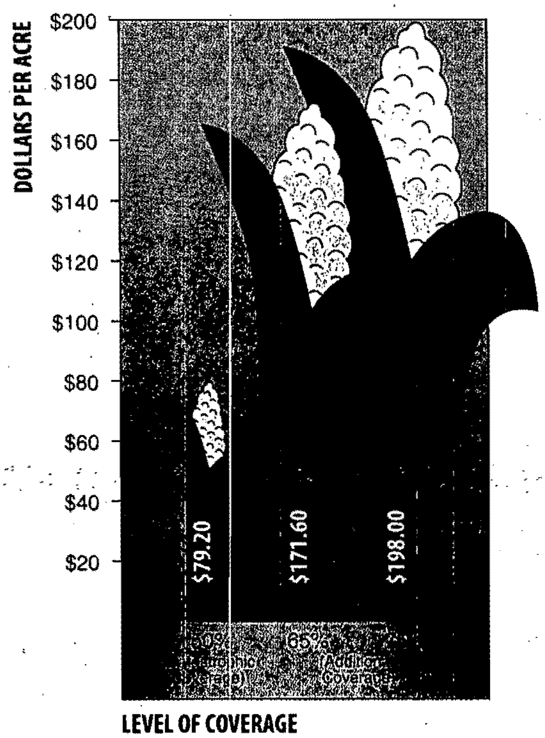
President Clinton meets with farmers and their families in Des Moines, Iowa during the 1993 Midwest floods, July 4, 1993.

"THROUGH CROP INSURANCE REFORM, FARMERS HAVE GAINED A GREATER MEASURE OF SECURITY AND CONTROL OVER THEIR FUTURES. WE ARE COMMITTED TO PRESERVING AMERICAN AGRICULTURE FOR FUTURE GENERATIONS."

BILL CLINTON

REAL RISK MANAGEMENT BECOMES AFFORDABLE

NEW INCENTIVES FOR ADDITIONAL PROTECTION

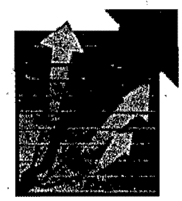


AMOUNT OF PROTECTION

Maximum payment per acre for Total Loss if corn producer's APH yield average is 120 bushels, and established price for corn is $2.20 per bushel.

Many times you will suffer crop losses that are "less than catastrophic." Here again, you have new and better choices as a result of crop insurance reform.

Additional coverage will provide you with greater protection against crop losses. The new law makes additional coverage more attractive and affordable by providing more premium subsidy and other incentives. Most policyholders will pay less than in past years for comparable levels of coverage. A wide variety of cost and coverage options are available to meet your individual needs.



When you buy additional coverage, your catastrophic protection is automatically included. You pay only for the additional coverage you elect, and that cost is partially covered by a Federal subsidy.

Meets All Linkage Requirements

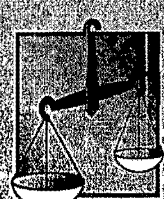
Purchasing additional coverage meets all the insurance-related linkage requirements affecting your eligibility for other farm program benefits.

Where to Purchase

Additional coverage is generally available only through crop insurance agents.

MAKING CROP INSURANCE FAIR FOR EVERYONE

Taxpayers/Producers



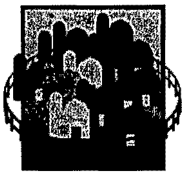
Don't Pay Twice

Insurance fraud hurts everyone. Over the years, a few producers, agents and adjusters have abused the crop insurance program and made everyone realize that both producers and taxpayers are cheated when the program is abused. Producers actually lose twice, when the abuse is reflected in rates and again as taxpayers.

To assure that everyone is protected and the program remains absolutely fair, a strong compliance effort will be ongoing. Regional compliance offices will investigate all reports of crop insurance abuse. An anonymous Hotline will help everyone police the program, and abusers may find themselves subject to steep civil fines and possibly barred from participating in any USDA program for up to 10 years.

OTHER PROGRAMS

GROUP RISK PLAN INSURANCE



• *BARLEY* • *CORN* • *COTTON* •
• *FORAGE* • *GRAIN SORGHUM* •
• *PEANUTS* • *SOYBEANS* • *WHEAT* •

If you produce any of the eight crops listed above, you may be eligible to carry a different type of Multiple Peril Crop Insurance policy called Group Risk Plan Crop Insurance (GRP). It differs from the policies described elsewhere in this publication in that yield guarantees are based on the county average yield. It does not provide individual farm protection based on your individual yields. Policyholders automatically receive an indemnity payment — regardless of their own individual yield — in any year that the *county average yield* is below a trigger yield.

Check with a crop insurance agent or local USDA office about the availability of GRP policies. They are not offered in all states and counties.

The requirement to carry at least a catastrophic level of coverage on 1995 crops in order to be eligible for other farm program benefits can be met by carrying a GRP policy. This policy can be less expensive than other plans and requires less paperwork from producers. There's no requirement to provide production records and no need to report current production.

NONINSURED ASSISTANCE PROGRAM

Crop insurance is currently not available for all crops. (See chart on page 7.) To protect producers of noninsurable crops, the new law created a "Noninsured Assistance Program" (NAP). Most noninsured crops will be eligible for protection under the NAP.

NAP protection is similar to catastrophic coverage. It will protect 50% of your yield at 60% of a price that USDA will announce each year. NAP protection, however, will only be available if the area in which you farm suffers a 35% loss in production.

YOU MUST ACT

You must act to protect your noninsured crops. To be protected, you must report your acreage and production history to your local USDA office.

The Department of Agriculture will announce the deadlines for reporting this information. You must report the required information by these deadlines if you want to be protected by the NAP.

More information on the NAP will be available soon. If you have questions, you should contact your local USDA office.

The toll free Hotline number is 1-800-424-9121.

NON-STANDARD CLASSIFICATION SYSTEM
Policyholders who have made large and frequent loss claims are being identified, and their premium rates are being calculated separately from those of other producers.

SOCIAL SECURITY NUMBERS
All insurance contracts must now include Social Security numbers of everyone who has a financial interest in the crop as well as numbers identifying agents and adjusters. This helps prevent abuses through continuous tracking and evaluation.

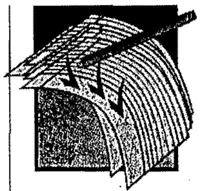
CROSS-VERIFICATION
Acreage reports in connection with insurance are now being cross-verified with other USDA agencies to assure accuracy and prevent possible fraud.

IMPROVED LOSS ADJUSTMENT
New procedures have been implemented to assure that loss adjustments are uniform, and that indemnity payments are neither more nor less than justified.

TOUGHER RULES
Agents and loss adjusters who fail to meet performance standards will now be suspended or debarred.

WHAT IT MEANS IN BUSHELS AND DOLLARS

RECORD KEEPING REWARDED



Catastrophic crop insurance is available on insurable crops under what's called the Actual Production History program (APH). This means that, to the extent you've kept records for the crops to be insured, your insurance guarantee will be based on *your own individual yield history.*

THE FIRST STEP IS TO CALCULATE YOUR APH YIELD AVERAGE

If you have production records for the four or more most recent crop years (up to a maximum of 10 years), your APH yield for insurance purposes is a simple average of those years.

For example, assume a corn producer's yields for the past four years have been as follows, in bushels per acre:

1994	136 bushels
1993	120 bushels
1992	128 bushel
1991	128 bushels
total	512 bushels

APH yield = 512 ÷ 4 = 128 bushels

If you have fewer than four years of yield records, your APH yield will be a four-year average that includes (1) your own yields for those years that you have records and (2) a percentage of a yield derived from the county average yield for the years that records aren't available.

YOUR YIELD GUARANTEE

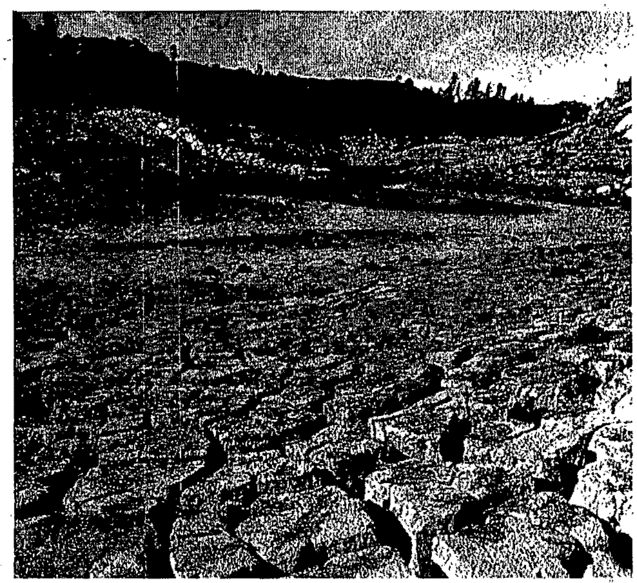
If you elect to carry only the catastrophic level of insurance (the minimum necessary in order to meet linkage requirements for other farm program benefits), your yield guarantee will be 50% of your APH yield average.

For the corn producer in the previous example who had an APH yield average of 128 bushels, a catastrophic insurance policy would provide a yield guarantee of 64 bushels (128 x 50%).

LOSS DETERMINATION

Your crop insurance policies, including catastrophic insurance, will pay you an indemnity for each bushel or pound that your actual yield of your insured crop is below your guaranteed yield.

Assume the corn producer in the example experienced a total crop loss. Since his yield guarantee was 64 bushels, he would be paid for a 64 bushel loss. If, instead of a total loss, he had been able to harvest, say, 40 bushels, he would be paid for a 24 bushel loss (64 bushel yield guarantee minus actual yield of 40 bushels).



AMOUNT OF INDEMNITY PAYMENT

Under catastrophic insurance, your indemnity payment per unit of loss will be 60% of an expected market price that USDA establishes each year for each insured crop.

If the expected market price for corn is set at, say, $2.20 a bushel, the indemnity payment for losses under catastrophic insurance policies would be $1.32 per bushel. ($2.20 x 60%).

Thus, a corn producer who experienced a loss of 24 bushels per acre would receive an indemnity payment of $31.68 per acre (24 bushel loss x $1.32 indemnity payment = $31.68).

This producer would also be eligible for deficiency payments.

Catastrophic coverage payments are comparable to disaster assistance payments.

INSURABLE CROPS BY STATE

CROP / STATE	Alabama	Alaska	Arizona	Arkansas	California	Colorado	Connecticut	Delaware	Florida	Georgia	Hawaii	Idaho	Illinois	Indiana	Iowa	Kansas	Kentucky	Louisiana	Maine	Maryland	Massachusetts	Michigan	Minnesota	Mississippi	Missouri	Montana
Almonds					•																					
Apples			•		•	•	•			•		•	•	•					•	•	•	•			•	
Barley		•	•		•	•		•		•		•	•	•	•	•	•		•	•		•	•		•	•
GRP Barley																										•
Canning Beans								•				•	•	•	•	•				•		•	•			
Citrus			•		•				•																	
Citrus Trees																										
Corn	•		•	•	•	•	•	•	•	•		•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
GRP Corn								•					•	•	•	•	•			•		•	•		•	
Cotton	•		•	•	•				•	•						•		•						•	•	
GRP Cotton	•			•														•						•	•	
CottonEx Lng Stp			•		•																					
Cranberries																					•					
Dry Beans					•	•						•			•	•						•	•			•
Dry Peas												•														
Figs					•																					
Flax																							•			
Forage Production					•	•						•			•								•			•
GRP Forage Prod																							•			
Forage Seedling															•								•			•
Fresh Plums					•																					
Fresh Sweet Corn	•								•																	
Fresh Tomatoes					•				•	•										•						
Grain Sorghum	•			•		•		•	•	•			•	•	•	•	•	•		•		•	•	•	•	
Grapes				•	•							•										•		•	•	
Green Peas								•				•	•		•				•	•		•	•			
Hybrid Corn Seed													•	•	•		•					•	•		•	
Hybrid Sorghum Seed																										
Macadamia Nuts											•															
Macadamia Trees											•															
Nursery Stock	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Oats	•	•	•	•	•	•			•	•		•	•	•	•	•		•	•	•		•	•	•	•	•
Onions						•						•										•				
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Peanuts	•			•					•	•								•						•		
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Sweet Corn								•				•	•		•					•			•			
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Tobacco	•						•		•	•				•			•			•	•				•	
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Walnuts					•																					
Wheat	•	•	•	•	•	•		•	•	•		•	•	•	•	•	•	•	•	•		•	•	•	•	•
GRP Wheat				•												•								•	•	•

CROP / STATE	Nebraska	Nevada	New Hampshire	New Jersey	New Mexico	New York	North Carolina	North Dakota	Ohio	Oklahoma	Oregon	Pennsylvania	Rhode Island	South Carolina	South Dakota	Tennessee	Texas	Utah	Vermont	Virginia	Washington	West Virginia	Wisconsin	Wyoming
Almonds																								
Apples			•	•	•	•	•		•		•	•	•	•		•		•	•	•	•	•	•	
Barley	•	•		•	•	•	•	•	•	•	•	•		•	•	•	•	•	•	•	•	•	•	•
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Corn	•			•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
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Cotton					•		•			•				•		•	•			•				
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Cranberries				•							•		•								•		•	
Dry Beans	•				•	•		•	•		•				•			•			•		•	•
Dry Peas											•										•			
Figs																								
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Fresh Plums																								
Fresh Sweet Corn																								
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Grain Sorghum	•				•	•	•	•	•	•				•	•	•	•			•			•	
Grapes						•			•		•	•					•				•			
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Hybrid Corn Seed	•					•			•						•								•	
Hybrid Sorghum Seed					•												•							
Macadamia Nuts																								
Macadamia Trees																								
Nursery Stock	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Oats	•	•		•	•	•	•	•	•	•	•	•		•	•	•	•	•		•	•	•	•	•
Onions						•					•							•			•			
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Prunes																								
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Safflower								•							•			•						
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Soybeans	•			•		•	•	•	•	•		•		•	•	•	•			•		•	•	
GRP Soybeans	•						•	•	•					•	•	•				•			•	
Stonefruit																								
Sugar Beets	•				•			•	•		•						•				•			•
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Sunflowers	•							•							•		•							
Sweet Corn						•					•	•									•		•	
Table Grapes																								
Tobacco							•		•			•		•		•				•		•	•	
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Walnuts																								
Wheat	•	•		•	•	•	•	•	•	•	•	•		•	•	•	•	•	•	•	•	•	•	•
GRP Wheat								•							•		•							

Note: Insurance for a crop may not be available in all counties within a state.

WHAT THE 1994 CROP INSURANCE REFORM ACT MEANS TO YOU

THINGS TO REMEMBER

✓ Farmers must sign up for at least the catastrophic level of crop insurance coverage to remain eligible for other USDA programs including price support and production adjustment programs, certain Farmers Home Administration Loans and the Conservation Reserve Program.

✓ Farmers can sign up for catastrophic crop insurance coverage by contacting a private crop insurance agent, who can also arrange for additional levels of coverage. USDA offices can also provide the basic catastrophic policy.

✓ Lists of local crop insurance agents are available from your local USDA office.

✓ Catastrophic coverage is similar to disaster relief programs in recent years. Farmers only have to pay a processing fee of $50 per crop per county (not to exceed $200 per county, $600 per producer) to obtain catastrophic coverage.

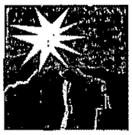
✓ Because additional coverage is now more affordable, most farmers will choose to buy more protection than offered by catastrophic coverage alone. Anyone buying additional coverage automatically remains eligible for other USDA programs, including deficiency payments.

✓ Most uninsurable crops are eligible for the Noninsured Assistance Program (NAP). Producers must report their crop acreage and production histories to local USDA offices before announced deadlines.

✓ The major difference between this catastrophic coverage and prior ASCS disaster assistance is that, for insurable crops, individual farmer losses are covered. Assistance will no longer be dependent on other farmer losses in the area, or on the uncertainty of Federal disaster relief being enacted.

PHOTO CREDITS: Cover: Arthur Tilley; Page 2: Ken Hammond (USDA); Page 3: Sharon Farmer (official White House photo); Page 6: Tim McCabe (USDA)

SOME PERILS COVERED BY YOUR CROP INSURANCE POLICY: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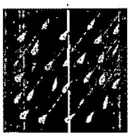
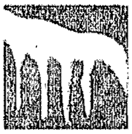

EXCESS MOISTURE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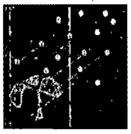
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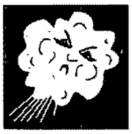
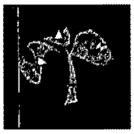

WIND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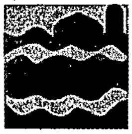
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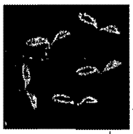
INSECTS

Printed in Soy Ink on Recycled Paper

BULLETIN NO.: MGR-95-045

TO: All Reinsured Companies
FSA Headquarters, Program Delivery and Field Operations
All Risk Management Field Offices

FROM: Kenneth D. Ackerman
Deputy Administrator

SUBJECT: FCIC Board of Directors

BACKGROUND:

The Federal Crop Insurance Act requires the management of the Federal Crop Insurance Corporation (FCIC) to be vested in a Board of Directors. The Board consists of the Manager of the Corporation, the Under Secretary of Agriculture responsible for the Federal crop insurance program, one additional Under Secretary of Agriculture, one person experienced in the crop insurance business who is not otherwise employed by the Federal government, and three active farmers who are not otherwise employed by the Federal government. The three active farmers are to be policyholders and come from different geographic areas of the United States in order that diverse agricultural interests are at all times represented on the Board. The Board is appointed by, and holds office at the pleasure of, the Secretary of Agriculture.

ACTION:

On October 12, 1995, the Secretary of Agriculture announced his appointments to the FCIC Board of Directors:

Jack Kintzle, of Coggon, Iowa, has been active in the Iowa and National Corn Growers Association (NCGA) since 1979. He served as NCGA's president, first vice president, and vice president of NCGA's Government Relations Committee. He is also a member of the Iowa and American Soybean Associations and the Iowa and American Farm Bureau Federations. He further served as a chair of the Linn County, Iowa, Soil Conservation District.

Robert Webster is a cotton grower from Waynesboro, Georgia. He has a degree from Abraham Baldwin Agricultural College and is a member of the Southern Cotton Growers Association, the National Cotton Council and the Georgia Farm Bureau Federation. He also served on the Burke County, Georgia, County Board of Commissioners between 1977 and 1980 and on the Georgia Cotton Commission.

Frank Leo Muller is a partner in Joe Muller & Sons, a diversified farming operation in Woodland, California. He has a degree in agricultural and managerial economics from the University of California at Davis. He is a member of the Yolo County Land Trust, the Farm Bureau Federation, the Pacific Coast Producers Board of Directors and the California Custom Foods Board of Directors.

The insurance industry appointee is Michael Keeting of Marysville, Kansas. He is the owner of Keeting Insurance and Investment Company and a member of the Kansas Association of Insurance Agents and the Association of American Agriculture Insurers. He is past member of the Kansas Insurance Commissioner's Insurance Agents Advisory Council.

Other members of the Board include Eugene Moos, Under Secretary for Farm and Foreign Agricultural Services; Karl Stauber, Under Secretary for Research, Education, and Economics; and Kenneth D. Ackerman, FCIC Manager and Deputy Administrator for Risk Management in the Farm Service Agency.

Crop Insurance REFORM

United States Department of Agriculture

Federal Crop Insurance Corporation

AGRICULTURAL COMMUNICATORS FACT KIT

CLINTON ADMINISTRATION'S FEDERAL CROP INSURANCE REFORM ACT OF 1994

THIS KIT CONTAINS:

United States
Department of
Agriculture

Federal
Crop
Insurance
Corporation

CLINTON ADMINISTRATION'S FEDERAL CROP INSURANCE REFORM ACT OF 1994

KEY PROVISIONS AND BACKGROUND

The Federal Crop Insurance Reform Act of 1994 represents a comprehensive overhaul of the way in which government assists producers in achieving financial protection against unavoidable causes of loss. Key provisions include:

- A program of catastrophic crop insurance protection available at nominal cost to all producers of insurable crops.
- A choice of delivery systems. Producers may choose to purchase catastrophic coverage through a crop insurance agent or a local USDA office. Coverage in excess of the catastrophic level will generally be available only through a crop insurance agent.
- Virtual elimination of statutory authority for future ad hoc disaster assistance programs.
- "Linkage" provisions that make participation in the catastrophic crop insurance program a requirement in order to be eligible for price support or production adjustment programs, certain Farmers Home Administration loans and the Conservation Reserve Program.
- Higher levels of premium subsidy make additional insurance coverage more affordable.
- A Noninsured Assistance Program (NAP) for most crops that are not yet insurable.

Why Crop Insurance and Disaster Assistance Required Reform

- Disaster assistance has been uncertain and inequitable. Producers have had no way of knowing in advance what level of assistance, if any, they would receive in the event of a crop disaster.
- The expectation of receiving disaster assistance in a poor crop year has reduced the incentive for producers to carry crop insurance, further undermining participation in the insurance program and actuarial soundness.
- Over the past 6 years, ad hoc disaster assistance programs have cost an average of $1.5 billion a year in "off-budget" spending.

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CATASTROPHIC CROP INSURANCE PROGRAM

Catastrophic crop insurance is designed to provide producers with a financial "safety net" against the risk of *major* crop loss. Unlike disaster assistance programs that catastrophic crop insurance replaces, *the level of protection is known in advance and "triggers" on an individual basis.*

The yield guarantee. The insurance guarantees 50% of the producer's average yield. If a producer has production records for the most recent four or more years, the yield guarantee will be 50% of the simple average yield for those years.

> Thus, if a producer's four (or more) year corn yield average has been, say, 100 bushels per acre, the catastrophic crop insurance policy will guarantee coverage on 50 bushels.

If producers do *not* have production records, their yield guarantee will be based on their yields (for the years they have records) and a percentage of a transitional yield for the years that records are unavailable.

> Producers are strongly encouraged to provide production records. In most cases, this will result in a higher yield guarantee.

Payment for losses. For each unit of production that the yield of an insured crop is below the yield guarantee, the indemnity payment will be 60% of the expected market price established for that crop.

EXAMPLE
If a corn producer with a yield guarantee of 50 bushels per acre is able to harvest only 30 bushels per acre and if the expected market price established for corn is $2.50 a bushel, the indemnity payment per acre will be calculated by multiplying the 20 bushel per acre loss by $1.50 (60% of $2.50). The indemnity payment will thus be $30 per acre.

Cost of catastrophic crop insurance. The only cost to the producer is an annual processing fee of $50 per crop per county up to $200 per county. In the case of limited resource producers, the processing fee may be waived.

Causes of loss covered. The catastrophic level of crop insurance covers unavoidable causes of loss (e.g., drought, excess moisture, flooding, hail, wind, fire, insects and disease).

Where to purchase. The catastrophic level of crop insurance can be purchased either at the producer's local USDA office or from an agent of a private crop insurance company. Local USDA offices can provide a list of crop insurance agents.

Deadline to apply. The legislation is effective immediately. Producers should consult their crop insurance agent or local USDA office to determine the appropriate deadlines.

Producers responsibilities. These include:

- Applying for insurance by no later than the applicable deadline.
- Providing available production records for calculation of yield guarantees, including any USDA farm program yield.
- Paying the processing fee, unless waived.
- Filing an acreage report by the applicable date.
- Providing prompt notification of losses.
- Certifying the amount of loss and the cause of that loss.
- Reporting production following harvest.

NEW CROP INSURANCE "LINKAGE" REQUIREMENTS

Benefits linked to crop insurance. Starting with 1995 crops, producers of all insurable crops (i.e., crops for which insurance is available) who do not carry at least the catastrophic level of insurance will not be eligible for price support or production adjustment programs, certain Farmers Home Administration loans and the Conservation Reserve Program.

Crops that must be insured. Under the linkage requirements, a producer must carry at least the catastrophic level of insurance on *each crop that accounts for 10% or more of the total expected value of all crops grown by the producer.*

Thus, if a producer grows, for example, corn, soybeans, and wheat (and each of these crops accounts for 10% or more of total expected value) *each* of the crops must be insured.

REPEAL OF STATUTORY AUTHORITY FOR FUTURE AD HOC DISASTER ASSISTANCE

In addition to removing laws authorizing disaster assistance for certain commodities, the Federal Crop Insurance Reform Act of 1994 creates a parliamentary hurdle to the congressional passage of future ad hoc disaster assistance programs.

Ad hoc disaster assistance programs authorized in recent years have involved "off budget" expenditures. As such, they have not been subject to any requirement that the expenditures be offset by spending cuts elsewhere in the budget.

The 1994 Act combines Congressional spending for crop insurance (designated as on-budget) and ad hoc disaster spending (previously off-budget) *into a single on-budget program.* Thus, for ad hoc disaster to win approval in the future, Congress would have to simultaneously make offsetting cuts in spending on other programs.

In effect, money formerly used to fund disaster assistance is now going to fund catastrophic crop insurance with the understanding that there will be no other assistance provided in the event of future crop disasters.

Multiple Peril Crop Insurance

POLICYHOLDERS CAN BUY "ADDITIONAL" INSURANCE PROTECTION

With today's narrow profit margins in farming, many producers want and can benefit from higher levels of coverage than is provided at the catastrophic level. The additional protection can be obtained by purchasing a Multiple Peril Crop Insurance policy that *includes and adds to* the coverage provided by the catastrophic level of insurance.

	Catastrophic Insurance	Multiple Peril Crop Insurance
Yield Guarantee	50% of average yield	up to 75% of average yield
Payment for Losses	60% of expected market price	Up to 100% of expected market price

Yield guarantee. Multiple Peril Crop Insurance policies for 1995 offer the choice of a 65% yield guarantee or a 75% yield guarantee. The guarantee is a percentage of the producer's own individual yield average to the extent four or more years of past production records are available. For any years that the crop was produced but records are unavailable, a percentage of a transitional yield is substituted in computing the average farm yield.

Payment for losses. Policyholders can elect to be paid up to 100% of the market price established by FCIC for each unit of production their actual yield is less than their yield guarantee.

The combination of substantially higher yield guarantees and price elections means that producers can obtain significantly more protection, in dollars and cents terms, than is provided by the basic catastrophic crop insurance policy.

EXAMPLE
Indemnity payment for total loss if a corn producer's yield average is 120 bushels and expected market price is $2.50

With catastrophic insurance only	With maximum (75%) Coverage under a Multiple Peril policy
$90 per acre	$225 per acre

An all-inclusive policy. Producers who purchase a Multiple Peril policy with a 65% or 75% yield guarantee do not need to buy a separate catastrophic crop insurance policy. *Catastrophic coverage is included in the Multiple Peril Policy.*

The cost. Premium rates for Multiple Peril policies depend on the level of protection selected and vary from crop to crop and from county to county.

Premium rates also reflect the producer's yield experience. The higher the producer's yield average, supported by records, the lower the premium rate.

New Federal incentives make higher levels of coverage more affordable for producers.

Where to purchase. Coverage in excess of the catastrophic level is generally only available through agents for private crop insurance companies. Local USDA offices can provide producers with a list of private insurance agents.

Deadline to purchase. The sales closing date for Multiple Peril policies is prior to the normal planting date for the crop. Producers should contact crop insurance agents or their USDA county office for sales closing dates for crops in their area.

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GROUP RISK PLAN: AN INSURANCE ALTERNATIVE FOR SOME PRODUCERS

Available in many but not all states and counties for barley, corn, cotton, forage, grain sorghum, peanuts, soybeans and wheat.

What is Group Risk Plan (GRP)? It's insurance that's based on the *county expected yield* rather than individual farm yields. A policyholder thus receives an indemnity payment when — and *only* when — the county average yield is less than guaranteed.

Indemnity payments. When the county average yield is less than the yield guaranteed by the policy, the insurance pays an indemnity based on the percent shortfall and the amount of coverage selected.

It is important to emphasize that loss payments are based solely on the county average yield. *The policyholder's own yields are not considered either in computing the yield guarantee or in the determination of losses.*

EXAMPLE
If the expected county yield for corn is, say, 100 bushels and the Group Risk Plan policy guarantees 80% of the expected county yield, policyholders will receive indemnity payments only if the county average yield for the year is below 80 bushels per acre.

Linkage. A GRP policy qualifies producers to remain eligible for price support or production adjustment programs, certain Farmers Home Administration loans and the Conservation Reserve Program.

Where to Purchase. GRP policies generally are available only through private sector insurance agents. A list of local private crop insurance agents is available at any local USDA office.

Advantages and disadvantages. Group Risk Plan insurance is most likely to be appropriate for producers whose own yields tend to closely track the county average yield. It could also be attractive for a producer who (either because of past production experience or lack of records) is unable to obtain a comparable level of coverage under an individual insurance policy.

Other possible advantages include:

- GRP policies are Federally subsidized.
- Very little paperwork is involved.
- There is no requirement to provide production records; however, keeping records helps if, in the future, individualized insurance protection is desired.
- There is no need to report current production.
- There is no need to file a claim for payment. Indemnity payments are made automatically in any year that the county average yield is less than the yield guaranteed by the policy.
- The cost for a comparable level of coverage is likely to be lower than under a conventional insurance policy.

The principal disadvantage is that Group Risk Plan insurance *does not provide individual farm protection.* Regardless of their own yields, policyholders will not receive indemnity payments unless the *county average yield* is below the yield guarantee stated in the policy.

United States Department of Agriculture

Federal Crop Insurance Corporation

Noninsured Assistance Program

A NEW PROGRAM OF DISASTER ASSISTANCE FOR CROPS THAT ARE NOT YET INSURABLE

The Crop Insurance Reform Act of 1994 creates a new program for producers of most crops for which there is currently no insurance program. It is called the Noninsured Assistance Program (NAP).

Purpose: NAP was established to assure that most producers of crops not yet insurable will have protection against crop catastrophes comparable to that previously provided by ad hoc disaster assistance programs.

This is how it works:

- NAP payments will be made to eligible producers in any year in which the average yield for the area is less than 65% of normal.
- If the *area* average yield is less than 65% of normal, producers with an individual loss in average yield greater than 50% will be eligible for NAP payments.
- Payments will be determined on an *individual* farm basis and will be made for loss in yield greater than 50% of normal farm production. Lost production will be replaced at 60% of the crop's market price, as determined by FCIC.
- In the case of a crop produced with significant harvesting costs, the payment rate per unit (e.g., bushel or pound) will depend on whether the crop has been (1) harvested, (2) planted but not harvested, or (3) not yet planted.
- You must report your acreage and production history to your local USDA office.
- If the average yield for the *area* is below 65% of normal (thereby making the *area* eligible for NAP assistance) producers experiencing greater than 50% loss will need to apply to their local USDA office in order to receive payments.

Principal crops covered by the Noninsured Assistance Program (i.e., crops for which there is not currently a crop insurance program):

Mushrooms	Honeydews
Celery	Strawberries
Asparagus	Cauliflower
Carrots	Watermelons
Lettuce	Hops
Pecans	Peppermint
Pistachios	Hay
Cantaloupes	Spearmint
Sweet potatoes	Pineapple
Broccoli	Millet
Nursery in-ground	Squash
Sweet cherries	

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PROGRAM FAIRNESS—EVERYONE'S CONCERN EVERYONE'S RESPONSIBILITY

Identifying those few individuals intent upon abusing the crop insurance program will conserve tax dollars and increase farmer confidence in the program. So, the Federal Crop Insurance Reform Act of 1994 contains several new provisions that will give producers and FCIC additional means to curb program abuse.

- **Loss of benefits.** Penalties are required for individuals who knowingly adopt a scheme to obtain benefits to which they are not entitled.
- **Tracking of performance.** Requirements that producers provide social security numbers so that individual performances can be analyzed and remedied. Agents and loss adjusters will also be tracked through a numbering system.
- **Training.** FCIC, in conjunction with insurance industry experts, will develop a comprehensive training program to instruct our delivery partners on how to identify program abuse.
- **Increased reporting.** Producers must report acres and yields not only for insurable crops but also in order to be eligible for the Noninsured Assistance Program (NAP).
- **Dual loss "triggers".** Payments under the NAP program will only "trigger" when an area loss threshold of 35% per crop and an individual loss of greater than 50% per crop have been established. Thus, benefits will *only* be provided to producers in areas suffering a catastrophic crop loss.

In concert with the legislated initiatives, FCIC is implementing the following:

- **Cross Compliance.** Crop insurance is now an integral part of most "farm programs". FCIC will increasingly coordinate oversight efforts with people and information from other USDA programs and the private sector.
- **Tougher Regulations.** Under recently developed rules, FCIC *will* suspend and debar agents and loss adjusters who do not provide professional service to producers.
- **A toll free "Hotline".** An anonymous and effective means of identifying suspected abuse. The toll free number is 1-800-424-9121.

"...it is absolutely critical that the crop insurance reforms pass so that the same kinds of abuses never happen again."
Senate Agriculture Committee Chairman Patrick J. Leahy commenting on abuse of the disaster payments program.

INSURABLE CROPS BY STATE

Crop	Alabama	Alaska	Arizona	Arkansas	California	Colorado	Connecticut	Delaware	Florida	Georgia	Hawaii	Idaho	Illinois	Indiana	Iowa	Kansas	Kentucky	Louisiana	Maine	Maryland	Massachusetts	Michigan	Minnesota	Mississippi	Missouri
Almonds					•																				
Apples			•		•	•	•			•		•	•	•					•	•	•	•			•
Barley		•	•		•	•		•		•		•	•	•	•	•	•		•	•		•	•		•
GRP Barley																									
Canning Beans								•				•	•	•	•	•				•		•	•		
Citrus			•		•				•																
Citrus Trees																									
Corn	•		•	•	•	•	•	•	•	•		•	•	•	•	•	•	•	•	•	•	•	•	•	•
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Crop	Montana	Nebraska	Nevada	New Hampshire	New Jersey	New Mexico	New York	North Carolina	North Dakota	Ohio	Oklahoma	Oregon	Pennsylvania	Rhode Island	South Carolina	South Dakota	Tennessee	Texas	Utah	Vermont	Virginia	Washington	West Virginia	Wisconsin	Wyoming
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GRP Wheat	•								•							•		•							

*Insurance may not be available for the crop in all counties within the state.

INFORMATION CONTACTS FOR FARM EDITORS AND BROADCASTERS

Federal Crop Insurance Corporation has 10 Regional Service Offices. The Directors of these offices can be contacted by editors and broadcasters wanting additional and specific information about crop insurance programs for 1995.

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Jackson, MS Vacant	KY, TN, AK, MS, LA	100 W. Capitol Room 318 Jackson, MS 39269	(601) 965-4771 FAX (601) 965-4517
Oklahoma City, OK Ronald L. Berryhill Director	OK, TX, NM	205 NW 63rd St. Suite 170 Oklahoma City, OK 73116	(405) 879-2700 FAX (405) 879-2741
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St. Paul, MN William Archer Director	MN, WI, IA	910 Minnesota World Trade Center 30 E. 7th Street St. Paul, MN 55101	(612) 290-3304 FAX (612) 290-4139
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Springfield, IL Catherine Hartman Director	IL, IN, OH, MI	2305 W. Monroe Street Suite 3 Springfield, IL 62704	(217) 492-4186 FAX (217) 492-4075
Topeka, KS Clarence Manning Director	KS, NE, CO, MO	3401 SW Van Buren Topeka, KS 66611	(913) 266-0248 FAX (913) 266-2487
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USDA/Federal Crop Insurance Corporation
14th and Independence Avenue SW, Washington, DC 20250
Phone: (202) 254-8494 FAX (202) 254-8365

PRIVATE REINSURED COMPANIES

Alliance Insurance Company
(North Central Crop Insurance)
1825 N. Clairmont Ave.
Eau Claire, WI 54703
(800) 826-7090

Cigna Property & Casualty Insurance Co.
(Rain & Hail Insurance Service, Inc.)
1501 50th St., Suite 200
West Des Moines, IA 50266
(800) 776-4045

Continental Insurance Company
7400 College Blvd., Suite 401
Overland Park, KS 66210
(800) 999-1381

Cotton States Mutual Insurance Company
244 Perimeter Center Parkway, NE
Atlanta, GA 30346
(800) 457-1662

Country Mutual Insurance Company
1701 Towanda Ave.
Bloomington, IL 61702
(309) 557-2111

Dawson Hail Insurance Company
721 1st Ave. North
Fargo, ND 58107
(800) 437-4680

Farm Bureau Mutual Insurance Company
5400 University Ave.
West Des Moines, IA 50265
(515) 225-5515

Farm Bureau Insurance Co. of Nebraska
5525 South 16th
Lincoln, NE 68501
(402) 421-4423

Farmers Alliance Insurance Company
(Blakely Crop Hail Insurance Company)
Commerce Bank Bldg., Downtown
100 E. 9th St., 3rd Floor
Topeka, KS 66601
(800) 336-4359

Great American Insurance Company
7015 College Blvd.
Overland Park, KS 66210
(800) 255-5012

ITT Hartford Insurance Group
1125 S. 103rd St.
Omaha, NE 68103
(800) 255-1815

IGF Insurance Company
2882 106th St.
Des Moines, IA 50322
(800) 274-2766

Nodak Mutual Insurance Company
1101 1st Ave. North
Fargo, ND 58108
(800) 367-9664

North Carolina Farm Bureau
P.O. Box 27427
Raleigh, NC 27611
(919) 782-1705

Producers Lloyds Insurance Company
P.O. Box 229
Amarillo, TX 79105
(800) 366-2767

Redland Insurance Company
535 West Broadway
Council Bluffs, IA 51503
(800) 999-7475

Rural Community Insurance Company
3501 Thurston Ave.
Anoka, MN 55303
(800) 510-2767

PAFCO General Insurance Company
4720 Kingsway Dr.
Indianapolis, IN 46205
(800) 274-2766

Plains Insurance Company
Insurance Building
101 North Main St.
Cimarron, KS 67835
(800) 388-3401

United States
Department of
Agriculture

Federal
Crop
Insurance
Corporation

NEW CATASTROPHIC CROP INSURANCE PLAN REPLACES DISASTER ASSISTANCE

Legislation recently enacted by Congress fundamentally reforms the way government helps to provide producers with financial protection against the risk of major crop disasters. The Federal Crop Insurance Reform Act of 1994 replaces the *uncertainty* of emergency disaster assistance programs with the *predictability* of crop insurance coverage.

Starting now, producers will be required to sign-up for the insurance in order to be eligible for price support or production adjustment programs, certain Farmers Home Administration loans and the Conservation Reserve Program.

The only cost for catastrophic crop insurance coverage is an annual processing fee of $50 per crop, per county. In the case of limited resource producers, the fee may be waived.

USDA officials who worked with Congress, farm organizations and the insurance industry in developing the catastrophic crop insurance program point out that while payments for losses are usually comparable to those previously provided by disaster assistance programs, the new program provides producers and rural communities with substantially more financial security.

For one thing, there's individual coverage. In the past, Washington has generally provided disaster assistance payments only in response to widespread losses. With catastrophic insurance, producers experiencing major crop damage due to drought, flood, hail or other natural disasters are assured of indemnity payments regardless of how many, if any, other producers in their area have suffered losses. Another advantage is that the dollar amount of protection is known in advance.

What it adds up to is that, for the first time, producers are now fully in charge of making their own risk management decisions. They can elect to farm without insurance (in which case, as pointed out, they become ineligible for price support or production adjustment programs, certain Farmers Home Administration loans and the Conservation Reserve Program), or they can carry catastrophic coverage at a nominal cost, or they may purchase optional higher levels of coverage by paying an additional premium.

How catastrophic insurance works.

The starting point is the determination of a past yield average for each crop that a producer grows. Called an Actual Production History (APH) yield, this is based on the producer's own yield records for the four or more most recent crop years. For any years that records aren't available, a transitional yield is used. Producers with four or more years of records are likely to have a higher APH yield average than those with fewer years of records.

Catastrophic crop insurance coverage provides a 50% yield guarantee. Thus, if a corn producer has a 120 bushel per acre APH yield average, the policy would guarantee a yield of 60 bushels. Payments are made for each bushel of the yield that is less than the guarantee.

For each bushel of loss, the indemnity payment under catastrophic coverage is 60% of the expected market price established by FCIC for the crop.

Linkage to other farm programs.

The new law requires that producers of insurable crops must sign up for catastrophic crop insurance, beginning now, in order to be eligible for other farm program benefits, including price support or production adjustment programs, certain Farmers Home Administration loans and the Conservation Reserve Program.

Officials emphasize that the insurance must be carried on every insurable crop that accounts for 10% or more of the total expected value of all crops grown by the producer.

Producers should contact their local USDA office or a crop insurance agent for specific information about deadlines for applying for catastrophic coverage.

Increased protection — more options.

By paying a subsidized premium, producers can obtain significantly more multiple peril crop insurance protection. Policies can be purchased that provide a yield guarantee of 65% or 75% of the farm's APH average yield and that pay up to 100% of the market price for losses. This additional protection can give producers the confidence to market crops more aggressively and realize better prices with reduced risk. These policies are generally available only through private-sector insurance agents.

A different type of multi-peril crop insurance policy called Group Risk Plan (GRP) insurance is being offered in some but not yet all areas to producers who produce barley, corn, cotton, forage, grain sorghum, peanuts, soybeans and wheat.

GRP insurance policies differ from other crop insurance policies in that yield guarantees and loss payments are based on the expected county yield rather than individual farm yields. An indemnity is paid in any year in which the county average yield is less than guaranteed, without regard to policyholders' individual crop yields for the year.

The insurance — which involves virtually no paperwork and has no recordkeeping or production reporting requirements – could be attractive for producers whose own yields tend to closely track the county average yield. Having a GRP policy qualifies the producer to remain eligible for price support or production adjustment programs, certain Farmers Home Administration loans and the Conservation Reserve Program.

Noninsured Assistance Program (NAP).

Producers growing most crops that are not yet insurable will be able to secure a level of catastrophic coverage that is similar to that provided under the catastrophic insurance plan. To be eligible for NAP payments on their individual losses, their surrounding area has to suffer a 35% or greater yield loss *per* crop. Additionally, the individual producer must have a crop loss in excess of 50%. If both conditions are met, payment will be made for losses in excess of 50% at 60% of the average market price. While *reporting of acres and yields is required*, coverage would be available to producers at no cost.

Where and when to get insurance.

Because the law is effective immediately, producers should actively seek information. They should consult their crop insurance agent or local USDA office for the appropriate deadlines for insurable crops. Local USDA offices can provide a list of crop insurance agents serving their area.

NEWS

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CLINTON ADMINISTRATION WINS APPROVAL OF MASSIVE REFORM OF FEDERAL CROP INSURANCE

WASHINGTON, Oct. 5 -- Agriculture Secretary Mike Espy scored a major legislative victory last night when the Senate passed legislation overhauling the way the Department of Agriculture responds when crop disasters strike America's farmers and ranchers. The House passed an identical bill on Oct. 3. Both actions pave the way for President Clinton's signature.

"Last year, when President Clinton and I witnessed the devastation that Midwest floods and Southeast droughts caused to tens of thousands of farm families, we recognized the need to provide a crop insurance program that worked -- we now have one," said Espy. "Farmers must be assured that adequate, affordable and effective crop insurance is as guaranteed as the next disaster. That promise has been kept."

As a result of the legislation, crop insurance will become an integral part of most USDA farm programs. Most notably, farmers must buy crop insurance to be eligible for other farm benefits, including commodity price support and certain FmHA loans.

"When I sent the bill to Congress, I knew we faced many obstacles, most of them budgetary," said Espy. "Fortunately, Congress quickly united behind the Administration's resolve to provide producers a superior crop insurance program at a cost significantly less than providing both crop insurance and disaster assistance. Congress' determination to reallocate funds and revamp the crop insurance program showed their great commitment to providing farmers an affordable means to manage production risk."

Despite an annual crop insurance price-tag approaching $900 million, the federal government also provided ad hoc disaster relief payments to farmers for the last eight years. These off-budget crop disaster programs have cost taxpayers an average $1 billion per year over the last decade, and more than $1.5 billion per year over the last six years. Predictably, the availability of free assistance undercut participation in a voluntary crop insurance program. This crop insurance reform package will save an estimated $151 million over a five-year period.

In order to cut costs while making the program more attractive to farmers, the reform act repeals current legal authorities for ad hoc disaster relief. In its place, farmers will be able to purchase a "catastrophic" level of insurance coverage for a processing fee of $50 per crop per county.

-more-

Catastrophic coverage will protect against yield losses greater than 50 percent at a payment rate of 60 percent of the expected market price, a level comparable to disaster relief programs in recent years. Furthermore, farmers may purchase additional insurance coverage providing higher yield or price protection levels. To make the higher levels of insurance more affordable, the bill provides new incentives to encourage participation at higher coverage levels.

Farmers growing crops that are not currently insurable will be eligible for disaster benefits similar to those provided under the catastrophic insurance plan. To be eligible, the area has to suffer more than a 35 percent yield loss <u>per</u> crop. Once this "trigger" is met, farmers will be paid for their crop losses in excess of 50 percent at 60 percent of the average market price. While reporting of acres and yields is required for these benefits, coverage is provided at no cost.

#

Crop Insurance
REFORM

United States
Department of
Agriculture

Federal
Crop
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Corporation

Fact Sheet

What the Crop Insurance Reform Act of 1994 Means to You

Key Facts

The Federal Crop Insurance Reform Act of 1994 combines crop insurance and disaster assistance into one program.

For insurable crops, the law virtually eliminates the possibility of future disaster assistance.

The major difference between catastrophic coverage and disaster relief is that <u>individual</u> crop losses can now "trigger" a payment. Assistance will no longer be dependent on multiple state disasters, or the uncertainty of the political process. The <u>uncertainty</u> of emergency disaster assistance has been replaced with the <u>predictability</u> of crop insurance coverage.

New incentives reduce the cost of higher levels of insurance. Coverage in excess of the catastrophic level is generally only available through private sector crop insurance agents.

Farmers may choose to sign-up for catastrophic insurance coverage through a local USDA office or a private sector crop insurance agent.

Stay Eligible for USDA Benefits

FARMERS MUST SIGN-UP for at least the catastrophic level of crop insurance coverage to be eligible for USDA farm programs including commodity price support, the Conservation Reserve Program, and certain FmHA loans. Sign-up with your local crop insurance agent or USDA county office PRIOR TO THE APPLICABLE SALES CLOSING DATE.

Non-insured Assistance Program (NAP)

If you grow non-insured crops, you may be eligible for benefits that are comparable to those provided under the catastrophic insurance plan. In order to qualify, you must report acres and yields to your local USDA office. Furthermore, area losses for the crop must exceed 35 percent and individual crop losses must exceed 50 percent of the expected yield in order to trigger a payment.

Seek Information

The law takes effect immediately. Producers should contact their crop insurance agent or local USDA office for program details.

Certain crops will have an extended sign-up deadline only for catastrophic coverage. Additional coverage is available up to each crop's sales closing date.