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SOUTHERN RISK MANAGEMENT EDUCATION CENTER

Small Farm Risk Management

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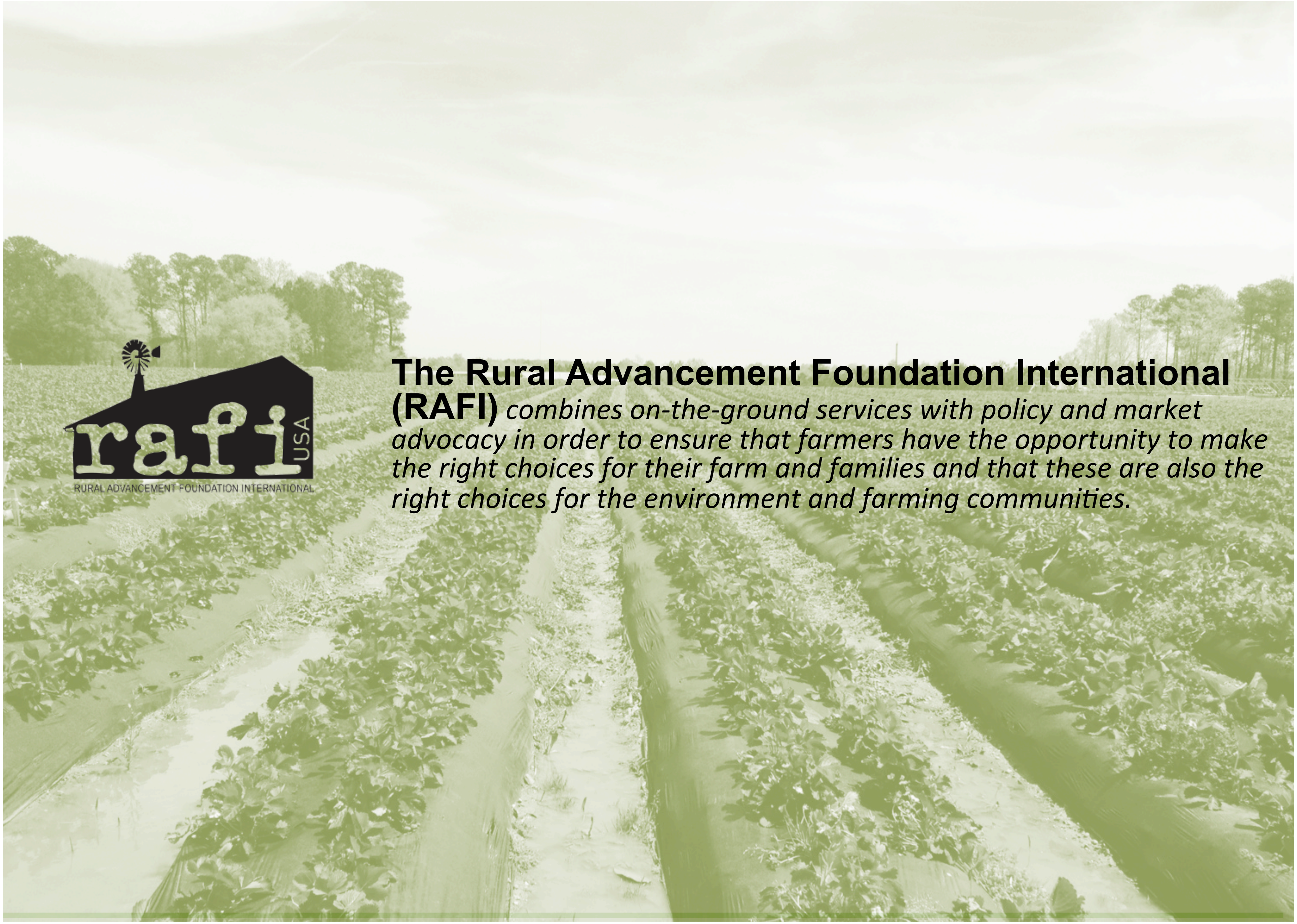
Presented at the 2015 CFSA Sustainable Agriculture Conference



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The Rural Advancement Foundation International (RAFI) *combines on-the-ground services with policy and market advocacy in order to ensure that farmers have the opportunity to make the right choices for their farm and families and that these are also the right choices for the environment and farming communities.*

How many have considered crop insurance?

How many of you have crop insurance?

What comes to mind when you hear…

“crop insurance”

?

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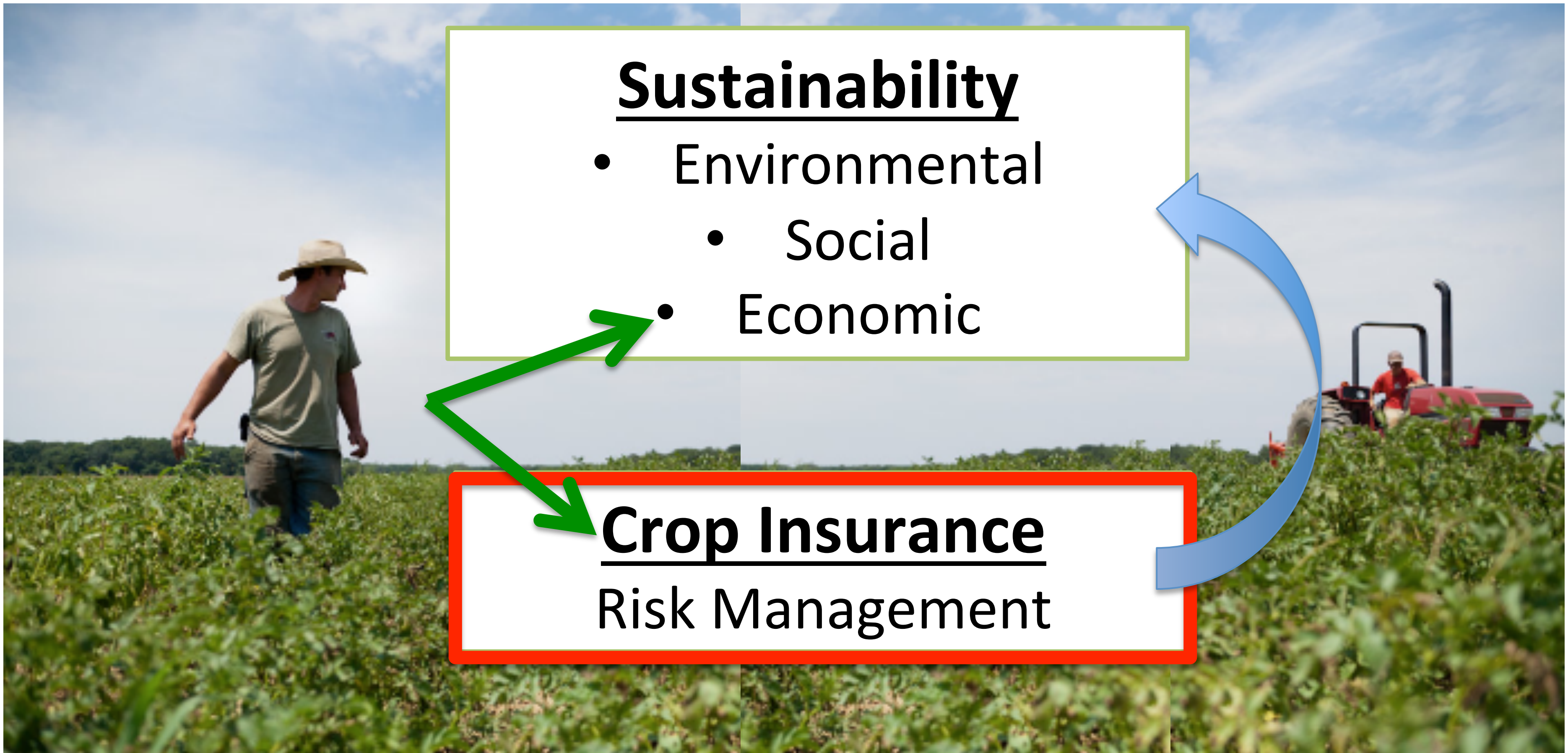
A farm's risk management strategy and overall level of risk is directly linked with what financial concept?

Credit Worthiness

Why is crop insurance important?



What are we going to talk about?

1. **What is crop insurance?** How premiums and payments work and what's available in North Carolina
2. **What are the different types of crop insurance?** Different policies and programs for organic and specialty producers
3. **How do you get crop insurance?** Recording keeping requirements and decision tools

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Sections

1. Crop Insurance 101

2. WFRP (USDA Risk Management Agency Program)

3. NAP (USDA Farm Service Agency Program)

4. Insurance for Organics

5. Tools- Am I Eligible and What Does It Cost?

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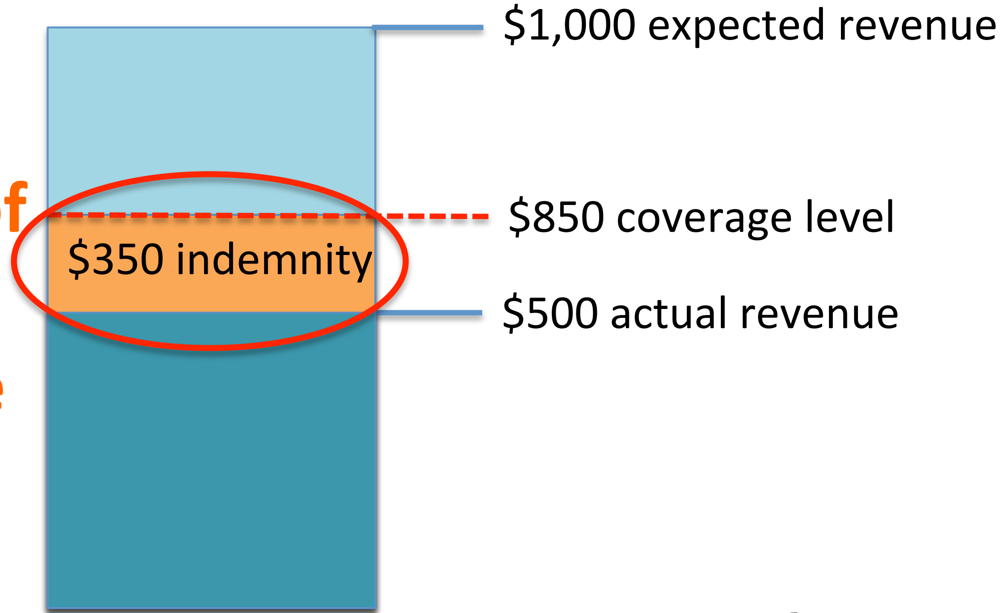
Crop Insurance 101

- Past records → On average, you earn **$1,000** in revenue on the farm, so expect to earn this in 2015
- You decide to buy a policy that insures **85%** of your expected revenue:
  - $1,000 * 85% = **$850**

Hail hits a week before harvest, wiping out 50% of the crop and leaving you with only $500 in revenue for the year.



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Crop Insurance 101

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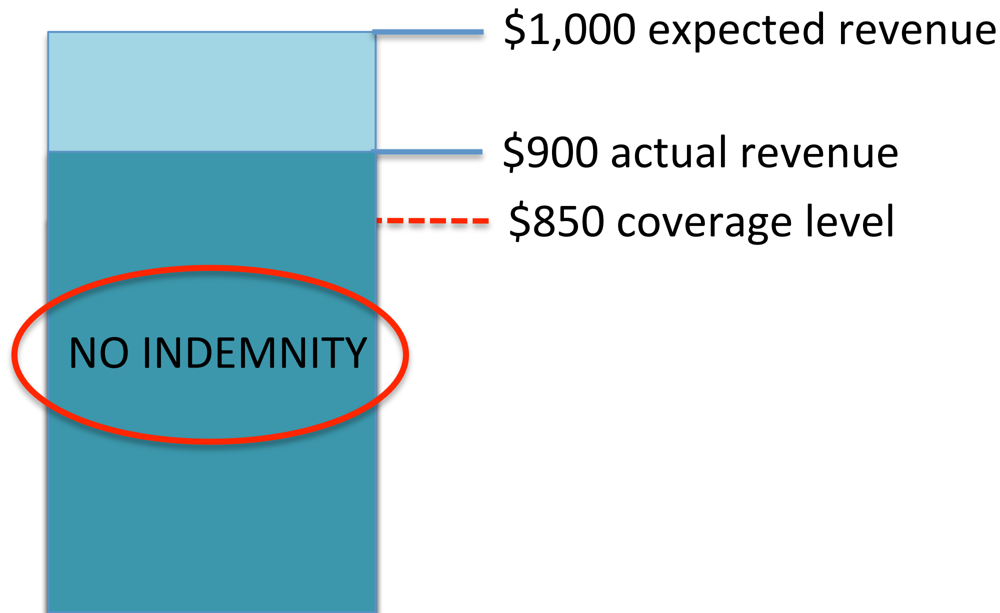
Minor flooding in a single field brings your revenue down to $900 in 2015.



Crop Insurance 101: What's Crops are Covered?

There are 3 main options.

The best fit depends on your specific circumstances

1. **Multi-peril policies (MPCI) –** A good deal if you grow one of these crops
   – Available only for certain crops: apples, barley, beans, blueberries, cabbage, corn, cotton, grapes, peaches, peanuts, potatoes, soybeans, tobacco, wheat, and dairy
   – Actual revenue history (ARH) or actual production history (APH)
   – Coverage level of up to 85%, depending on policy

Crop Insurance 101: What About Other Crops?

2. Noninsured Crop Disaster Assistance Program (NAP) - A good deal if you're getting started with recordkeeping and/or beginning/underserved

- Covers all crops without their own MPCI as long as FSA can estimate average yield and price for your county
- Only covers loss of production
- Coverage level of up to 65%
- Premiums are ***relatively*** high **unless you are beginning producer, limited resource or underserved farmer** (minorities, women)
  - **FREE 27.5% catastrophic coverage for these groups**

3. Whole Farm Revenue Protection (WFRP) – Often the best deal once you have the records

- Covers all revenue on your farm, no matter the crop or price point
- Up to $1,000,000 in livestock revenue
- Up to 85% coverage for diverse farms
- Up to 80% subsidy on premiums

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Why is WFRP Different?

- **Multi-peril Insurance**
  - Pest related losses
  - Weather related losses
  - Losses in price caused by “natural” events
- **Incentivizes Diversification**
  - Insures multiple crops with one policy.
  - Premiums reduced for growing up to 7 additional crops
  - Covers crops and livestock
  - ***Bottom Line: WFRP is different because it rewards sustainability and covers the whole farm.***

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What's Covered by WFRP?

- **Crops**
  - Any agricultural product established or produced on your farm operation, <u>except</u> timber, forest, and forest products, animals for sport, show or pets
    - ***Covers livestock up to $1 million***

- **Events**
  - Insures against loss of approved revenue due to unavoidable natural causes that occur during the insurance year
  - Includes declines in <u>both</u> crop yield and price as long as the decline can be linked to a natural cause (i.e., weather-related)
    - "Decline in local market price will be presumed to be from unavoidable natural causes unless the Company or FCIC is able to specifically identify a man-made cause that resulted in a measurable change in the price."

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What's Not Covered by WFRP?

- **Yield**
  - Negligence, mismanagement, wrongdoing
  - Act of person rather than nature (chemical drift, fire)
  - Water contained by dam or reservoir
  - Damage to machinery or equipment
  - Breakdown in irrigation equipment or practices when not related to natural cause
  - Theft and vandalism
- **Price**
  - Quarantine, boycott or refusal of anyone to accept commodities
  - Deterioration of commodities in storage, unless due to unavoidable natural cause

Why Did Prior Whole Farm Revenue Crop Insurance Policies Not Work?

- **Adjusted Gross Revenue (AGR) & Adjusted Gross Revenue-Lite (AGR-Lite)**
  - **Geographically Limited**- Policies were not available in some major farming states
  - **Coverage**- limited to 72% of average adjusted gross revenue
  - **Expensive**- Producers frequently reported the policy was not cost-effective
  - **Difficulty Expanding Coverage**- producers were required to show a history of crop expansion ***in prior years*** before being able to expand coverage
  - **Low Liability Limit**- $1 million liability limit
  - ***Only 3 policies sold in NC each of the last three years***

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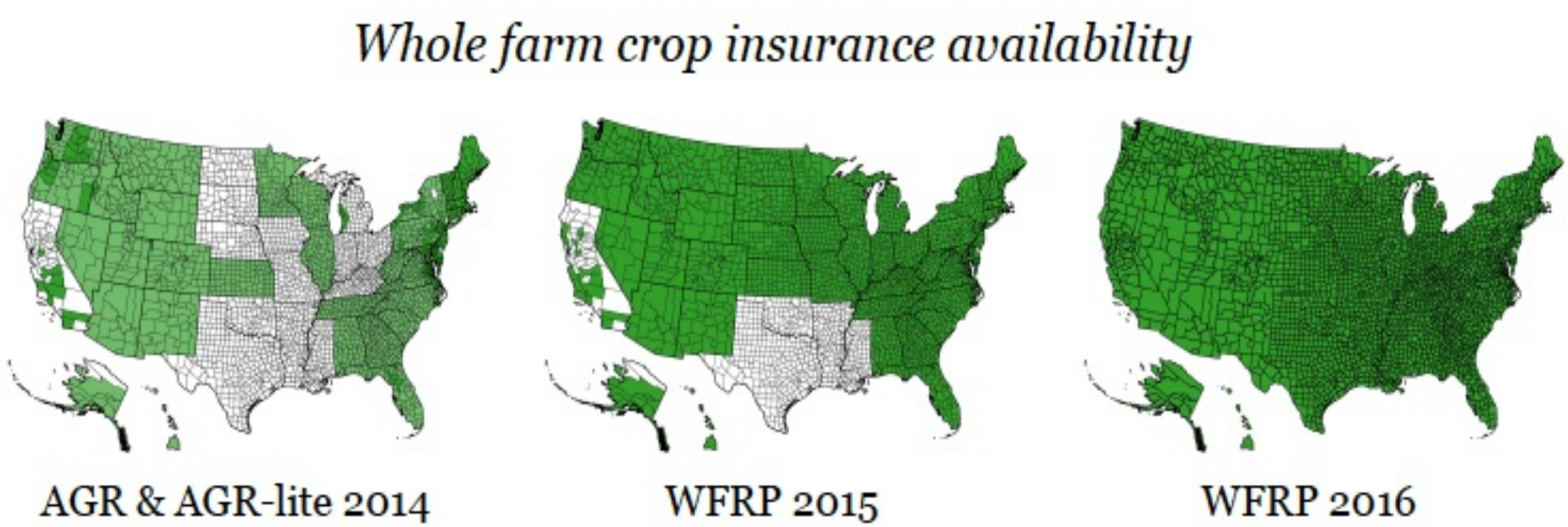
Has WFRP Improved? There are a Few Ways to Measure It

Nationwide Availability



USDA United States Department of Agriculture Risk Management Agency RMA

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Has WFRP Improved? There are a Few Ways to Measure It

Whole Farm Revenue Protection (WFRP) Comparison				
	WFRP 2016	WFRP 2015	AGR-Lite	AGR
Type of Coverage	Revenue	Revenue	Revenue	Revenue
Tax History	3 Years of Schedule F Forms	5 years of Schedule F Forms	5 years of Schedule F Forms	5 years of Schedule F Forms
Maintain Eligibility if Missing Tax Year Due to Physical Inability to Farm	Yes	No	No	No
Diversification Incentive	Yes	Yes	Yes	Yes
Coverage Level	50%-85%	50%-85%	65%-80%	65%-80%
Payment Rate	100%	100%	75%-90%	75%-90%
Maximum Subsidy	80%	80%	59%	59%
Livestock Revenue Limits	$1 million	35% of total revenue and no more than $1 million	none	35% of total revenue
Nationwide availability	Yes	No	No	No
Covers Post Production Expenses	Yes, on-farm, post-production expenses that do not add value	Yes, on-farm, post-production expenses that do not add value	No	No
Liability Limit	$8.5 Million	$8.5 Million	$1 million	$6.5 million

Increases Access and Coverage Options

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Has WFRP Improved? There are a Few Ways to Measure It

Increased Policies Sold and Farm Revenue Insured

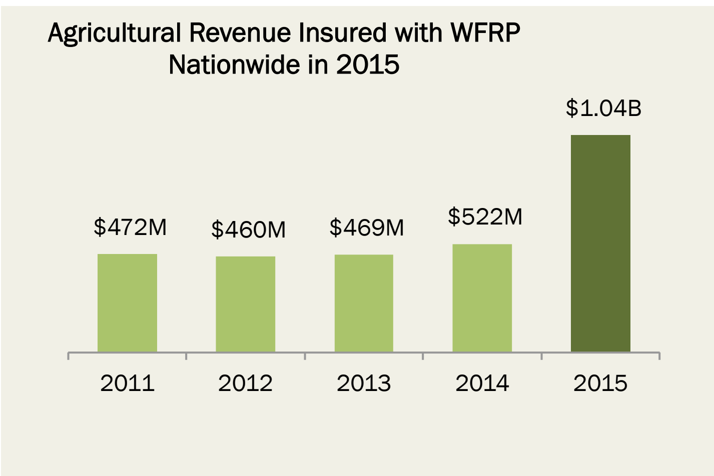

Chart II: Agricultural revenue insured with WFRP in 2015 compared to insured revenue under AGR and AGR-Lite in previous years.
Source: RAFI chart of USDA Summary of Business data as of 9/2/15. Data subject to ongoing updates

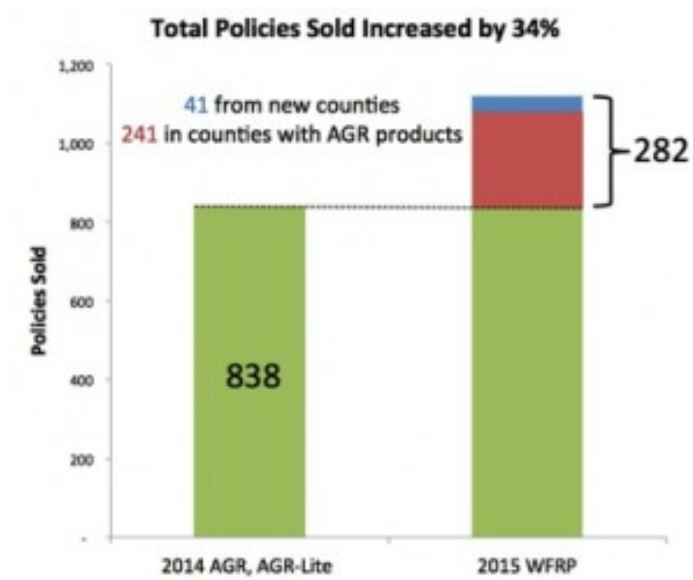

Chart I: Total WFRP policies sold in 2015 compared to AGR and AGR-lite policies sold in 2015.
Source: RAFI chart of USDA Summary of Business data as of 5/4/15. Data subject to ongoing updates

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What does NAP cover?

- Provides coverage when low yields, loss of inventory, or prevented planting occurs due to natural disasters
- Crops must be non-insurable crops and agricultural commodities
- And must be any of the following:
  - See NAP Fact Sheet on your flash drive for details about eligible crops and covered types of loss

What are the basic features of NAP?

- Purchased on crop-by-crop basis
- Coverage level up to 65%
- Maximum payment of $125,000 per farmer per year

NAP Eligibility

- To be eligible you must be a landowner, tenant, or sharecropper who shares in the risk of producing an eligible crop

- Your average adjusted gross non-farm income cannot exceed $500,000

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Applying for NAP

- NAP availability varies by state county, see your local FSA office for more detail
- Application closing dates for coverage vary by crop and are established by the FSA state committee
- Apply for coverage using Form CCC-471 "Application for Coverage" and pay the applicable service fees
  -Limited resource farmers can request a waiver of service fees

What will my agent need from me?

- Recordkeeping is critical
  - NAP requires daily record of pounds of each crop sold at the end of each season
- Coverage is based on approved yield which is established based off of your actual production history for the last consecutive 4 to 10 years
- If historical yield unavailable, a transitional yield (t-yield) will be assigned
  - T-yield is the expected average for your county
  - If no records are available, farm yield set to 65% of t-yield
  - If some records are available, you can use higher percentage of t-yield (up to 100% for 1 missing year)

Sections

1. **Crop Insurance 101**
2. **WFRP (RMA Program)**
3. **NAP (FSA Program)**
4. **Insurance for Organics**
5. **Tools- Am I Eligible and What Does It Cost?**

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What About Organic Crops?

1. Organic Price Elections

- The 2014 Farm Bill directed RMA to complete the series of organic price elections by the 2015 crop insurance year
- Currently, there are 38 organic price elections for the 2016 crop year

Commodity	Availability
Almonds	CA
Apples	ID, OR, WA (Fresh and Processing)
Avocados	CA, FL
Barley	All states
Blueberries	All states
Cabbage	FL, GA, TX (fresh market)
Corn	All states
Corn Silage	All states
Cotton	All states
Cranberries	All states
Cultivated Wild Rice	All states
Dry Peas	ID, WA
Figs	All states
Flax	All states
Forage Production	AZ, CA, CO, IL, IA, ME, MD, MN, NJ, NY, and PA
Grain Sorghum	All states
Grass Seed	MN, ND
Hybrid Corn Seed	All states
Hybrid Sorghum Seed	All states
Juice Grapes	WA
Millet	All states
Oats	All states
Onions	GA, ID, OR, WA (fresh market)
Pears	OR, WA, CA
Peppermint	All states
Popcorn	All states
Potatoes	FL, Southern CA
Processing Cling Peaches	CA
Processing Tomatoes	CA
Raisins	All states
Rye	All states
Safflower	All states
Silage Sorghum	All states
Sugarcane	FL
Soybeans	All states
Fresh stone fruit: Apricots, Nectarines, Plums and Freestone Peaches	CA, ID, OR, WA
Walnuts	All states
Wheat	All states

What About Organic Crops?

2. Contract Price Addendum

- A certified organic or organic-transitional producer can insure certain crops at the contract price.
- For 2016, the Contract Price Addendum is available for 73 crops. In 2015, it was only available for 62 crops.
- Price caps are still in place for each crop, making WFRP a better option for some producers.

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NAP and WFRP for Organics

- NAP coverage is based on wholesale prices

  - FSA is open to covering direct market and organic prices. Check with county office for information about organic and direct-market coverage

- WFRP covers revenue, including revenue from specialty and organic commodities

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How Can I Calculate WFRP Premiums for My Farm?

http://tinyurl.com/USDA-WFRP

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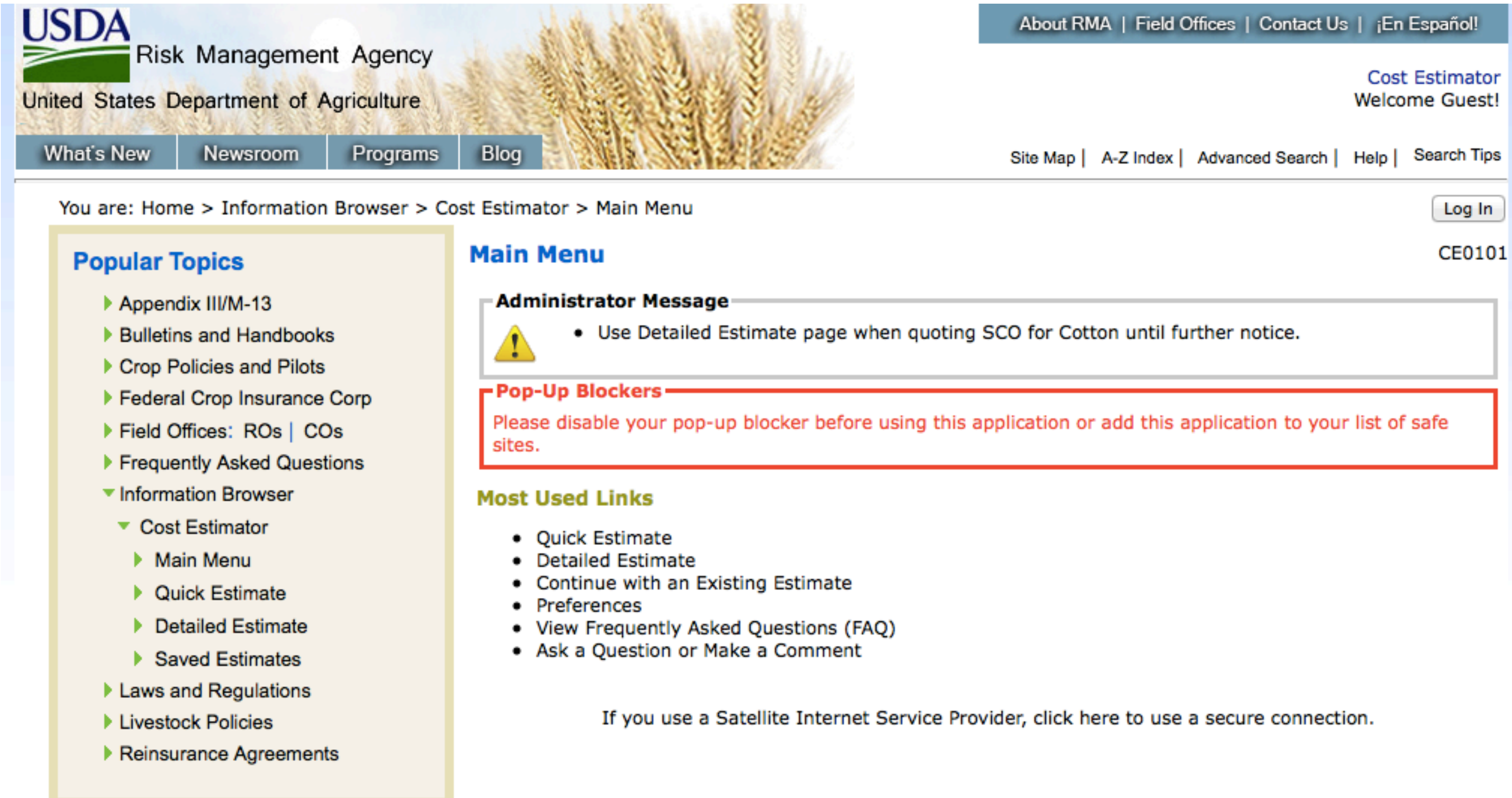
1) Click Quick Estimate



2) Fill in Quick Criteria

Quick Estimate

Quick Criteria

* Commodity	:	Whole Farm Revenue Protection
* Commodity Year	:	2015
* State	:	South Carolina 45
* County	:	Greenville 045
* Type	:	Calendar Year Filer 670
* Practice	:	No Practice Specified 997

3) Fill in Individual Coverage

Individual Coverage

Whole Farm Revenue Protection 76

* MPCI Liability : 0

How much is covered by other policies?

* Allowable Revenue :

- 2009: $5,608
- 2010: $6,789
- 2011: $4,578
- 2012: $3,567
- 2013: $7,890

Historical, Schedule F, Revenue

* Commodity Values : --Select A Commodity Add

Commodity		Total Value	Delete
Cucumbers 0603 (M)	:	$850	✗
Greens (Other) 0631	:	$1,280	✗
Strawberries 0110 (M)	:	$2,975	✗

Expected, Farm Output Report, Revenue

Get Estimates

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4) Premium Estimates & Details

USDA United States Department of Agriculture
Risk Management Agency

Cost Estimator
Welcome Guest!

Detailed Estimate 294553

Back Save Print/ Export

Selected Initial Criteria

* Commodity Year	: 2015	* Insurance Plan	: Whole Farm Revenue Protection 76	* State	: South Carolina 45
* County	: Greenville 045				

Show Inputs In Grid

<< Show Available Inputs >>

Show Results In Grid

- ○ Liability Amount
- ○ Total Premium Amount
- ● Producer Premium Amount
- ○ Subsidy Amount

Producer Premium Amount

Whole Farm Revenue Protection 0076	PE %	85 %	80 %	75 %	70 %	65 %	60 %	55 %	50 %	View			
Item 1	100 %	$220.00	$121.00	$74.00	$59.00	$47.00	$40.00	$34.00	$28.00	Worksheets	CEPP	SPOI	AIB

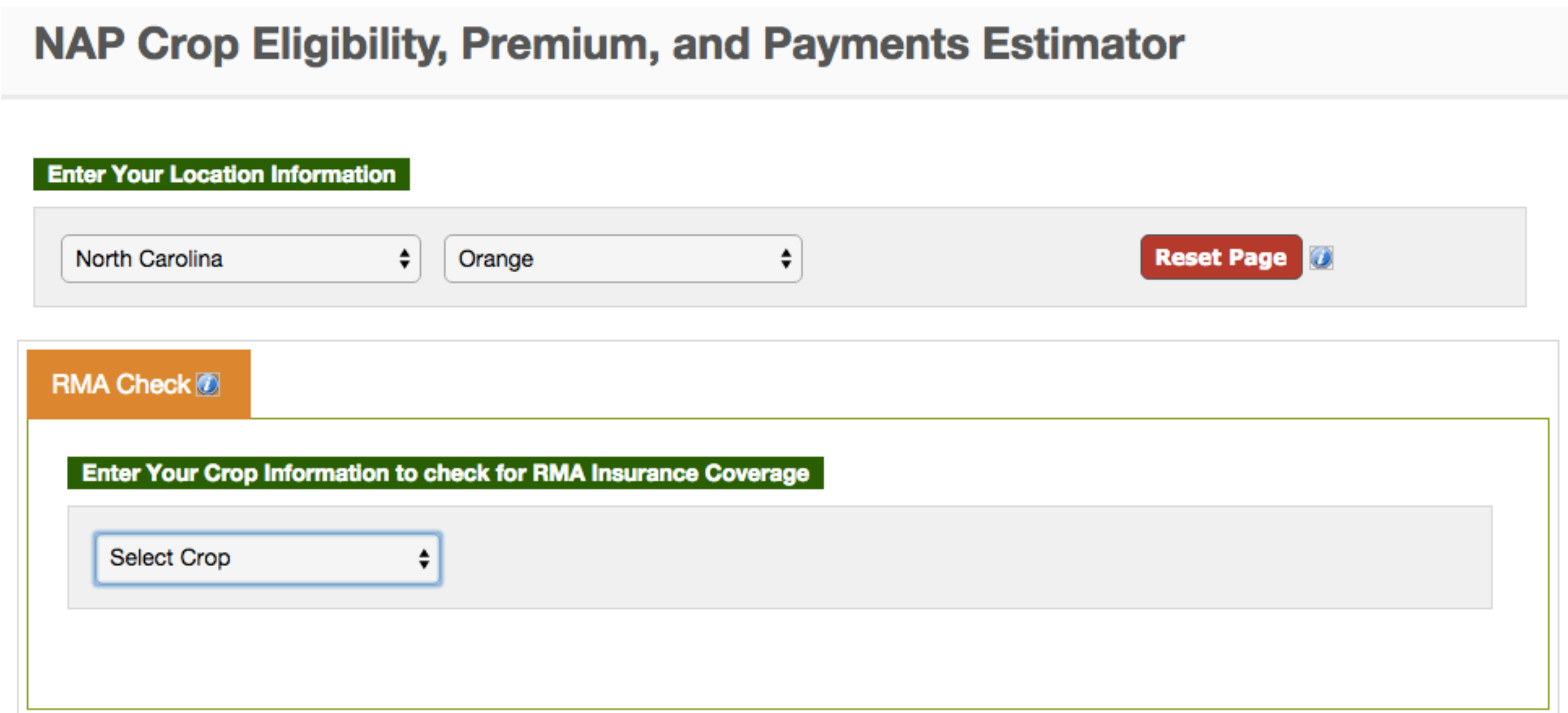
The Cost Estimator only provides a general premium estimate. Refer to your crop insurance agent and policy for specific information regarding insurance coverage, actuarial information, conditions and exclusions.

Data valid as of: 11/10/2014

How Can I Calculate NAP Premiums for My Farm?

http://fsa.usapas.com/NAP.aspx

1) Fill out state, county, and crop



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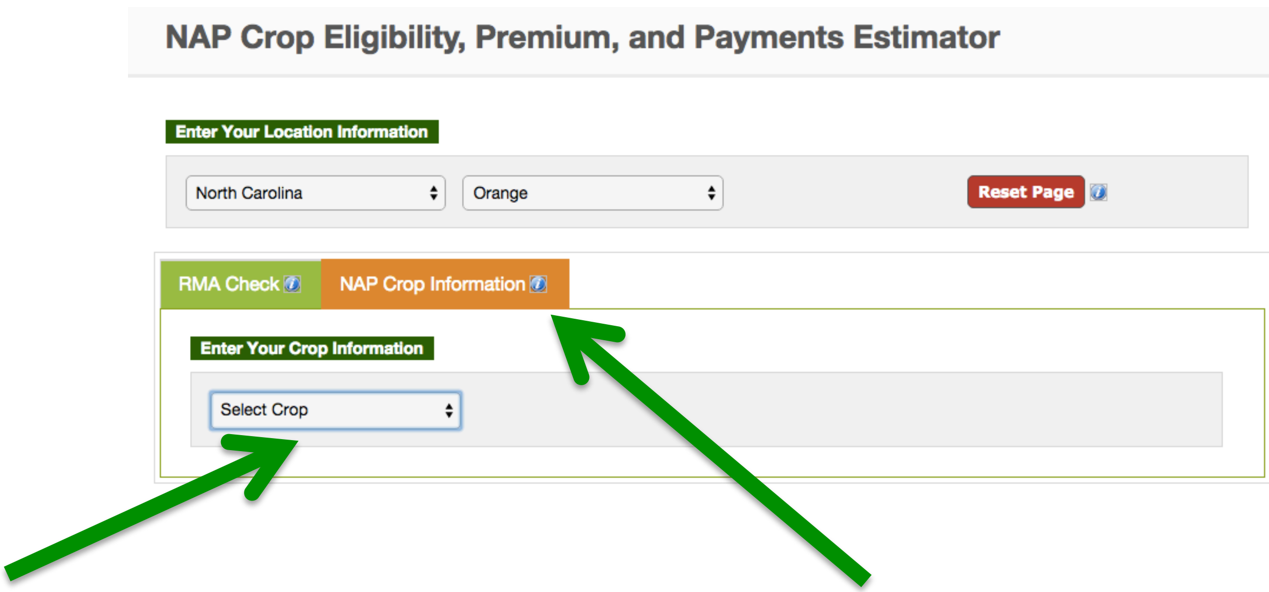
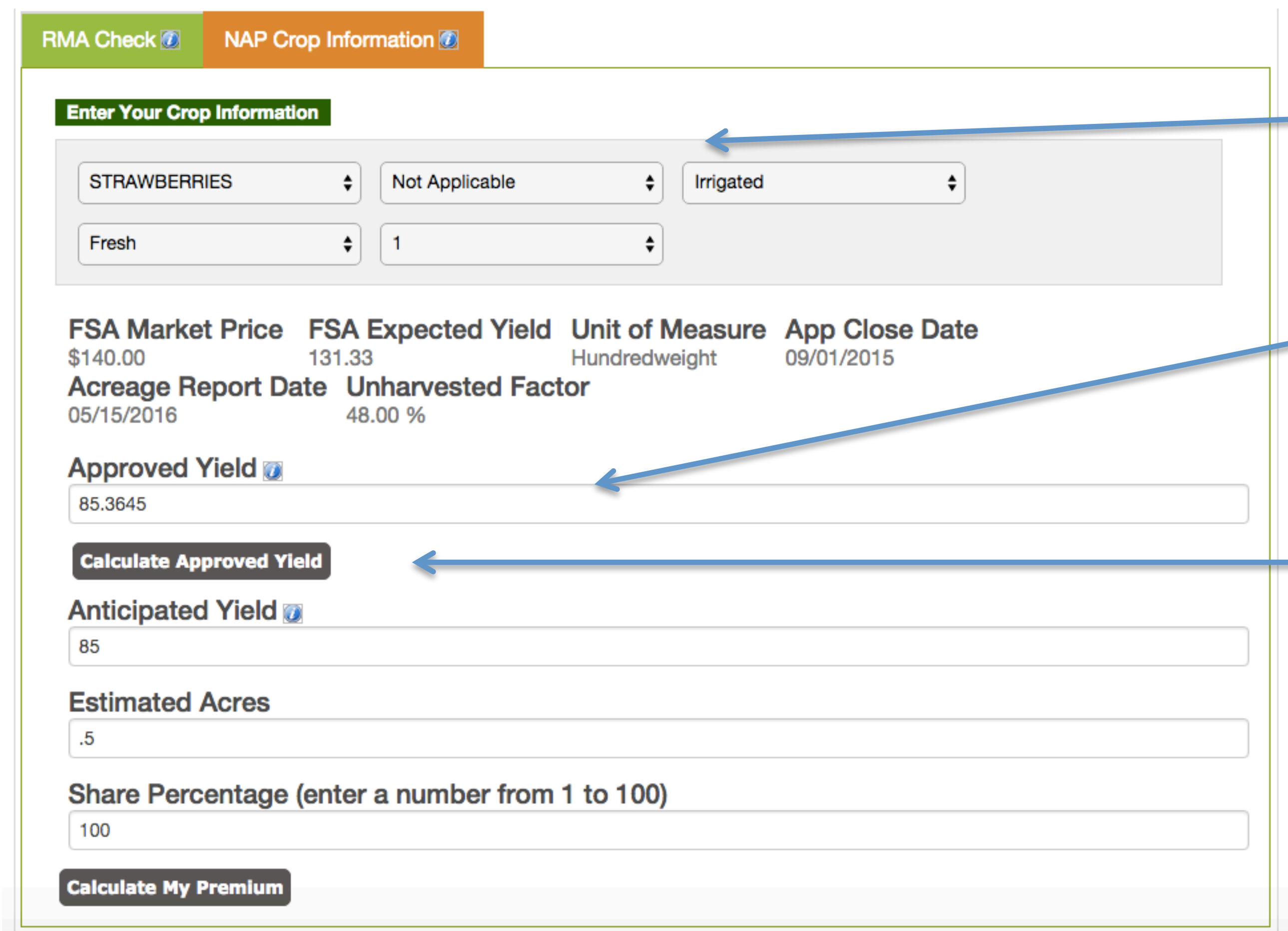
2) Use the NAP Crop Information Button



Select crop you're interested in receiving coverage for

NAP Crop Information tab

3) Use the NAP Crop Information Button



Fill out crop specific information

If you have an approved yield or have an estimate enter it.

Use the Calculate Approved Yield button if you don't know your yield

4) Premium Estimates and Details

RMA Check | NAP Crop Information | Premium and Loss Payment Calculations

Your NAP Estimated Premium and Guarantees

Coverage	Yield Guarantee per Acre	Unit of Measure	Yield guarantee valued at NAP Market price ($/Acre)	Premium ($/acre)	Premium ($/crop)*
Basic	42.7	Hundredweight	$3,286.53	N/A	N/A
50%	42.7	Hundredweight	$5,975.52	$313.71	$156.86
55%	47.0	Hundredweight	$6,573.07	$345.09	$172.54
60%	51.2	Hundredweight	$7,170.62	$376.46	$188.23
65%	55.5	Hundredweight	$7,768.17	$407.83	$203.91

Estimated Results

	Coverage at					
Yield Per Acre	Basic	50%	55%	60%	65%	Commodity Revenue
	Total Payments, in Dollars (Less Premium, If applicable)					
85.00	$0.00	($156.86)	($172.54)	($188.23)	($203.91)	$5,950.00
76.50	$0.00	($156.86)	($172.54)	($188.23)	($203.91)	$5,355.00
68.00	$0.00	($156.86)	($172.54)	($188.23)	($203.91)	$4,760.00
59.50	$0.00	($156.86)	($172.54)	($188.23)	($203.91)	$4,165.00
55.25	$0.00	($156.86)	($172.54)	($188.23)	($187.33)	$3,867.50
51.00	$0.00	($156.86)	($172.54)	($172.92)	$110.17	$3,570.00
46.75	$0.00	($156.86)	($158.51)	$124.58	$407.67	$3,272.50
42.50	$7.02	($144.10)	$138.99	$422.08	$705.17	$2,975.00
38.25	$170.64	$153.40	$436.49	$719.58	$1,002.67	$2,677.50
34.00	$334.27	$450.90	$733.99	$1,017.08	$1,300.17	$2,380.00
29.75	$497.89	$748.40	$1,031.49	$1,314.58	$1,597.67	$2,082.50
25.50	$661.52	$1,045.90	$1,328.99	$1,612.08	$1,895.17	$1,785.00
21.25	$825.14	$1,343.40	$1,626.49	$1,909.58	$2,192.67	$1,487.50
17.00	$988.77	$1,640.90	$1,923.99	$2,207.08	$2,490.17	$1,190.00
12.75	$1,152.39	$1,938.40	$2,221.49	$2,504.58	$2,787.67	$892.50
8.50	$1,316.02	$2,235.90	$2,518.99	$2,802.08	$3,085.17	$595.00
4.25	$1,479.64	$2,533.40	$2,816.49	$3,099.58	$3,382.67	$297.50
0.00	$788.77	$1,358.83	$1,494.72	$1,630.60	$1,766.48	$0.00

How do I buy crop insurance?

- Purchase through a Crop Insurance Agent:
  - The agent locator tool on RMA's website:

  http://www.rma.usda.gov/tools/agent.html

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THANK YOU.

Follow-up thoughts or questions?

Contact James at

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