

Changes to Crop Insurance

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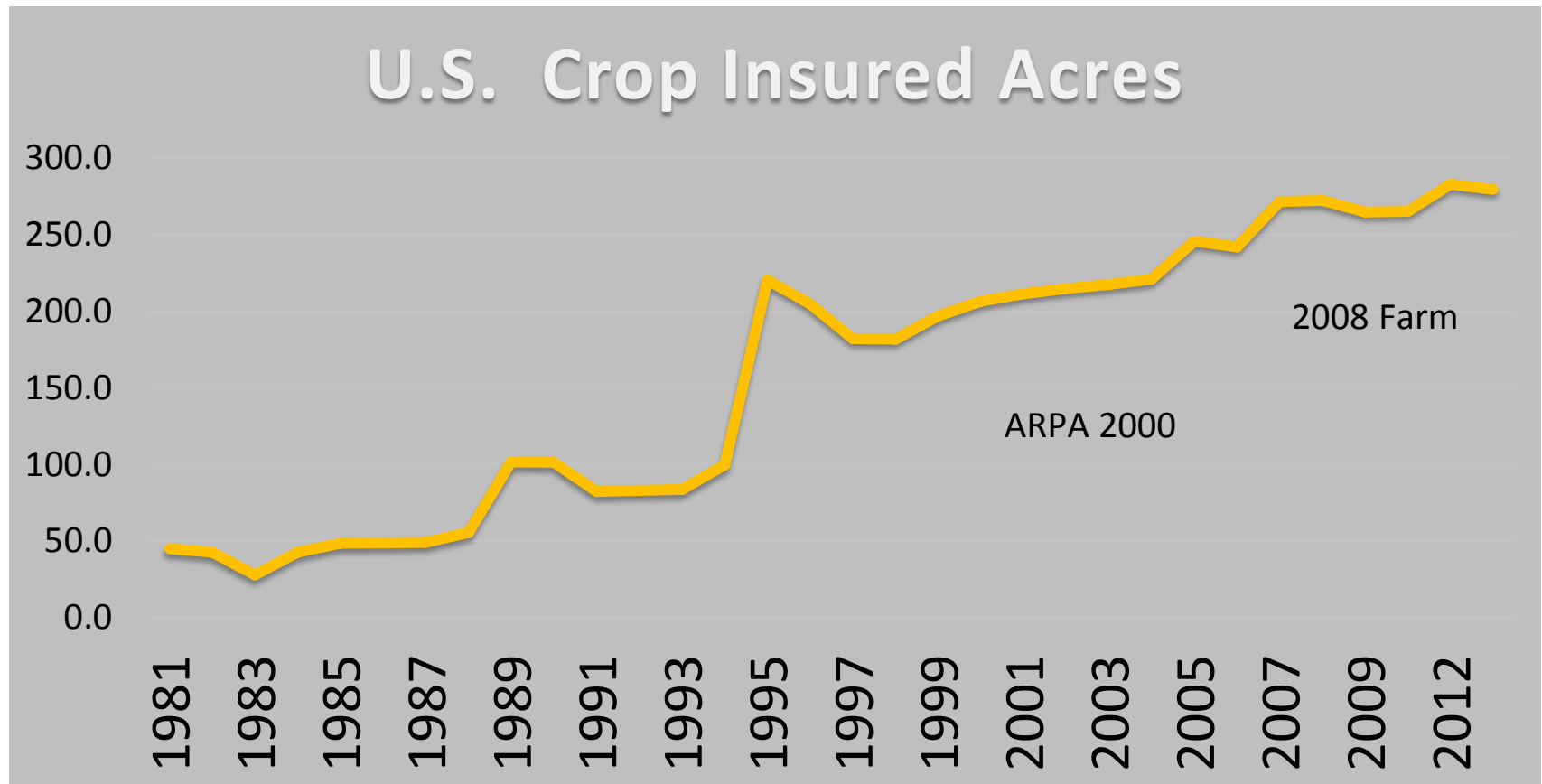
Texas A&M University

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A major portion of this presentation is based on NCIS training materials

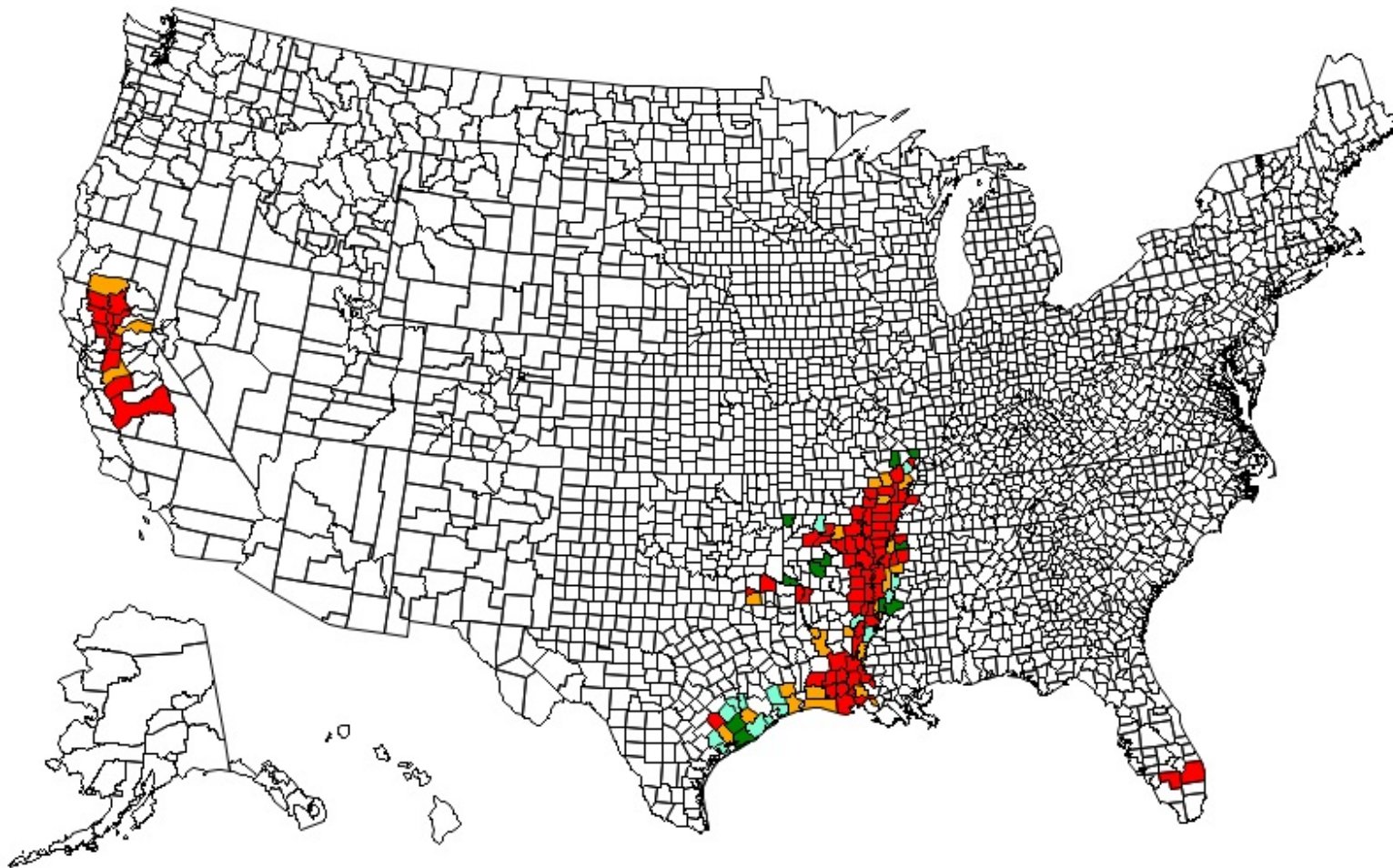


Crop Insurance had grown by five-fold



Current Rice Coverage Levels

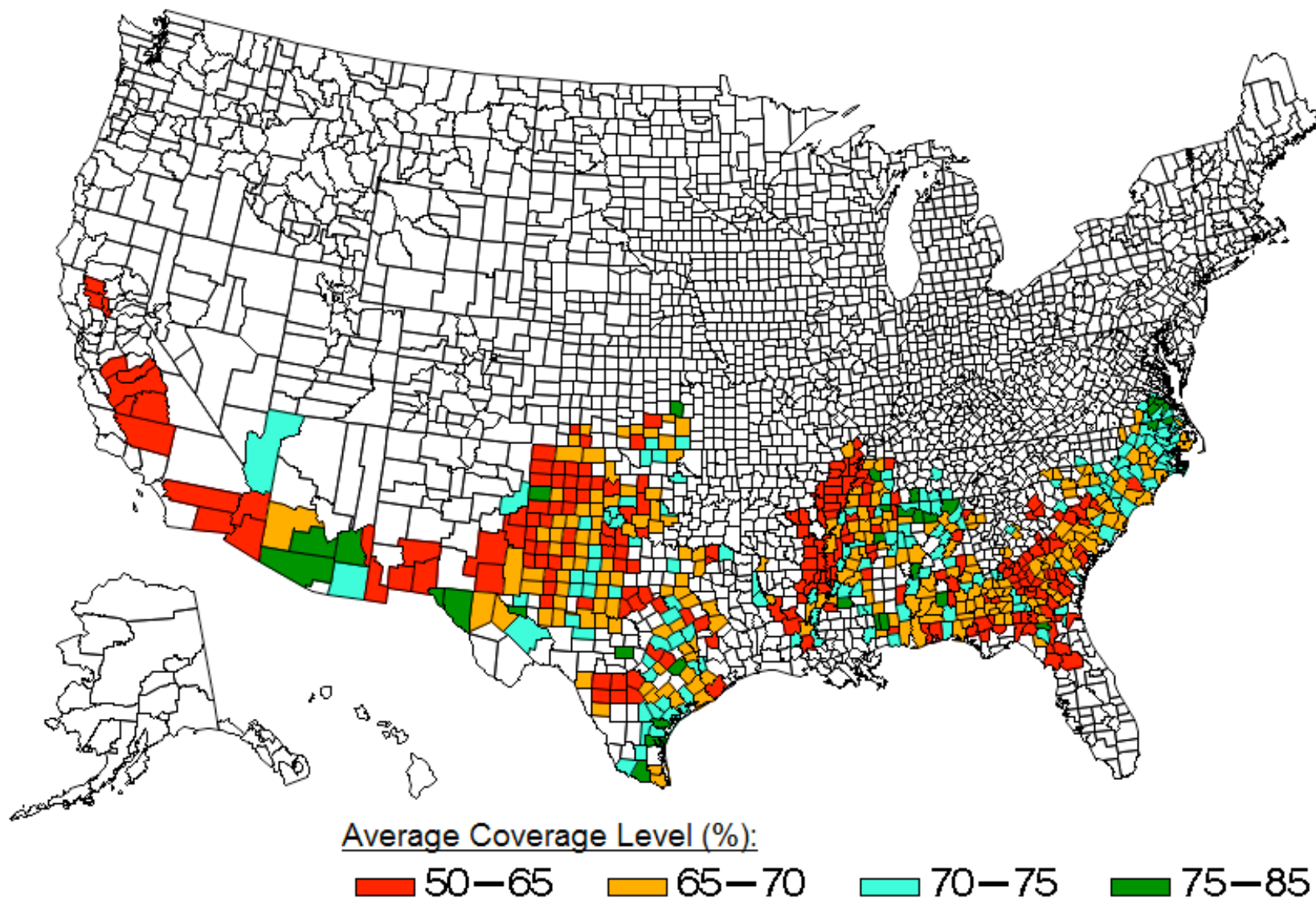
2013 Rice Average Coverage Level



Avg_cover_level 50—65 65—70 70—75 75—85

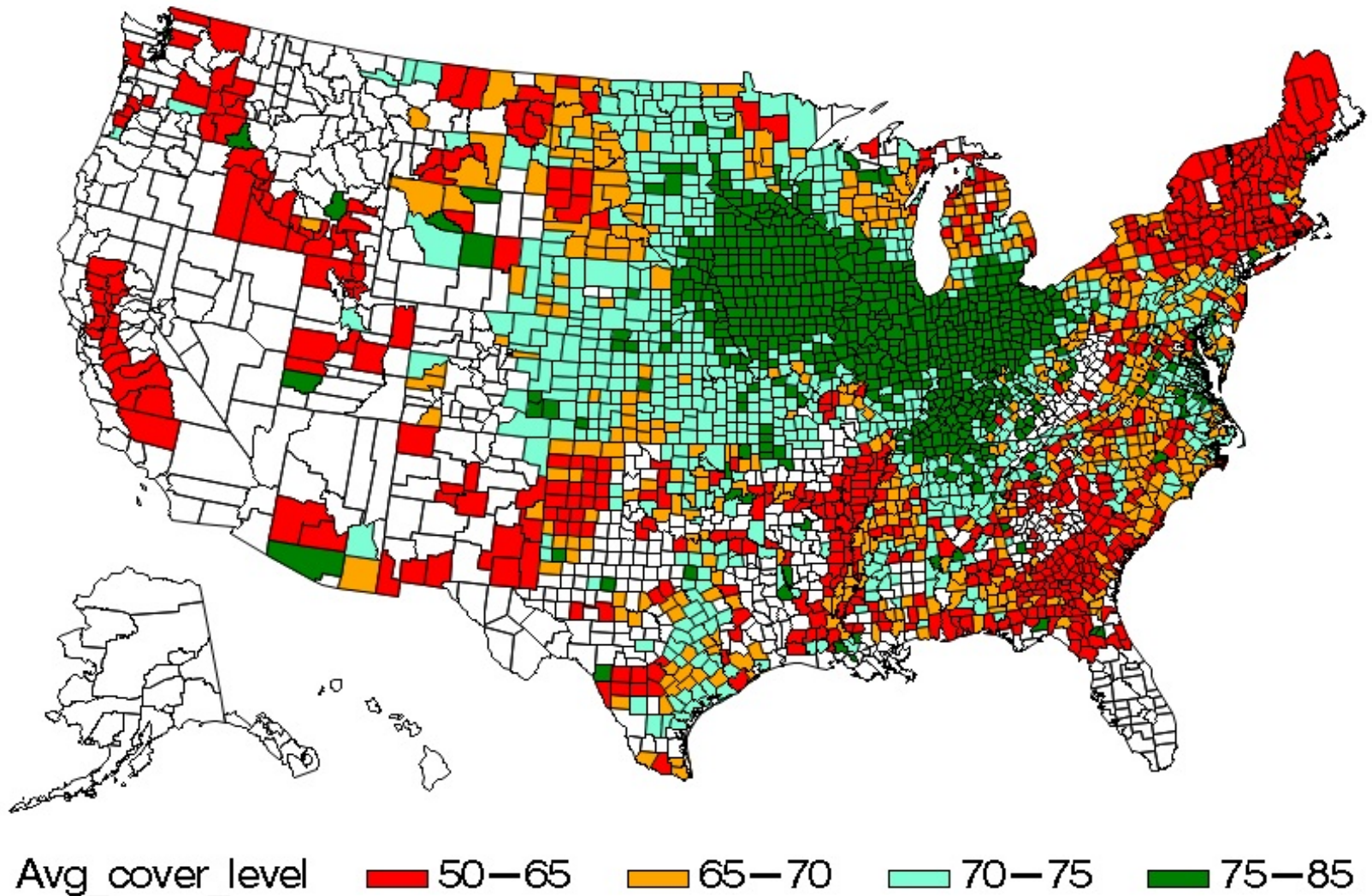
Current Cotton Coverage Levels

2013 Cotton Average Coverage Level



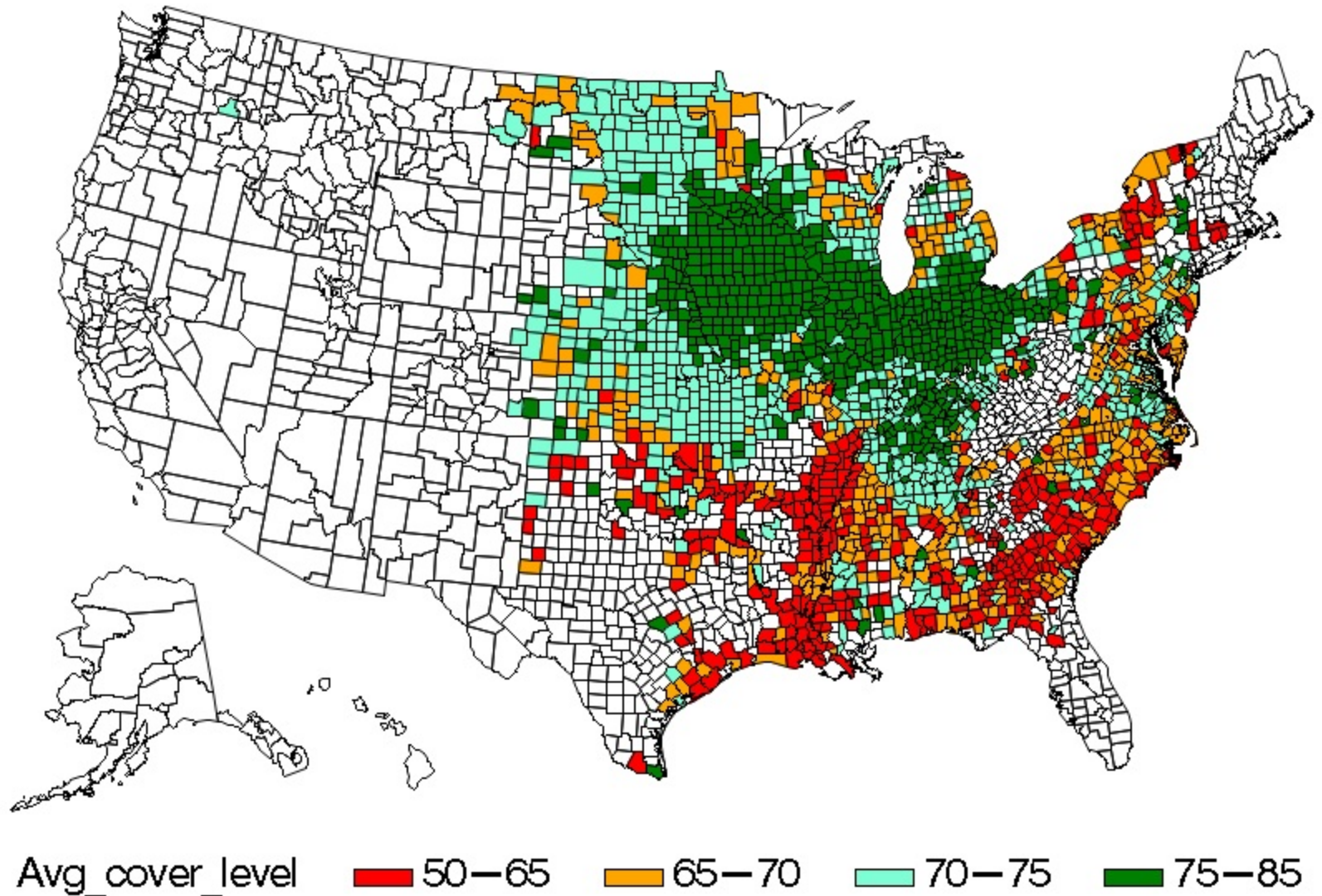
Current Corn Coverage Levels

2013 Corn Average Coverage Level



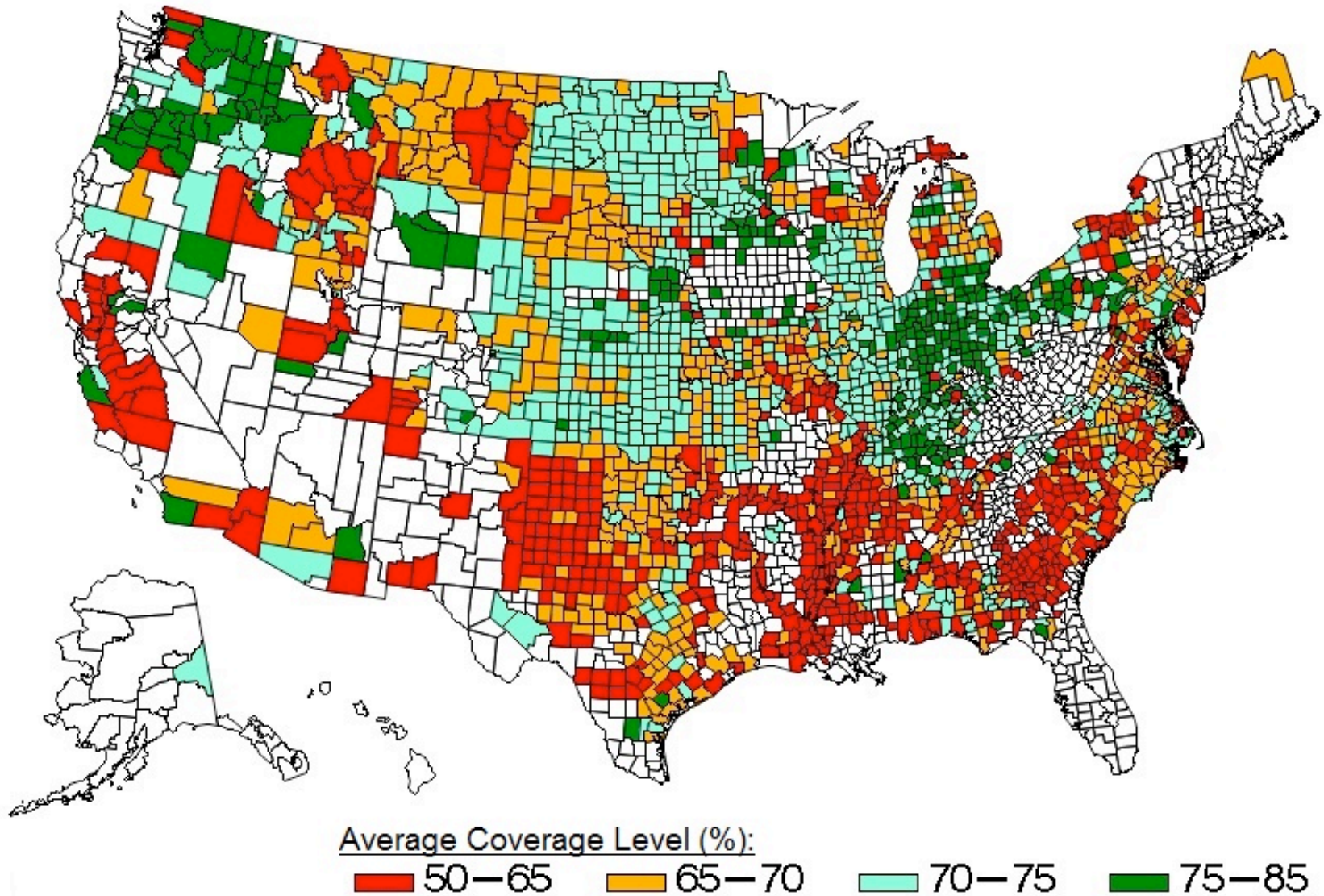
Current Soybean Coverage Levels

2013 Soybean Average Coverage Level

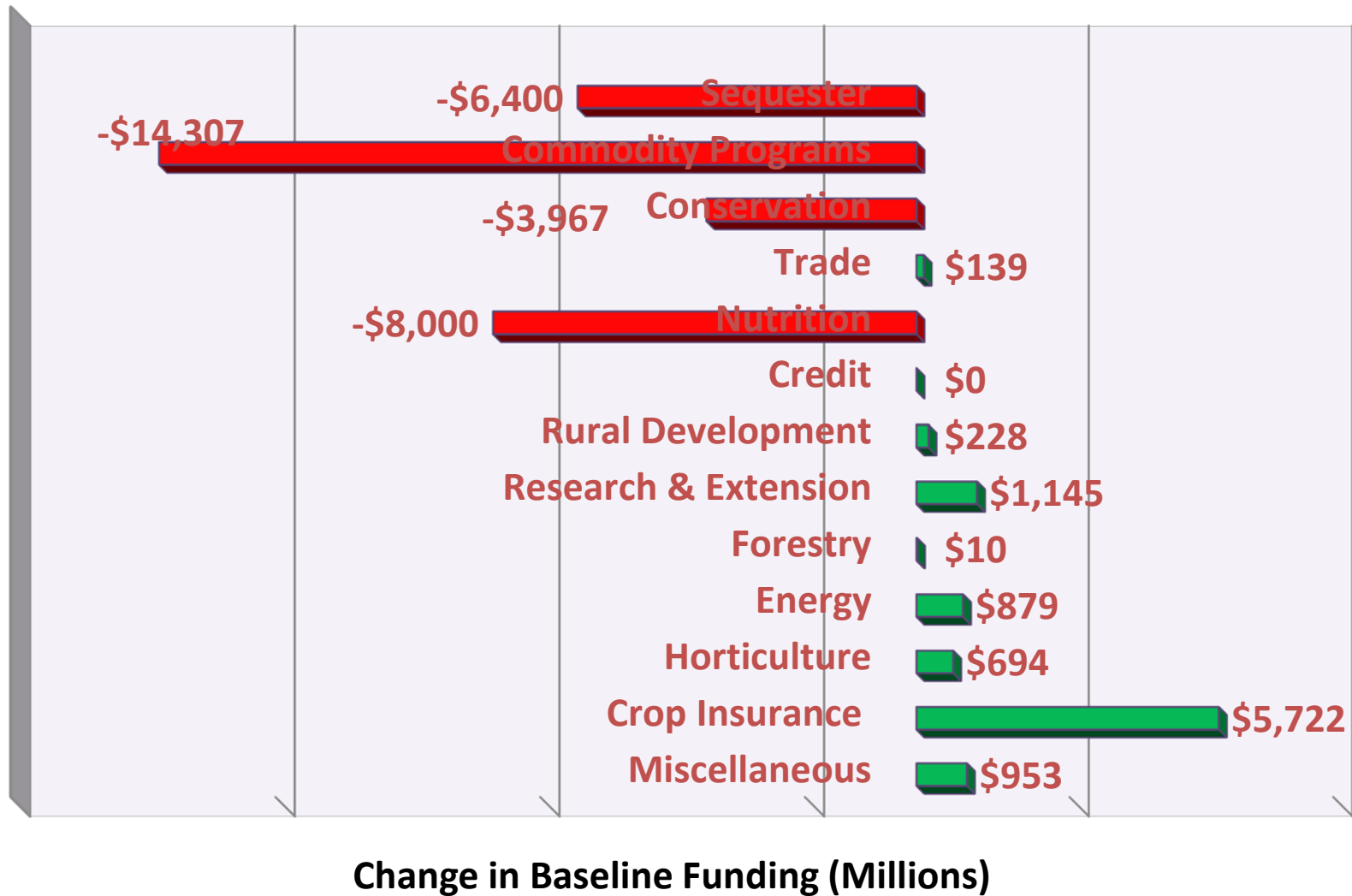


Current Wheat Coverage Levels

2013 Wheat Average Coverage Level



Agricultural Act of 2014 Budget Implications (Total Savings of \$23,008 million)



Title XI Crop Insurance

- Creates two new shallow loss county triggered programs
 - **Supplemental Coverage Option (SCO)**
 - **Stacked Income Protection Program (STAX) for cotton**
- Conservation Compliance for crop insurance



Major Crop Insurance Changes

- Traditional crop insurance changes
 - Separate coverage level by practice
 - Enterprise units by dryland/irrigated practice
 - Beginning farmers (provides 10 percentage point discount for all crop insurance premiums)
 - Authority to do peanut revenue insurance
 - Establishes fund to combat crop insurance fraud
 - Crop margin coverage & peanut revenue coverage



Separate Coverage Level by Practice

- If the crop provisions allow the option to separately insure individual crop types or varieties, and the actuarial documents provide for separate coverage
- If insured has additional (buy-up) coverage
- May select one coverage level for all irrigated acreage in the county and one coverage level for all non-irrigated acreage in the county
 - Ex. 65% coverage for all Irr Corn and 80% coverage for all Non-Irr Corn
 - Even if have a High Risk (HRLE) Cat policy in addition to Irr and Non-Irr
 - One administrative fee



Separate Coverage Level by Practice

- Separate coverage by practice cannot break out specific practices within each
 - EX. 65% level for Irr Soybeans acreage (consisting of both Conventional and Certified Organic) and 80% level for Non-Irr Soybeans (consisting of Conventional and Transitional Organic)
- Some Crop Provisions allow different coverage levels by crop type or variety
 - EX. Dry peas and Apples



Separate Coverage Level by Practice

Dry Pea Type	Practice(s)	Coverage Level
Spr Large Kabuli	Irr Organic (Cert) Irr Organic (Trans) Irr	65%
	Non-Irr Organic (Cert) Non-Irr Organic (Trans) Non-Irr	75%
Spr Small Kabuli Chickpeas	Irr Organic (Cert) Irr Organic (Trans) Irr	60%
	Non-Irr Organic (Cert) Non-Irr Organic (Trans) Non-Irr	70%



Separate Coverage Level by Practice

Apple Type	Practice(s)	Coverage Level
Processing	Irr	65%
Processing	Non-Irr	70%
Fresh Type	Irr	70%
Fresh Type	Non-Irr	75%



Enterprise Units by Practice

- If allowed by the actuarial documents and crop provisions
- Must separately meet the requirements for each enterprise unit
- Only available for on additional coverage policies for crops:
 - For which revenue protection is available regardless of whether YP or RP is elected
 - For which RP is not available if authorized by special provisions
 - If show as an authorized unit structure in the actuarial documents



Enterprise Units by Practice

- Each Irr/Non-Irr EU must meet existing EU requirements:
 - Planted acres of at least 20 acres or 20% of insured crop acreage in 2+ legal descriptions or units (can aggregate if needed)
 - Sections, section equivalents &/or Farm Numbers (used as the basis for optional units)
 - Units as established by WUA (written unit agreement) or UDO (unit division option) or
 - At least 660 planted acres in one section/section equivalent/ Farm Number (basis for optional units)
- Must plant crop with a clear & discernable break in the planting pattern at Irr/Non-Irr boundaries to qualify for separate EUs



Enterprise Units by Practice

- Question: Am I allowed to have EU for my Irr acreage and basic or optional unit on my Non-Irr acreage
- Answer: No, you may only elect to have separate EU for both your Irr and Non-Irr acreage and each must independently qualify as an EU
- Question: If I do not qualify for separate EU on Irr and Non-Irr acres, can I still have one EU?
- Answer: Yes but ...



Title XI Crop Insurance

- Adjustment in APH insurable yields
 - Producer may opt to exclude any year from APH if yield in county in that year is less than 50% of ten-year county average; Also applies to contiguous counties and allows for the separation of irrigated and non-irrigated acres
- Studies or policies are also required on insuring:
 - Specialty crop producers for food safety and contamination-related losses,
 - Swine producers for a catastrophic disease event,
 - Producers of catfish against reduction in the margin between the market prices and production costs,
 - Commercial poultry production against business disruptions caused by integrator bankruptcy,
 - poultry producers for a catastrophic event,
 - Producers of biomass sorghum or sweet sorghum grown as feedstock for renewable energy,
 - Alfalfa crop insurance.
 - Whole farm diversified risk management insurance plan



Supplemental Coverage Option (SCO)

- RMA delivered beginning in 2015.
- 65% premium subsidy.
- No payment limit.
- Top coverage of 86% coverage
- County-level optional endorsement for crop insurance policies.
 - “Tops up” crop insurance to cover deductible.
 - Yield or revenue triggered depending on underlying crop insurance policy.
 - Expected county yield = GRP trend yield. Expected revenue = GRP trend yield x crop insurance base price.
 - Actual county yield = County yield. Actual revenue = county yield x crop insurance harvest price.
 - Coverage ceases at coverage level for underlying insurance policy.
- May purchase STAX and SCO, but not on same acres.
- Must purchase underlying insurance policy

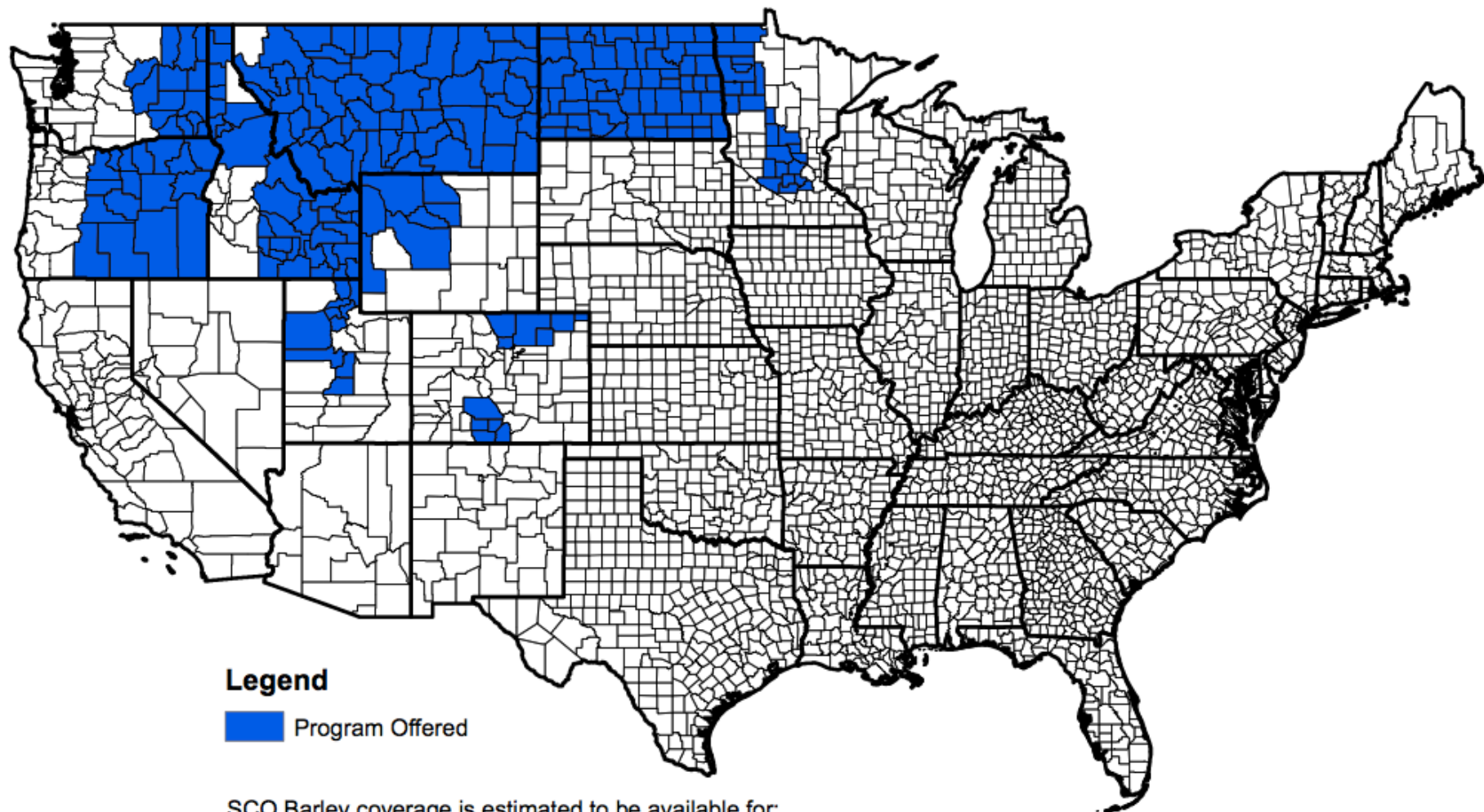


Supplemental Coverage Option (SCO)

- Question: If SCO/STAX is purchased with a CAT underlying/companion policy, what amount will the producer be charged?
- Answer: The producer will be charged a \$300 admin fee for the underlying/companion policy, a \$30 admin fee for SCO/STAX, and the producer portion of the total SCO/STAX premium
 - Note: SCO is always considered buy-up coverage, even when paired with an underlying policy purchased at the CAT level



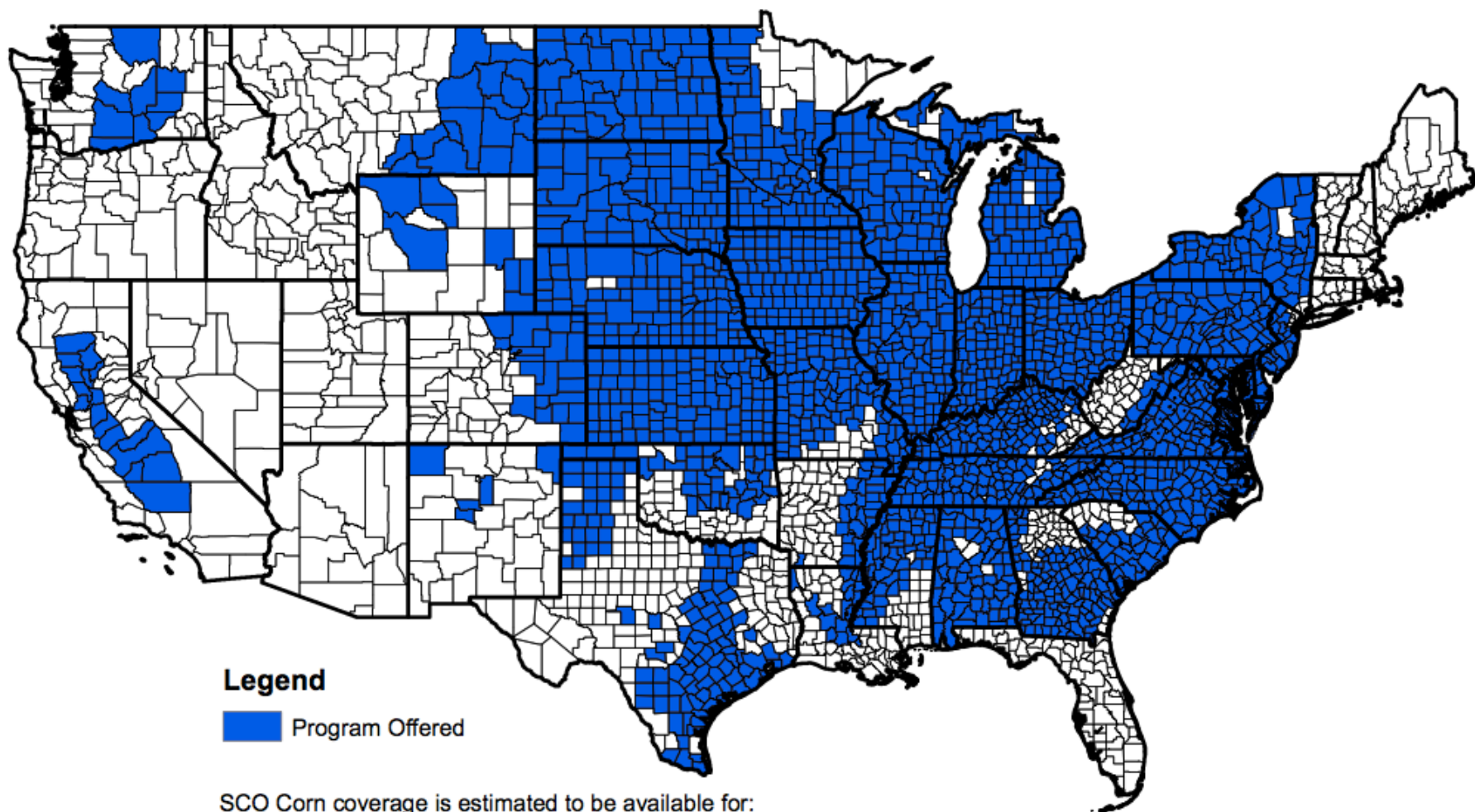
2015 Crop Year Supplemental Coverage Option (SCO) Availability for Barley



SCO Barley coverage is estimated to be available for:
88% of acreage insured (based on 2013 crop insurance participation)
78% of all planted acreage (based on 2013 NASS estimates)



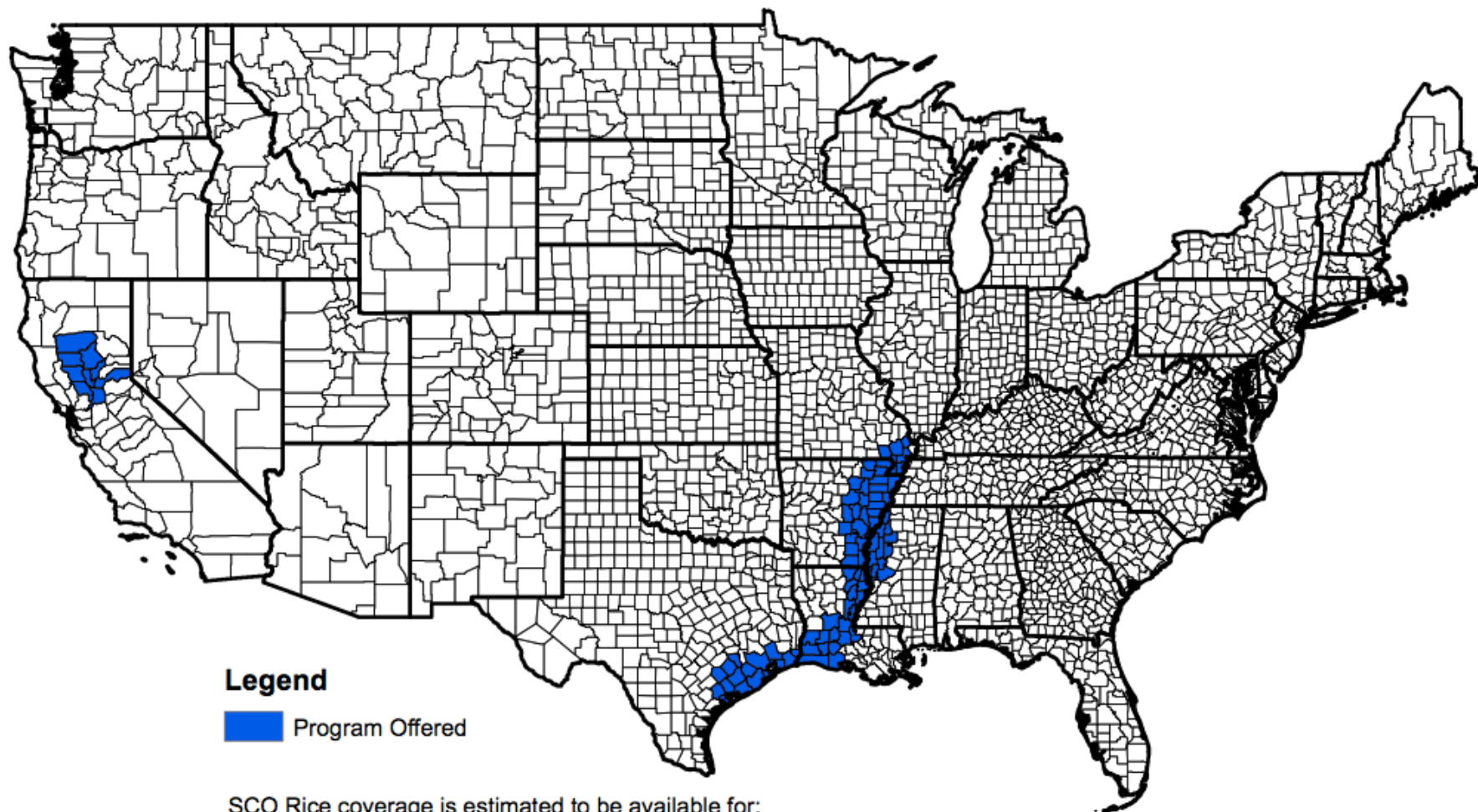
2015 Crop Year Supplemental Coverage Option (SCO) Availability for Corn



SCO Corn coverage is estimated to be available for:
99% of acreage insured (based on 2013 crop insurance participation)
98% of all planted acreage (based on 2013 NASS estimates)



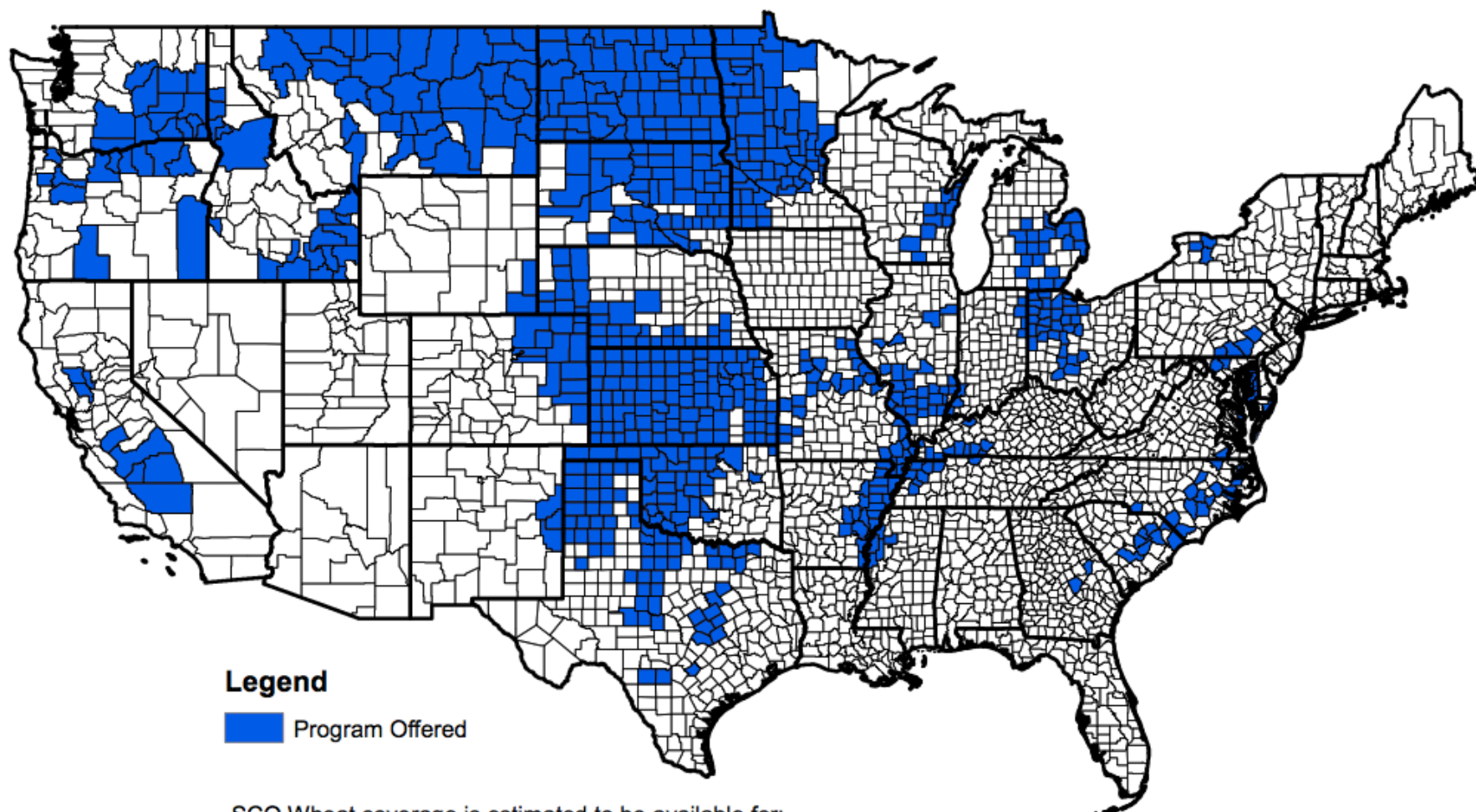
2015 Crop Year Supplemental Coverage Option (SCO) Availability for Rice



SCO Rice coverage is estimated to be available for:
97% of acreage insured (based on 2013 crop insurance participation)
97% of all planted acreage (based on 2013 NASS estimates)



2015 Crop Year Supplemental Coverage Option (SCO) Availability for Wheat



SCO Wheat coverage is estimated to be available for:
89% of acreage insured (based on 2013 crop insurance participation)
82% of all planted acreage (based on 2013 NASS estimates)



SCO Worksheet

Row	Calculation/value	1	2	4	5
1	Projected price (1/15-2/14 average for Dec corn contract)	\$3.92	\$3.92	\$3.92	\$3.92
2	APH yield	160	160	160	160
3	Crop insurance coverage level	70%	70%	70%	70%
4	Expected farm revenue (Row 1 x Row 2)	\$627.20	\$627.20	\$627.20	\$627.20
5	SCO coverage (86% – Row 3) x Row 4	\$100.35	\$100.35	\$100.35	\$100.35
6	Expected area-wide yield (bu.)per planted acre (higher of trend yield or 5-year moving average)	140.0	140.0	140.0	140.0
7	Area-wide projected income (Row 1 x Row 6)	\$548.80	\$548.80	\$548.80	\$548.80
8	SCO coverage level	0.86	0.86	0.86	0.86
9	November average of December corn futures price	\$3.40	\$3.40	\$3.40	\$3.40
10	Actual area-wide yield per planted acre (bu.)	140.0	130.0	110.0	100.0
11	Area-wide realized income (Row 9 x Row 10)	\$476.00	\$442.00	\$374.00	\$340.00
12	Revenue ÷ expected revenue (Row 11 ÷ Row 7)	87%	81%	68%	62%
13	Percent shortfall as a percent of deductible % [Row 13 ÷ (Row 8 – Row 3) Bounded at 100%]	0%	34%	100%	100%
14	Indemnity (Row 5 x Row 14)	\$0.00	\$34.25	\$100.35	\$100.35



Crop Insurance Choices

Coverage Level	Basic & Optional Subsidy %	Enterprise Unit Subsidy %	SCO Subsidy	STAX Subsidy %
50%	67%	80%	65%	80%
55%	64%	80%	65%	80%
60%	64%	80%	65%	80%
65%	59%	80%	65%	80%
70%	59%	80%	65%	80%
75%	55%	77%	65%	80%
80%	48%	68%	65%	80%
85%	38%	53%	65%	80%



Final Thoughts

- Crop risk management portfolio
 - Commodity programs
 - Crop Insurance
 - Input cost
 - Finances
- Learn about crop insurance
 - Ask about enterprise units and SCO