



Pennsylvania Department of AGRICULTURE

Share Program he would give crop insurance a try. He bought Multiple Peril Crop Insurance at the 65 percent level.

The severe drought that year made him a believer.

“We were able to guarantee ourselves an 85 bushel per acre yield and we ended up collecting almost thirty bushels worth of insurance because our average was a little less than 56 bushels per acre that year.”

“I decided then and there that that check was going to fund our insurance needs for a long, long time.”

Continued on back

Photo by Russ Nichols



Dan Wolf

CROP INSURANCE IN PENNSYLVANIA

PENNSYLVANIA DEPARTMENT OF AGRICULTURE

Winter 2005

Watching And Waiting In York County

Marketing With Crop Insurance

When the Midwest gets a weather scare, or even a planting scare, Dan Wolf is watching and waiting in York County.

Every day he works the computers in the offices on the home farm, situated amid the angles, streams, and wood patches that define the fields in this part of Pennsylvania.

He is looking for price spikes on corn and soybeans.

Dan, and his brothers, David and Stephen, can dry and store 140,000 bushels, but this year they harvested 240,000.

“We need to move a lot of corn and soybeans right out of the field at harvest and that means we need to sell as much of it as we can on forward contracts,” says Dan, the oldest of the three brothers still farming. He and David do the

marketing and manage the cropping.

Since 1999, crop insurance has given him the confidence to forward price a higher percentage of the crop.

The advantage this gives him has been described by USDA’s Economic Research Service (ERS). Their modeling shows that eight out of every ten years the spring futures price is higher than the fall harvest price. The more bushels Dan Wolf can forward contract in the spring, and throughout the growing season, the more profitable the operation will be, over time. Crop insurance gives him the confidence to forward price a higher percentage of his crop.

In 1999 Dan was persuaded that between the increase in the Federal subsidies and the addition of the Pennsylvania Cost

INSIDE:

Soybean Rust And Crop Insurance

Greater Value At Higher Levels

‘05 Crop Insurance Choices Looming



Made possible in partnership with the USDA Risk Management Agency.



PENNSYLVANIA DEPARTMENT OF AGRICULTURE

Dear Friends,

Pennsylvania invests in agriculture.

Low interest loans, the farm preservation program, the Pennsylvania Preferred program, outreach to urban and suburban students to help them learn how food is produced, explaining farm policy and programs to local policy makers, and, of course, the Crop Insurance Cost Sharing program... these things are just a few of the ways our state invests in agriculture.



It is a smart investment.

Pennsylvania's agricultural products, and the 55,000 farm families who produce them, are known internationally for quality, and in this world wide economy quality is what matters most.

That quality reputation for our mushrooms, apples, dairy genetics, organic produce, and on and on, raises positive assumptions about the quality of everything made and exported from Pennsylvania.

Here in Harrisburg, we will continue to invest in Pennsylvania's future by investing in Agriculture.

Sincerely,

Dennis Wolff
Secretary of Agriculture

Soybean Rust And Crop Insurance

How soybean producers respond to Soybean Rust will affect their ability to file a crop insurance claim in the event of a loss related to the fungus.

Carried by last fall's hurricane winds, Soybean Rust made its way to the Southern United States, where it can overwinter.

Some witty soul summarized the situation by saying, "No spray, no pay." Although that may well be true if it can be proved that the plant disease was "in your general area", it is a little more complicated than that. For one thing, the definition of "general area" is still up in the air.

That seems appropriate because the disease spreads on the wind and can make it from the Gulf Coast to Canada in one growing season. Theoretically, it is possible that all soybeans will be affected.

Untreated fields can experience severe losses (up to 80 percent). On the other

Continued on next page

Continued from previous page

hand, some experts believe that treated fields may experience a slight increase in yield due to the positive affects of spraying on other diseases that affect yields.

The good news is that crop insurance covers unavoidable losses due to disease, and Soybean Rust is a disease. However, your policy states that you may only collect if you follow sound farming practices. In this case, according to the Risk Management Agency, that means spraying with an approved fungicide if the disease is present.

Some experts report that the disease can

spread about 20 miles per day. Which way the wind blows, and how hard, will determine if or when it gets to Pennsylvania. On the other hand, spraying may be more effective early in the growing season and the fungus may do less damage to yields later in the season when it is more likely to be dry.

Confused? Art Barnaby, from Kansas State University cut through the clutter of uncertainty this way, "Probably the best advice is to follow the recommendations from one's Land Grant University... If growers follow those recommendations and yields suffer, it is very likely the claim will be paid."

Knowing what is going on in your area is your responsibility. If you have the disease and you were too late in spraying, you may not be able to collect. The American Soybean Association (ASA) will have real-time reporting on their website.

Growers may be tempted to balance the cost of the fungicide by reducing their level of crop insurance coverage. Before you consider that option you should read, "Greater values at higher levels of coverage" (below). Buying higher levels of coverage may be a wise decision. ▲

Greater Value At Higher Levels Of Coverage

Evaluating Crop Insurance

This year crop insurance choices are complicated by a general rise in crop insurance premiums at many levels of coverage. The first inclination may be to move to lower levels of coverage but the experience in recent years, according to Risk Management Agency (RMA) data for Pennsylvania, is that those buying at the 70 percent level, or higher, get significantly more return for their investment.

According to RMA, in 2003 about 90 percent of corn and soybean loss payments were paid to producers who chose 75 to 85 percent levels of coverage. In that year there were many shallow losses and prevented planting claims in the bottom lands. USDA also provided a one-time extra \$6.5 million premium cost share in addition to the normal amount of subsidy and the \$2 million Pennsylvania cost share.

The result was that many producers increased their level of coverage from the traditional 65 percent of their average production history to 70 or 80 percent, and some went to the maximum 85 percent coverage.

Those decisions paid off big time! When

the 2003 corn and soybean claims were recalculated and compared to what the results would have been at 65 percent coverage, the difference was astounding.

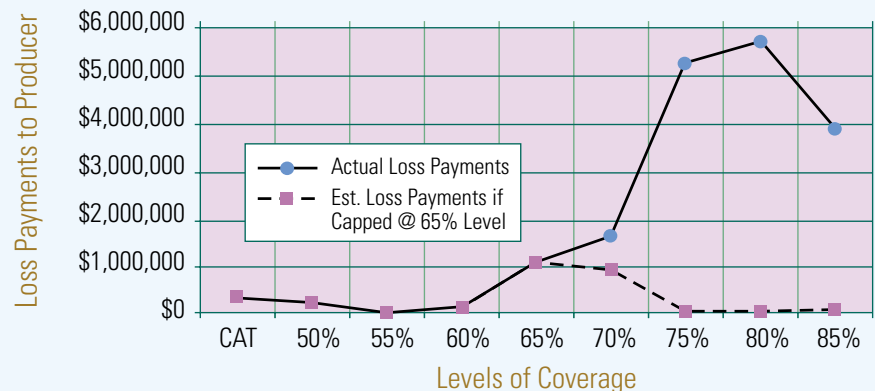
In Pennsylvania \$16.6 million was actually paid out to corn and soybean growers in 2003, but if they had all stayed at the 65 percent level of coverage, the state wide pay out would have been less than \$1 million! The lesson seems to be to buy the best protection you can afford. Higher coverages will respond quicker to marginal losses and deliver more coverage in times

of severe losses.

The premium rates for each level of coverage are set with the expectation that losses will equal gross premiums. At approximately 50 percent premium subsidy, on average, producers should, over time, receive loss payments of about two times the long term cost of net premiums.

In other words, the more you pay in premiums the better value you get from crop insurance. Like everything else, you get what you pay for. ▲

Pennsylvania Corn & Soybean 2003 Crop Insurance Loss Payments by Level of Coverage



Continued from front page

Dan now uses Crop Revenue Coverage (CRC), at higher levels of protection, to cover not only the yields but also the price.

“If we see a really good price out into January, February, March, or even April and May, we’ll book some for that time frame. Having the insurance helps us to take advantage of those opportunities.”

Dan understands that Pennsylvania is not part of the “natural hedge”. When the corn crop in Iowa is threatened, prices go up simply because so much corn is grown in the Midwest. The crop in Pennsylvania can be threatened and it will have little influence on the price.

“Our marketing decisions are mostly driven by what happens in the Midwest,”

he says as he takes a call about the ethanol distillery he is helping to set up in Southeastern Pennsylvania.

“An ethanol distillery should allow producers in this area to lower their transportation costs and it should help build additional price demand for our corn,” he says. For him the ethanol project is a natural extension of his marketing strategies.

He is also convinced, after five years of experience with federally subsidized crop insurance, that the benefits of this government program are more than just financial.

“I can sleep at night. When we’re in a drought, or if we have a severe storm or

even a hurricane, like Isabel, you don’t have to feel like the bottom fell out of your life. You’ve got something there to fall back on.” ▲

2002 AG CENSUS ON INTERNET

NEW SUMMARIES NOW AVAILABLE

Agricultural statistics from USDA’s National Agricultural Statistics Service are very important to the development and implementation of crop insurance.

County and state statistics are available from the Ag Census and other annual surveys at: www.usda.gov/nass/.

‘05 Crop Insurance Choices Looming

Between now and March 15, growers of 17 spring planted Pennsylvania crops will once again face the year’s first big risk management decisions... what kinds of crop insurance policies do I get and how much coverage do I choose?

The 17 crops are: oats, forage seeding, corn, processing sweet corn, fresh sweet corn, canning beans, grain sorghum, green peas, winter squash, cabbage, soybeans,

potatoes, fresh market tomatoes, processing tomatoes, barley, Maryland tobacco, and cigar filler tobacco.

Corn growers will also have to choose which of several different types of crop insurance policies best suit their needs: Crop Revenue Coverage (CRC), Group Risk Plan (GRP), Indexed Income Protection (IIP), or the traditional Multiple Peril Crop Insurance policies (MPCI). Which crops

are insurable and what kinds of policies are available varies from county to county.

March 15 is not only the deadline to sign up for crop insurance, but also the deadline to make any changes to existing policies. To do either of those things, growers must contact a crop insurance agent well before March 15. Remember that higher levels of coverage perform best when disasters occur. ▲



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