

Worried about Drought in 2003? Manage Risk with Crop Insurance

With the past poor growing season fresh in everyone's mind, now is the time to start thinking about your production risk management strategies for next year. In particular, if you wish to purchase the new whole-farm revenue protection plans (AGR and AGR-Lite) you must apply by January 31 (the deadline for traditional yield-based Multi-Peril Crop Insurance (MPCI) for spring-seeded crops is March 15). Although there were major increases in the number of farmers using crop insurance in Pennsylvania this past season, still only about 50% of eligible acres are covered (compared to 80% or more in the Midwest). Several things have happened recently to make crop insurance an even better risk management tool for Pennsylvania's farmers:

1) Adjusted Gross Revenue (AGR) insurance is now available in 14 counties in Pennsylvania: Berks, Carbon, Crawford, Columbia, Erie, Fayette, Lackawanna, Lancaster, Lehigh, Monroe, Northampton, Schuylkill, Westmoreland, and York. AGR insures the revenue for your entire farm rather than individual crops by guaranteeing a percentage of average gross farm revenue, including a small amount of livestock revenue. The plan uses information from your last five years of Schedule F tax forms to calculate the policy revenue guarantee. No more than 35% of expected allowable income can come from animals or animal products. If more than 50% of your expected farm income is from crops that have multi-peril crop insurance (MPCI) available in your county, you can still get AGR insurance, but you must also get at least minimum (CAT) levels of MPCI for those crops. AGR covers loss of revenue during the current insurance year due to any unavoidable peril that occurs during the current or previous insurance year. Depending on the number of crops grown, farmers have up to six choices of coverage level and payment rate. Lower coverage levels and payment rates have a lower potential for paying for losses, but the premium cost is also less. If your farm's adjusted gross revenue falls below the level of coverage you select, then you will receive a loss payment for the difference (paid at either 75 or 90 cents on the dollar). Farmers growing one crop are eligible for coverage at the 65% coverage level at the 75% payment rate. Farmers growing two crops are eligible for coverage at the 65% and 75% coverage levels at either the 75 or 90% payment rate. Farmers who grow at least four crops are eligible for the 80% coverage level at the 75 and 90% payment rates. The maximum policy size for AGR is \$6.5 million. The last day to apply for AGR insurance is January 31.

2) A simplified version of AGR (called AGR-Lite) is available statewide in 2003 for growers who need up to \$100,000 in gross revenue protection. This plan covers most crops, greenhouses, animals and animal by products such as milk. The same coverage levels and payment rates are available for AGR-Lite as for AGR. The maximum farm adjusted gross revenue to be eligible for AGR-Lite is \$205,128 (based on the 65% coverage level and 75% payment rate). Unlike regular AGR insurance, qualified farmers would still be eligible to participate if they have more than 35% livestock income. Also, farmers are not required, but may purchase additional individual crop protection in addition to AGR-Lite. Producers are also exempt from being required to provide copies of tax forms unless they file an insurance claim. Compared to the AGR program, AGR-

Lite is much more flexible and requires less paperwork to apply. The last day to apply for AGR-Lite insurance is January 31.

3) Crop Revenue Coverage (CRC), an insurance product first introduced in 2000, is now available in all Pennsylvania counties for corn and 49 counties for soybeans. Unlike MPCl that covers only yield losses, CRC provides protection against both yield and price risk. The farmer selects a level of revenue to protect based on price and yield expectations. Losses are paid if revenues fall below the guarantee at the higher of an early-season price or the harvest price.

4) Farmers using yield-based MPCl crop insurance have traditionally been able to choose a yield guarantee level of 50, 55, 60, 65, 70, or 75% of their farm's actual production history yield. In a sense, this determines the "deductible" before an insurance claim would be paid. Selecting a lower yield guarantee lowers the premium. Many farmers, however, felt that they would like to have higher levels of coverage available. In response, 80 and 85% coverage levels have been introduced for corn and soybeans in many counties.

5) Under the Federal 2000 Agricultural Risk Protection Act crop insurance premiums for farmers were reduced by 27-41% depending on the level of coverage selected. In addition, the Commonwealth of Pennsylvania is paying the \$30/crop application fee and reducing producer paid premiums by an additional 16-30% in 2003. This means that crop insurance premiums will be 40-58% lower in 2003 than they were in 1999.

6) Catastrophic crop insurance (CAT) was introduced several years ago to replace ad hoc disaster assistance programs enacted by Congress and provide a safety net based on a farmer's actual production history and insurance principles. The per acre insurance premium for CAT is paid totally by the Federal government. To encourage all farmers to have at least this level of protection, the Commonwealth of Pennsylvania is again paying the \$100 administrative fee this next year. CAT insurance provides farmers with a crop insurance yield guarantee of 50% of their farm's actual production history yield, with any losses reimbursed at 55% of the established indemnity price. Compared to higher levels of coverage, CAT provides only minimal protection against yield losses. For some diversified farmers this level of coverage is sufficient to protect them against severe cash flow shortfalls. Corn farmers who have used the CAT level of MPCl yield insurance in the past may wish to consider using the CAT level of Indexed Income Protection (IIP) that provides a revenue guarantee similar to CRC. Another good example of using CAT to help manage risk would be for fresh-market sweet corn. Although many farmers feel the cost of higher levels of protection are not warranted, free CAT insurance guaranteed growers of a cash flow of at least \$233 in 2002.

7) In addition to the payment of policy fees, the PA Crop Insurance Assistance Grants will pay 16-30% of the farmer's premium costs (depending on the level of coverage selected) again in 2003. Since 2000, this program has saved producers almost \$5 million. These grants are automatic when you enroll with a private crop insurance agent.

Where Can You Find a Crop Insurance Agent? If you are interested in crop insurance as a way to help you manage risk, contract a crop insurance agent to discuss the options that are available to you in your county. Crop insurance is guaranteed and subsidized by the Federal government, but is sold through private insurance agents.

- Ask your neighbors for their recommendations. Other growers are one of the best sources of information on where to find a knowledgeable crop insurance agent.
- Check with the insurance agency where you purchase other types of insurance. Often you can obtain crop insurance through an agent you already use for your farm, automobile, liability, fire, health, or life insurance needs. Many insurance agencies have agents who specialize in crop insurance.
- Check with businesses or organizations you use for farm business management services. Your banker, cooperative, or a farm organization you belong to may be able to recommend insurance agencies who handle crop insurance.
- Use the USDA Risk Management Agency's Web site (<http://www.rma.usda.gov/>) to locate an agent in your area. First, click on "Agent Locator" in the left tool bar. Then, click on "Agent" under the "Agent Locator/Insurance Providers List." Finally, pull down on "Pennsylvania" to access a list with more than 200 agents who are licensed to sell crop insurance in Pennsylvania.

More information on crop insurance products (including AGR and AGR-Lite) and crop coverage can be found on the Pennsylvania Crop Insurance Education web site at <http://cropins.aers.psu.edu>.

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