2015 Crop Insurance Changes

Worth Eubanks
Crop Insurance Specialist
Farm Credit Mid-America

Agricultural Act of 2014

Farm Credit Mid-America
Is an Equal Opportunity Provider

Changes to crop insurance program

- Conservation compliance
- Irrigated vs. non-irrigated coverage levels
- Separate enterprise units for IRR and non-IRR
- Actual production history (APH) yield exclusion
- Sodsaver
- Beginning farmers and ranchers

Changes to crop insurance program

- Reallocation of FSA base acres and update of base yields
- New FSA program decisions (ARC vs. PLC)
- Stacked income protection plan (STAX) and supplemental coverage option (SCO)
- Additional changes

Conservation Compliance

Conservation Compliance

Considerations

- Crop insurance premium subsidy now tied to conservation compliance
  - Producers must comply with rules regulating WC and HELC
- Must have filed an AD-1026 by June 1, 2015 at FSA
  - Many producers already have form on file
- Wetlands destroyed after Feb. 7 ,2014 are in violation and must be returned to natural state or mitigated with other wetland acreage
- Violations wherever a producer operates will cause ineligibility for premium subsidy everywhere
- Pay attention to business partners and their conservation practices

Irrigated vs. Non-irrigated

Irrigated vs. Non-irrigated

Considerations

- Separate coverage level elections for IRR and non-IRR
  - Beginning in 2015, not available on all crops or in all areas
- Must insure both practices with buy-up insurance
  - CAT acres are not eligible
- High-risk land acres covered under High-Risk Land Exclusion <u>ARE NOT</u> eligible
- High-risk land acres covered under High-Risk Alternate Coverage Endorsement <u>ARE</u> eligible
- Where separate coverage levels are available by type and variety, you may also elect the separate coverage levels for IRR and non-IRR

Separate Enterprise Units for IRR and Non-IRR

Separate Enterprise Units for IRR and Non-IRR

Considerations:

- Becomes available in 2015 in certain areas, check with your agent
- Allows producers to spread risk between the two practices
- Must meet enterprise unit qualifications under each individual practice
- Premium discount for enterprise units (each practice standing alone)
- Must select enterprise units for both practices

APH Yield Exclusion

The APH yield exclusion allows farmers to exclude yields in exceptionally bad years (such as a year in which a natural disaster or other extreme weather occurs) from their production history when calculating yields used to establish their crop insurance coverage.

RMA Actual Production History Yield Exclusion FAQs, USDA, Oct. 2014

APH Yield Exclusion

Considerations

- County yield is at least 50 percent below average of the previous 10 consecutive crop years
- Available in the spring of 2015 where there is sufficient county data
  - Eligible crops (Nov. 30, 2014, contract change date): corn, soybeans, spring wheat, cotton, grain sorghum, rice, barley, canola, sunflowers, peanuts, popcorn
- Additional information to be provided by RMA in December of 2014

Sodsaver

Sodsaver

Considerations

- In fall of 2014, producers who till native sod and plant an annual crop on that land will experience crop insurance coverage reductions for the first four years of production on said land
- Native sod acreage is acreage that has never been tilled or that you cannot prove to have been previously tilled for crop production*
- Applies to acreage in all counties in: Iowa, Minnesota, Montana, Nebraska, North Dakota and South Dakota

* RMA Native Sod Guidelines for Federal Crop Insurance, USDA, June 2014

Beginning Farmers and Ranchers

Beginning Farmers and Ranchers

Considerations

- Must not have actively operated and managed a farm or ranch anywhere, with an insurable interest in any crop or livestock for more than five years*
- Waives the administrative fee on catastrophic and buy-up policies
- Additional 10 percentage points of premium subsidy for buy-up policies
- Increase in the substitute yield adjustment, allowing for replacement of a low yield due to an insured cause of loss, from 60 to 80 percent of the applicable transitional yield (T-yield)*

* RMA Beginning Farmer and Rancher Benefits for Federal Crop Insurance Fact Sheet, USDA, June 2014

FSA Decisions

FSA Decisions

Considerations

- Base acre reallocation and yield update on Feb. 27, 2015
- ARC/PLC decision on March 31, 2015
- One-time irrevocable decisions that stay with the land
- Rely on FSA, crop insurance agent or extension service
- Many land grant universities have websites to assist with decisios, along with USDA-RMA and FSA websites
- STAX and SCO must be purchased through a crop insurance agent by multi-peril sales closing date

Additional Changes

Additional Changes

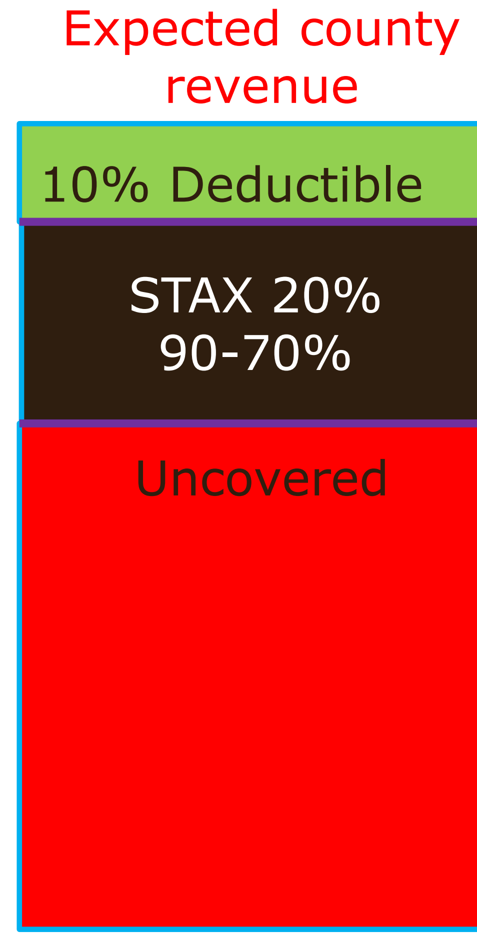
- Enterprise units made permanent
- Peanut revenue policy availability
- Correction of minor errors in certain MPCI policies
- Whole Farm Revenue Protection (WFRP)
  - Combines all commodities on the farm under one insurance policy
  - Provides additional opportunities for more diverse operations
- Organic insurance options increase
  - Now offer 16 organic crops with price election
  - Contract Price Addendum (CPA) better reflects price received for certain contracted organic crops

Stacked Income Protection Plan (STAX) & Supplemental Coverage Option (SCO)

STAX

Considerations

- 2015 crop insurance product for cotton providing shallow loss protection on an area-wide basis
- Available by practice in counties where crop insurance products for cotton are offered
- 80 percent premium subsidy
- Provides coverage for up to 20 percent expected <u>area</u> revenue with a 10 percent loss deductible
- 90-70 percent available in five-point increments
- Protection factor between 80-120 percent in one-point increments
- May be purchased as standalone policy or in addition to an underlying policy not to overlap the STAX coverage level



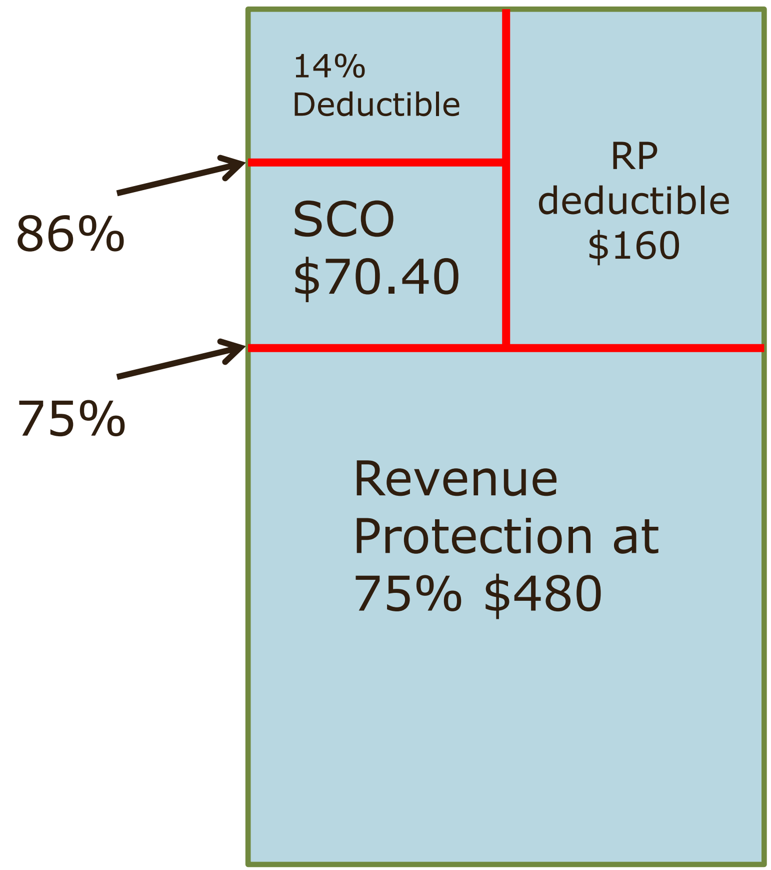
SCO

Considerations

- Crop insurance product providing area-loss coverage only to be purchased on top of existing crop insurance policy (CAT minimum)
- 65 percent premium subsidy
- May be purchased on covered commodities enrolled in the PLC program or on crops where no base acreage exists, and cotton acres not enrolled in STAX
  - Crops: corn, soybeans, wheat, sorghum, cotton rice, spring barley
- Follows underlying coverage
  - Example: yield protection underlying coverage would result in SCO only protecting against an area-wide yield loss
- 14 percent deductible
  - County's expected revenue or yield must fall below 86 percent before policy begins to pay an indemnity

SCO Example

- Producer corn APH: 160 bu/A
- Projected price: $4.00
- MPCI, revenue protection: 75%
- Expected value: $640
  (160 x 4.00 = $640)
- Crop insurance guarantee: $480
  ($640 x 75% = $480)
- Underlying policy is RP, so SCO if purchased would be revenue-based
- County experiences a >14% decline in revenue, then SCO begins to pay, up to 11% (86-75%).



2015 – Are You Ready?

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Producers need to have conversations with lenders and crop insurance agents now to determine how to navigate the 2015 crop year

- What are my productions costs and where is profitability?
- How does crop insurance tie in to my risk management plan?
- What is the outlook for my operation moving forward?

In many areas, multi-peril crop insurance may not guarantee full input cost; something many producers have not experienced in the last few crop years

- What other options are available to help manage risk?
- "My guarantees are not the high, do I really need crop insurance?"

Educate yourself about the new FSA programs

Other Risk Management Opportunities

Other Risk Management Opportunities

- Many approved insurance providers offer private products; some private products allow growers additional options beyond traditional MPCI policies
  - Ask your crop insurance agent what other opportunities are available
  - Multiple Price Discovery, Price Flex, Added Price Option, Enterprise Plus, Harvest Max, Revenue Net, Total Weather Insurance
- Use your crop insurance guarantees when developing a marketing plan
- Remember that no two operations are identical and you must tailor a plan that will work best for your operation
  - Not always what your neighbor is doing

"Don't waste time worrying about missed opportunities. If you do, you will miss the next one."

Thank You

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