Crop Insurance Alternatives for Apple Growers

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GOALS TODAY
• Provide a basic overview of crop insurance alternatives for apple growers
• Provide a brief description of how these apple insurance alternatives work
• Present some issues to consider when purchasing crop insurance for apples

Introduction
• Crop insurance is one of the most important tools for managing risk in U.S. agriculture
• USDA-Risk Management Agency (RMA) is the primary agency that oversees the U.S. crop insurance program
• Publicly supported-Privately delivered program
Introduction

• Why do we need crop insurance?
• Agricultural production is inherently risky
  – Adverse weather events
  – Pest infestations
• Not properly addressing production risks has financial consequences

Introduction

• Profit = (output price x output) – (input price x input)

• Negative risks affect ability to:
  – Pay bills
  – Meet farm business goals
  – Maintain lifestyle

Introduction

• Crop insurance is one strategy to manage production and/or price risk
  – Yield-based and revenue-based plans
• Not costless – weigh premium (cost) with the expected risk reduction (benefits)
  – Assess your own situation
Introduction

• Apples in NC
  – 79.3% of total apple acres insured (RMA, 2006)
  – NC Loss Ratio (Indemnity/Premium):
    • Crop year 2006 - 2.09
    • Crop year 2005 - 3.72
    • Crop year 2004 - 1.23
  – More indemnity payments than premiums

Crop Insurance Alternatives for Apple Growers

• Actual Production History (APH) Policy
  – Insures yield
  – Only covers 18 counties in NC (if county not covered then apply for Written Agreement)

• Adjusted Gross Revenue Lite (AGR-Lite)
  – Insures farm revenue
  – Apple plus other crops/livestock (mainly for diversified operations)

Apple APH Policy

• Requirements:
  – Produced at least 150 bu/ac in one of the last 4 years
  – Orchard inspection may be required
  – Sales Closing Date: Nov. 20
Apple APH Policy

- Protects against yield shortfalls due to an insurable cause of loss:
  - Adverse weather (i.e. hail, drought, flood), fire, insects, plant disease, wildlife
- Protects against quality damage from natural perils resulting in the fruit not grading to US No. 1 or better
  - Also have optional coverage if fail to grade as U.S. Fancy or better

**Coverage levels:**
- 50% to 75% (in 5% increments)
- Premium subsidies increasing from 67% for a 50% coverage level to 38% for a 85% coverage level

**Price election** – determines value
- $8.65/bu for Fresh Apples
  - $9.05/bu for varietal group A; else $8.65
- $2.35 for Processing Apples
- Can choose proportion of price (55% -100%)

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<thead>
<tr>
<th>Group</th>
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**Varieties**
- Bartlett
- Gala
- Honeycrisp
- Pink Lady
- Gravenstein
- Mutsu
- Fuji
- Other varieties not specified above
Apple APH Policy

• Catastrophic (CAT) coverage:
  – 50% coverage level with 55% price election
  – Fully subsidized (only $100 admin fee)
  – Any coverage above CAT is called “buy-up” coverage

Apple APH Policy

• Unit Structure
  – Designate the field being insured (“unit”)
    • Separate coverage for each unit
    • Separate production records for each unit
    • Each unit planted to same crop
    • Cannot cut across county lines
  – Unit options:
    – Basic or Optional

Apple APH Policy: Unit Structure

• Basic Unit
  – One basic unit for all apple acreage in the county that is owned or cash rented
  – Another basic unit for acreage that is share rented with different landlord
  – 10% basic unit discount
Apple APH Policy: Unit Structure

- Optional Unit
  - Subdivided basic units
  - Basic units with:
    - two or more FSNs
    - different practices
    - non-contiguous land
    - Different varietal groups
  - No 10% discount, but more flexibility

Apple APH Policy: Example

- APH Yield Guarantee:
  - Approved APH Yield 500 bu/ac
  - Coverage Level 60%
  - Yield Guarantee (500 bu/ac x 0.6)

- APH Indemnity Payment
  - Yield Guarantee 300 bu/ac
  - Price Election, Fresh (100%) $8.65
  - Actual Yield 100 bu/ac (100 < 300)
  - Indemnity $1730/ac

* (300 x $8.65) – (100 lbs x $8.65) = $1730
- If producer premium $91, net indemnity is $1639/ac
- Adjust value of actual yield if quality damage
Apple APH Policy: Premium Costs

• Example for Henderson County, NC
  – 500 bu/ac APH; Irrigated; Optional Unit; 100% price election

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<tr>
<th>Coverage level</th>
<th>Premium ($/ac)</th>
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<td>50%</td>
<td>49.26</td>
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<tr>
<td>55%</td>
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<td>60%</td>
<td>90.72</td>
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<td>65%</td>
<td>134.86</td>
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<td>70%</td>
<td>174.27</td>
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<tr>
<td>75%</td>
<td>244.22</td>
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AGR-Lite

• Whole-farm revenue protection plan
  – Insures adjusted gross revenue of whole farm rather than individual crops
• Most farm-raised crops, animals, and animal products covered
• Can stand alone or with other insurance plans (APH)
  – Get discount if combined with APH

AGR-Lite Policy

• Uses producer’s 5-year historical farm average revenue as reported on IRS tax form (Schedule F) and annual farm report
• Have liability limits and other eligibility requirements
  – Lots of paperwork!
  – Mar. 15 – Sales Closing Date
  – Contact your Insurance Agent for details!
AGR-Lite Example

- Liability and Revenue Guarantee

| Coverage level (65%, 75%, 80%) | 80% |
| Payment Rate (75%, 90%)       | 75% |
| Approved Adj. Gross Revenue   | $100,000 |
| Liability (100,000 x 0.8 x 0.75) | $60,000 |
| Revenue Guarantee (100,000 x .8) | $80,000 |

AGR-Lite Example

- Indemnity Payment

| Actual Revenue for the year | $70,000 (< $80,000) |
| Loss Below Guarantee        | $10,000 |
| Indemnity Payment ($10,000 x 0.75) | $7,500 |

Concluding Thoughts & Recommendations

- Issues to keep in mind when buying crop insurance:
  - Year-to-year yield variability
  - Cash flow requirements
  - Cash Reserves
  - Subsidized premium
Concluding Thoughts & Recommendations

• Consider at least minimum coverage (50%)
  – Fairly stable production

• Consider APH policy with buy-up coverage levels if:
  – More risk averse (i.e. wants higher protection)
    • Higher premium costs at higher levels
  – More variable production
  – Not very diverse

Concluding Thoughts & Recommendations

• Use as many optional units as possible
  – More flexibility (will tend to payout more)

• Consider AGR-Lite
  – If diverse farm operation
  – If grower contracts at price higher than APH price election
  – Have good records (last five years)

Concluding Thoughts & Recommendations

• Contact your insurance agent for more details about the policies

• Effectively communicate your risk management goals to your agent
Additional resources

- USDA-RMA Website (http://www.rma.usda.gov)
  - Fact Sheets; Premium Calculators
  - Official Announcements
- USDA-RMA Raleigh Regional Office
  - Information pertaining to North Carolina
- NC State Crop Insurance Website
  - http://www4.ncsu.edu/~rmrejesu/ncsu_crop_insurance_extension_page.htm
  - I will put my presentations & extension materials here

More Questions?

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