Crop Insurance, the SURE Disaster Assistance Program, and Farm Risk Management

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Goals Today

• Crop insurance choices in NC
• The SUpplemental REvenu (SURE) disaster assistance program
• New crop insurance-related updates from the Farm Bill

Introduction

• Crop insurance is one of the most important tool for managing risk in U.S. agriculture
• Federal crop insurance program is a publicly supported, privately-delivered program
Introduction

- Premiums and contract terms set by FCIC and administered by USDA-RMA
- But policies sold by private insurance companies
- Premiums and delivery costs are federally subsidized

Introduction

- Several different policies with varying coverage levels are available for a wide array of crops in NC
- Important to be familiar with these policies – to properly address risks unique to a particular farm

Introduction

- Crop insurance is just one risk management strategy
- Consider how it relates to the new SURE disaster assistance program
- Consider how both fits in overall risk mgt plan of the farm
Introduction

- It is COMPLEX!!!
- Today, just focus on crop insurance and the new SURE disaster assistance program

Crop Insurance Alternatives in North Carolina

- Farm-Level vs. County-Level Products
  - APH, CRC, RA, IIP, AGR-Lite
  - GRP, GRIP
- Yield-based vs. Revenue-based
  - APH, GRP
  - CRC, RA, IIP, AGR-Lite, GRIP
Crop Insurance Alternatives in North Carolina

- Varying coverage levels depending on policy
  - Catastrophic (CAT) – 50% yield coverage at 55% of market price (only cost is administrative fee $300)
  - APH Buy-up: 50%-85% yield coverage
  - GRP – 70%-90% yield coverage

Crop Insurance Alternatives in North Carolina

- Apples, Barley, Blueberries, Cabbage, Corn, Cotton, Grain Sorghum, Grapes, Nursery, Oats, Peaches, Peanuts, Potatoes, Processing Beans, Soybeans, Sweet Potatoes, Wheat
- Livestock (feeder/fed cattle swin) - LRP

Crop Insurance Alternatives in North Carolina

- If crop not covered by any single-crop policy, consider AGR-Lite
- Also consider Non-Insured Crop Disaster Assistance Program (NAP) policies ($250 per crop)
  - Like CAT coverage; administered by FSA
SURE Disaster Assistance Program

• In the past – temporary ad hoc disaster assistance payments
• 2008 Farm Bill – create more permanent disaster assistance program
  – Supplemental Agricultural Disaster Assistance (SADA) Program

SURE Disaster Assistance Program

• SUpplemental REvenue Assistance (SURE) Program
• Four other programs:
  – Tree Assistance Program (TAP), Emergency Assistance Program for Livestock, Honeybees, and Farm-Raised Fish (ELAP), Livestock Indemnity Program (LIP), Livestock Forage Disaster Program (LFP)
SURE Program Basics

• Whole-farm disaster assistance program
  – Similar to revenue insurance
  – Tied to crop insurance coverage and farm planted acreage
• If whole-farm actual revenue less than SURE guarantee, then receive SURE payment that is 60% of difference

SURE Program Basics

SURE Eligibility and Requirements

• Located in a declared disaster county (or contiguous to a disaster county)
  – Or must have 50% revenue loss due to weather-related causes
  – For farms in multiple counties, need to have at least one located in a disaster or contiguous county
SURE Eligibility and Requirements

• Requires purchase of crop insurance or NAP policies for all crops
  – Crops of “Economic Significance” (expected revenue from crop must be at least 5% of total or NAP fee exceeds 10% of NAP guarantee)
• At least a 10% yield loss on one crop of economic significance

SURE Eligibility and Requirements

• Note sales closing dates for crop insurance and NAP
  – Crop insurance: Feb 28/March 15 (spring planted crops), Sept. 30 (fall planted crops), perennials (Nov 20)
  – NAP: March 15 (for 2009 Spring Planted Crops)
  – Waiver for limited resource, socially-disadvantaged, beginning farmers; pasture excluded

SURE Guarantee and Cap

• SURE Guarantee
  – Sum of all crop insurance guarantees increased by 15% for insured crops (by 20% for NAP crops)
  – Whole-farm guarantee (all crops all counties)
SURE Guarantee and Cap

• SURE Guarantee Calculation

For insurable crops:
SURE Guarantee for each insurable crop =
(Planted acres) x (Crop Insurance Coverage Level) x (Crop Insurance Price Election) x
(Maximum of Actual production history (APH) yield or countercyclical payment (CCP) yield) x 115%

For NAP crops:
SURE Guarantee for each NAP crop =
(NAP revenue guarantee for the crop) x (Planted acres) x 120%

SURE Guarantee and Cap

• SURE Cap

– 90% of SURE Expected Revenue on all crops

SURE Guarantee and Cap

• SURE Cap

– 90% of the sum of SURE Expected Revenues calculated as:
SURE Expected Revenue for each crop =
(Planted acres) x (Maximum of APH or CCP Yield) x (Crop Insurance Price Election)
– “SURE Guarantee to use” based on minimum of guarantee or cap
SURE Actual Revenue

- If SURE Actual Revenue, below SURE Guarantee then receive SURE payment
- SURE Actual Revenue is sum of:
  - All revenues from each crop, 15% of DP, all CCP or ACRE payments, all mktg. loan benefits, all crop insurance/NAP indemnity (including prevented planting payments), all other disaster assistance payments

SURE Actual Revenue

- Actual Revenue calculated as:
  
  Actual Revenue for each crop =
  (Harvested Area x Actual Crop Yield) x (National Season-Average Price for the Crop).
  
  - Natl. Season-Ave. Price - Marketing Year Price
    determined by USDA; not known till Sept/Oct of following crop year

SURE Payment

SURE Payment =

  60% x (SURE Guarantee – SURE Actual Revenue)

- SURE Payment limit of $100,000 per year per eligible producer & also $500k limit for non-farm AGI
New Crop Insurance-related provisions in the Farm Bill

- New Enterprise Unit Subsidies
- New Price Movement Limits in Revenue Insurance (CRC and RA)

Enterprise Unit Subsidies

- Can insure as Optional vs. Basic vs. Enterprise Units vs. Whole farm (RA)
  - Basic units – all acreage of the crop in a county held by the insured under identical ownership
  - Optional unit – subdivided basic unit (based on location and practice)
Enterprise Unit Subsidies

- Farm bill introduced a pilot to increase premium subsidies for enterprise units and whole-farm units
  - Enterprise units are all acres of a single crop within a county (i.e. consolidated basic units)
  - Whole-farm has multiple crops

<table>
<thead>
<tr>
<th>Coverage Levels</th>
<th>Subsidy Before</th>
<th>Subsidy Now</th>
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</thead>
<tbody>
<tr>
<td>50%</td>
<td>0.67</td>
<td>0.80</td>
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<tr>
<td>55%</td>
<td>0.64</td>
<td>0.80</td>
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<tr>
<td>60%</td>
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<td>0.80</td>
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<tr>
<td>65%</td>
<td>0.69</td>
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<tr>
<td>70%</td>
<td>0.69</td>
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<tr>
<td>75%</td>
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<td>80%</td>
<td>0.48</td>
<td>0.68</td>
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<tr>
<td>85%</td>
<td>0.38</td>
<td>0.53</td>
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</table>

- Increasing coverage from 65% optional to 70% enterprise, increases subsidy from 0.59 to 0.80.
- Add’l discounts for insuring at enterprise
- Increases SURE coverage
- But reduces risk of claim (i.e. spot losses)
Enterprise Unit Subsidies

- Cover spot loss with private insurance (i.e. hail, wind, fire, etc.)
  - Indemnity will not count in SURE
- Consider enterprise unit definitions of CRC vs RA (i.e. very different premiums & discounts)

Price Limits in Revenue Insurance

- In CRC and RA, have option to value guarantee based on higher of harvest price or base price
  - Base price – price before planting/at sign-up
  - Harvest price – price at harvest
  - Based on CBOT prices

Price Limits in Revenue Insurance

- Increased CRC upside harvest price limit to 2 times the base price and no downside price limit
  - At $5.40/bu for corn, CRC price limit before is +/- $1.50 (i.e. upside limit of $6.90 is now $10.80)
- RA is the same, but different enterprise unit discounts/definitions (acres/section)
Price Limits in Revenue Insurance

- In choosing between RA (harvest price option) and CRC, choose one with lowest premiums based on unit structure discounts

Conclusions & Implications

- SURE – additional safety net related to crop insurance choices
- Need to sign-up for crop insurance and NAP coverage
- Note the "lag" in receiving SURE payments
Conclusions & Implications

• Insure at higher coverage levels (but not at or above 80% -- will hit 90% cap)
• Consider insuring at the enterprise unit level given the new subsidies
• Weigh expected returns from insurance and SURE against premium costs

Conclusions & Implications

• If “large” farm, SURE may not be very important (since $100,000 payment limit)
• Over time, SURE provides incentives for less diversification (since whole-farm revenue guarantee)

Conclusions & Implications

• Crop insurance and SURE are major parts of the whole-farm risk management strategy
• How does it relate to other components? Diversification, marketing, ACRE, CCP, Direct Payments etc.
**Additional Resources**

- USDA RMA Website:
  - [www.rma.usda.gov](http://www.rma.usda.gov)
  - Fact sheets and risk mgt information
- USDA FSA webpage
  - [www.fsa.usda.gov](http://www.fsa.usda.gov)
  - Calculators and fact sheets

**Additional Resources**

- Various university extension publications
  - NC State Crop Insurance Webpage
- Consult crop insurance agents in area

**Thank You!**

- Questions? Contact:
  
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