Crop Insurance Strategies under the New Farm Bill

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Goals Today

• A brief overview of crop insurance alternatives in NC
• Discuss crop insurance strategies in light of the new Farm Bill programs – ACRE, SURE, and enterprise unit subsidies
Introduction

• Crop insurance is one of the most important tool for managing risk in U.S. agriculture
• Several different policies with varying coverage levels are available for a wide array of crops in NC
Introduction

• Important to be familiar with these policies – to properly address risks unique to a particular farm

• Consider how these policies relate to the programs and subsidies coming out of the new Farm Bill
Introduction

• Consider how crop insurance relates to the new **SUpplemental REvenue** (SURE) disaster assistance program
• Consider how crop insurance relates to the **Average Crop Revenue Election** (ACRE) program
Crop Insurance Alternatives in North Carolina
Crop Insurance Alternatives in North Carolina

- Farm-Level vs. County-Level Products
  - APH, CRC, RA-HP & RA-BP, 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

• Can also insure at different levels – optional, basic, & enterprise
• Non-Insured Crop Disaster Assistance Program (NAP) policies ($250 per crop)
  – For crops not covered under the Federal crop insurance program
  – Like CAT coverage; administered by FSA
SURE Disaster Assistance Program
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 Program Basics

- **Whole-farm disaster assistance program**
  - Similar to a whole-farm 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

- Total Expected Revenue
- Disaster Program Guarantee (sum of all crops)
- Payment: 60% of difference
- Total Farm Revenue (sum of all crops)
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 of “Economic Significance”
  – Crop insurance guarantees determines SURE guarantee (cap at 90%)
  – SURE guarantee is sum of all crop insurance guarantees increased by 15% (thus, 75% will not hit cap)
The ACRE Program
ACRE Program Basics

• ACRE is a revenue-based, income support program that serves as an alternative to traditional counter-cyclical payments (CCP)

• Give up CCP, 20% of direct payments and 30% reduction in loan rates

• If sign-up, locked-in til 2012
ACRE Payment Determination Process

This schematic illustrates how ACRE payments are determined on an annual basis for each program crop. In this example, we will follow the process for corn on an enrolled farm for 1 crop year. To receive ACRE payments, both the State-level process and the farm-level process must trigger payments as indicated by a “Yes” result across both processes within the schematic.

**Corn ACRE Payment Determination**

**State-level process**

- Establish corn actual State revenue [State yield per planted acre x (greater of: 12-month national average corn price or reduced loan rate)]

  - Is actual State revenue < State ACRE Guarantee?  
    - No: Corn ACRE payments NOT made to any producers in State  
    - Yes: Corn ACRE payment made to producer(s) [lesser of: (SAG-actual State revenue) or (0.25 * SAG)] x 0.833 (0.85 for 2012) x farm productivity ratio

**Farm-level process**

- Establish corn actual farm revenue [Reported commodity farm yield x (greater of: 12-month national average corn price or reduced loan rate)]

  - Is actual farm revenue < farm ACRE guarantee revenue?  
    - Yes: Corn ACRE payments to this producer  
    - No: Corn ACRE payments NOT made to this producer

See box, “ACRE Definitions,” in appendix A.
Source: USDA, Economic Research Service analysis.
ACRE Program Basics

• ACRE is like GRIP (except GRIP is at county level not state level)
  – Can have farm loss but not get any ACRE payments
• Note farm-level ACRE guarantee is influenced by crop insurance premium paid
ACRE Participation

Figure 11
ACRE participation begins, 2009-10

ACRE vs DCP\(^1\) by base acreage\(^2\)
- 10 million total acres
- ACRE
- DCP

Percent of total base acreage enrolled in ACRE
- < 1%
- 1 - 5%
- 5 - 15%
- > 15%

\(^1\)DCP = direct and counter-cyclical payments.
\(^2\)Excludes States with less than 2 million base acres.

Enterprise Unit Subsidies
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
## Enterprise Unit Subsidies

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<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>
<td>0.64</td>
<td>0.80</td>
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<tr>
<td>65%</td>
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<td>70%</td>
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<td>75%</td>
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<td>80%</td>
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<tr>
<td>85%</td>
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</tbody>
</table>
Enterprise Unit Subsidies

• Increasing coverage from 65% optional to 70% enterprise, increases subsidy from 0.59 to 0.80.
• Add’l premium discounts at enterprise
• Increases SURE coverage
• But reduces risk of claim (i.e. spot losses)
Conclusions & Implications
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• SURE & ACRE provides an additional safety-net to producers, but does not substitute for crop insurance

• SURE & ACRE cover more “systemic” or aggregate risks
  – Consider crop insurance for “farm-level” losses (i.e., use optional units)
Conclusions & Implications

- Crop insurance, SURE, and ACRE decisions are linked
- Crop insurance guarantees determine SURE & ACRE guarantees
  - Additional incentive to purchase crop insurance at higher levels (i.e., higher coverage, more likely to trigger payment)
Conclusions & Implications

• But think about insuring at the enterprise unit level given the new subsidies (i.e., to increase SURE coverage, but note aggregation effect)

• Note that ACRE and SURE payments are paid later
  – Use of national season average price
Conclusions & Implications

• Sign-up for ACRE? It depends.
• Studies show little risk mgt benefits from ACRE although may benefit some in long-run
• RA-HP and CRC crop insurance products provide more risk benefits
Additional Resources

• USDA RMA Website:
  – www.rma.usda.gov
  – Fact sheets and risk mgt information

• USDA FSA webpage
  – Calculators and fact sheets
Additional Resources

• Various university extension publications
  – Google “NC State Crop Insurance Webpage”

• Consult crop insurance agents in area
Thank You!

• Questions? Contact:

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