UNIVERSITY OF FLORIDA
IFAS

Risk Management Agency

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History

In 1938 the Federal Crop Insurance Corporation, or FCIC, was created. In 1980, the FCIC act was amended to expand to all states and primary field crops. This provided dual delivery sales, FCIC contract agents and private insurance companies and agents. Fourteen years later, in 1994, the Crop Insurance Reform Act was passed. Catastrophic coverage was sold by both Farm Service Agency and companies. In 1995, crop insurance became mandatory. The FAIR Act was passed in 1996 along with the Risk Management Agency, or RMA. This placed an emphasis on Risk Management Education, or RME, expanded the list of insured crops, placed all sales and loss adjustment onto private companies and agents and developed new programs. The Agricultural Risk Protection Act of 2000 increased premium subsidies and added even more crops to the insured list. The Act also placed stronger emphasis on RME and yield substitution.

Table 1 - Subsidy Levels

Coverage Level %	Old Subsidy %	New Subsidy %	% Farmer Pays
50	55	67	33
55	46	64	36
60	38	64	36
65	42	59	41
70	32	59	41
75	24	55	45
80	n/a	48	52
85	n/a	38	62

Why should farmers consider buying crop insurance?

There are many reasons why farmers should consider buying crop insurance. For example, crop insurance helps restore loss of income. It is meant to help repay loans following disaster and improves credit worthiness. Crop insurance reduces need for

liquid cash reserves, reduces need for emergency borrowing in a bad year, allows the farmer to be confident in marketing, places a lock-in cash or future price and it is more than just a safety net! Premiums are tax deductible and the premium not due until harvest. Crop insurance also provides peace of mind - How much is that worth?

Who does what?

The Risk management agency is the general oversight and administration. It makes sure that there is compliance with standards and is in charge of policies, procedures, rates, rules and research. Private Companies are in charge of sales, service, loss adjustment and research. RMA and private companies share risk when working with premiums and indemnities.

Cause of Loss

Causes of loss include adverse weather conditions, insects and disease - except insufficient or improper control measures, wildlife, fire, failure of irrigation water supply - caused by insurable peril (e.g. hurricane) and price decline - Crop Revenue Coverage (CRC).

Insurance Unit

A unit is all of the insurable acreage of the insured crop in the county (refer to individual crop provisions). The premium, guarantee, and indemnity are all determined by unit and acreage is reported by unit. A producer's records are also kept by unit.

Basic Unit

A basic unit is all acreage of the crop in the county (by share). Production from all land / all farms within the basic unit is counted when determining a loss (e.g., Your farm + other farm you cash rent at 100%). There is a separate basic unit for each share arrangement (i.e. your own farm, 50/50 share with Neighbor A's farm or 50/50 share with Aunt B's farm down the road). There is a 10% premium discount if you elect basic units.

Optional Units

A Basic Unit Can Be Divided Up Into Optional Units

Optional units are identified by Section, Section Equivalent (Spanish Land Grants), FSA FSN Within Section, FSN, etc. A separate record is required for each optional unit. Only production within optional unit is counted against loss on that unit. Optional units are not available under "CAT" and there is not a 10% basic unit premium discount.

Enterprise Units

Enterprise units are all insurance acreage of the crop in the county in which you have a share. They are available under CRC plan. Acreage must qualify for 2 or more units (basic or optional). An enterprise unit must contain at least 50 acres and there is a discount on premium (12 to 24%).

Plans of Insurance

- APH Actual Production History
- CRC Crop Revenue Coverage
- AGR Adjusted Gross Revenue
- Dollar Plan
- Producer Listing (Peanuts & Tobacco)

Florida Insurable Crops

- Adjusted Gross Revenue (Pilot)
- Citrus Tree
- Avocado Fruit (Pilot)
- Avocado and Mango Trees (Pilot)
- Blueberries (Pilot)
- Cabbage (Pilot)
- Carambola Trees
- Citrus Fruit
- Clams (Pilot)
- Corn
- Cotton
- Flue Cured Tobacco
- Fresh Market Beans (Pilot)
- Fresh Market Peppers
- Fresh Market Sweet Corn
- Fresh Market Tomatoes
- Grain Sorghum
- Nursery
- Oats
- Peaches
- Peanuts
- Potatoes
- Rice
- Soybeans
- Strawberries (Pilot)
- Sugarcane
- Wheat

Written Agreements

This is a document that alters designated terms of a crop policy if additional coverage is elected and that is authorized under the basic provisions, crop provisions, or the Special Provisions for an insured crop. It is not available for pilot program crops or for catastrophic coverage.

CAT - Catastrophic Coverage

Catastrophic coverage is 50% APH and 55% of Price Election. There is a $100 Administrative Fee per crop with no other premium costs to grower. There are basic units only, no optional units, no replant payments and no written agreements. CAT is not available under CRC and AGR.

NAP - Noninsured Crop Disaster Assistance Program

NAP is administered by the Farm Service Agency and provides financial assistance to eligible producers affected by natural disasters.

Eligible Producer - An eligible producer is a landowner, tenant, or sharecropper who shares in the risk of producing an eligible crop.

Eligible Crops are those that are commercial crops and other agricultural commodities produced for food (including livestock feed) or fiber for which the catastrophic level of crop insurance is not available. Those also eligible for NAP coverage of controlled-environment crops (mushroom and floriculture), specialty crops (honey and maple sap), and value loss crops (aqua-culture, Christmas trees, ginseng, ornamental nursery, and turfgrass sod).

Eligible Natural Disasters include damaging weather (drought, excessive moisture, or hurricane), an adverse natural occurrence, such as earthquake or flood and a condition related to damaging weather or adverse occurrence, such as excessive heat or insect infestation.

To apply you should contact your local FSA office and complete form CCC-471 (see the FSA NAP Fact Sheet). The service fee is equal to $100 per crop per county, or $300 per producer per county, not to exceed a total of $900 per producer for all counties.

Covered loss is 50% of expected production based on your approved yield and reported acreage, 55% of an average market price for the specific commodity, established by your FSA state committee.

Limited Resource Farmers may request a waiver of service fees for several reasons. The may request a waiver if their annual gross income dos not exceed $20,000 (including income from a spouse or other household members) for each of the 2 prior years; or they have less than 25 cropland acres for all crops; and a majority of the producer's annual gross income is derived from farming and the income does not exceed $20,000 for all their farming operations. REFER TO THE FSA NAP FACT-SHEET FOR MORE IMPORTANT INFORMATION

APH - Actual Production History

The Actual Production History is the average of 4 to 10 years of yields, or APH Yield. If the yield is more than four, it is the county Transitional Yield (T-Yield). The APH guarantees production only and there is no guarantee against fall in price. Indemnity occurs when crop production is less than the insurance guarantee. The amount of coverage equals percentage of your APH yield. You select a coverage level percentage (50, 55, 60, 65, 70 or 75). Some crops and counties have 80 and 85%. The guarantee equals APH yield multiplied by the coverage level (e.g., 100 bushel/acre X 65% = 65 bushel/acre guarantee). Indemnity equals Bushel Loss multiplied by Price Election, that is (loss = guarantee - production) or 65 - 25 = 40 bushel loss.

Price Elections

Price election is the price paid per bushel, pound, cwt., etc. is used to determine premium and used to calculate indemnity. It is determined from NASS price data.

APH Example of Corn

In this example you will have 100 bushel/acre APH yield (based on 1997 - 2002). The coverage level is 75%. So, 100 bushel/acre APH X 75% = 75 bushel/acre guarantee. If there are 40 bushel produced (Production-to-count), there is a 35 bushel loss (75-40=35). #5 bushel x $2.00 Price Election =$70 indem. The net indemnity is $70 - $6 premium = $64.

APH Yield Determination

The simple average is calculated by four to ten years of actual yield. If there are 3 years of actual yield, add 1 County T Yield/4. For 2 years of actual yield, add 2 County T Yields (@ 90%)/4. For 1 actual yield, add 3 County T Yields (@ 80%)/4. For new insureds who have produced the crop but do not provide yields, use 65% of the County T Yield and can only use basic units. The new producer who has not produced the crop for more than 2 years in the county, will use 100% of the County T Yield and must provide records for any production.

CRC - Crop Revenue Coverage

There are a few Florida crops covered by CRC. These are corn, cotton, grain sorghum, rice and soybeans. CRC Protects against yield losses, price losses, and the combination of both. For CRC Prices you should look at the Individual Crop Provisions. How does it work? It guarantees revenue, base price multiplied by the APH Yield multiplied by the coverage level. Indemnity occurs when the Calculated Revenue is less than the Revenue Guarantee. The harvest guarantee can be calculated by multiplying the harvest price, the APH yield and the coverage level percentage together. This total cannot be less than the minimum guarantee. The final guarantee is the higher of the minimum or harvest guarantee. If the harvest guarantee is greater than the minimum guarantee, the premium does not increase. The calculated revenue is equal to the production

multiplied by the harvest price. The indemnity is equal to the final guarantee minus the calculated revenue.

CRC Examples

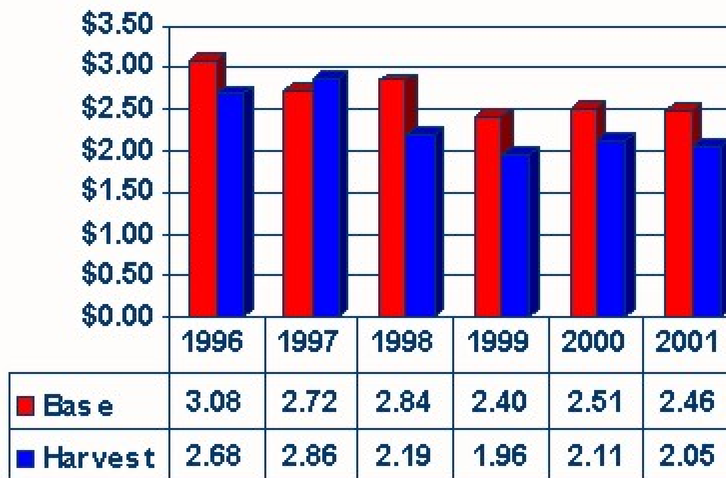
· Example 1 - Corn Base Price > Harvest Price

- 100 bushel/acre APH yield (based on 1997 - 2001)
- Base price $2.44 (2001); Harvest Price $2.17
- Minimum Guarantee = $2.44 X 100 X 65% = $159.00
- Calculated Revenue = 25 bushels produced X $2.17 = $54.00
- $159 - $54 = $105 revenue loss
- Net indemnity: $105 - $8 premium = $97.00

· Example 2 - Corn Harvest Price > Base Price

- 100 bushel/acre APH yield (based on 1997 - 2001)
- Base price $2.44; Harvest Price $2.65
- Final Guarantee = $2.66 X 100 X 65% = $172.00
- Calculated Revenue = 25 bushel produced X $2.65 = $66.00
- $172 - $66 = $106 revenue loss
- Net indemnity: $106 - $8 premium = $98.00

Table 2 - CRC Corn Prices for the years 1996 - 2001



	1996	1997	1998	1999	2000	2001
Base	3.08	2.72	2.84	2.40	2.51	2.46
Harvest	2.68	2.86	2.19	1.96	2.11	2.05

Dollar Plan

The dollar plan guarantees the dollar amount of coverage. You can select a level of coverage (50%, 55%, 60% 65%, 70% or 75%). The loss must be due to covered peril such as price declines or poor market not covered. Dollar Plan crops include Fresh Market Sweet Corn (with the reverence amount being the cost of production) and nurseries.

Table 3 - Fresh Market Sweet Corn

Cov Level	CAT	50%	55%	60%	65%	70%	75%
$ Amt Cov	$227	$413	$454	$495	$536	$578	$618
Prem Sub	100%	67%	64%	64%	59%	59%	55%

· Following is an example of a loss with Fresh Market Sweet Corn.

- 495 Dollar amt of coverage (60% level)
- - $200 Production: 50 containers @ $4
- = $295 Dollar Loss per acre
- - $11 Estimated premium
- = $284 Net indemnity per acre

A nursery is available in all counties, consists of field-grown and containerized plants and must provide winter protection when required. Coverage is based on plant inventory.

Nursery plant types include deciduous tress, broadleaf evergreen trees, deciduous shrubs, broadleaf evergreen shrubs, coniferous evergreen shrubs, fruit and nut trees, small fruits, herbaceous perennials, roses, ground covers and vines, annuals and foliage. In nurseries, there is a 30 day wait period for coverage to start and sales are counted through may 31, 2002. A peak inventory endorsement in available but not under CAT.

AGR - Adjusted Gross Revenue (Pilot Program)

AGR is whole farm income coverage with no more than 35% income from livestock. It is based on IRS income tax returns (Schedule F), the average of last 5 years (1-year lag), and is for the 2002 insurance year: 1996 - 2000. AGR provides coverage for most crops and commodities not otherwise insurable. This excludes timber and forest products but includes Maple tree sap & Christmas trees.

AGR Insurance Year

The AGR insurance year is a calendar or fiscal year that corresponds to IRS tax year. Insurance begins January 1, 2002 for calendar year fliers and claims will be settled after filing tax return for the tax year.

AGR Eligibility

A farmer is eligible for AGR if more than 50% of expected income is from insurable crop(s). MPCI Crop Insurance must also be purchased. The AGR premium can be reduced (up to 50%). AGR liability is equal to the liability of other policies. No more than 35% of expected allowable income can be from animals or animal products and no more than 50% of allowable income can be from commodities purchased for resale.

AGR Losses

Losses begin when farm income is less than revenue guarantee and the indemnity payment is revenue shortfall X payment rate.

Crop Insurance and the Lender

A combination of crop insurance and a good marketing plan can limit the risk for the producer and the lender. Crop insurance helps producers repay loans when disaster strikes.

Crop Insurance

Crop insurance is meant to protect against losses, it is not meant to enhance income like an investment. Guaranteeing revenue should be the bottom line of all risk management strategies.

Crop insurance provides peace of mind to allow producers and lenders to sleep better knowing their investments are covered.

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