# CROP INSURANCE IN MARYLAND

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MARYLAND DEPARTMENT OF AGRICULTURE

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Martin O'Malley
*Governor*

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## CROP INSURANCE NEEDED FOR FSA PROGRAM

### SIGN-UP DEADLINE NEAR

March 15 is the deadline for producers of 11 spring-planted Maryland crops to sign-up for federally subsidized crop insurance. It is also the deadline for making any changes to existing policies.

Having crop insurance is a requirement to be eligible for Supplemental Revenue Assistance Payments. USDA's SURE disaster aid program is administered through the Farm Service Agency. All insurable crops must be covered, with limited exceptions, to be eligible for SURE. The higher your level of crop insurance coverage is, the higher your guarantee for crop insurance and the SURE program will be. In a way, SURE is like free, additional crop insurance coverage.

The 11 Maryland crops which share the March 15 deadline are: oats, forage seeding, corn, sweet corn, fresh market sweet corn, processing beans, grain sorghum, soybeans, tomatoes, fresh market tomatoes, and Maryland tobacco.

March 15 is also the deadline for signing up for Adjusted Gross Revenue Lite (AGR-Lite). This whole farm revenue insurance works well for those who grow multiple crops. It can be used as an umbrella policy and will qualify all crops for the SURE program.

For more information, contact a crop insurance agent well before the deadline. ■

*Dairy Gross Margin Insurance*

## STICKING TO A LONG-TERM STRATEGY PAYS OFF

### PROTECTS AGAINST VOLATILE FEED PRICES

It turns out that Dairy Gross Margin insurance may be much better than anyone expected. Using three different buying scenarios, and using the improved program the way it is today, Alan Zepp from the Pennsylvania Center for Dairy Excellence has uncovered just how good USDA's dairy insurance is.

The benefits-to-cost ratio using the three scenarios (in indemnity payments) per dollar of premium paid range from $1.33 per $1.00 of premium to $1.50 per dollar of premium at zero deductible. At a $1.50 deductible those numbers range from $3.26 to $3.84, this in a time when certificates of deposit are hovering around 3 percent. Many producers will want to consider a deductible when they study the charts on page four.

"I find that those who have used CRC (Crop Revenue Coverage) for their corn and soybeans understand DGM better when I tell them that it does the same thing for milk that CRC does for their corn," said Zepp, who was himself a dairy farmer and, "still thinks like one."

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# ENTERPRISE UNITS INCREASINGLY THE ANSWER

"The one big thing that came out of the farm bill that many people don't think about is the Enterprise Unit subsidy," said Gary Schnitkey, a farm management specialist. "It greatly reduced premiums and we have seen a tremendous shift from Basic and Optional Units to Enterprise Units."

Since the introduction of additional subsidies in 2009, Enterprise Units have grown to cover about 37 percent of eligible acres. That included adding 12 million acres in 2010.

The reason for this surge in Enterprise Units is the increased premium subsidy. For many producers it cuts premium costs in half, which allows them to buy higher levels of coverage and qualify for higher guarantees from FSA's SURE program.

Enterprise Units is the lowest cost crop insurance coverage available for corn and soybean producers.

## HOW IT WORKS

The Enterprise Unit recognizes that when a producer consolidates insurance units, small individual farm losses may not result in an indemnity. Under this plan, the producer self-insures the smaller isolated losses, but when a severe disaster occurs, that would have caused all Basic and Optional Units to be in a loss category, the loss payment would be identical to having individual farm Basic and Optional Units.

The Risk Management Agency's rules for how to qualify for Enterprise Units have changed for 2011. The complete, detailed explanation is in the column to the right.

The important thing is to explore these options with your crop insurance agent. There is a reason so many producers are making the switch to Enterprise Units. The numbers from 2010 show that they are using the lower premiums to buy higher levels of crop insurance protection and to qualify for higher guarantees under FSA's SURE program. ■

# PRICE ELECTIONS FOR ORGANIC CROPS IN 2011

One of the drawbacks to having crop insurance on corn and soybeans used to be that the price elections were the same as for non-organic corn and soybeans. That meant insufficient coverage for the organic crops, which are usually priced higher.

USDA's Risk Management Agency (RMA) is coming out with organic price elections for four crops in 2011: cotton, corn, soybeans and processing tomatoes.

At the same time RMA is also eliminating the 5 percent surcharge for organic crops insured under ten crop insurance programs including nursery, pears, and peppers. Organic production is the fastest growing agricultural sector. When the changes were announced, agriculture Secretary Tom Vilsack said, "USDA is working to provide producers of organic crops with improved opportunities and resources." ■

## Enterprise Insurance Unit – Combo Policy

**Enterprise Unit (EU):** An EU consists of all insurable acreage of the same insured crop in the county in which the insured has a share on the date coverage begins for the crop year.

**(3) Qualifications (Sec. 10 C. Crop Insurance Handbook).**

**To qualify for EUs:**
**(a) The EU must contain all of the insurable acreage** of the same insured crop in:

**1.** Two or more sections, if Optional Units (OU) are available by sections;
**2.** Two or more section equivalents, if OUs are available by section equivalents;
**3.** Two or more FSA Farm Numbers (FN), if OUs are available by FSA FNs;
**4.** Any combination of two or more sections, section equivalents, or FSA FNs, if more than one of these is the basis for OUs;
**5.** One section, section equivalent, or FSA FN that contains at least 660 planted acres, based on the type of parcel that is utilized to establish OUs; or
**6.** Two or more units as established by a Written Unit Agreement or Unit Division Option.

**(b) Each of the above [(a)1-(a)6] that are used to qualify** for the EU must have planted acreage that constitutes at least the lesser of 20 acres or 20 percent of the insured crop acreage in the EU. If there is planted acreage in more than two sections, section equivalents, FSA FNs or units established by written agreement, these can be aggregated to form at least two parcels to meet this requirement. For example, if sections are the basis for OUs and the insured has 80 planted acres in section 15, 10 planted acres in section 34, and 10 planted acres in section 35, sections 34 and 35 may be aggregated to meet the 20 acres/20% requirement.

**(c) The crop must be insured** under revenue protection or yield protection, unless otherwise specified in the Special Provisions (SP); and

**(d) Must be an additional coverage policy (CAT is not eligible for EU).**

For additional information or clarification, contact a crop insurance agent. List available at: http://www3.rma.usda.gov/apps/agents/

# COMBO POLICY STREAMLINES CROP INSURANCE

Producers who grow spring planted crops are in for a surprise when the March 15 crop insurance deadline arrives. All the familiar names for the various crop insurance policies will be different although the policies themselves will be pretty much the same.

Instead of Crop Revenue Coverage (CRC), "Revenue Protection." Instead of Actual Production History (APH) there will be "Yield Protection." Existing policies will convert without any action necessary from the producer.

This new "Common Crop Insurance Policy" (COMBO) kept and combined the principle features of the previous policies with additional choices that can enhance protection and reduce premium cost. It's recommended that producers request a side-by-side comparison of features, performance and cost, from a crop insurance agent before March 15. ■

### 2011 Common Crop Insurance Policy Conversion Chart

| 2010 Policy | Converted for 2011 Crop Year to |
|---|---|
| **Crop Revenue Coverage** (CRC) | **Revenue Protection** |
| **Revenue Assurance** (RA) with Fall Harvest Price Option | **Revenue Protection** |
| **Revenue Assurance** (RA) without Fall Harvest Price Option | **Revenue Protection with Harvest Price Exclusion** |
| **Actual Production History** (APH) | **Yield Protection** |
| **Income Protection** (IP)/ **Indexed Income Protection** (IIP) | **Revenue Protection with Harvest Price Exclusion** |
| **CAT Income Protection** (IP)/ **Indexed Income Protection** (IIP) | **Revenue Protection with Harvest Price Exclusion** (50/100) |

## Important Definitions

**Revenue Protection** – Insurance coverage that provides protection against production loss or price decline or increase or a combination of both.

**Revenue Protection with Harvest Price Exclusion** – Allows the producer to exclude the use of the harvest price in the determination of the revenue protection guarantee.

**Yield Protection** – Insurance coverage that only provides protection against a production loss for crops for which revenue protection is available but was not elected.

**Commodity Exchange Price Provisions (CEPP)** – A part of the policy that is used for all crops for which revenue protection is available, regardless of whether the producer elects revenue protection or yield protection for such crops. This document will include the information necessary to derive the projected price and the harvest price for the insured crop, as applicable.

**Projected Price** – A price determined in accordance with the Commodity Exchange Price Provisions and used for all crops for which revenue protection is available, regardless of whether the producer elects to obtain revenue protection or yield protection for such crops.

**Harvest Price** – A price determined in accordance with the Commodity Exchange Price Provisions and used to value production to count for revenue protection.

**Revenue Protection Guarantee (per acre)** – For revenue protection only, the production guarantee (per acre), times the greater of the projected price or the harvest price. If the harvest price exclusion option is elected, the production guarantee (per acre) is only multiplied by the projected price.

**Yield Protection Guarantee (per acre)** – When yield protection is selected for a crop that has revenue protection available, the production guarantee times the projected price. ■

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Zepp emphasizes that the results demonstrate how DGM would have performed, over many years, as long as the producer consistently stuck to his or her buying strategy.

Under the new program, deductibles go up to $2.00 per cwt, in 10 cent increments. The higher the deductible, the higher the rate of federal premium subsidy, for instance, at the $1.50 deductible the average farmer paid premium is roughly 10 cents per cwt.

## RISING FEED PRICES

It is not just milk prices that can be locked in for the future, feed costs can trigger Dairy Gross Margin insurance as well. DGM provides protection if feed costs go up and milk prices do not correspondingly increase. This is important when many analysts are predicting corn going to $6.00, $7.00, $8.00 and even higher. At least one analyst said $10.00 corn was a possibility. Any increase in feed costs over 10 percent could trigger payment at $1.50 deductible for a protection cost of roughly 10 cents.

## NO UPSIDE PENALTY

DGM can lock in a floor on milk prices, but when prices rise above that expected revenue line you can take full advantage of those higher prices. There is no upside penalty.

## THE THREE SCENARIOS

In the first buying scenario the producer bought coverage for three months beginning with the 4th month out and bought 33 percent coverage each month.

The second scenario had the producer enrolling four months beginning with the 7th month out and at 25 percent each month.

The third scenario had the producer insuring 10 months in a row (the maximum allowed) at 10 percent per month. This one is a lot like an averaging strategy common with investors.

"As producers come to understand that they can protect against volatile feed prices as well as locking in a floor on milk prices I would be surprised if a lot of dairy farmers don't sign up for this program over the coming year," said Zepp. ▲

**Snapshot of Three Enrollment Patterns***

| Scenario I<br>Months 4, 5, 6<br>33% each month | Scenario II<br>Months 7, 8, 9, 10<br>25% each month | Scenario III<br>Months 1 through 10<br>10% each month |
|---|---|---|
| | Benefit to cost ratio at zero deductible | |
| 1.33/1.00 | 1.40/1.00 | 1.50/1.00 |
| | Benefit to cost ratio at $1.50 deductible | |
| 3.26/1.00 | 2.99/1.00 | 3.84/1.00 |

*A snapshot of a 10 year, retroactive performance estimate for three enrollment patterns of a fixed amount of milk.

**The higher your deductible choice, the higher your rate of subsidy:**

| | |
|---|---|
| 0¢ | 18% |
| 10¢ | 19% |
| 20¢ | 21% |
| 30¢ | 23% |
| 40¢ | 25% |
| 50¢ | 28% |
| 60¢ | 31% |
| 70¢ | 34% |
| 80¢ | 38% |
| 90¢ | 43% |
| $1.00 | 48% |
| $1.10 | 50% |
| $1.20 | 50% |
| $1.30 | 50% |
| $1.40 | 50% |
| $1.50 | 50% |
| $1.60 | 50% |
| $1.70 | 50% |
| $1.80 | 50% |
| $1.90 | 50% |
| $2.00 | 50% |

Photo by Edwin Remsberg