



CROP INSURANCE IN MARYLAND

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MARYLAND DEPARTMENT OF AGRICULTURE



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**Whole Farm Insurance
Enterprise Units Lower Costs**

Martin O'Malley
Governor

Anthony G. Brown
Lt. Governor

SPRING 2012 CROP INSURANCE DEADLINE NEAR

There is a lot at stake in making the right decisions on crop insurance this spring. The deadline for signing up for spring planted crops is March 15. More importantly, that is also the deadline for making any changes to existing policies and changes are what many producers may be considering.

Nationwide, federally subsidized crop insurance indemnity payments on 2011 crops are already over \$9.7 billion, smashing the 2008 record of \$8.6 billion.

In Maryland, more than \$22.7 million in indemnities have already been paid out to producers who experienced losses in 2011. One reason for the big payouts is relatively high 2011 crop futures prices a year ago



set high spring revenue guarantees for revenue products. Indemnity payments farmers are now receiving on 2011 crops represent what would have been a lot of lost revenue.

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IS YOUR RISK MANAGEMENT PLAN GOOD ENOUGH?

2012 promises to be a very volatile year in agriculture. Ask yourself these questions; How much money do I have at risk? Are all my expenses insured? Is that enough or should I be insuring my expected revenue? How much more protection is needed to cover increased 2012 risks?

Input costs are projected to be 15 to 40 percent higher in 2012. Crop values will be very high. High price volatility is expected. Credit requirements are projected to be tighter.

The center of this newsletter contains a Risk Management Checklist. Fill it out. You will get a snapshot of your risk management exposure. Save and frequently review your checklist.

The last part of the checklist contains the important deadlines for your crop insurance policies. Go over those dates with your crop insurance agent. For many crops, there have been changes to some dates. Make sure you have the right deadline for your acreage reporting, for instance. ■

RISK MANAGEMENT CHECKLIST

PRODUCTION

- ☐ 1. Have you recently evaluated your risk in the event of the loss of your crops?
- ☐ 2. Have you recently evaluated your risk in the event of the loss of your animals?
- ☐ 3. Have you investigated other alternative production methods and their consequences?
- ☐ 4. Do you have the necessary knowledge to consider an additional or alternative enterprise?
- ☐ 5. Is your crop insurance protection adequate to cover a severe crop loss?
- ☐ 6. Have you reviewed all of your crop insurance options with your agent?
 - ☐ Analysis for your operation?
- ☐ 7. Are you in an area capable of supporting irrigation?

MARKETING

- ☐ 1. Do you have a current, written marketing plan?
- ☐ 2. Have you coordinated your marketing plan with your goals and objectives and your financial and production plans?
- ☐ 3. Managing marketing risks:
 - ☐ a) Are you comfortable with your knowledge of marketing opportunities?
 - ☐ b) Have you reviewed your marketing options within the past 6 months?
 - ☐ c) Do you understand how crop insurance revenue guarantees can enhance marketing opportunities?

FINANCIAL

- ☐ 1. Do you have a current business plan?
- ☐ 2. Have you planned for a best-case scenario and developed a plan for how additional income will be used?
- ☐ 3. Have you planned for a worst-case scenario and considered an alternative plan?
- ☐ 4. Do you know your cost of production?
- ☐ 5. Do you know your break-even costs?
- ☐ 6. Do you have the knowledge to create a balance sheet, cash flow, and income statements?
- ☐ 7. Do you have the knowledge to interpret important financial ratios?
- ☐ 8. What is your debt-to-asset ratio?
- ☐ 9. Is the growth of your net worth exceeding inflation?
- ☐ 10. Have you reviewed your ratio trends with your lender?

- ☐ 11. Is your crop insurance protection adequate to:
 - ☐ a) Repay current operating loans?
 - ☐ b) Allow you to take advantage of marketing opportunities?
- ☐ 12. Have you reviewed your tax liability within the past three months to determine your tax strategies?
- ☐ 13. Have you investigated all of your potential financing options?
- ☐ 14. Have you investigated all available government programs?
- ☐ 15. Have you considered the trade-offs between maintaining your current investments (certificates of deposit/savings/etc.) and/or reinvesting in expanding your own operation?
- ☐ 16. Do you consult a financial management consultant, lender, accountant, insurance provider, or other professional when making major financial decisions?
- ☐ 17. Are you comfortable with your level of debt?

LEGAL

This list does not cover every legal risk exposure faced by farmers and ranchers, and is not meant as legal advice. You should consult an attorney to review your legal risk exposure.

- ☐ 1. Is your will up to date?
- ☐ 2. Do you have a living will?
- ☐ 3. Do you have a farm transfer plan or exit strategy that has been reviewed within the past 3 years?
- ☐ 4. Have you recently reviewed your farm owner's insurance policy?
- ☐ 5. Have you recently evaluated your risk exposure to:
 - ☐ a) Liability covering the public entering your property?
 - ☐ b) Liability of direct marketing?
 - ☐ c) Your state department of agriculture's direct marketing regulations?
 - ☐ d) Livestock breaking through fences?
 - ☐ e) Environmental and pesticide issues?
 - ☐ f) Land use issues with neighbors?
- ☐ 6. Do you understand the provisions of all of your contracts, leases, and loans?
- ☐ 7. Have you recently evaluated all the different business entity options for your operation?
- ☐ 8. Do you have a working relationship with your attorney and accountant and have you reviewed your goals and objectives with each?
- ☐ 9. Are you in compliance with such regulations as worker protection, pesticide use records, vehicle registrations, and necessary safety inspections?

RISK MANAGEMENT CHECKLIST, *continued*

HUMAN

- ☐ 1. Is your personal insurance coverage current:
 - ☐ a) Do you have adequate medical and disability insurance?
 - ☐ b) Do you have adequate life insurance to cover your wishes and farm transfer at current values?
- ☐ 2. Have you calculated your risk exposure to employee accidents or dishonesty?
- ☐ 3. Have you provided all employees with comprehensive safety training?
- ☐ 4. Do you have an employee handbook?
- ☐ 5. Are your goals Specific, Measurable, Attainable, Reasonable, and Timed (SMART)?
- ☐ 6. Have you conveyed the goals and objectives of the business to all family members, business team, and employees?
- ☐ 7. Are your goals written?
- ☐ 8. Is everyone in your family (or on your team) employed to the full extent of his or her education, training, and experience?

GENERAL

- ☐ 1. Do you have a confident relationship with your risk management advisors?
- ☐ 2. Do you have the knowledge to evaluate new technologies?
- ☐ 3. Are you planning for your children's educational needs and are these savings protected?
- ☐ 4. Are your savings for retirement on course with your plans?
- ☐ 5. Do family members know the location of all important documents?
- ☐ 6. Do you have the knowledge and skills to assess all areas and levels of risk?
- ☐ 7. Are you constantly looking for ways to increase your profitability?

CROP, REVENUE, AND LIVESTOCK INSURANCE DEADLINES

If you do not know all the dates in this section, you should contact your crop insurance agent for help.

- ☐ 1. Do you know all critical dates and sign-up deadlines?

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- ☐ 2. Sales closing date – last date to apply for coverage is:

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- ☐ 3. Cancellation date – give notice if I do not want insurance next year:

-
- ☐ 4. Production reporting date – actual production history must be reported by:

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- ☐ 5. Final planting date – if unable to plant, I must contact my agent by:

-
- ☐ 6. Acreage reporting date – I must report my acreage planted to my agent by:

-
- ☐ 7. Payment due date – interest charges will be incurred after:

-
- ☐ 8. Final date to file notice of crop damage – any perceived damage must be reported no later than:

-
- ☐ 9. End of insurance period – latest date of coverage for current year's crop:

-
- ☐ 10. Debt termination date – insurance coverage for next year will be canceled if payment is not made by:
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CROP INSURANCE DEADLINE NEAR, *continued from page 1*

Some marketing experts are predicting lower prices in 2012. Suppose bumper 2012 crops do let prices drift lower into harvest. Buying insurance products that base indemnity payments on planting time prices could be wise. Buying up to higher levels of coverage may be a strong consideration, especially for corn and soybean producers.

Thirteen Maryland crops share the March 15 deadline: oats, forage seeding,

corn, sweet corn, fresh market sweet corn, processing beans, grain sorghum, green peas, soybeans, potatoes, fresh market tomatoes, tomatoes, and Maryland tobacco. If your crop is not on this list you may still qualify under the terms of a “written agreement.” Ask your crop insurance agent about this option.

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 premiums are prorated to account for crop insurance on insurable crops. Premiums for AGR-Lite are roughly estimated to fall between \$1.30 to \$3.50 per \$100 worth of coverage.

For more information on crop insurance choices available in your area, contact a crop insurance agent well before the deadline. ■

TWO THINGS TO DO TO GET AGR-LITE RIGHT

MARCH 15 DEADLINE

When it comes to getting the lowest cost and greatest value out of Adjusted Gross Revenue Lite whole farm insurance you must cross a t and dot an i.

First: Make sure your crop insurance agent underwrites the policy very thoroughly at the time of application. Your agent should adjust the historic IRS numbers to reflect only the AGR-Lite allowable income and

expenses and use the adjusted numbers to calculate the approved adjusted gross revenue and expenses. This will reduce the premium cost.

Second: If you plan to purchase additional commodities for resale, include them on your Farm Report for the current year at the expected resale value after adjustment for basis (the price you expect to get minus the price that you expect to pay to buy them).

AGR-Lite is a very affordable, whole farm revenue insurance that works best for those who grow multiple crops. It can be used as an umbrella policy and premiums are prorated for crop insurance on insurable crops. Premiums for AGR-Lite are roughly estimated to fall between \$1.30 to \$3.50 per \$100 worth of coverage.

But to get the most value out of AGR-Lite, you must cross your t’s and dot your i’s. ■

ENTERPRISE UNITS DRAMATICALLY LOWER PREMIUM COSTS

Since its introduction in 2009, there has been a dramatic surge in producers switching to enterprise units. The incentives that have driven that switch are dramatic increases in premium subsidies for enterprise units.

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

For instance, at 70 percent coverage level, and assuming a base premium of \$100, the producer paid premium for an Optional Unit might be about \$41. The same premium for an Enterprise Unit might be as little as \$16 for units over 100 acres.

HOW IT WORKS

The Enterprise Unit recognized 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. Producers who have switched to Enterprise Units can gain an extra advantage by using the lower costs to increase their level of coverage. ■

Cost Impact of Different Insurance Units			
70% Level of Coverage	Optional Units by FSA /FSN	Basic Units by Crop Share	Enterprise Units of 100 Acres of Crop**
Assumed base premium per acre (before federal subsidy)	\$100	\$100	\$100
Adjusted for unit credit	None	\$ 4	\$ 25
Federal subsidy	\$ 59	\$ 59	\$ 59
Net producer cost per acre	\$ 41	\$ 37	\$ 16
*Numbers vary by crop, county and insurance plan			
** Discount varies by amount of acres of insured crop combined into one unit, certain qualifications must be met to be eligible for Optional and Enterprise Units. Contact insurance agent for details			