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Federal Potato Crop Insurance in Maryland

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L. P. Goeringer, L. Lynch and S. A. Mathew

Overview

The Risk Management Agency (RMA) under the United States Department of Agriculture (USDA) promotes, supports, and regulates risk management solutions for America's agricultural producers by providing federal crop insurance programs. In addition, the agency provides education and outreach programs in risk management. The RMA develops the premium rate, administer premium and expense subsidy, approve and support products, and reinsure private sector companies via Federal Crop Insurance Corporation (FCIC). These private sector companies sell and service policies through licensed agents. The agents are who communicate at the grower level by evaluating specific grower needs and helping them chose the right program and the coverage level to protect the farm safety net.

Potato Crop Insurance

Federal crop insurance for potatoes is an Actual Production History (APH) insurance policy. APH is a yield insurance covering yield losses from a farm or unit. APH pays indemnities when actual yield is below a yield guarantee. This type of policy protects producers against yield losses caused by drought, wind, hail, excessive moisture, frost, insects, and disease.

Availability

Currently federal crop insurance for potatoes is only available for three counties in Maryland: 1) Kent; 2) Queen Anne's; and 3) Worcester Counties. However potatoes grown outside of those three counties can be covered under the policy. In order to be eligible, the potato producer will need to talk with their local insurance agent about completing a **written agreement**.

To write such a policy, the potato producer will need to supply the insurance agent with the past 3 years of their potato production history. If no potato production history is available for that time period, the producer can substitute the production history of a similar crop, such as onions. The potato producer will also need to submit Farm Service Agency (FSA) farm maps showing where the potatoes will be grown and the forms FSA-578 "Report of Acreage" file with FSA.

Once the proper paperwork has been filed with the insurance agent, the agent will forward this information on to USDA's Risk Management Agency (RMA) to review the written agreement. Once RMA has reviewed the written agreement, RMA will either approve or reject the rewritten agreement. All of this process would need to be completed by January 31, 2013. For farm level details, contact a crop insurance agent (list available at: www.rma.usda.gov/tools/agent.html).

Crop insurance is only available to insure a potato crop planted with certified seed[1] and harvested for either 1) human consumption or 2) certified seed. For example, Mike farms potatoes in Kent county, uses certified potato seeds, and at harvest the potatoes are sold under contract for use as potato chips. Because Mike is using certified seeds and harvesting the potatoes for human consumption, Mike would be able to insure his potato crop.

Coverage and Premium

Federal potato crop insurance offers different levels of coverage based on one's average potato yield. A potato producer can choose between coverage levels of 50 percent to 75 percent of one's average yield. The coverage levels increase in increments of 5 percent across this range (See Table 1). For federal disaster program may require crop insurance enrollment, Catastrophic (CAT) coverage would be 50 percent coverage level of one's average yield and any coverage above would be equal to or above CAT coverage.

Table 1: Federal Potato Crop Insurance Coverage Levels and Premiums

Coverage Level	cat	50%	55%	60%	65%	70%	75%
Premium Subsidy	100	67%	64%	64%	59%	59%	55%
Farmer's Premium	$100 fee	33%	36%	36%	41%	41%	45%

The potato producer pays part of the premium charged by the crop insurance company with the federal government paying the remaining portion of the premium. The amount of the premium subsidized is based on the level of coverage selected by the potato producer. The higher the level of protection a potato producer picks the higher the premium charged by the insurance company will be. The percentage of the premium paid by the farmer will also increase (see Table 1). At 50% coverage level, the federal government pays 67% of the premium and the farmer pays 33%. However at 75% coverage level, the government's portion is only 55% and the farmer's portion increases to 45%.

For example, Mike has an average yield[2] of 240 cwt. per acre with his potato crop and chooses the 60 percent coverage level for his potato crop insurance. Mike will be insuring if for some reason his potato crop is destroyed. He will receive payment for 144 cwt. per acre of potatoes or 60 percent of his average yield. For this level of coverage, Mike will only pay 36 percent of the premium to the crop insurance company and the other 64 percent will be covered by the federal government.

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[1] Certified potato seeds are those potato seeds that have been certified by a public agency to be of a progeny of seed handled in a way to ensure genetic purity and identity. Use of certified seed is important to reduce the introduction of diseases into the potato crop.

[2] This average yield is also known as the "**Average Actual Production History (APH) Yield**." APH Yield is a yield based on your actual yields, a percentage of the Transitional Yield (average yield in the county), or a combination of the two used to determine a producer's production guarantee for the crop insurance policy.

Insurance Units

Producers have a choice when purchasing crop insurance: they can do it for a **basic unit** or the **optional unit**. A **basic unit** consists of all the potato farmland owned or cash rented by the potato producer. A separate basic unit can also be potato farmland rented under a crop-share rental arrangement by the potato producer. With crop-share rental arrangements, Mike would have 3 basic units for crop insurance, one representing the land he owns and one each for each crop-share renting arrangement. Premium discounts of 10 percent are given when the potato producer purchases a basic unit.

With crop-share rental arrangements, a basic unit will exist for all potato crop land owned by the same landlord/producer combination. For example, potato producer Mike has 100 acres of farmland used for potato production that he owns (he does not cash rent any acres), another 50 acres of farmland he crop-share rents from the Russet family, and another 20 acres he crop-share rents from the Williams family.

A basic unit can also be divided up into **optional units**. An **optional unit** is used to divide up parcels on which producers use different farming practices, such as irrigated or nonirrigated, and to divide up farmland in different sections. For example, Mike has 100 acres of potatoes and of those 75 acres is irrigated and the remaining 25 acres is nonirrigated. Mike could purchase two optional units of crop insurance: one for his irrigated and the other for his nonirrigated potatoes. No premium discount is given for optional units.

Damage or Loss

Once the potato crop is insured, the crop insurance will only cover certain crop destructions, or **covered causes of loss**. With the crop insurance policy, covered causes of loss are: 1) adverse weather conditions, such as hail, frost, freeze, drought, or excess moisture; 2) failure of irrigation water supply; 3) fire; 4) insects; 5) plant disease; and 6) wildlife. With insects and plant disease, the potato producer would need to make sure they had taken appropriate controls to prevent the insect damage or plant disease.

Mike would want to make sure he uses the appropriate insect and plant disease controls, such as the recommended insecticides and fungicides. If these recommended controls do not limit the crop damage, then the insect damage or plant disease would be covered by the crop insurance policy.

When the potato producer experiences a loss from a covered cause of loss, he or she has some responsibilities to fulfill before an indemnity will be paid. First, the potato producer would want to protect the crop from further damage. This will require them to continue to care for the undamaged portions of the crop and to prevent further destruction. Second, the potato producer will need to report the damage within 72 hours of the producer's initial discovery of the loss, but no later than 15 days after the end of the insurance period to their insurance agent. Third, the potato producer should leave representative samples on each field in the damaged unit for the insurance loss adjuster to inspect.[3]

Calculating Indemnity

If the potato producer does experience a covered cause of loss the indemnity payment for the loss will be based on the **price election** and the producer's average yield. A **price election** is a price set by the Federal Crop Insurance Corporation (FCIC). The 2012 price election is $9.75 per cwt for all Maryland counties, but Worcester County. In Worcester County, the price election is $14.75 per cwt. The indemnity payment will be based off this price election multiplied by the producer's average yield minus any actual potato production the potato producer was able to harvest.

[3] For more information on your duties in reporting an insured damaged crop, see Ballard, *Filing a Crop Insurance Claim: An Overview for Producers* (Nat. Ag. Law Center 2012) (available at http://www.nationalaglawcenter.org/assets/articles/ballard_article.pdf).

From the previous example, Mike has chosen a 60 percent coverage level and his potato crop has been destroyed by a drought. Mike would use the following analysis to calculate his crop insurance indemnity payment:

	240	Cwt. per acre average yield
x	0.60	Coverage level percentage
	144	Cwt. per acre guarantee
-	0	Actual cwt. per acre production
	144	Cwt. per acre loss
x	$ 9.75	Price election
	$1,404.00	Indemnity per acre

If Mike had been able to actually harvest 40 cwt. per acre of potatoes, then the indemnity payment per acre would look like this:

	240	Cwt. per acre average yield
x	0.60	Coverage level percentage
	144	Cwt. per acre guarantee
-	40	Actual cwt. per acre production
	104	Cwt. per acre loss
x	$ 9.75	Price election
	$1,014.00	Indemnity per acre

The crop insurance premium would be calculated as a product of the 1) production guarantee, 2) the price election, 3) premium rate, 4) insured acres, 5) potato producer's share at planting, and 6) applicable premium discounts. Looking at Mike, he has chosen a 60 percent coverage level, has an average yield of 240 cwt. per acre, and would like to insure all 100 acres of potatoes he is producing this year. He would hold 100 percent stake in the entire potato crop when planted. Mike will purchase his policy as one base unit. The analysis to determine Mike's premium would look like this:

	240	Cwt. per acre average yield
x	0.60	Coverage level percentage
	144	(a) Production guarantee
x	$ 9.75	(b) Price election
x	0.36	(c) Premium rate
x	100	(d) Acres to insure
x	1	(e) Share at time of planting
x	0.1	(f) Premium discounts
	$5,054.40	Premium payment
	$ 50.54	Premium payment/acre

Mike's premium payment per acre would be $50.54 based on the coverage level he has chosen.

Crop insurance coverage will start the day the potatoes are planted and run till the earliest of 5 possible dates: 1) total destruction of the crop, 2) crop is harvested; 3) final adjustment of the claim; 4) abandonment of the potato crop; and 5) but not later than October 15. For example, Mike plants his potato crop on April 1 and the crop is destroyed in a drought on June 6. Mike's crop insurance policy would run from April 1, the day the crop is planted, and end June 6, when the crop was destroyed in a drought.

A potato crop will be uninsurable when the potatoes are inter-planted with another crop, planted with an established grass or established legumes, such as alfalfa, or planted without following the crop rotation requirements specified in the insurance policy. Looking back at our potato producer Mike, Mike still uses certified seeds and harvests the potatoes for human consumption, but this time Mike inter-plants his potato crop with his sorghum crop. Mike's potato crop would no longer be eligible for crop insurance, because Mike has chosen to inter-plant his potato crop with his sorghum crop.

Reporting of Acreage

The potato producer will be required to report acreages to the crop insurance company. A potato producer will be required to timely report all acres of potatoes in the county the producer has a share in to their insurance agent. Say for example, Mike gives his son 10 acres of farmland to use for potato production through a crop-share arrangement. When reporting acreage to the crop insurance company, Mike needs to include the 10 acres of potato his son is producing since Mike has a share in those potatoes.

The following are important dates a potato producer should remember when considering crop insurance:

1) January 31, 2013 – Crop insurance sales and policy modification deadline
2) May 5, 2013 – Final planting date for potatoes to be covered
3) May15, 2013 – Acreage report due to insurance agent
4) October 15, 2013 – Crop insurance coverage ends.

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Authors:
L. Paul Goeringer, Research Associate, Department of Agricultural and Resource Economics
Lori Lynch, Professor and Extension Economist, Center for Agricultural and Natural Resource Policy
Sudeep A. Mathew, Agent, University of Maryland Extension

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