

How Do I Decide If Crop Insurance Can Work for Me?

a quick look at cost & payment examples



**Agriculture
and Markets**



Risk Management Agency

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**NYS Department of Agriculture and Markets
Crop Insurance and Risk Management Education**
www.agriculture.ny.gov/AP/CropInsurance.html
1-800-554-4501

This slide presentation was prepared by Sarah Johnston, with the assistance of Charlie Koines and Rhonda Granger, and was approved by the USDA Risk Management Agency. It provides an example of an actual situation where a farmer suffered crop losses. We have inserted figures showing what it would have cost the farmer to have insured his crops and what the crop insurance payment would have been, had he done so. It is an easy way of seeing how crop insurance can work.

Have you lost money due to crop losses?

Weather-related losses can be made up with a crop insurance payment.

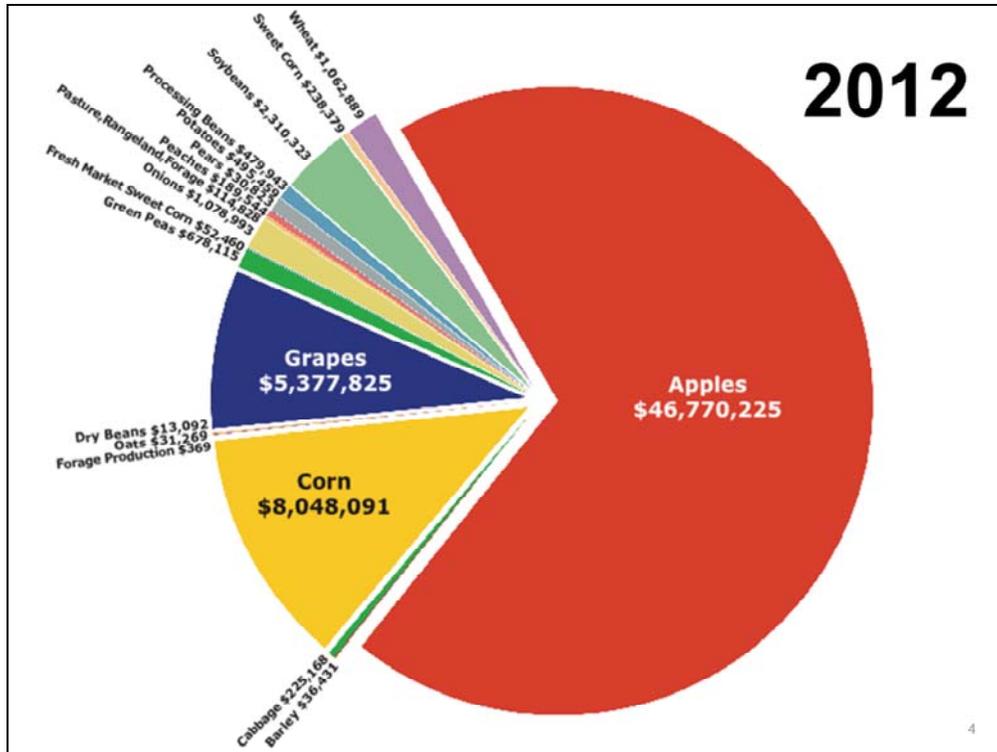
Crop insurance payments can be used for anything:

- Replacement feed
- Loan payments
- Any cost of production

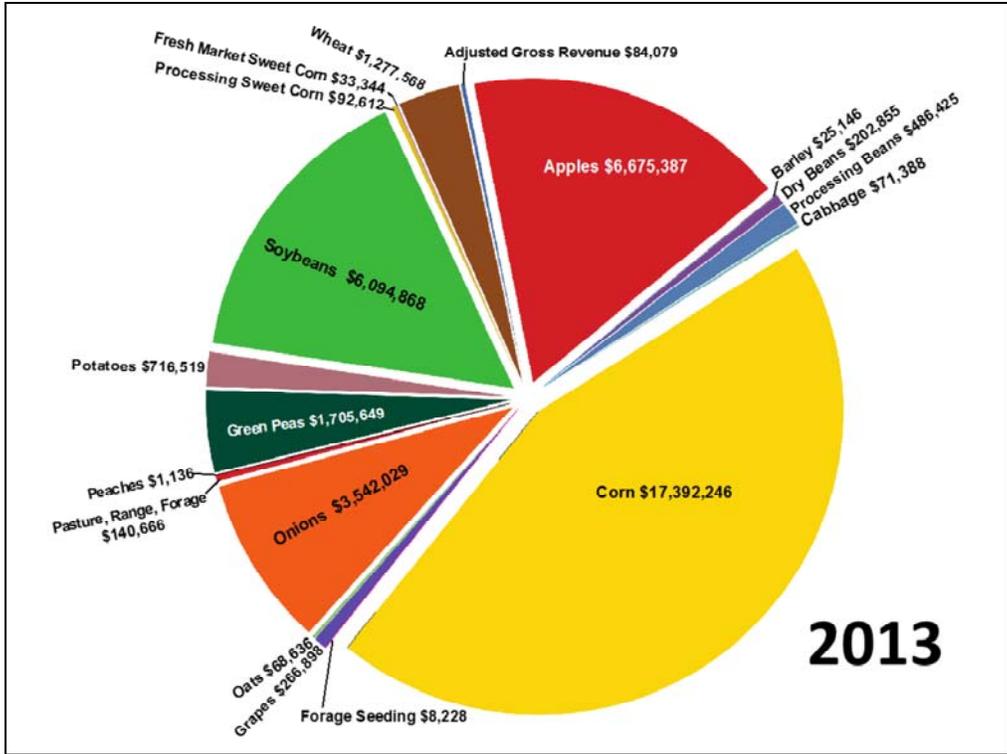
To keep farming, in the end, you need to make money. Crop insurance may add a small amount to your cost of production, but can add to your net income every time there is a loss situation that you qualify for.



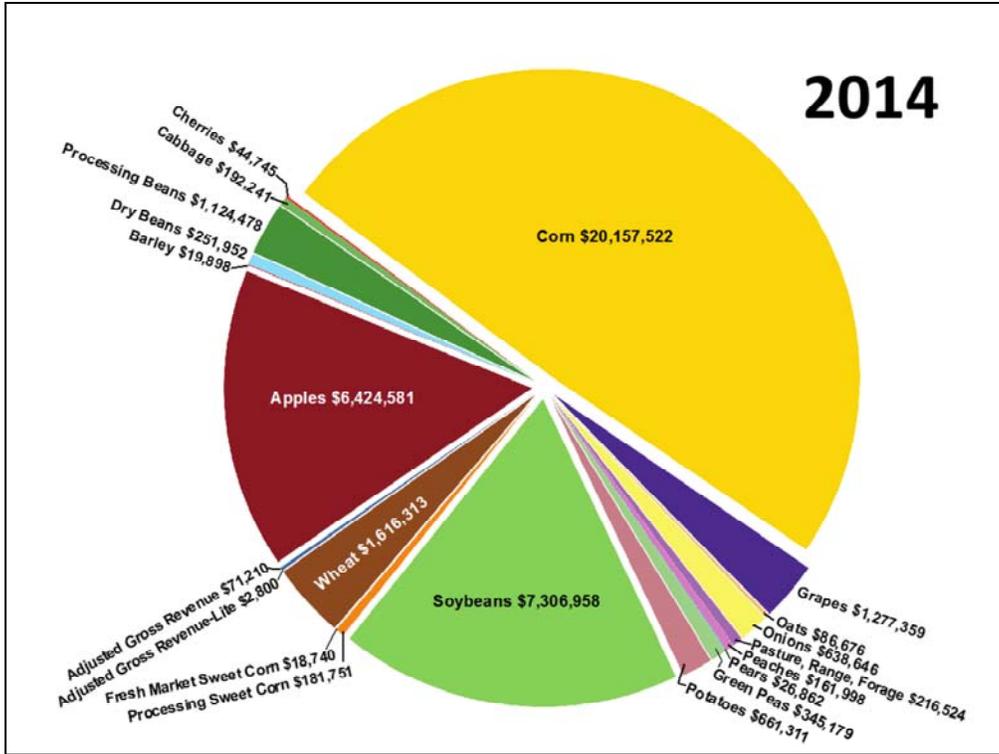
The most recent disasters include Irene and Lee in 2011 and Hurricane Sandy in 2012. Also, for 15 central NY counties, there was the flooding of late June/early July 2013. Of course, we shouldn't forget the dry 7 weeks in the summer of 2012 or that spring's warming followed by frost, which took out so much fruit production.



As you can see, apple producers received a large share of indemnity payments out of the \$67,353,206 paid out in NYS in 2012. Note that the 2012 spring freezes were only an agricultural disaster; Sandy didn't hit until November!



2014



One Farmer's Story

2013

Locally intense rain storms
caused localized flooding
(not major rivers)
May/June/early July

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In July 2013, multiple, intense rain storms flooded lots of minor tributaries to major rivers in New York State. Localized flooding caused significant agricultural losses of planted fields.



June
July
2013



Photo by David Travis

For the most part, major rivers didn't flood, but tributaries did.

TV news, July 2013

"The land is here," said Mr. X, owner of X Farms. "It's wonderful land."

A river by his farm along Route X started to swell after days of rain and flooded his fields.

"It looks like it's a complete loss at this time," said Mr. X. "We can't replant. There's not enough days growing, degree days, to have a decent crop at the end." He had 400 acres of corn and 100 acres of soy beans. He's already lost 30 acres of the soybeans.

Mr. X spent between \$200 and \$300 per acre to plant his crop.

Mr. X said the crop insurance is too expensive for him.

He'd rather gamble on the land.

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The information from the newspaper is clear and self-explanatory.

Some farmers believe that crop insurance is too expensive. In our example, Mr. X is quoted in the news as saying this and that he'd rather gamble on the land. This presentation provides some numbers, so other farmers can decide if crop insurance is too expensive or not.

Cost of corn crop insurance in X Co in 2013

Range of cost
\$5.45 to \$48.28 per acre,
depending on producer choices

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While crop insurance can seem complex, it seems this way because there are choices that must be made to come up with a price for the crop insurance and the coverage the crop insurance will provide.

Look at the range in cost per acre. The more expensive crop insurance is, usually, the higher the level of coverage you are buying. Farmers with experience using crop insurance say that you should tailor your crop insurance decisions to your specific operation and financial needs and that buying higher levels of coverage often mean triggering payments more frequently.

Illustration - 2013 Corn Crop Insurance

X County

Yield: 120 Bu./Acre APH*
Projected Price: \$5.65 per Bushel (Bu.)
100 Acres

*APH is the producer's "**Average Production History**"

Crop insurance is made available on a county basis and you can look up the options of cost and coverage.

A running 5-year average of a specific field's yield is used to establish the yield that will be used. If a farmer is new to crop insurance and does not have the records needed to establish a personal yield, then the crop insurance agent must use the County yield for the crop for the farmer's APH.

For this example, we have chosen a reasonable, but perhaps, somewhat low yield.

At 70% coverage

$$\begin{aligned} &120 \text{ bu./acre APH} \times .70 \text{ coverage level} \\ &\quad \times \$5.65 \text{ projected price} \\ &= \$474.60 \text{ per acre guarantee} \\ &\textbf{at the premium cost of \$16.79* per acre} \end{aligned}$$

*This is what the farmer pays. The federal share of crop insurance varies based on the level of coverage, but is about 1/2 to 2/3rds of the cost.

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70% coverage means that only 70% of the crop will be covered by insurance. If the farmer loses 25% of the crop, they have not reached the threshold for this level of coverage to kick in. The threshold is 30%.

The “insurance-speak” used here shows that at this level of coverage, if the farmer suffers a total loss, then he/she is still guaranteed \$474.60 per acre from their insurance coverage.

This farmer would have received about **\$457.81** per acre, from which the per acre cost of the insurance can be subtracted.

$$\$474.60 - \$16.79 = \$457.81$$

$$\$457.81 \times 100 = \$45,781$$

$$\$45,781 \times 400 \text{ acres} = \$18,312,400$$

In our example, the farmer lost his entire crop in July. He cannot reasonably replant corn or soybeans at this late date. If the entire crop is gone, then the farmer receives the “guarantee.”

**What's better than a
70% crop insurance
payment?**

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Farmers tell us they don't want a crop insurance payment.

a good crop.....

$$120 \text{ bushels/acre} \times \$5.65/\text{bu} = \$678/\text{acre}$$

$$\$678/\text{acre} \times 100 \text{ acres} = \$67,800$$

$$\$678/\text{acre} \times 400 \text{ acres} = \$271,200$$

You can always make more money planting a crop.

A good yield on an insured crop still brings in \$

$$120 \text{ bushels/acre} \times \$5.65/\text{bu} = \$678/\text{acre}$$

$$\$678/\text{acre} - \$16.79 \text{ crop ins premium} = \mathbf{\$661.21/\text{acre}}$$

$$\$661.21/\text{acre} \times 100 \text{ acres} = \$66,121$$

$$\$661.21/\text{acre} \times 400 \text{ acres} = \$264,484$$

As one farmer, Dave Johnson, who agreed to be interviewed about crop insurance has said, "The amount of dollars you talk about paying out is nothing compared to what you can lose." The cost of the crop insurance is \$16.79 per acre.

REASONS (we hear) for not evaluating crop insurance.

- Only the back 50 acres of corn ground along the river routinely flood and crop insurance requires that you have to insure all your corn acres in the same county.
- Not having kept or wanting to keep records of yields.
- It's a big bill.
- It only pays off every 5 or 6 years, when there is a big disaster.
- I had a big loss in '92 & didn't get a payment....

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Anyone who is farming knows that it is hard to make a profit farming. We have a few examples here that provide the numbers for situations farmers bring up that, to be harsh, are their reasons to not do the math. Crop insurance might keep you in business in a bad year. Why not explore your questions?

***“ Even on our best ground,
Mother Nature can win.
I would never gamble on a loss,
and I would never be without
crop insurance.”***

**Lynn Murray, Dairy farmer
Murcrest Farms, Copenhagen, NY**



It pays to run the numbers, according to the Murray's in Lewis Co.

Risk Management Check Up

**Is last year's Risk
Management Plan Adequate to
Manage this year's Risks?**

(Increasing Input Costs, Prices & Weather Volatility)

Individual farm details available from crop insurance agents,
list available at www.rma.usda.gov/tools/agent.html



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Everyone has a risk management plan. For some, it's hoping for the best. If you have coverage, you should review your coverage level and price election every year to determine if your amount of coverage is adequate to manage your risk for the coming year.

Additional Information can be found at:

USDA Risk Management Agency (RMA)

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www.rma.usda.gov

To find a crop insurance agent, go to:

www.rma.usda.gov/tools/agent.html to

use the agent/company locator tool.



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