

FarmPLUS INSURANCE SERVICES



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Fall 2013

Wheat coverage for 2014

The 2013 crop year for wheat appeared to be one our better years in April; but by late June, everyone realized that it was one of the worst crops in many years. Widespread, heavy rains caused many growers to be unable to harvest their crops. When harvest was finally possible, yields and quality were greatly diminished. By the time this newsletter is received, most wheat claims will hopefully have been worked and paid.

There are things to learn from the 2013 wheat claims and the different scenarios that developed. Several factors affect our local wheat market. First, due to the close proximity of Smithfield Foods or Murphy-Brown LLC, there is a very robust market for feed wheat in Eastern North Carolina. Second, the demand for milling-quality wheat in our area is always good, but increased use of falling numbers as a measurement of wheat quality has made it more difficult for wheat to be sold as milling wheat. Finally, an abundance of head scab and vomitoxins the last two years has made the job of marketing wheat more difficult. It is important for wheat growers to understand how claims are handled with regards to Quality Adjustment (QA). QA is handled by the use of Discount Factors (DFs) within the crop insurance policy. A DF is the percentage that a certain volume of wheat is discounted or removed from the production or yield that is counted against the farmer's guarantee. For example, a 900-bushel load of wheat with a DF of 0.3 will be discounted 270 bushels; and therefore, only 630 bushels of

wheat would be counted against the farmer's crop insurance guarantee.

Two large DFs occurred when wheat falls into a U.S. No. 5 grade or a U.S. sample grade. A U.S. No. 5 grade can be triggered by a test weight below 54 pounds per bushel or damaged kernels (usually sprout damage) above 10 percent. In most counties, a U.S. No. 5 grade triggers a DF of 0.321. A U.S. sample grade occurs when test weight falls below 51, or damaged kernels are above 15 percent. The corresponding DF for the U.S. sample grade is 0.357. In other words, when wheat quality falls within either of these grades, roughly one third of the wheat sold in storage or in the field is considered as production-to-count against the crop insurance guarantee.

When vomitoxins are involved, DFs can range from 0.232 at 2.1 parts per million (ppm) to 1.0 (total loss) when vomitoxins exceed 10 ppm. When vomitoxins are between 2.1 and 10 ppm and the wheat is stored or in the field, the vomitoxin DF is added to other DFs due to test weight or damaged kernels. In some cases, we have seen DFs in excess of 0.9. In such a case, only 10 percent of the harvested wheat would count against the crop insurance guarantee, and the farmer would still have the wheat to market at a later date if a market can be found. To determine vomitoxin levels, the only useable solution is for an adjuster to pull a sample and that sample tested by a U.S. Department of Agriculture (USDA) lab. Generally, the cost is less than \$50 per sample plus freight and must be paid by the farmer in advance.

Often in 2013, quality deficient wheat was sold as feed wheat prior to a sample being taken and prior to final adjustment. In these cases, the loss adjustment procedure requires that vomitoxin DFs can't be used, only DFs due to test weight or damaged kernels can be used. However, there is one final method an adjuster can use in these cases, known as a Reduction in Value (RIV). An RIV is a factor created by discounts in price due to poor quality as compared to the daily cash-market price for milling-quality wheat. It is our experience that RIVs were the least advantageous method of accounting for quality deficiency due to the robust feed wheat market that exists in this area.

With well over 75 percent of all wheat policies having a payable claim in our area, every aspect of the wheat policy, especially QA, came into play. Doubtless, many growers that were skeptical regarding crop insurance for wheat are now believers. 

Wheat sales closing Sept. 30

Every year, our office contacts each grower at points in time where decisions are needed. This year, we expect for many growers to see the continued need for wheat coverage as well as coverage for other small grain such as oats or barley. However, it never hurts to review options such as levels of coverage, unit structure (optional units or enterprise units) and, new for 2013, Trend Adjustment (TA). TA is offered in many counties for the first time in 2013 and is a recognition of improved growing

See *Wheat sales* on page 2

Brent's Two Cents by Brent Craig

Apples and peaches

This year has been interesting, to say the least, in regard to weather-related events. Late freezes, late



frosts, hailstorms, windstorms and record rainfall were some of these surprises. Below-average quality and production is

a widespread problem in most areas where apples and peaches are produced.

Good recordkeeping and appraisals

As picking season comes to an end, please remember the importance of good recordkeeping and appraisals. Appraisals need to be done before any

fruit is picked. Most people are considered direct marketers in which the fruit goes directly from the orchard to individual consumers and the fruit is not graded by a recognized grading system or packer. The appraisal is used to grade or take quality ad-

justments into account. Almost every insured we have has the "fresh option" on his or her policy. Without an appraisal, there is no way to put an official grade on the apples, and the insured cannot be paid on a quality-adjustment loss. If another loss occurs after an appraisal, report it immediately so another appraisal may be done.

Pick records need to be kept daily, if at all possible. They cannot be a summary. They must include the name, address and phone number of the insured, the unit or block that was picked, variety, date picked, the name of the picker, price paid per volume picked and a verifiable receipt attached to the pick record that provides proof of payment to the picker such as a cancelled check showing the bank institution's stamp of payment. Sales receipts need to have the name, ad-

dress and phone number of the seller. They also need to have the name of the buyer, if possible, the amount paid per bushel, box, etc., and the date of sale. If you are selling by a roadside stand, for example, a ledger is considered acceptable. A ledger takes the place of a receipt in most cases because there are a high volume of small transactions and most are cash sales. The ledger needs to be kept daily and give the volume sold and price per volume for each day. Ex: August 15, 2013, 100 bushel apples sold at \$12 per bushel equals \$1,200 total and \$75 bushel peaches sold at \$15 per bushel equals \$1,125.

Sales receipts and daily sales ledgers are not only used to back up pick records, they are the only way an insured can pass the "Fresh Verification." Remember, in order to qualify for the fresh option you have to have sold at least 50 percent of your total production of apples at a price indicative of fresh in one of the previous four crop years. For example, if you produced 2,000 bushels of apples in 2012 and you sold 1,000 bushels or more at a fresh price, then you will be able to prove fresh for 2013. As it stands now, you would not have to do this again

Pasture, Rangeland & Forage coverage

In 2012, most Pasture, Rangeland & Forage (PRF) policies in our area generated from one to four times the premium cost in revenue.

In 2013, abundant rains have meant that no significant claims have been paid. Many believe that with regards to weather, one extreme always follows another. Will the remainder of 2013 produce more of the same? Will 2014 be dry? Of course, we don't know these answers. However, dry weather will unfortunately return. The PRF product is a wise purchase in light of that fact, and also in light of the government subsidy that makes PRF a wise bet.

The sales deadline for hay and pasture coverage is Nov. 15. We will contact all existing customers to review options. If you're not an existing PRF customer but tend hay and pastureland, please contact our office for an explanation of the PRF policy.

Wheat sales *Continued from page 1*

practices and genetics in wheat production. We will provide various quotes to determine the best coverage to suit your operation. Obviously, August and September are extremely busy times for farmers; and therefore, we will strive to respect your time but also appreciate the time given to evaluate your crop insurance coverage. These visits and decisions must occur by Sept. 30 for all small grain coverage. Consequently, small grain coverage for uninsurable acres such as wheat for hay must also be applied for by Sept. 30 at your county Farm Service Agency (FSA) office. The FSA program is known as Non-insured crop disaster Assistance Program (NAP). 

Wheat production reports

If you are one of the few who didn't have a wheat loss in 2013, you should have received a production reporting form recently. These production reports are due by Nov. 15, but if we receive production data soon we can incorporate your 2013 yield into any quotations for 2014.

For those with losses in 2013, your wheat production will be obtained through loss documents. There will be some occasions where land was added to the operation during the year, and you may receive a production reporting form that will be used to establish a yield and coverage on this added land. Whatever the case, good crop insurance coverage starts with a good yield average. So please return any production documents with necessary signatures promptly. 

The state of affairs with tobacco

In recent newsletters, we have tried to convey the concern that we have over tobacco coverage within the federal crop insurance program. For many years, and especially since the tobacco buyout, loss ratios on tobacco have been extremely high in relation to other crops throughout the nation. The numbers for the 2012 crop year were the best numbers for tobacco since the buyout. However, the loss ratio at 105 percent still keeps tobacco on the radar. Further, the rains experienced this season have us expecting an unfavorable loss ratio for 2013. The Risk Management Agency

(RMA) is raising rates as possible to lower the loss ratio. Also, RMA introduced a rotation rule requiring rotation of tobacco to be able to insure the crop. OIG (Office of Inspector General) and the Justice Department have made considerable indictments and convictions to clean up the fraud, waste and abuse within the program as it relates to tobacco. Until the loss ratio on tobacco is trending below 100 percent, more of the same can be expected. It is our hope that every agent, adjuster and farmer is working to get this valuable financial tool back on a solid foundation. 

Interesting information regarding losses:

Nationwide Loss Data on All Crops

<u>Year</u>	<u>Losses (bil)</u>	<u>Premiums</u>	<u>Loss Ratio (percent)</u>
2005	\$2.4	\$3.9	60
2006	3.5	4.6	77
2007	3.5	6.6	54
2008	8.7	9.9	88
2009	5.2	9.0	58
2010	4.2	7.6	56
2011	10.8	12.0	91
2012	17.4	11.1	157

Flue-cured Tobacco Loss Data

<u>Year</u>	<u>Losses (mil)</u>	<u>Premiums</u>	<u>Loss Ratio (percent)</u>
2005	\$42.5	\$15.9	267
2006	80.0	22.5	355
2007	68.4	28.7	238
2008	80.9	32.9	246
2009	76.0	38.0	200
2010	77.4	34.4	225
2011	167.0	36.8	454
2012	40.9	38.8	105

Corn appraisals

If your intent for your corn crop is to chop the corn for silage, we recommend appraisal of the corn regardless of the quantity or quality of the crop. Obviously, an appraisal is needed if the expected yield is poor and a claim is expected to be paid. However, in the case of an excellent yield, it's always a good idea to have an appraisal so as not to have to "prove" that high yield.

Corn insured as grain but cut for silage can only be "proven" through an appraisal or feed records. Feed records are not always easy to maintain,

and appraisals remove the necessity to do so. Some companies expect to do appraisals on all corn cut for silage, and some companies will only do appraisals if a loss exists. Appraisals do cost a company money but are an added service. Often, appraisals are facilitated by leaving representative samples of the crop in the field. While not always necessary, samples are always appreciated and often are advantageous to the farmer because the adjuster is able to access some of the best corn in the field. Good communication between the adjuster and the grower is key to appraisals being accomplished each year. 

Billing

With the 2008 farm bill, the billing date for spring-planted crops was changed to Aug. 15. Interest is not charged, however, until Oct. 1. For apples and peaches, the billing date is also Aug. 15. It is important to know that interest is charged based upon the date that a payment is received. A person shouldn't wait until the last possible date to mail in premium payments.

Wheat, oats and barley premiums were due by July 1, and any policies not paid for by Sept. 30 will cancel on that date and will also make the grower ineligible for any future coverage on any crop until the premium is paid. Please be sure that all premiums are paid in a timely fashion. 

E-mail addresses wanted

If you would like to receive an advanced copy of subsequent newsletters, please send us an e-mail to cropins@farmplusins.com. Also, there are times when information might be beneficial to you that, with your e-mail address, we will be able to get this information out to you as quickly as possible.

If you suspect a loss, always turn in a claim to us at the time of loss. Notices of loss after harvest is complete are not advisable, especially in cases of severe loss.

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Farm bill status

In the “fiscal cliff” negotiations at the end 2012, an extension of the then current farm bill law was approved for the 2013 crop year. While this extension is set to expire on Sept. 30, it will not be surprising to see another extension for 2014. The Senate has passed farm bill legislation that includes the Supplemental Nutrition Assistance Program (SNAP) (food stamps) program. The House has passed farm bill legislation that does not include the SNAP program. Both versions of the farm bill appear favorable to the farming community and specifically with regards to crop insurance. However, the food stamp program is very politically charged, and most people are skeptical that an agreement can be reached in Washington. A new farm bill will allow farmers to plan for the next five years. However, we are pessimistic that a new farm bill will be achieved, and we’re expecting that the current farm bill will be extended yet again for 2014. Interestingly, the SNAP program has grown in excess of 40 percent in the last five years, and the battle in Washington is over a reduction of 5 percent in SNAP program benefits versus no reduction. 

Company appetite

In the world of insurance, there are often communications between the companies and the agents regarding appetite or desire for certain types of business. Some of these discussions are written, or verbal, and some of these discussions are more abstract. Due to the tax dollar involvement in crop insurance, rarely will a company verbally, or in a written form tell an agent that they don’t have an appetite for a certain crop or product, but the level of appetite is there nonetheless. The abstract forms of communicated appetite are most often in agent commissions. The quickest way to get a certain crop off of the books of a company is to offer a smaller commission for the crop than the competition. This generally results in the agent moving the business to a company where the commissions are higher, and

hopefully a profit can be made by the agency. In the past, we have seen lower commissions on high-loss ratio crops like nursery, apples, peaches and tobacco. As an agency, we feel that it is in our customers’ best interest to place the business where a company has an appetite for the crop. Some might say this is self-serving on the part of the agent. However, it is in the farmers’ best interest for the agent to be able to maintain trained, motivated employees to give the best service possible. Adjusters also have a stake in which company has the business. However, it is our experience that good adjusters can always find a company to work for as companies are always looking for good, experienced adjusters and agents want to work with those adjusters. We ask that you have an open mind as to change. We also want you to know that rates are the same for all companies that sell federal crop insurance. Our desire is to always give the best service possible and to work with companies that have the same mentality. 

Data mining audits

The crop insurance program, like all government programs, requires a certain percentage of policies to be audited. These audits can be in the form of a policy audit, a yield audit, a crop audit (growing season inspection), etc. The first question that is asked by the farmer is “How did my name come up?” Almost all audits these days are a result of data mining. Data mining is a process of using a computer program to look for anomalies in data as compared to entire amount of data. Anomalies can include yield swings from extremely low to extremely high from farm to farm or from

county to county. Anomalies can also include yield swings from extremely low to extremely high from farm to farm or from county to county. Anomalies can also include land that switches around between growers or tax ID numbers that show up on more than one policy. Plenty of anomalies are searched for. An audit doesn’t mean that a farmer is suspected of fraud. However, an audit does mean that the data suggests an increased possibility of fraud, waste or abuses. Please “don’t shoot the messenger, if your name appears on an audit list. This includes the agent and the adjuster as neither of these have any power to affect who gets audited. Generally, audits rarely result in a substantial findings or wrongdoing. They are simply a necessary evil of a taxpayer-supported system. 

If you are a member of a grower’s group or association such as young farmers, we will be glad to sponsor or co-sponsor meetings and give an overview of crop insurance to the members. Often small group meetings provide the best venue for questions and answers that our growers want or need to know.