A crop insurance newsletter

FarmPLUS INSURANCE SERVICES

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The big crop picture

As tobacco harvest goes into full swing and much of the grain and cotton crops are near maturity, the 2014 crop in our area appears above average with regards to potential yields. Of course, there are pockets that have been extremely dry, and drought is still a threat to some areas.

Nationally, the corn and soybean crops are tracking towards near record yields. This translates into what will perhaps be a good year for the crop insurance companies and the federal government which participates in crop insurance. From the chart below, you can see that a good year is certainly welcome as good years have not been seen since 2010 and 2009. For the crop insurance system to be profitable to the companies and to the federal government, loss ratios below 80 percent are necessary. For the record, in other types of insurance a loss ratio below 65 percent is generally where companies become profitable. This is due to the fact that every form of insurance requires administration, operations, and loss adjustment expenses. The fact that crop insurance runs only 20 percent of premium volume towards these types of expenses is a testimony to the crop-insurance industry. As you can see in the loss-ratio figures in the chart, there was effectively no money to be made in 2011, 2012 or 2013. That being said, six out of the last 10 years generated loss ratios that were profitable to the companies and government, and the remaining four would be deemed unprofitable.

It should also be noted that with the heavy premium subsidies involved, the federal government is only recouping some of the subsidy money in a profitable year. Every year, crop insurance represents an expenditure for the federal government. It can also be said that while the federal government outlay approaches $8 billion per year in a year such as 2013, the crop insurance program is the primary mechanism by which most farmers remain in business through bad years, and most tillable acres are planted every year. This results in the United States maintaining the least expensive food supply of any country in the world. The crop insurance program in the United States is being studied and potentially copied by other nations such as Mexico, Canada and China.

It should be noted that the major challenge for 2014 appears to be market prices for almost every crop. While many crop insurance products contain revenue protection, there will be many cases where high yields will cause revenue guarantees to be exceeded

*See **Big picture** on page 4*

Federal Crop Insurance Program Performance, Gross Basis[1]

Crop Year	Policies with Premium	Units with Prem.	Liability	Premium	Farm Paid Prem.	Indemnity	Gross Underwriting Gain	Insured Acres	Loss Ratio
	Number	*Number*			*Million$*			*Million*	
2004	1,229	3,076	46,602	4,186	1,709	3,210	976	221	0.77
2005	1,191	3,022	44,259	3,949	1,605	2,367	1,582	246	0.60
2006	1,148	2,942	49,919	4,580	1,898	3,504	1,076	242	0.77
2007	1,138	2,966	67,340	6,562	2,739	3,548	3,015	272	0.54
2008	1,149	3,023	89,897	9,851	4,160	8,680	1,171	272	0.88
2009	1,172	2,729	79,548	8,951	3,524	5,222	3,730	265	0.58
2010	1,140	2,572	78,082	7,595	2,883	4,252	3,343	256	0.56
2011	1,152	3,321	114,207	11,971	4,509	10,864	1,107	266	0.91
2012	1,174	3,444	117,148	11,114	4,137	17,433	-6,319	283	1.57
2013	1,223	3,577	123,537	11,779	4,499	11,822	-43	296	1.00

[1]Data as of 4/21/2014
Source: RMA Summary of Business

Quality Adjustment on tobacco

Although relatively quiet for the 2013 crop year, efforts continue to improve the tobacco loss ratio. As you can see from the chart below, a good tobacco market helped the loss ratio in 2013 as every leaf had a recognized value, and most farmers gave the best care to their tobacco crop as possible. Excessive rains call for a light crop and ultimately an unfavorable loss ratio, but had the tobacco market been poor many would argue that the loss ratio would have been much higher.

Flue-cured Tobacco Loss Data

Year	Losses (mil)	Premiums	Loss Ratio (percent)
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
2013	78.7	47.5	166

Rumors abound that the demand for the 2014 crop is low, and supply appears to be high. Should this translate into lower pricing, we anticipate discussions with farmers regarding Quality Adjustment (QA).

Crop insurance for tobacco is a yield plan only and has no revenue protection. **The rather attractive price selection of $2.15 per pound only applies to pounds that are not achieved up to the guaranteed pounds for each farm.** Currently, QA only applies to the bales of tobacco that receive one of the grades listed in the chart below. Depending on the grade, the weight of the bale is then discounted by the amount shown in the chart. It only profits a farmer to seek QA on tobacco from units of Farm Serial Numbers (FSNs) where a yield loss already exists or is created by QA. If you feel that QA applies to your tobacco, a U.S. Department of Agriculture (USDA) grader must grade your tobacco. USDA has established a system, known as the Tobacco Administrative Grading Service (TAGS), through which a grader is sent to your receiving station to grade your tobacco. There is a cost of 3.50 cents per pound for tobacco graded through the TAGS system. The TAGS system can be accessed by calling 855-776-8570 and further information can be obtained at *www.tobaccograding.com*. Adjusters must see all tobacco to be quality adjusted before losses involving quality adjustment to be paid. Be sure to talk with an adjuster before testing the TAGS system.

DISCOUNT FACTOR CHART

On the date of final inspection for the unit, the discount factors are determined using the following chart. No QA will be made on any production which has been assigned a grade that does not appear on the discount factor chart. The Quality Adjustment Factor (QAF) is 1.000 *minus* the applicable Discount Factor (DF) expressed below as three-place decimals. The production-to-count is *multiplied* by the QAF (not less than zero) to determine the net production-to-count.

Grade*	DF	Grade*	DF	Grade*	DF
B4G	0.400	C4KL	0.200	NIXL	0.800
B5G	0.800	C4S	0.200	NIXO	0.800
B4GK	0.600	H6K	0.200	NO-G	0.800**
B5GK	0.800	M4GK	0.600	P5F***	0.200
B6K	0.200	M5GK	0.800	P4G***	0.800
B5KF	0.400	N2	0.800**	P5G***	0.800
B6KF	0.800	N1BO	0.800	P5L***	0.200
B5KL	0.400	N1GF	0.800**	S-Scrap	0.800**
B4KV	0.400	N1GG	0.800**	X4G	0.400
B5KV	0.600	N1GL***	0.800**	X5G	0.400
B6KV	0.800	N1GR	0.800**	X4GK	0.600
B5V	0.200	N1K	0.800	X4KF	0.200
C4G	0.600	N1KV	0.800	X4KL	0.200
C4GK	0.400	N1L***	0.800	X4KV	0.400
C4KF	0.200	N1R	0.800		

*U (unsound), W (doubtful keeping order), or wet are special descriptors that may be added to any grade. We may at our discretion adjust production assigned such as a descriptor according to the underlying grade.

**Any production which due to insurable causes is assigned the corresponding grade will be considered to have zero market value. Such production will not be considered production to count if the production is destroyed in a manner acceptable to us. If you choose not to destroy such production, we will apply the corresponding Discount Factor from the chart.

***Includes production with the Sand descriptor.

Any adjustment in production-to-count will be determined by multiplying the pounds of damaged tobacco production by the QA factor for the corresponding grade.

Other important tobacco issues

By now, most growers are aware that there is no rotation rule regarding tobacco. For 2013 only, tobacco was uninsurable if planted more than two years in succession on the same land. For 2014, the rule has been removed due to political pressure.

A concern in recent years is the fact that the tobacco loss-adjustment procedures require a stalk inspection to occur before a claim can be paid. **Claims will be denied if stalks or stubbles are destroyed before an inspection is made.** If you use a mechanical har-

See **QA on tobacco** on page 4

Farm Bill issues

In our last issue, we discussed many of the changes that are coming as a result of the 2014 Farm Bill. You may access any previous issue of our newsletters at *www.farmersontheweb.com/newsletters.htm*.

Changes that have occurred since that newsletter was written include the following:

(1)The Agricultural Risk Coverage (ARC) or the Price Loss Coverage (PLC) programs will be in effect at the Farm Service Agency (FSA) for the 2015 crop year.

(2)The Supplemental Coverage Option (SCO) offered by crop insurance agents will not be available in the counties in which our customers are farming until the 2016 crop year. You may hear in farm journals and magazines that SCO is available for the 2015 crop year. However, while that is true in many major grain-growing regions of the country, it does not hold true for our area. As information becomes available we will certainly share it. ***SCO will be available in Union County, N.C. for wheat.

It's important to note that if a farmer elects the ARC program at FSA, which is a five-year election, he or she will not be eligible for the SCO policy through the Risk Management Agency (RMA) for that crop year during the five years.

The decision to sign up for ARC, PLC or SCO for a crop will be very difficult, if not impossible on an informed basis, due to the fact that all information regarding the three programs will not be available for a considerable number of months.

Our hopes lie in upcoming insurance-company meetings to be held in late August and early September, in which we hope to learn more about the SCO. In our visits to discuss fall-crop coverage, we will share any information that we obtain. Because the ARC and PLC programs are administered by FSA, it is important that you gain as much information as possible through FSA on those programs.

Pasture, Rangeland & Forage

The Pasture, Rangeland & Forage (PRF) policy, like all of farming, could be called a game of chance. With four years of experience under our belt and currently in the fifth year, we feel that we're offering the best solution for utilizing the PRF product. Beginning with the 2010 crop year, our thoughts were towards insuring the months of the year when rainfall was most critical. Most growers were taking the minimum requirement of the two 60-day periods for hay acres and/or two 60-day periods for grazing acres. Within our customer base, we achieved a payout of 45 percent of premium.

In 2011, 2012 and 2013, most growers expanded their coverage to all months of the year, which entailed 11 periods if the farmer has both hay and grazing acres. This involves periods that have a 30-day overlap from one period to the next.

*See **Pasture** on page 4*

Money paid in and paid out on PRF policies to farmers by FarmPlus Insurance Services for 2010, 2011, 2012 and 2013

Year	Premiums	Claims	Loss ratio (percent)
2010	58,217	26,292	45
2011	96,329	113,910	118
2012	99,315	292,521	295
2013	151,965	249,175	164
Totals	405,826	681,898	163

ARC, PLC, SCO?? ….. Do you need answers regarding the Farm Bill?

One of our crop insurance carriers, NAU, recently announced that NAU's Farm Bill specialist, Rick Gibson, will be in North Carolina on Sept. 10 to talk about the new Farm Bill. NAU invites all policyholders or anyone with an interest in the Farm Bill. Rick will be going over the new Farm Bill, and how the changes will affect farmers and upcoming decisions they will have to make. Rick is a crop insurance executive with more than 40 years of diverse crop insurance experience. Rick began his career as a per diem crop-hail adjuster. His desire to help the American farmer, coupled with his management and entrepreneurial skills lead him to pioneer and lead one of the largest crop insurance companies in the United States. He is actively involved in the current negotiations and political implementation of the crop insurance program and has significant involvement in the negotiations and implementation of the Standard Reinsurance Agreement (SRA) with the Federal Crop Insurance Corp. (FCIC).

Rick currently serves as chairman and chief executive officer of Agro International, an international consulting company that developed and introduced revenue crop insurance in Brazil and crop programs in Bolivia and Paraguay with a large international grain company. In 2002, Rick founded Agro National MGA, which developed significant computer crop insurance quoting and crop fund designation programs that are currently used in the industry. In 2008, Rick sold his second crop insurance company, Agro National, and currently serves a business consultant to NAU.

The meeting is open to the public, and the date and time follows. Please call our office at 800-458-3440 to let us know that you will be attending Wednesday, Sept. 10.

Embassy Suites Greensboro – Airport
204 Centreport Dr.
Greensboro, N.C.
2 p.m.-5 p.m.

Big picture
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even at lower commodity prices. This was the case for many growers with the recent wheat crop where there was an 11-percent decline in price, but yields far exceeded 11 percent over guaranteed bushels.

With corn in some areas, we expect some, if not considerable losses, because of below-average yields combined with what may become a 25-percent drop in commodity prices. It should be noted that crop insurance claims are calculated using average commodity prices over a 30-day period and **are not determined based on an individual farmer's selling prices**.

Therefore, it is imperative that every farmer markets his crops to his maximum potential. As a footnote, if low prices are due to low quality this is the only instance where a farmer's achieved prices are used in a loss calculation. In those cases, a parameter such as test weight, defects, toxins, etc. must be established by the U.S. Department of Agriculture (USDA) or the Risk Management Agency (RMA).

Generally, 2014 has promise; however, because of low prices it seems no one is expecting huge profits.

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For 2011, 2012 and 2013 combined, the payout to our customer base has been in excess of $2 per $1 of premiums. For 2014, the numbers are yet unknown as there is a 60-day lag from the end of a 60-day period to claims being paid. However, by the time that we begin discussions with farmers for the 2015-crop year, more numbers will be known.

The sales-closing date for 2015 hay and pasture coverage is Nov. 15. Our efforts to update existing hay and pasture customers, i.e., reviewing coverage versus premium, will take place beginning in August as we visit small-grain customers and beginning in October for hay and pasture only customers.

Essentially, our efforts have been to maximize payout using the PRF policy. With rainfall gauges fairly dispersed and summer storms being highly isolated, we find that the program lacks accuracy but abounds in government subsidy; and therefore, our efforts lend toward simply generating a positive cash flow. Perhaps in future years, a product will be developed that is more geographically accurate. Until then, we will continue to make our best effort for the farmer's benefit.

Crop insurance and soil conservation

Going forward, crop-insurance subsidies will be contingent on being compliant with the U.S. Department of Agriculture (USDA) soil-conservation programs. If you tend Highly Erodible Land (HEL), it is necessary for you to file a form AD-1026 at the Farm Service Agency (FSA) on ALL land that you tend. One farm out of compliance will make a farmer ineligible for crop-insurance subsidy. If you are renting new land, it would be advisable to find out if the land has a soil-conservation plan before renting the land.

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vester with a stalk cutter attached, do not disc harrow your land prior to the adjuster inspecting the harvested fields.

Where there is no loss on a FSN, stalks may be destroyed. However, if a FSN-incurred loss on some acres and not on other acres, the farmer should leave all stalks until an adjuster can make a visual inspection.

Sales closing for fall crops

September 30, 2014 is the sales-closing date for wheat, oats, barley, canola, rye or any other fall-seeded crop. Every year, our first priority is updating each farmer that we deal with current premium figures and coverage examples prior to the sales-closing dat, so that an informed decision can be made for the coming years. Most areas in North Carolina and Virginia allow a maximum coverage level of 75 percent of average yields for small grains.

Further, because yields in small grains tend to be consistent in an area, many farmers have elected Enterprise Units (EUs) for small grains. This has allowed for substantial coverage at a very tolerable premium per acre. For the coming year, we expect commodity prices, coverage and premiums to be considerably lower than we've seen in the last two years. If a farmer already insures at a 75-percent level and has revenue protection on EUs, the only enhancement that can be made to existing coverage would be to purchase Optional Units (OUs) so that isolated losses on individual farms can generate a claims settlement; otherwise, a farmer may wish to simply take the savings that will be available through lower premiums.

In recent travels, we have heard plenty of discussion about small planting intentions for wheat for 2015, and some discussion of not carrying crop insurance on wheat for 2015. Our philosophy in doing business has always been to do what's best for the farmer, and sales will take care of themselves. That being said, very few wheat losses were paid for the 2014 crop, but approximately 80 percent of wheat policies in our agency in 2013 had payable losses. Most of these losses were significant in size. Wheat is one of the least crops in terms of frequency of loss, but when losses happen they're usually widespread. Also, with wheat premiums being relatively low, one loss year can easily generate the equivalent of 10 to 20 years in premium costs.

A couple of reminders for apple and peach producers

As picking season comes to an end, please remember the importance of good recordkeeping and appraisals. An adjuster should begin the appraisal process before any fruit is picked. Most growers 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 adjustments into account. Almost every insured we have has the "fresh option" on his/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, address 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. For example:

Aug. 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 picking records, they are the only way an insured can pass the "Fresh Verification Review." 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 similar what fresh apples would sell for. This has to be done in one of the previous four crop years. For example, if you produced 4,000 bushels of apples in 2014 and you sold 2,000 bushels or more at a fresh price, then you will be able to prove fresh for 2015.

Remember Nov. 20 is the final date to make coverage changes to your apple and peach policy. Jan. 15 is the final date to report your acreage and production. If all goes according to plan, we will be by to see you in late October to address coverage, acreage and production reporting.

Corn appraisal adds value to insurance policy

For all dairy farmers or any farmer who intends to chop corn for silage, we recommend that corn be appraised to determine grain content. In fact, for a loss to be paid an appraisal must occur. Even in cases where loss is not payable, appraisals represent a "hard record." A hard record is a record of production that is fairly absolute. Other records such as silage wagon tallies are considered "soft records," because the records are generated by the farmer himself rather than by another entity.

For a dairy farmer, in the event that a hard record does not exist and an audit is required, the only allowable records to support tonnage measurements through wagon loads or dump-truck loads is the use of feed records. Allowable feed records have to be contemporaneous (kept daily) include number of head fed, must include unit from which feed was obtained, and other items that make the use of feed records not very user-friendly.

Appraisals cost a company significantly but add great value to the crop insurance policy sold. If you intend to chop any part of your crop and are not already working with an adjuster, please call us so we may start the process.

Also, similar rules regarding hard records and soft records apply to "vertically integrated producers." A vertically integrated producer is one that feeds his or her own grain or sells his or her own grain for retail feed. Anyone selling deer corn would be considered vertically integrated. To generate a hard record of production, a grower should have a bin measurement take place by an adjustor or U.S. Department of Agriculture (USDA) personnel such as the Farm Service Agency (FSA).

Again, if an adjuster hasn't already been in contact with you about such bin measurements, give us a call, and we will get an adjuster assigned.

Small grain production reports

Our office recently mailed schedules of insurance for the recently harvested small-grain crops. We're asking for production data for the 2014 crop and where needed farm names, signature, etc. Please make an effort to return these production reports promptly so that yields can be calculated along with premium rates for the upcoming 2015 crop. When we visit to show you those rates, we'll also be reviewing production reports to ensure that your yield data bases are truly up-to-date. During those visits, we hope to obtain e-mail addresses for all growers, and as much as possible, so that future newsletters can be distributed by e-mail and so that critical information can be delivered to our customers in a more timely fashion.

Cotton losses

Losses for growers that elected revenue protection on the Multiple Peril Crop Insurance (MPCI) policies are a possibility for the 2014 crop year. Today (Aug. 16, 2014), December cotton futures are trading at $0.64 per pound. The projected or base price on MPCI for cotton is $0.78 per pound. The harvest price will be determined by averaging the December cotton future every trading day in the month of October. Let's assume the harvest price comes in at $0.64 per pound for the following example:

Average yield is 1,000 pounds per acre *times* 70-percent coverage *equals* 700 pounds *times* (approved base or projected price) $0.78 per pound *equals* a guaranteed revenue of $546 per acre.

Producer yields 700 pounds per acre *times* (assumed harvest price) $0.64 per pound *equals* $448 per acre of revenue.

Guaranteed revenue $546 per acre *minus* $448 per acre would result in a loss of $98 per acre. Keep in mind it does not matter what price the cotton was contracted or sold for.

Dec. 31 is the end of the insurance period on cotton in North Carolina, so all claims should be turned in within 15 days after the end of the insurance period. At this point, a stalk inspection is also required if a claim is to be paid. Do not destroy the stalks before an adjuster has given everyone the go ahead. There is talk of work being done to remove the stalk inspection requirement, but we have not been told when or if this will occur. Just remember, when in doubt, turn in a claim.

An insurance plan known as STAX (Stacked Income Protection Plan) was introduced for cotton growers in the 2014 Farm Bill. STAX losses are triggered when the county-average income falls below 90 percent of the expected county-average income. Therefore, STAX is a product that is not based upon individual production. However, the SCO (Supplemental Coverage Option) uses a producer's yield guarantee or revenue guarantee to calculate a loss payment, but losses are only triggered once a 14-percent yield or revenue loss has occurred in the county. A producer may choose up to an 86-percent coverage level with SCO. STAX may not be purchased in combination with SCO and is 80 percent subsidized. STAX may only be purchased with a 90-percent trigger point and down to 70 percent so that the maximum "band" of protection is 20 percent. Also, a Protection Factor is chosen as part of STAX that is between 80 percent and 120 percent that has the effect of decreasing or increasing the STAX premium and potential payment. STAX cannot be purchased so that it overlaps with the underlying MPCI coverage. STAX and SCO will be available in <u>some</u> counties for 2015. We will keep everyone informed as information becomes available to us.

New Beginning Farmer and Rancher program introduced

A new program is being introduced beginning with the 2015 crop year known as the Beginning Farmer and Rancher (BFR) program. This program is for farmers who are in their first five years of farming. The benefits of the program include:

1. 10 percent additional premium subsidy. This 10-percent reduction translates into 20 percent or more improvement in the farmer-paid premium considering that the discount is applied to the full unsubsidized premium which is usually more than twice the farmer-paid premium.
2. Elimination of the $30 policy fee per crop and the $300 policy fee for CAT (catastrophic) coverage.
3. Use of 80 percent of the county T-yield as a substitute yield for a loss yield instead of the normal 60 percent of the county T-yield as normal.

The BFR program allows for five years of waiver of the benefits in the event that the farmer is under 18 years of age, is in college, or is a member of the active military. This means that the farmer can farm during those years and not use the five years of benefits under the program until after he/she has gone to full-time farming.

If you are a beginning farmer, please be sure to ask us about these benefits. There is considerable "proof" required to be eligible, but the benefits appear to be worth the effort.

Payment due dates

Premium payments for spring-planted crops are due Aug. 15, 2014. You should have received a bill by now for your spring-planted crops. Interest on premiums due is not accrued until Oct. 1. Interest is charged at 1.50 percent per month. Premium receipt is based upon the postmark date. Please be sure to mail in your premium payments soon. If claims exist, premiums will be deducted from claim settlements as usual, but if the claim is paid after Oct. 1, interest will still be charged.

Limited-resource farmer

A program exists in the crop-insurance program that eliminates the $30 policy fee on your crop-insurance policy for limited-resource farmers. The maximum income threshold is $172,800. There are other requirements that can be found at *www.lrftoo.sc.egov.usda.gov/LRP-D.htm*. If you believe that you are a limited-resource farmer, let us know, and we will help you with the paperwork. Any limited-resource farmer is eligible for CAT (catastrophic) coverage at no cost.

If you suspect Fraud, Waste or Abuse of crop insurance, you may report such activity at 800-424-9121. The crop-insurance program is largely an honor-based system; and therefore, it is easily abused. To keep the program available and to keep rates tolerable, it is everyone's responsibility to be honest in the use of the program.