A crop insurance newsletter

FarmPLUS INSURANCE SERVICES

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Quality Adjustment for tobacco

The procedures for Quality Adjustment (QA) for tobacco have not changed for the past three years, except for slight adjustments. Generally, QA works by discounting the weight of poor quality bales of tobacco. The amount of discount is greater as quality goes lower. Attached is a QA chart that shows the 40-plus grades that allow for QA.

DISCOUNT FACTORS BASED ON GRADES

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.

As you can see the better the grade, the smaller the discount. Things to consider before initiating QA procedures are:

(1) What are the odds that my crop is poor enough to fall below my crop insurance guarantee?

(2) Is my quality problem a problem that will persist or is it simply confined to curing problems or confined to one-stalk position?

(3) How late is my crop? Is there high potential for frost damage which will result in a late-season loss?

*See **QA** on page 2*

QA
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If the odds for loss are already high, QA on poor quality tobacco is certainly recommended. If the odds of a loss are low but some poor quality tobacco exists, we recommend that tobacco be held until you can determine that you will make your guarantee with good quality tobacco. At that point, QA is fruitless.

If you decide that QA is in your best interest to pursue, you can initiate the process by calling the warehouse where you wish to have the tobacco graded and book your delivery for the day of the week when that Agricultural Marketing Service (AMS) grader will be at that warehouse. Each warehouse working with the Tobacco Administrative Grading Services (TAGS) system has a day of the week that the grader will be at that particular warehouse. Once booked, call the TAGS office at 855-776-8570. Debbie Parker will answer and will need four pieces of information:

(1) the policy number

(2) your crop insurance underwriter*

(3) the county from which the tobacco was harvested

(4) the Farm Serial Number (FSN) from which the tobacco was harvested.

Debbie will give you a Grower Confirmation Number (GCN) that you will need to give to the grader when the tobacco is taken to be graded. The cost for the grading service is 3.5 cents per pound regardless of whether the tobacco falls within discountable grades or not. If the tobacco will be sold where graded, there is typically no additional costs other than warehouse charges. If the tobacco is to be reloaded and sold at another location, an additional 5 to 7 cents per pound is normally charged by the warehouse.

In 2014, the TAGS system was used extensively in all tobacco types where losses existed. Claims were magnified from $300.00 to $1,200.00 per bale of tobacco that was quality adjusted. Unfortunately, there were a few growers that were extremely late or never paid their bill for the TAGS program. For those customers, last year's bill must be paid in full before TAGS can be used in 2015, and those farmers must prepay for grading services for 2016.

* Underwriters for FarmPlus customers are:

QBE NAU - Cindy Trumbo

RCIS - Angelica Kingsberry

Pro-Ag - Jacob Hulker

Climate Corp. – Genella Howland

ADM - Nicky Harrod

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
2014	71.2	64.1	111

Pasture, Rangeland and Forage insurance

The Pasture, Rangeland and Forage (PRF) product has proven to be a very successful product for our customers. This product insures pasture and hayland against deficits in rainfall. The rainfall data is collected for grid indices that are one-quarter degree of longitude and one-quarter degree of latitude. In our operating area, this results in an area approximately 10 miles wide by 12 miles north to south. Rainfall data from all National Weather Service collection sights are interpolated and extrapolated to determine the rainfall at the center of each grid. Customers may insure two calendar months at a time. There are 11 possible periods beginning with January/February, then February/March and then so on until the November/December time period. Insured time periods may not overlap within a crop. Hay and pasture are considered two separate crops; therefore, a customer with both hay and pasture acres may insure up to 11 periods. Any individual acre may be insured in only one period. Our strategy uses all 11 periods when customers have both crops and has generated favorable results.

In 2014, Virginia customers (with all agents) paid $285,643.00, and the PRF program paid losses of $263,962.00 for a loss ratio of 92 percent.

In 2014, North Carolina farmers (with all agents) paid $206,039.00 and were paid losses of $204,911.00 for a loss ratio of 99 percent.

In 2014, FarmPlus Insurance Agency customers in both states paid in a total of $241,041.00 in premium and were paid $252,361.00 in losses for a loss ratio of 105 percent.

For 2015, FarmPlus customers have already been paid in excess of their premium for 2015 due to rainfall deficits from January through April.

Our strategy takes advantage of over 50 percent subsidy that the government pays toward farmer premiums to arrive at consistent payouts in excess of premium. We're excited that since 2010 a product finally exists for cattlemen to shore

*See **PRF** on page 3*

PRF
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up the significant risk that exists for these growers.

The deadline for signing up for the 2016 crop year for PRF is Nov. 15 (for North Carolina and Virginia). If you have over 50 acres of hay and pastureland, we believe we can arrive at a worthwhile program for you.

Pasture, Rangeland and Forage (PRF) Summary for North Carolina and Virginia

As of May 4, 2015

North Carolina						
Total Crop Contracts	**Acres Insured**	**Total Prem.**	**Govt. Paid Prem.**	**Farmer Paid Prem.**	**Losses Paid**	**Loss Ratio**
246	29,387	$424,237	$218,198	$206,039	$204,911	*48% **99%
Virginia						
Total Crop Contracts	**Acres Insured**	**Total Prem.**	**Govt. Paid Prem.**	**Farmer Paid Prem.**	**Losses Paid**	**Loss Ratio**
302	63,795	$592,697	$307,054	$285,643	$263,962	*42% **94%

*Loss ratio using losses compared to the total premium (farmer paid and government paid)
**Loss ratio using losses compared to farmer premiums

Chart courtesy of Rain and Hail

A Pasture, Rangeland and Forage Snapshot for Crop Insurance in the United States comparing the years 1994, 2011, 2012, 2013, and 2014

	1994	**2011**	**2012**	**2013**	**2014**
Total Crop Contracts	1,047,788	2,067,105	2,106,492	2,192,690	2,212,191
Acres Insured	99,638,441	265,732,409	282,402,416	295,819,591	293,952,763
Percent of Eligible Acres Insured	33%	69%	74%	89%	88%
Farmer Paid Premium	$694,516,924	$4,506,598,659	$4,127,325,681	$4,503,637,798	$3,848,042,070
Govt. Paid Premium	$254,875,004	$7,459,702,893	$6,960,373,136	$7,284,767,323	$6,194,927,443
Total Premium	$949,391,928	$11,966,301,552	$11,087,698,817	$11,788,405,121	$10,042,969,513
Losses Paid	$601,117,628	$10,850,328,109	$17,168,874,504	$11,931,676,058	$8,970,466,876

Chart courtesy of Rain and Hail

Linkage with NRCS

To be eligible for crop insurance subsidy in the 2016 crop year, a grower must be compliant within Natural Resources Conservation Service (NRCS) rules. The upcoming small grain crop begins the 2016 crop year. The first step in compliance is certification of compliance on a form AD-1026 at the Farm Service Agency (FSA). Any current grower who did not sign an AD-1026 at FSA by June 1, 2015 will not be eligible for crop insurance subsidy for 2016 crops. If FSA records show noncompliance, our office is notified, and we will in turn, notify our customers.

Crop insurance can still be purchased without subsidy, but the cost without subsidy is extremely prohibitive. After filing an AD-1026 if a grower is found noncompliant by NRCS the grower has at least 12 months to achieve compliance before losing subsidy. The only exception to this rule is a sodbusting or swampbusting determination by NRCS, which will result in loss of subsidy for the succeeding crop year without time allowed for reparations.

Stalk inspections

It is very important that every tobacco and cotton grower know that stalk/stubble inspections are required for <u>any</u> loss to be paid on these crops. If you suspect a loss, be sure to file a claim before disposing of your stalks/stubbles.

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Changes upcoming for small grain coverage

Yield Exclusion Option

With the 2014 farm bill, changes were introduced for most grain crops. Perhaps the most significant change was the introduction of the Yield Exclusion (YE) Option. The Yield Exclusion Option allows for a farmer to remove a yield from his database any yield for a year when the county achieved a yield that was less than the 50 percent of county T-yield at that time. For example, 2013 was a year plagued by excessive rains during wheat harvest and corresponding poor quality wheat. The year 2013 is excludable for most counties. The cost increase associated with the YE option is due to the fact that the rate yield still includes all years of production for a farmer, even the bad years that can be excluded. Normally, the lower the rate yield, the higher the cost is per $100 of insurance. When the rate yield is used to calculate the premium on a higher amount of coverage due to the YE option, the coverage and premium are higher.

With spring crops, we found that the YE option often costs an additional 20 percent in premium and perhaps only increase coverage 10 percent. While this sounds like a bad deal, it is actually a good deal. Crop insurance is sold in five-percent increments and normally 10-percent additional coverage, representing an increase of two levels of coverage, would increase premium cost from 80 to 100 percent. In other words, YE often allows a farmer to purchase the equivalent of higher levels of coverage for a fraction of the cost. Often, growers have added YE at the current level of coverage and, in many cases, have been able to drop back a level in coverage, have increased coverage than before the change and a lower premium per acre by adding YE. As we visit our customers this fall, we will show the effects of YE to your policy so that you may make this important decision.

Trend Adjustment Option

Another option often overlooked is Trend Adjustment (TA). Trend Adjustment works on the principle that yields are always improving due to improvements in farming practices, genetics, technologies, etc. Trend Adjustment uses a TA factor which is denoted by bushels per acre per year. The TA factor is multiplied by the age of the data in a grower's database. As an example, if a grower has a yield of 60 bushels for wheat in 2005 and the TA factor is 0.5 bushels per year, the 60-bushel yield is adjusted by 5 bushels (10 years *times* 0.5 bushels per year).

As you can see, TA can result in slightly better yields for farmers that have data within their yield databases that has significant age on that data. The only cost associated with TA is due to the fact that the rate yield as described above uses actual yield before adjustment.

One further "catch" requiring YE and TA options is that with either option yield cups and floors are removed. A yield cup, which rarely comes into play, limits a reduction in average yields to 10 percent after a severe loss. The yield floor limits the minimum yield that can be shown for a farmer to a percentage of the county T-yield. This limitation is typically set at 80 percent of county T-yield.

Our findings are that the YE and TA options are especially rewarding for farmers that typically achieve yields at near or above the county T-yields.

Supplemental Coverage Option

The Supplemental Coverage Option (SCO) was introduced with the 2014 farm bill. This option supplements or adds to existing crop insurance coverage. The option covers a farmer for revenue losses from the farmer's coverage level to 86 percent. For example, if a farmer has a 70 level revenue protection for his wheat, the SCO would cover from 70 to 86 percent. The SCO uses countywide data to determine if a loss exists; whereas, revenue protection uses the farmer's data to determine if a loss exists. Crop insurance can have up to 80-percent subsidy depending on level and unit structure by the government; whereas, SCO always has 65 percent subsidy.

The amount of coverage generated by the SCO is based on the farmer's yields. Supplemental Coverage Option, because it is an area coverage, cannot be paid until all data for all growers in the county is gathered. Supplemental Coverage Option typically would pay losses in the year following the insured crop year. Supplemental Coverage Option is only available where farmers did not choose the Agricultural Revenue Coverage (ARC) coverage at the Farm Service Agency (FSA) for the Farm Serial Number (FSN) and crop in question. Therefore, a farmer might have SCO on some farms but not on other farms, depending on the choice that was made between ARC and Price Loss Coverage (PLC) at FSA last winter.

If a farm does not have base acres for wheat, SCO may be purchased for wheat. Supplemental Coverage Option rates will be provided to all of our customers on a one-on-one basis prior to the **Sept. 30** sales deadline for small grains.

Prevented Planted coverage

Small grains seem to be the crops that are often the most difficult to get planted due to wet weather. All policies contain Prevented Planted (PP) coverage. Prevented Planted payments are contingent on weather conditions general to an area that prevents a farmer from planting his crop **and** prevents the majority of neighboring farmers from planting their crops as well.

A recent change in interpretation of the PP rules liberalized the rules to allow for PP to be paid in the event that conditions are too wet to harvest the crop that is on the land before the insured crop can be planted. For example, if weather conditions prevent the harvest of soybeans so that the wheat crop cannot be planted, a PP claim may be paid.

In the past, land had to be available to plant, which was interpreted as “the prior crop had to be harvested or destroyed so that the land was available to plant.” A farmer would have to show a prior history of the crop rotation before he could be paid. For example, a prior history of wheat after beans or wheat after tobacco would be necessary to allow for a PP claim due to the inability to remove the prior crop.

If you are prevented from planting any crop due to weather, a claim must be filed with our office, and acreage must be filed with our office by the appropriate deadlines.

Deadline for claims

All crop policies include language that sets the end of insurance period. The end of insurance period is (1) the earlier of destruction of the crop, (2) harvest of the crop, (3) final adjustment of a loss of the crop, (4) the calendar date containing the crop provisions for the crop, or (5) abandonment of the crop.

A claim must be filed within 15 days of the end of the insurance period. The calendar dates for the end of the insurance period containing the crop provisions are:

Wheat -- North Carolina, July 31; Virginia, Aug. 31

Tobacco -- North Carolina and Virginia, Nov. 30

Corn -- North Carolina and Virginia, Dec. 10

Soybeans -- North Carolina and Virginia, Dec. 10

Cotton -- North Carolina and Virginia, Dec. 31

As an example, a claim filed for corn on Dec. 27 would be denied because it was not filed prior to 15 days after the Dec. 10 end of insurance period. It is always important to file claims if there are any suspicions of a loss on any crop. Failure to file a claim will result in denial of the claim, and claims filed never results in a premium change. Only paid claims can affect the cost of insurance.

New employees hired

FarmPlus welcomes Ronnie Trantham of Raleigh, N.C. to our sales staff. Ronnie will be pursuing crop insurance coverage in the Raleigh area and points east. You may recognize Ronnie’s name as he is recently retired from Southern States as a district manager. FarmPlus welcomes Ronnie in this new endeavor.

FarmPlus also welcomes Sharon Strader of Chatham, Va. Sharon will work out of our home office in Blairs, Va. but will spend much of her time on the road visiting our existing crop insurance customers and other farmers.

Her emphasis will be on farm owners coverage, personal auto, commercial auto, and worker’s compensation insurance. Sharon has been helpful in adding new companies to our product line for North Carolina and Virginia customers. She has 15 years experience in the insurance business, is very outgoing, and knows how to speak the farmer’s language. If you have coverage that you would like to “shop,” please give us a call.

Apples and peaches

It appears producers will be required to report by farm, tract and field for the 2016 crop year for apples and peaches. This would require producers to report all acreage that they are tending to the Farm Service Agency (FSA) in which the orchards are located in. We will bring printed PAWS (Pre Acceptance Worksheets) to every producer to assist in this process.

Once the acreage is reported to the FSA, please have them email us a copy of the 578 producer print. Our email address is cropins@farmplusins.com. We will fill out the acreage report, and then go over it with you for verification purposes to insure it is correct. Thanks for your business. We hope you have a prosperous 2015 harvest season.

Current cotton crop

It is still too early to tell what the cotton crop will yield. Today (Aug. 24, 2015), December cotton futures are trading at almost $0.64 per pound. The projected or base price on the Multi-peril Crop Insurance (MPCI) policy for cotton is $0.63 per pound. The harvest price will be determined by averaging the December cotton future every trading day in the month of October.

If the harvest price comes in at or above $0.63 per pound, a yield loss will be the only way a payable loss will occur in regard to the MPCI policy. If you suspect you will have a yield loss, please contact us soon as you realize a loss is a possibility. The end of the insurance period on cotton is Dec. 31 in most counties in North Carolina. Please, do not destroy cotton stalks until an adjuster gives you permission to do so if you think you may have a loss. If you have any questions, feel free to give us a call.

Beginning Farmer and Rancher

New with the recent Farm Bill, the Beginning Farmer and Rancher (BFR) program gives benefits to farmers that have less than five years experience in farming. Five years of benefits are available, and certain exclusions allow a farmer to qualify, even if he/she has farmed for more than five years. Excluded years consist of: (1) years in which the farmer was under 18 years of age, (2) years that the farmer also was full-time military and full-time military service, or (3) years that a farmer was also in college for at least one semester.

The benefits of BFR status are as follows: (1) policy fees ($30 per crop, per county) and for CAT fees ($300 per crop, per county) are waived, (2) a yield substitute or "plug" is given at 80 percent of the county yield instead of the normal 60 percent of county yield for years where yields are lower than that amount, (3) a BFR may use a previous producer's yields with permission if he/she had decision-making responsibilities or physical activities necessary to produce the crop, (4) a BFR receives 10 percent additional premium subsidy over and above the normal premium subsidy. This increase in subsidy generally results in 25-percent to 50-percent reductions in farmer-paid premiums.

BFR status remains in effect through the fifth year that a farmer is engaged in farming, or more years if the previously mentioned exclusions can be used. After BFR eligible years are exhausted, all benefits are removed. For a corporation, partnership or spousal entity to quality for BFR, all members, stockholders, or the spouse must also be BFR eligible.

If you believe that you are eligible as a limited resource farmer, new producer, or beginning farmer and rancher please make us aware so that the appropriate paperwork can be submitted.

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 2015 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 2016 crop. When we visit to show you those rates, we'll also be reviewing production reports to ensure that your yield databases 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.

Marital status

If you've insured as an individual or a spousal entity (married), it is extremely important that you advise us within 30 days of the occurrence of a marriage or divorce. Individuals who marry only receive 50 percent of the normal coverage when the spouse's tax ID information is not contained in that person's crop insurance policy.

Report suspected fraud

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.