A crop insurance newsletter

FarmPLUS INSURANCE SERVICES

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Change in store for crop insurance on tobacco

The 2015 crop year for tobacco began harshly and ended harshly. Tobacco growers optimistically planted their crop, knowing that the tobacco market appeared to be tight; but with hopes that demand for tobacco would strengthen.

As the growing season progressed, it became apparent to most growers that the 2015 crop would neither be an excellent quality crop or an excellent yielding crop. As a further insult, demand through the growing season did not increase, and if anything, might have decreased.

Low yields and poor quality due to drought, excess rains and frost have translated into heavy losses for tobacco in the crop-insurance program. With the loss ratio in 2014 of 111 percent, tobacco still stands out as a high -loss ratio crop. However, 2015 appears as though it will perhaps double the loss ratio achieved in 2014. At the time that this newsletter was printed, the loss ratio for 2015 was already at 114 percent. There are many tobacco claims still open, and many more dollars to be paid.

*See **Tobacco** on page 2*

The sales closing deadline in North Carolina is Feb. 28, 2016 and March 15, 2016 in Virginia. All spring-planted crops and WFRP policies must be applied for by these deadline dates.

Upcoming crop-insurance dinners

We again will be sponsoring crop-insurance dinner meetings at various locations. Please see the list below. If you're a current customer or on our prospect list, you will receive a call from our office, but in advance of our call we would certainly appreciate a call from you to let us know which meeting you would like to attend.

Jan. 7:	Thursday, 6 p.m. dinner, Darren Slate's Farm, 216 Jones Chapel Road, Mt. Airy, NC
Jan. 12:	Tuesday, 6 p.m. dinner, Hawfields Civitan Club, 2115-B S. NC Hwy. 119, Mebane, NC
Jan. 14:	Thursday, 6 p.m. dinner, Guilford County Farm Service Agency (FSA) Barn Building, 3309 Burlington Road, Greensboro, NC
Jan. 19:	Tuesday, 6 p.m. dinner, Rockingham County FSA, 525 NC 65, Reidsville, NC
Jan. 26:	Tuesday, 6 p.m. dinner, Rolling Hills Gin, 29107 Kendalls Church Road, New London, NC
Jan. 27:	Wednesday, 6 p.m. dinner, Captain Tom's Seafood, 1265 N. Carolina 66 S., Kernersville, NC
Feb. 1:	Monday, 6 p.m. dinner, Person County Office Building, 304 S. Morgan St., Roxboro, NC
Feb. 9:	Tuesday, 6:30 p.m. dinner, Gilligans Galley Seafood Restaurant, 17890 Virgil Goode Hwy., Rocky Mount, VA
Feb. 11:	Thursday, 6 p.m. dinner, Ernie's Restaurant, 1010 John Randolph Blvd., South Boston, VA
Feb. 16:	Tuesday, 6 p.m. dinner, Sagebrush Steakhouse, 170 Nye Circle, Wytheville, VA
Feb. 18:	Thursday, 6 p.m. dinner, Olde Dominion Agricultural Complex, 19783 U.S. Highway 29 S., Chatham, VA

For 2016, we already know that the following changes will be in place:

Tobacco
Continued from page 1

Organic

Organic flue-cured tobacco will have a mandatory price election of $3.85 per pound. While this is a positive change for organic growers, it may ultimately endanger the market for organic tobacco and the ability to insure organic crops if organic growers severely overplant their contracts. Organic growers may also add an organic price option that allows for a maximum price election above $3.85 up to $5.77 per pound depending on the specific organic contract. The contract price option is available on contracted pounds only, and any benefit of the contract price option is diluted if a farmer overplants contracted acreage. Contracted acreage is calculated by dividing contracted pounds by the grower's average yield used in the crop-insurance policy.

Although not a new rule, it is important to remind all organic growers that certified organic, transitional organic, Pesticide Residue Clean (PRC) or conventional flue-cured tobacco grown on the same Farm Serial Number (FSN) will be considered one unit. For example, a good yield on conventional tobacco can offset a poor yield on organic tobacco such that a claim becomes unpayable. Please keep this rule in mind when developing your planting intentions.

Conventional

Conventional flue-cured tobacco will have a price election again at $1.80 per pound. There is a sense of relief amongst crop-insurance agents that this price held from 2015 to 2016. A strong argument could be made that tobacco across all markets may have averaged under $1.80 a pound in 2015, and perhaps a lower price election is warranted for 2016.

A further change, which is significant, involves Quality Adjustment (QA) on tobacco. Because so much tobacco was graded for the QA in 2015 and so many of those grades involved 80-percent QA, any bales that are quality adjusted in the grades that were formally 80-percent grades are now 100-percent quality adjusted. There will also be an added requirement that these bales must be destroyed in order to receive the 100-percent QA. This is a dramatic change from 2015 which we believe will improve the market for low-quality tobacco that is actually sold. Farmers will be in a position, that if low-quality tobacco is produced on a Farm Serial Number (FSN) that will have a loss, the farmer will be faced with having the tobacco graded, and potentially destroying the tobacco if he is not able to sell that tobacco for at least $1.80 a pound. Also, there have been cases where tobacco bales have been graded for QA, and then taken home and reworked prior to final sale. Beginning with 2015 and going forward, any reworked bale must be regraded to have QA applied.

The QA grades for 2016 are shown in the chart on the next page, and the language is in the box below that involves QA on tobacco for 2016.

Quality Adjustment language on tobacco

In lieu of section 12(f) of the Tobacco Crop Provisions, tobacco production may be adjusted for quality deficiencies as follows:

1. You must contact us before any damaged tobacco is disposed of so the tobacco can be inspected to determine the amount of tobacco that may be eligible for quality adjustment (QA). If you dispose of any damaged tobacco without giving us the opportunity to inspect it, such tobacco will not be eligible for QA.

2. Tobacco will be eligible for QA only if the deficiencies resulted from a cause of loss insured under section 10 of the crop provisions.

3. Quality will be a factor in determining tobacco production to count only if:
   i. You obtain an assigned grade for all tobacco that is eligible for QA; and
   ii. The tobacco is graded by a tobacco grader who is employed by the Agricultural Marketing Service or successor agency who assigns a grade in accordance with USDA Official Standard Grades published at 7 CFR part 29.

4. 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 specified below.

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.

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.

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.

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

*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, no adjustment will be made to production to count for quality.
***Includes production with the Sand descriptor.

Our office is hopeful that the Risk Management Agency (RMA) will continue to attempt to achieve favorable loss ratios on tobacco. Without further attempts to achieve loss ratios in line with other crops within the crop-insurance program, it is difficult to foresee a long-term continuation of the program in its present form.

To further our concern, RMA introduced in 2015 a product known as the Whole Farm Revenue Protection (WFRP) policy. The WFRP policy originated as the Adjusted Gross Revenue (AGR) policy years ago but had very little participation. These policies are intended to be a "catch all" policy for all specialty crops that don't involve enough acres to design a crop-insurance program around these specific crops. The mechanism by which the WFRP program works uses data collected from the last five years of the farmer's schedule F form on his/her income tax return. Also, the farmer's expected income is calculated based on the acres that the farmer intends to plant and the prices that the farmer expects to receive (within an allowable range). The lesser of the expected revenue and the calculated average revenue from the last five years of tax returns becomes a basis for coverage. Farmers can then insure up to 85 percent of that expected revenue.

WFRP has 65 percent government subsidy on premiums which is higher than the former AGR policy. WFRP can also be purchased as an "umbrella" coverage over and above the underlying crop-specific policies if crop-specific policies exist in the particular grower's operation. The major difficulty with WFRP coverage is in the fact that diversification can lead to successful crops or livestock operations offsetting unsuccessful crops, and thus no payment received under the WFRP policy. There is significant belief that, without change in loss-ratio results for tobacco, RMA may choose to eliminate tobacco coverage leaving WFRP as the sole means of insuring a tobacco crop.

Recently, the Burley Tobacco Growers Cooperative Association along with the Council for Burley Tobacco met with RMA and offered several suggestions to RMA to improve the loss ratio for burley tobacco. In the flue-cured world, it is imperative that grower groups such as the Virginia Growers Association (VAGA), Farm Bureau and the North Carolina Tobacco Growers Association offer suggestions to RMA for improving the tobacco-loss ratio. Crop-insurance agents and RMA employees have attempted to change the crop-insurance policy language for tobacco but have not been able to withstand political pressure against those changes. RMA needs support from grower groups to be able to make lasting changes to the crop-insurance policy that can withstand political pressure induced by the few growers that are negatively impacted by those changes. With any form of insurance, there are only two ways to improve loss ratio. The first is to tighten policy language to reduce losses, and the second is to increase premiums. Tighter language decreases premiums. More loose language increases premiums, as many Americans are experiencing with healthcare premiums due to Obamacare.

Our office at FarmPlus along with ag leaders are attempting to work with grower associations to achieve tighter policy language so as to decrease loss ratio. The centerpiece of our attempts involves a contract-price option for conventional flue-cured tobacco that allows for a crop-insurance price election in line with the contract(s) that a farmer possesses or in line with average pricing achieved at the auction markets for non-contracted tobacco. We will report our success or failure in this effort in future newsletters.

Whole Farm Revenue Protection

New in 2015, the Whole Farm Revenue Protection (WFRP) policy was introduced to allow for coverage for all crops that are otherwise non-insurable. Also, WFRP can be used as coverage over and above other crop-insurance policies. As described in the proceeding tobacco article, the WFRP policy has the following features:

- Up to $8.5 million in total coverage.
- Replant coverage is included.
- Coverage based on the past five years of tax returns.
- Up to 85-percent coverage levels, but 80- to 85-percent levels have reduced premium subsidies and require at least three insured commodities.
- An expanding operation can show up to 35-percent growth from year to year, and coverage can be indexed to allow for expansion.
- New for 2016, WFRP can be exclusively livestock, as long as gross receipts are below $1 million.
- Beginning farmers can purchase WFRP with three years of history instead of the normal five years and can receive an additional 10-percent premium subsidy.

Our office will provide premium estimates during our on-farm visits prior to the applicable sales deadlines.

Production reports

Recently, our office mailed schedules of insurance/production reports and highlighted the blocks where we're asking for your help in giving us your yields for any 2015 crops that did not have a loss. Every year we have producers that report yields to the nearest 10 bushels per acre or tobacco pounds to the nearest 100 pounds per acre, essentially, "hip shots." Yield audits sometimes occur due to high-dollar claims, data mining, conflicts of interests, etc. and when the most recent years' yield data does not match within a very small tolerance to the yields that were reported, the auditor then has to audit the prior two years beyond the most recent year.

Once the audit is completed, yields are corrected, and if any claims have been overpaid in the three-year period excess payments are then billed. Failure to repay excess payments results in eligibility for future crop insurance until paid and also collections efforts.

The moral of this story is to report only yields that can be proven, and never report a higher yield than you actually achieved. Preferably, your yields will be reported to the bushel or the pound.

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Prevented planting wheat

Many growers have reported claims for prevented-planted wheat due to excessive rains. Prevented-planted payments and the amount of payment are dependent on a grower's planting history during the last four years. Eligibility for the number of acres on which any prevented-planted payment can be made is dependent on the maximum number of acres that the grower has planted of the prevented-planted crop in the last four years. Eligibility for a full prevented-planted payment on those acres is dependent on (1) leaving the land in fallow throughout 2016 or (2) a history of double-cropping during the last four years.

Our office maintains historical data for each of our growers and can assist you in determining what to expect with regards to your prevented-planted claim.

A consideration for prevented-planted wheat is that most customers have Enterprise Units (EU) for wheat. To qualify for the EU discount, a farmer must have planted at least 20 percent or 20 acres of the insured acres including prevented-planted acres on at least two Farm Serial Numbers (FSNs) or two groups of FSNs. Many growers planted little or no wheat; and therefore, the premiums for wheat will often be double what the premium would have been if the EU qualification was met.

For most farmers, a premium of $10 to $20 becomes a premium of $20 to $40. However, prevented-planted wheat payments always exceed premium amounts significantly. Not achieving EU requirements simply translates into a lesser net prevented-planted wheat payment.

Our office will confirm to you your reported acres by phone or in person if you bring your acres to our office. And as part of the confirmation, we will inform you of your EU qualification status based on the acres that you planted.

Consider a Put Option on stored grain

If you have grain in storage bins and are concerned that current prices may go lower, you may want to consider a Put Option on your grain. You could also consider a minimum price contract with your preferred grain elevator. The crop-insurance policy offers good protection against decline in prices from the time that you purchase the policy until harvest, but the policy doesn't protect you beyond normal harvest dates. There have been many occasions that a farmer has called our office in February or March asking if there is anything that the crop insurance policy can do, and unfortunately, the policy doesn't offer protection beyond harvest.

Supplemental Coverage Option (SCO)

With the 2014 Farm Bill, the Supplemental Coverage Option was introduced. This option to many underlying crop insurance policies allows for "area" coverage that spans from the underlying level of coverage to 86 percent of the average-county yield or average-county revenue. This coverage is now available for most crops including tobacco for the first time in 2016. As an example, if a farmer has a crop-insurance policy on flue-cured tobacco at the 70-percent level, the SCO policy will cover countywide (area) losses that occur from 70 percent of the expected county yield up to 86 percent of the expected county yield. To further the example, consider a county where the expected county yield is 2,000 pounds per acre. The SCO policy would pay the price election of $1.80 per pound for 2016 for county yields that range from 70 percent of the expected-county yield (1,400 pounds per acre) to 86 percent of the 2,000 pound expected-county yield (1,720 pounds per acre). The amount of coverage per acre would be based on a policyholder's average yield at $1.80 per pound multiplied by the 16-percent span of coverage.

For tobacco, premiums are very reasonable for the amount of coverage available. In fact, premiums for those policyholders with the 70-percent and 75-percent levels of coverage range from $4 per acre to $20 per acre for as much as $350 to $600 of coverage per acre. Premiums for grain crops are considerably higher relative to the amount of coverage available. Also, for grain crops, SCO is only available where the farmer has elected Price Loss Coverage (PLC) under the 2014 Farm Bill at the Farm Service Agency (FSA) for a given crop and Farm Serial Number (FSN). Conversely, SCO is not available if the farmer-elected Agricultural Revenue Coverage (ARC) for a given crop and FSN at FSA. Because base acres do not exist for tobacco and there was no election of ARC or PLC at FSA, SCO is available on all tobacco on all FSN's for 2016 and beyond.

Further, all SCO policy options are 65 percent government subsidized. A fair argument for electing to carry SCO on any crop is that for every 35 cents in premium, the government is paying 65 cents in premium. If the expected statistical payout is 80 percent of every dollar in the SCO policy options, the farmer could expect a net gain from SCO over the long term. SCO is a serious consideration for any policyholder that expects to be in business for several more years. Odds are strong that there will be years in the future when the average-county revenue or yield will fall below the 86-percent trigger point for policy payout. As we visit our customers this winter, every policyholder will be given the specific SCO coverage available for their crops and the corresponding premiums so that the decision can be made to carry SCO or not for 2016. SCO can be elected on a per-crop, per-county basis.

A couple of reminders for apple and peach producers

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 can take 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 must give the volume sold and price per volume for each day.

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 to what fresh apples would sell for. This has to be done in one of the previous four crop years. For example, if you produced 5,000 bushels of apples in 2015 and sold 2,500 bushels or more at a fresh price, you would be able to prove fresh for 2015. You would then be able to stay on the Fresh Option and not have to complete this review again until 2020.

Thank you all for your business, and we wish you a prosperous 2016.

Southside Insurance/Phyllis Cole Insurance phone numbers

Several years ago, FarmPlus Insurance Services acquired the business of Southside Insurance Agency, which was the former Phyllis Cole Crop Insurance. Since that time, the phone numbers for that agency, based in Halifax, Va., have been forwarded to our office in Blairs, Va. Moving forward, those numbers will no longer be working numbers. To contact our office, please dial 434-835-0107 or 800-458-3440. We look forward to hearing from you.

Farm, home, auto, life and health insurance

While our primary focus has always been crop-insurance coverage, Sharon Strader, Jennifer Minter and Tosha Cundiff are always eager to help you with your farm, home, auto or any other insurance coverage that you have an interest in. We are an independent agency which means that we have many companies to offer; and therefore, are almost always very competitive. Additionally, Sharon Strader is well equipped to visit your farm if you would like a farmowner's policy proposal.

We greatly appreciate your business!!

Cotton claims deadline approaches

Just a reminder that Dec. 31 was 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 you 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.

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. As an example, the expected yield for 2016 in Stanly County has been set at 1,215 pounds per acre. The Risk Management Agency (RMA) averages the 2016 December Intercontinental Exchange (ICE) futures prices on cotton every trading day from Jan. 15 until Feb. 14 to come up with an expected price. To come up with the expected-county revenue, RMA simply multiples the expected yield by the expected price. The final area revenue will be released by July the following year. If someone purchased a STAX policy for 2015, it may be as late as July 2016 before it is known whether a county experienced a loss or not. STAX can be purchased up to 90-percent coverage with a maximum coverage span of 20 percent. It can be bought in 5-percent increments. It cannot overlap a Multi-Peril Crop Insurance (MPCI) policy. For example, if a producer has a 75 level MPCI policy, then 15 percent is the max coverage that can be purchased through STAX (75% - 90%). STAX is subsidized 80 percent, so for every dollar of premium a producer pays, the government is paying an additional $4.

There have been a few changes made to the STAX program for 2016. The cottonseed endorsement can now be purchased. This raises the dollars of coverage depending on the level of coverage of the STAX policy. The conversion is 1.336 pounds of seed per pound of lint. The price election on the cottonseed has been set at $0.10 per pound for 2016. Long story short, it is a way to purchase additional coverage for a little more premium. A 0-percent coverage range may be purchased by practice. If a producer has irrigated and non-irrigated and wants STAX coverage on non-irrigated because most of the cotton in the county is non-irrigated, then he/she can choose 0 percent on the irrigated (which will result in no STAX coverage on the irrigated acreage) and any other level that is available on the non-irrigated. Also, written agreements are available for the STAX program for 2016 if a county does not have a STAX policy available.

See the chart below for rough cost and coverage per acre for STAX:

Coverage Level	Coverage per acre	Cost per acre
90-70	$155.00	$11.00
90-75	114.00	9.00
85-70	114.00	7.50
85-75	76.00	5.00
80-70	76.00	4.00
80-75	38.00	2.50
75-70	38.00	2.30

Imposed acreage reports

Beginning in 2016, any farmer that fails to report his/her acreage but has purchased a policy will have acreage “imposed” using Farm Service Agency (FSA) data or field measurement. Simply reporting acreage to FSA does not constitute filing an acreage report with your crop-insurance agent. Each year, we send our acreage-reporting form to all customers, and we must receive your acres by the acreage-reporting deadline on our form for you to be considered “reported.”

If you have FSA send us a copy of your FSA 578 Producer Print, we will transfer that data to our form and send the form to you for signature. However, if you do not make provisions for our office to receive your acreage by the acreage-reporting deadline—which is July 15, 2016 for spring-planted crops—you’ll be considered as “failed to report.” Any policy where acreage has not been reported beyond the July 15 deadline will have acres imposed by the insurance company by whatever means necessary to gather the acreage data. **In these circumstances, the premium will exist, but coverage will not exist.**

When purchasing crop insurance this winter, each grower should understand that ownership of the policy includes a commitment to insure all acreage of the insured crop within the county unless such acres are uninsurable.

The e-mail for FarmPlus Insurance Services has changed. Our new e-mail is *cropins@farmplusins.com*. The old e-mail address will be active for a few more months, but we want to transition folks to our new e-mail as soon as possible.

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.