A crop insurance newsletter

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Fall-seeded crops on the crop-insurance radar

All fall-seeded small grains within the crop-insurance program normally have a sales closing date of Sept. 30. Because Sept. 30 falls on a Saturday this year, the sales closing date for small grains will be Oct. 2, 2017.

Farm visits on small grains

In the next days and weeks, our sales team will be out and about seeking to talk to our customers and prospects about their coverage. As always, we make every effort possible to review coverages and rates with our existing customers before each sales deadline in case any changes are needed. The fall-seeded sales deadline is always a difficult time for farmers to take a few minutes necessary to review coverage. Harvest is normally in full swing, and not many people want to take time to review their insurance. Rest assured that we make every effort to keep your time expenditure to a minimum by being prepared with your specific information ready for review. In most cases, an update of small-grain coverage can be accomplished in less than 10 minutes if necessary, perhaps less.

Wheat pricing

For the 2018 crop year, there are not any substantial changes on the horizon that we can see. Wheat pricing on the commodities markets continues to be soft. World stocks of wheat have not reduced since last year at this time but have actually increased a small amount. There is little reason to expect wheat pricing to rebound substantially anytime soon. The futures markets give us a bit of hope for better pricing in the United States versus elsewhere in the world due to fewer acres in the United States and decreased stocks domestically. Currently, July 2018 wheat futures are tracking in the $4.85/bushel range but has been as high as $6.10 back in July.

Options

Our emphasis with current customers and also with prospects this year will be on options. There are various options to crop insurance that are worthy of review:

YE—The Yield Exclusion option allows us to remove disaster years from your database when calculating your average yield. We find that most policies benefit from having this option attached.

YA—The Yield Adjustment option allows us to substitute 60 percent of the county T-yield into your database anytime your actual yield is below that mark, this artificially improving your yield average.

TA—The Trend Adjustment option takes into account that yields are trending higher over time and thus, older yields in your database should be factored upwards to account for the upward trend. Again, TA artificially increases your yield's average and often benefits producers that have a good track record and have been growing wheat for 10 years or more.

PT—the Prevented-Planted Plus Ten option provides 10 percent more coverage on pre-

*See **Fall seeded** on page 2*

Abbreviations

AGI	Adjusted Gross Income
AIP	Approved Insurance Provider
AMS	Agricultural Marketing Service
APH	Actual Production History
ARC	Agriculture Risk Coverage
CBOT	Chicago Board of Trade
FCIC	Federal Crop Insurance Corp.
FSA	Farm Service Agency
FSN	Farm Serial Number
MPCI	Multi-Peril Crop Insurance
QA	Quality Adjustment
PT	Prevented-Planted Plus Ten
PLC	Price Loss Coverage
PRF	Pasture, Rangeland and Forage Insurance
ROI	Return on Investment
RMA	Risk Management Agency
SCO	Supplemental Coverage Option
STAX	Stacked Income Protection Plan
TA	Trend Adjustment Option
TAGS	Tobacco Administrative Grading Service
USDA	U.S. Department of Agriculture
WFRP	Whole Farm Revenue Protection
YA	Yield Adjustment Option
YE	Yield Exclusion Option

Pasture, Rangeland and Forage Insurance

The 2017 growing season for hay and pasture in many areas has gone from one extreme to another in a hurry. The majority of our customers experienced above average rainfall during early spring into early summer which made for a good hay crop. Even though the first cutting of hay and spring pastures were in good to excellent shape early on, our average customer has received payment equal to 76 percent of their premium.

The intervals January/February and February/March both paid a good amount for almost all areas we service. This has allowed most customers to be well on their way to having yet another profitable year with Pasture, Rangeland and Forage Insurance (PRF). From 2010 through 2016, the total Return on Investment (ROI) for our customers is at $1.41 for every $1 they have put into the program.

Starting in 2012, we developed a strategy with the different intervals that spread the insurance over the entire year. This strategy, in the last five years, has generated a return of $1.60 for every $1 input.

So far this year, RMA has only released the rainfall data for the intervals up through the May/June time period. Since the rainfall has all but cutoff in many areas from the middle of June through the first week of August, we predict there could potentially be some payouts through the summer months this year. Just remember there is roughly a 60-day window after the end of an interval before the data is released and a payment can be generated. For example, after the end of the June/July interval, a payment would not be available until the end of September. The sales closing date for PRF is Nov. 15. Coverage cannot be modified, initiated or cancelled beyond that date for the 2018 calendar year.

Please remember to update your Farm Service Agency (FSA) 578 at your local FSA office to make sure we are aware of any new farms that you may want to add to your policy. FSA's deadline to report hay and pasture acres is also Nov. 15, but we ask that you do not wait to the last minute to report. This will allow us time to catch and correct any errors we may find. If you have any questions or would like a visit from an agent at your convenience, please do not hesitate to give us a call.

Third-party damage and uninsurable unavoidable fire

There are many cases where accidents cause losses to crops. An example of uninsurable third-party damage that is popping up this year is spray drift. This most commonly occurs when a neighbor sprays a chemical, and the drift causes injury to another producer's crops. Another example could be if a neighbor's cattle get out and destroy another farmer's crops.

An example of uninsurable unavoidable fire damage could be if a motorist threw a cigarette out the window of the car, and the cigarette caught a producer's wheat field on fire and the field is destroyed by fire.

New for 2018: If an uninsurable cause of loss affects a producer's crop, the production for 2017 may be excluded and not counted against them. The producer must turn in a claim and have an adjuster document that the damage was truly a result of a third-party mistake.

Remember, crop insurance will not cover these types of manmade or losses due to other peoples' negligence.

Fall seeded
Continued from page 1

vented-planting claims when they occur. This option usually costs in the neighborhood of less than $1.00 per acre and most often returns $15.00 or more on a prevented-planting claim when such a planting season occurs. For small grains, the PT option makes sense for almost every policyholder.

SCO—The Supplemental Coverage Option is a shallow loss-area plan of insurance that "stacks" on top of the farmer's underlying crop insurance. For every dollar that our agency paid out in the 2016 crop year, nearly 10 cents were paid out in SCO payments. SCO is an "area coverage" that uses the past five years of yield and price data for a given county as a basis for payment, and a loss "triggers" when the current year yields and prices fall below 86 percent of the five-year average. Every county has a different five-year average and thus a different trigger. Also, rates vary significantly depending on how volatile the yield and price data has been over the past five years. It's impossible to make a blanket recommendation on whether to buy SCO or not. Rather, we recommend looking at it on a county-by-county basis.

Focus on quality

When thinking about how much coverage to put on wheat and other small grains, farmers should look beyond the obvious factors of yield and price. Most significant claims on small grains involve quality. When wheat doesn't make a milling quality but goes into a feed quality, there are usually Quality Adjustment (QA) factors that apply. These QA factors bring the yield downward that is being used by an adjuster to calculate a loss. QA factors are given for test weight, defective kernels, toxins, odor, falling number, etc. Unless you have yields significantly above your guaranteed yields and your grain is of a good quality, don't assume that there isn't a loss. Even the best growers can't control excessive spring rains, which are the biggest cause for quality problems.

We look forward to seeing you in the coming weeks during our aforementioned farm visits.

Loss ratio trends on tobacco and other crops

2015

The 2015 crop year was horrible for growers in most of the region. Some battled drought, some battled flooding, and many endured both. The challenges that producers faced in the 2015 crop year were so severe that most prayed they would never see a year like it again. Everyone was hoping for a turnaround in 2016, but last year just seemed like 2015 all over again for many.

2016

The year started out with prevented-planted wheat crops which led to more than $67 million in losses in North Carolina, South Carolina and Virginia combined with a loss ratio of more than 300 percent for the wheat crop. Things seemed to be getting better in the late spring and early summer allowing for a good corn crop to be grown with few losses. However, late summer heat really took its toll on the tobacco crop. What looked to be a really good crop went downhill quick and the quality of the crop took a big hit. It also didn't help that the markets weren't eager to buy the crop. For the second year in a row, the flue-cured tobacco loss ratio was more than 200 percent.

By October, 2016 was beginning to look like 2015's evil twin. Just like 2015, parts of the Carolina's received more than 20 inches of rain from a tropical system in the first week of October. This led to widespread flooding on many acres of cotton, peanuts, sweet potatoes and soybeans. The one bright spot was, after Hurricane Matthew passed, dry weather set in to allow what was left of the damaged crops to be harvested. While cotton, peanut and soybean losses were high, they were nowhere near the loss levels seen in 2015. When it was all said and done, the total loss ratios for each state were North Carolina: 147 percent, South Carolina: 96 percent, and Virginia: 77 percent.

Loss ratio on tobacco

After seeing these numbers, one thing to keep in mind is the loss ratio on tobacco. Even though very little of the crop was impacted by Hurricane Matthew, we still saw loss ratios well over 200 percent in both the 2015 and 2016 crop years. Tobacco is a crop that the Risk Management Agency (RMA) has really had an eye on for years. While there was a series

Flue-Cured Tobacco Versus All Crops Loss Ratio Data

Year	Tobacco Losses (mil.)	Tobacco Premiums (mil.)	Tobacco Loss Ratio %	All Crop National Loss Ratio%
2005	$ 42.5	$15.9	267	60
2006	80.0	22.5	355	77
2007	68.4	28.7	238	54
2008	80.9	32.9	246	88
2009	76.0	38.0	200	58
2010	77.4	34.4	225	56
2011	167.0	36.8	454	91
2012	40.9	38.8	105	157
2013	78.7	47.5	166	102
2014	71.2	64.1	111	91
2015	105.5	48.2	219	65
2016	126.7	56.5	225	41

of unfortunate weather events that has led to high-loss ratios the past couple of years, loss ratios have exceeded 100 percent even in crop years with record high yields. With more eyes than ever on the crop insurance program, significant changes could be coming in 2018 to rein in the tobacco-loss ratios.

Government cuts may come to crop insurance

As many of you may have heard, cuts to the crop insurance program are being contemplated for the 2018 Farm Bill. Currently, there is consideration to putting a $40,000 premium subsidy limit on each farming operation, eliminating the Harvest Price Option, and eliminating crop insurance eligibility for any farm with an Adjusted Gross Income (AGI) greater than $500,000. There have been similar budget proposals in the past that never got Congress' approval in past farm bills. We could see the passage of the 2018 Farm Bill as early as March-April 2018, but in reality it is more than likely to be in the June-July time frame. These changes would effectively bring the crop insurance program to an end. Therefore, the entire agriculture sector is gearing up for a fight. We will keep everyone updated with any information we receive in the future.

Tobacco grading remains the same

If you're familiar with the tobacco grading process from 2016, good news: nothing has changed for 2017. All tobacco must be graded by an Agricultural Marketing Service (AMS) grader to be eligible for Quality Adjustment (QA). This process is initiated by contacting the Tobacco Administrative Grading Service (TAGS) at 855-776-8570. More information on TAGS can be found on their Web site at tobaccograding.com. Please remember to contact TAGS to schedule grading appointments at least three days prior to the tobacco being delivered to the warehouse. You will need to provide the type of your tobacco (flue-cured or burley), your preferred grading location, your address and telephone number, the county your tobacco was grown in, your Farm Serial Number (FSN), and your policy information. Your policy information would include your policy number and Approved Insurance Provider (AIP) name as well as your agent's name, agency, telephone number, and if available, email address. **The attached form (below) will help with that process**.

Tobacco Administrative TAGS Grading Services
www.tobaccograding.com | toll-free 855.776.8570

For Office Use Only ________________

Date Received ____________________

GCN ____________________________

Scheduled _______________________

Requested Grade Date:

Loss Occurred in: County: State:

Have you contacted the warehouse? Yes ☐ No ☐

Do you have a contract? Yes ☐ No ☐

Farm Name (if applicable):

Farm #:

Grower Name:

Address:

City: State: Zip:

Phone:

Growers email:

#of bales: Warehouse name/location:

Appointment time: Flue ☐ Burley ☐

Agent Name: Phone #:

Policy #:

Reinsured/Underwriting Company:

Loss Adjuster: Phone #:

***Please note that this is a request for your tobacco to be graded. You will be contacted with your grading confirmation number and a confirmed date and location by a staff member. This form must be completed entirely in order to schedule tobacco to be graded. ***

Source: Tobacco Administrative Grading Services

Also, please remember to turn in a claim as soon as you notice any quality concerns with your crop. This should be prior to any grading appointments being scheduled. For you to be eligible for QA, an adjuster will need to see and document the tobacco prior to it being sold. There is also a possibility of a few growers in our region being selected to participate in a Tobacco Grading Spot Check. This was new for the industry in 2016. For growers selected for these spot checks, an adjuster must be present for the grading of any tobacco graded by an AMS grader for QA purposes.

The tobacco QA discount chart (next page) hasn't changed for the 2017 crop year. You'll notice on the chart that is enclosed there are grades with discounts of 0.200, 0.400, 0.600, and **. These are percentages of the crop that will be discounted and not counted for crop-insurance purposes. For example, 1,000 pounds of tobacco with a B5KV grade would receive a 60 percent (0.600) discount, and only 400 pounds of that tobacco would be counted when figuring a potential loss. Grades with a ** will receive 100 percent discount and none of that tobacco will be counted as long as it's not sold and destroyed by an approved method. An adjuster will also have to be present for the destruction of that tobacco. If you receive any grades that do not appear on this chart, no QA will be available for that tobacco. Also, if you have any tobacco that is graded and then taken home to rework and re-bale, it must be re-graded for QA to apply on the newly formed bales.

With increased pressure on the Risk Management Agency (RMA) to reduce loss ratio on tobacco, the QA process has become the center of attention. Please be aware that there are a lot of eyes on this process. This is the reason we saw the implementation of the Tobacco Grading Spot Checks in 2016, and there are RMA and other U.S. Department of Agriculture (USDA) officials visiting the warehouses. Expect changes to come to the 2018 QA process. To schedule grading, the attached form can be submitted to scheduletags@gmail.com, or you can contact TAGS by phone at 855-776-8570. Scheduling will need to be completed at least three days prior to the expected delivery of the tobacco.

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.

Revenue protection

Grain prices are trending lower now than they were earlier this year. The base price on crop insurance in North Carolina is $3.94 for corn and $10.25 for soybeans. The price was set, for corn, using a December 2017 corn future that was averaged every trading day from Jan. 15 through Feb. 14. The harvest price, for corn, in North Carolina, will be established by averaging the 2017 December future every trading day during the month of September. The soybean harvest price was calculated by averaging the January 2018 soybean future every trading day from Jan. 15 through Feb. 14. The harvest price on soybeans in North Carolina will be established by averaging the January 2018 soybean future every trading day in the month of November.

Today is Aug. 11, 2017, and December corn is tracking at $3.72 while January soybeans are tracking at $9.50. If the harvest prices come in below the base price on crop insurance, the result could possibly result in a revenue loss. However, the harvest price has to move a considerable amount lower than the base price if the yield of a crop comes in close to an average yield. Let's look at an example with the following assumptions.

Producer A has 100 acres of soybeans on one farm. This is all he plants in the county.

Base Price on soybeans $10.25.

Approved Yield on a Farm Serial Number (FSN) is 40 bushels per acre.

Crop Insurance Policy has 70 percent coverage level.

Minimum revenue guarantee *equals* 40 bushels *times* 70 percent coverage *equals* 28 bushels *times* $10.25 *equals* $287 per acre *times* 100 acres *equals* $28,700.

Example 1: Let's say the harvest price comes in at $8 per bushel, and yield comes in at 30 bushels per acre.

30 bushel per-acre yield *times* $8 equals $240 revenue per acre *times* 100 acres *equals* $24,000 actual revenue.

$28,700 revenue guarantee - $24,000 actual revenue would result in a $4.700 loss. The producer met the yield guarantee, but because the harvest price came in lower than the base price, a revenue loss was generated.

Example 2: The harvest price comes in at $11 per bushel, and yield comes in at 27 bushels per acre.

27 bushel per-acre yield *times* $11 per bushel *equals* $297 revenue per acre *times* 100 acres *equals* $29,700 actual revenue.

The guaranteed revenue changes in this example. The insured gets the higher of the base price or harvest price figured toward the revenue guarantee.

*See **Revenue** on page 8*

Supplemental Coverage Option

The inception of the 2014 Farm Bill brought forth Supplemental Coverage Option (SCO), Agricultural Risk Coverage (ARC), and Price Loss Coverage (PLC) for grain crops. ARC and PLC are administered by the Farm Service Agency (FSA). SCO is administered by the Risk Management Agency (RMA) and sold by crop insurance agents. The new risk management products were available for the first time in 2015 on grain crops.

Most producers elected ARC for their coverage through FSA mainly because it was free. Since ARC and SCO are so similar, if a producer elected ARC for a crop on a Farm Serial Number (FSN), SCO couldn't be purchased on the same crop and FSN. If a producer elected PLC on a FSN for a crop, then SCO could be purchased. Our agency did have a few producers that bought SCO in 2016 and 2017. SCO also paid out in both years in some counties on some grain crops.

SCO on tobacco

For tobacco producers, 2016 was the first year that SCO was available. We covered SCO in our 2016 dinner meetings last winter and also explained it in our 2016 spring newsletters. We bring it up again as a refresher since we received the results for the 2016 crop year on tobacco in mid-June.

The SCO policy covers a range from the underlying crop-insurance policy up to 86 percent. If an insured has a 75 percent coverage level on their crop-insurance policy, then SCO covers a range of liability of 11 percent based on his/her approved yield. SCO uses the five-year average yield based on all the producers that carry crop insurance in a county to establish the county's expected yield. If the county comes in below 86 percent of its expected yield, SCO starts paying. Premiums vary by county and can range from a low of $5 per acre to a high of $40 per acre for conventional tobacco.

Organic premiums are about double since the dollars of coverage per acre are roughly twice that of conventional. Coverage dollars per acre vary by producer because it depends on the approved yield on a farm and what coverage level is elected on the crop-insurance policy.

Ball-park coverage per acre on conventional is $300 to $600 per acre and $500 to $1,000 per acre for organic.

Most of our customers purchased SCO in Rockingham County, N.C. The main reason they did was because it offered a lot of coverage for minimal cost. The premium for SCO in Rockingham County for 2016 was less than $5 per acre. Example:

Crop-Insurance Policy 75 percent. SCO coverage 86 percent. (86 percent *minus* 75 percent *equals* span of coverage with SCO 11 percent.

Approved yield 2,656 pounds per acre *times* 11 percent SCO coverage *equals* 292 pounds per acre *times* $1.80 *equals* $526 per acre coverage with SCO.

Expected county yield was 2,247 pounds per acre. (2,247 *times* 86 percent *equals* 1,932 pounds per acre loss trigger. Actual county yield was 1,502 pounds per acre which was 66 percent of 2,247 pounds expected yield per acre.

SCO loss payment in this example was $526 per acre. SCO paid a full payment on policies that had underlying crop-insurance coverage of 70 and above in Rockingham County for 2016.

This option is designed to pay when a county is impacted by a widespread weather event. A hurricane in August that sweeps through several counties is probably one of the most feared weather events that can occur. In 2016, we saw whole counties that experienced excessive rainfall in the spring and extreme drought and heat that lowered yield and reduced quality of the tobacco crop. A lot of tobacco went through the Tobacco Administrative Grading Service (TAGS) program, and this further reduced production-to-count on claims. All of these factors combined to lower the actual county yield enough to pay in some counties for 2016.

Two weather events that also covered a large area in 2016 were two different hailstorms that occurred on June 30 and September 28. The hailstorm in June brushed Caswell and nailed Alamance, Orange and Granville counties in North Carolina and destroyed hundreds of acres of tobacco. Then in September, Halifax County, Va., was hit hard by an unusually late hailstorm. SCO paid in Alamance, Granville, Rockingham, Stokes, Orange and Halifax counties for 2016. Again, 2016 was the first year this was offered, and many producers tested the water with it. We did not get the results of the 2016 crop year until June 2017 because the figures used to calculate the actual county yields are taken from all producers that have crop insurance, and the production deadline is around April 15. We were not 100 percent sure how well it would work until we got the results for 2016 in June, but it appears that it does provide additional coverage that should pay off if a county experiences a widespread weather event. Remember, SCO is a county-based policy, and production figures are compiled for all producers in the county that carry crop insurance. A producer could have a loss on their crop-insurance policy and not have a loss on the SCO option or vice versa.

We had a considerable amount of producers take part in the SCO program for tobacco due to the fact that ARC is not offered on tobacco, and SCO represents the only form of disaster assistance available through federal programs at RMA or FSA.

Wheat, oats and barley production reporting

If you planted fall crops in 2016 that were harvested in 2017 and did not have a loss on those acres, we need your production forms (that we mailed out) completed, signed, and sent back. The deadline for reporting production for 2017 fall crops is Nov. 15, 2017, but in order for the office to accurately determine your insurance premium rates for the 2018 crop year, we need these back as soon as possible.

Practice good recordkeeping

It is very important to keep good records during the crop year. When it comes to records, the obvious would be to document what day you planted your crop, where you planted your crop, and how much you harvested. Federal Crop Insurance Corp. (FCIC) requires records to be kept for a minimum of three years; however, four years of records may sometimes be needed. Maintaining these records could help to avoid any possibility of having your Actual Production History (APH) decreased or indemnities decreased. These records could be requested to determine double-cropping eligibility or for different types of compliance reviews.

A log book kept in the tractor can go a long way with keeping up with the crops planted on each farm and plant dates. The information from these log books can then be carried over to your Farm Service Agency (FSA) 578 and then to your acreage report. Reporting acres to the FSA aides with record retention because past FSA 578s are readily available dating back to 2008, but it is still important to keep any log books and receipts for three to four years to back up your FSA records.

Harvested production records are equally as important as planted acreage records. Production records general consist of two parts: soft records and hard records. The soft records would be what you use to keep the harvested production separate by unit. This could be in the form of scale tickets, combine hopper or truckload counts, or yield monitoring equipment records. These records need to include the commodity, date harvested, and the insurance holder's name. These records have to be backed up by hard records such as settlement sheets, precision farming records, or bin measurements made by an adjuster or FSA personnel. If your operation commingles crops, feeds grain, saves seed, sells deer corn, or markets harvested crops in anyway where traditional records are not available, please contact us so that we can make sure that a plan is in place to cover your record retention needs.

Records should really be kept for all aspects of growing, harvesting and selling of the crop. You never know when they'll be needed for crop insurance purposes or for other reasons. This includes the need to keep records such as seed and chemical receipts, spray and fertilization records, and any labor invoices or pay stubs. These records could become invaluable in the event of good farming practices being questioned by the insurance provider.

Also keep in mind, some crops or policies may have special recordkeeping requirements. If you have any questions or concerns, please reach out to us!

Apples and peaches

In 2016, our agency and producers were spared from the fresh review process. However, the first of August, we received a list of producers that will have a review. If you have received a letter from your insurance company stating that you are required to complete this process and have not heard from our office, please contact us immediately. As of today, Aug. 3, 2017, we have received notification that four producers will have to participate in the review.

Fresh option

It is highly advantageous to keep the fresh option on your policy. The fresh option allows an adjuster to grade the apples. In almost every year, some damage occurs that reduces the quality of the apples. The reduction in quality also reduces the production that is counted in a claim, which in turn increases the loss payment. The fresh price election is much higher than the processing price election for apples on crop insurance. If a producer does not pass the fresh review process, their policy will be changed back to processing.

In order to remain on the fresh option, a producer must have sold at least 50 percent of their production as a fresh, not processing deer or cull apples, in one of the four most recent crop years. The insurance company needs proof of this. Sales tickets are one type of document that is used as proof. The sales ticket must have the quantity sold, bushels, boxes, etc. It must also show the price per bushel or box. It must be dated and must have the name of the seller on it as well. It is also good if it has the name of the buyer on it. Another form of proof is a daily sales ledger. The sales ledger needs to have the following on it: name of the seller, date the apples were sold, variety if possible, quantity sold and the price per whatever quantity sold. The sales ticket or ledger has to be backed up by a second document. The backup document can be a Schedule F income tax form or an apple excise-tax form.

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.

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 price protection beyond harvest.

Stacked Income Protection Plan

If you had a Stacked Income Protection Plan (STAX) in 2016, you may have received payment from your Approved Insurance Provider (AIP). STAX payments were not as widespread for the 2016 crop year as they were 2015. So there could be a possibility of someone in a neighboring county receiving a payment, and you not receiving one (or vice-versa). The 2016 STAX payments were generally in the areas with the greatest impacts from Hurricane Matthew.

STAX explanation

For those of you that don't understand what STAX is or how it works; STAX was introduced in the 2014 Farm Bill as a form of supplemental coverage for upland cotton growers. It is purchased through your agent just like all of your other crop-insurance options. STAX can be purchased on its own or in addition to a Multi-Peril Crop Insurance (MPCI) or Whole Farm Revenue Protection (WFRP) policy.

The way the STAX policy works is that an average county yield and expected value is determined at the beginning of the season. For example, your county's average yield could be 1,000 pounds with a 70-cent expected price. That would give expected revenue of $700 per acre in the county. With the STAX policy, a producer could chose to insure up to 20 percent of the $700. When a policy is purchased, a loss trigger, range, and multiplier must be selected. The maximum loss trigger would be 90 percent. This means when the county's actual revenue falls below 90 percent of the county's expected revenue a loss will be paid ($700 *times* 90 percent *equals* $630). Losses reach their maximum when the county's actual revenue falls below 70 percent of the expected county revenue ($700 *times* 70 percent *equals* $490). This gives 20 percent of coverage for the $700 expected revenue; however, ranges of 5, 10, 15 or 20 percent can be selected. The loss floor of 70 percent may be higher if you have a MPCI policy with a higher coverage level. If you have a 75 percent level on your cotton MPCI policy, 75 percent would be the loss floor in this case. The last piece of this puzzle is the protection factor. The protection factor can be from 0.80 to 1.20. This means that a potential loss, as well as premium, can be decreased by up to 20 percent or increased by up to 20 percent.

Example clarification

At this point, this is all just as clear as mud. Here's an example that may help. If a producer is in a county with $700 expected revenue on cotton and a 90 percent loss trigger selected, a loss would occur when final-area revenue falls below $630 ($700 *times* 0.90). If that producer has a 75 percent coverage level on his MPCI, they'd be paid a maximum loss when the final area revenue falls below 75 percent of the $700 expected revenue ($525). If the final area revenue comes in at or below $525, the loss would be the difference in the $630 and $525 ($105). That amount can be multiplied by the protection factor to receive up to $126 ($105 *times* $1.20). If the final area revenue came in at a number greater than $630, no loss would be triggered. If the final area revenue came in less than $630 but greater than $525, the loss would be calculated using the difference in $630 and the final area revenue.

Expected and final area revenues

Expected revenue and final area revenue are determined using the averages of a county. Actual producer yields factor into a potential STAX loss, but a producer may experience a loss on the MPCI policy and STAX not pay because the majority of the county had a good year. These final area revenues are determined using yields reported to the Risk Management Agency (RMA) by insured cotton growers. This final-area revenue won't be determined until mid-July the following crop year. If you received an indemnity for a STAX loss, it was because the 2016 revenue in your county fell below 90 percent (or the loss trigger selected). The 2016 STAX losses were more common in the coastal counties, and those counties with the biggest impacts from Hurricane Matthew.

Worth the premium

For those of you that didn't see a loss with STAX in your county, keep in mind that the STAX premium is subsidized 80 percent, and that one STAX loss could pay several years of premium. If you have any questions on the STAX policy or are interested in STAX for 2018, please reach out to us.

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Revenue
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28 bushels per acre *times* $11 *equals* $308 revenue per acre *times* $100 acres *equals* $30,800 new revenue guarantee.

$30,800 revenue guarantee - $29,700 actual revenue *equals* an $1,100 loss.

When the combine hits the field and you question whether or not you are in a loss situation, call your agent. Remember that all loss calculations are based upon Chicago Board of Trade (CBOT) prices, and the price the crop is sold for does not have a bearing on whether or not you have a revenue loss.