Farm Planning

FOR THE FUTURE: CROP INSURANCE

No one can control the weather or the damages it can cause to your crops and revenue. However, crop insurance can protect you from revenue loss when your crop is damaged by extreme weather. Crop insurance may also serve as collateral for operating costs.

The Crop Insurance Program is federally backed crop insurance. This program is administered by the Federal Crop Insurance Corporation (FCIC), an agency of the USDA. Crop insurance policies are sold individually by local insurance agents. Although crop insurance is available through the government, it is not required like auto insurance.

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Why should I purchase crop insurance?

If you have a crop operation, your revenue is dependent upon the weather. As a result, you make a gamble every time you plant. There are three common ways to deal with risk:

- Avert it. Risk aversion means avoiding risk. However, no one can avoid the weather.

- Diversify it. To diversify risk is to spread it out. In the case of crop production, you can spread risk out by growing several different types of crops. Another option may be to incorporate livestock or agritourism into your crop production. If your crop production is less than you expected, you still have revenue from your livestock sales or pumpkin patch.

- Insure against risk. The Federal Crop Insurance Act was authorized by Congress in 1980 to give agriculture producers economic stability. The Act establishes and provides insurance to protect against severe weather. Government subsidies are offered to off-set the cost of this insurance. Crop insurance has proven to be beneficial in a disaster. For example, after a 2002 drought in Maryland, farmers collectively received more than $23 million, or $7.70 for every dollar spent on crop insurance premiums.

What does crop insurance cover?

Crop insurance is available for more than 100 crops, plus fish and livestock. Crop insurance comes in two basic forms, Catastrophic Loss Coverage (CAT Loss) and 'buy up' coverage.

- **Catastrophic Loss Coverage (CAT Loss)** protects you from catastrophic crop loss. CAT is triggered only by major losses. This coverage was established to pay indemnities (compensation paid out by your insurance policy) only when crop loss is at least 50 percent of a farmer's yield. The amount of coverage you buy depends largely on how big of a risk you want to take against the weather. Policy options include coverage based on percentage of loss; reimbursement percentage; or coverage for yield loss or revenue loss.
  - Revenue vs. yield based CAT Loss policies: Farmers can choose to insure their crops based on yield or revenue loss. Yield loss is measured by the quantity or value that the yield would produce if not damaged by weather or perils. Multiple Peril Crop Insurance is included in insurance policies based on yield. This insurance provides comprehensive protection against loss due to weather and certain perils, such as pest invasion and fire. This is the most available and most common type of crop insurance policy.

– Revenue based policies provide financial protection for revenue loss caused by drops in yield or market prices. There are many types of revenue based policies. Each policy defines revenue in a different way. Common revenue based policies include Group Risk Income Protection (GRIP), Adjusted Gross Revenue (AGR), Crop Revenue Coverage (CRC), Income Protection (IP) and Revenue Assurance (RA).

- **'Buy Up' Coverage:** Types of crop insurance, also known as 'buy up' coverage provide additional crop insurance coverage. This insurance provides coverage for a minimum of 65 percent of your approved yield (amount the government expects your crop to produce). The coverage's indemnified rate (compensation amount paid out from the crop insurance policy) is 100 percent of the expected market price. Additional yield loss coverage can be purchased in five percent increments.

How do I know if I have enough insurance?

The more coverage you buy, the more it will cost. The amount and type of insurance you purchase is based on the crops you grow and the amount of money you are willing to lose if your crop fails. To protect yourself from risk, you can either buy insurance or self-insure. Self-insuring is saving money (that you earned) to cover losses if they should occur. Most people cannot afford this.

There are many questions you should ask yourself to help you decide if you need crop insurance. What would you do if you suffered a significant crop loss two years in a row? What would you do if government disaster payments took more than a year to arrive? What would you do if the government stopped making disaster payments? Your insurance agent will ask you questions like these in addition to what and how much you plant. Your insurance policy will be tailored to your crop production, personal risk tolerance and personal circumstances.

What are the risks of not having crop insurance?

If you do not have insurance, or do not have enough, you may be at significant risk. If you do not have crop insurance and you lose your crop, you may be faced with bills you cannot pay. You may not have enough income to meet the basic needs of your family if disaster payments from the government are not enough or do not arrive quickly. Fire, pests, drought and floods are not things you can plan in advance. However, you can protect your farm and family from devastating effects by having crop insurance.

Resources

Crop insurance does not cover all losses. Losses due to neglect or illegal acts; failure to reseed when customary to do so; or failure to follow good farming practices are not covered. However, such decisions can be appealed. Crop insurance is offered by the Federal government through independent insurance agents. For more information on crop insurance, visit the USDA website on crop and livestock insurance at **www.usda.gov**. Type "USDA crop and livestock insurance" in the search box or call your regular farm property insurance provider.

The USDA Risk Management Agency (the agency that offers the federal crop insurance program) offers up-to-date information including an agent or company locator, fact sheets and a cost estimator. Visit **www.rma.usda.gov** or call the Risk Management Agency at **202-690-2803**. For more state specific information, a fact sheet regarding crop insurance in West Virginia is available from WVU Extension at **http://anr.ext.wvu.edu/r/download/57710** or you can contact your local extension agent.

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