

Value of AGR-Lite for WI Vegetable Growers

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Goal Today

- What is AGR-Lite?
- How does AGR-Lite work?
- Who might find AGR-Lite valuable?

What is AGR-Lite?

Adjusted Gross Revenue-Lite

- A different type of crop insurance policy newly available in Wisconsin in 2007
- Whole farm revenue insurance
 - **Gross revenue**, not net revenue
- Gross Revenue Guarantee Based on 5 year average of Schedule F or similar tax records reported to IRS
 - Some adjustments (Adjusted Gross Revenue)
 - Lite: \$1,000,000 liability (indemnity) limit

Excluded Income

The “Adjusted” in AGR-Lite

- Value added activities: (e.g., cost & value of post-production sorting, packaging, etc.)
- Cooperative dividends not directly related to commodities produced
- Income from custom hire machine work
- Most other USDA payments (e.g., disaster)
- Crop insurance indemnity payments

Schedule F Income Included

Part I Farm Income—Cash Method. Complete Parts I and II (Accrual method. Complete Parts II and III, and Part I, line 11.)

Do not include sales of livestock held for draft, breeding, sport, or dairy purposes; report these sales on Form 4797.

1	Sales of livestock and other items you bought for resale	1			
2	Cost or other basis of livestock and other items reported on line 1	2			
3	Subtract line 2 from line 1	3			
4	Sales of livestock, produce, grains, and other products you raised	4	238,900	—	
5a	Cooperative distributions (Form(s) 1099-PATR)	5a			5b Taxable amount
6a	Agricultural program payments (see page F-2)	6a			6b Taxable amount
7	Commodity Credit Corporation (CCC) loans (see page F-3):				
a	CCC loans reported under election	7a	8,100	—	
b	CCC loans forfeited	7b			7c Taxable amount
8	Crop insurance proceeds and Federal crop disaster payments (see page F-3):				
a	Amount received in 2005	8a			8b Taxable amount
c	If election to defer to 2006 is attached, check here <input type="checkbox"/>	8d	Amount deferred from 2004		
9	Custom hire (machine work) income	9			
10	Other income, including Federal and state gasoline or fuel tax credit or refund (see page F-3)	10			
11	Gross income. Add amounts in the right column for lines 3 through 10. If you use the accrual method, enter the amount from Part III, line 51	11	247,000	—	

① = Allowable Income

Covered Crops

- Grains: corn, soybeans, wheat, small grains
- Forage: alfalfa, corn silage, silage, ...
- Fruit: apples, pears, peaches, plums, cherries, cranberries, numerous berries, ...
- Livestock: cattle, hogs, sheep, goats, poultry, dairy, fish, fur, ...
- Miscellaneous: mint, ginseng, popcorn, herbs, maple syrup, honey, X-mas trees nursery crops, cut flowers, potted plants, ...

Covered Vegetable Crops

- Potatoes, sweet corn, snap beans, peas
- Carrots, onion, beets, garlic, celery, ...
- Cabbage, broccoli, cauliflower, ...
- Melons, squash, pumpkins, ...
- Tomatoes, peppers, eggplant, ...
- Greens, asparagus, horseradish, ...
- Even more

Crops Not Covered

- Covered crop/livestock must generate income to report on tax forms, so crops marketed through livestock are not covered
 - Forage if sold it is covered, but not if fed to dairy cows (but the milk is covered)
- Coverage based on Gross Income, not net income
 - No indemnity for higher costs, such as dry year when have to run irrigation more or buy forage for livestock/dairy

Insured & Excluded Causes of Loss

- Revenue losses from natural causes (yield) or from market fluctuations (price)
 - Must still follow good farming practices
- Excluded causes of loss
 - Theft, vandalism, “mysterious disappearance”
 - Lack of labor (e.g., to harvest ripe crop)
 - Inability to market commodities due to quarantine, boycott
 - Failure of buyer to pay for commodity

How does AGR-Lite work?

- Calculate average gross revenue from 5 continuous years of tax forms
- A “crop” generates at least 11% of gross revenue
- Each crop has a risk category (1-5)
 - Higher risk crop, higher premium
- Premium is average of premiums for each crop, weighted by % gross revenue from each crop
- Can combine AGR-Lite with APH/CRC policies
 - Gives a premium break for APH/CRC
 - Give specific coverage for those crops

Available Options

- Coverage Levels: 65%, 75%, and 80%
 - Determines your Revenue Guarantee
 - 80% coverage requires at least three crops
- Payment Rates: 75% and 90%
 - Indemnity paid per \$ below revenue guarantee
- Max Liability (Indemnity) = \$1,000,000
- Gross Revenue Maximums
 - \$2,051,282 for low coverage/payment rate
 - \$1,388,889 for high coverage/payment rate

Who might find AGR-Lite valuable?

- Growers of previously uninsurable crops
 - Non-Insured Crop Disaster Assistance Program (NAP) coverage generally very low
- Organic Producers: RMA uses conventional crop prices, now can insure at realistic prices
- Direct Marketers: again, insure at realistic prices
- Use AGR-Lite as an umbrella policy over all your crops in combination with APH/CRC policies
 - May give better premiums for conventional policies
- Catastrophic policy for livestock/dairy: provide coverage if have catastrophic health problem

AGR-Lite Recommendations

- Combine AGR-Lite with APH/CRC/Hail coverage when can, so have more specific coverage
 - Assumes APH/CRC useful
 - May get better premiums
- Livestock growers: AGR-Lite relatively expensive for you, may not be useful: check it out
- Higher risk crops will be expensive, but may be worth it, check it out and see

Simple Example

- Assume \$500,000 average annual revenue
- Split: 60% potatoes, 20% each processing sweet corn and peas

Revenue Guarantees

Coverage Level		
65%	75%	80%
\$325,000	\$375,000	\$400,000

Simple Example

Liability/Maximum Indemnity			
Paymt Rate	----- Coverage Level -----		
	65%	75%	80%
90%	\$292,500	\$337,500	\$360,000
75%	\$243,750	\$281,250	\$300,000
Farmer Premium \$ (% of Liability)			
Paymt Rate	----- Coverage Level -----		
	65%	75%	80%
90%	\$10,435 (3.6%)	\$16,400 (4.9%)	\$22,090 (6.1%)
75%	\$8,695 (3.6%)	\$13,670 (4.9%)	\$18,410 (6.1%)

Questions?

- RMA two-page handout
- Contact your crop insurance agent

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