

# AN OVERVIEW OF FEDERAL CROP INSURANCE IN WISCONSIN

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# Goal Today

- Overview major crop insurance policies available in Wisconsin
- Explain how they work
- General recommendations for producers
- You will leave with
  - Some new knowledge (hopefully)
  - Written materials
  - Know where to go for more information

# Crop Insurance

- USDA's Risk Management Agency (RMA) operates the Federal Crop Insurance Corporation (FCIC) to manage the federal crop insurance program
- RMA "endorses" policies: makes subsidies available for companies and farmers
- Without RMA endorsement/subsidy, few crop insurance policies would be available

Insurable Crop	Insurance Plans
Apples	GYC
Barley	APH
Cabbage	GYC
Cigar Binder Tobacco	Tobacco (Guaranteed Production)
Corn	APH, CRC, GRP, GRIP
Cranberries	APH
Dry Beans	APH
Forage Production	APH, GRP
Forage Seeding	Dollar Amount of Insurance
Grain Sorghum	APH, CRC
Green Peas	GYC
Hybrid Seed Corn	GRP, GRIP, Yield-Based Dollar Amount of Insurance
Mint	APH
Nursery	Dollar Amount of Insurance
Oats	APH
Potatoes	GYC
Processing Beans	GYC
Processing Sweet Corn	APH, GRP, GRIP
Soybeans	APH, CRC, GRP, GRIP
Wheat	APH, CRC
Feeder Cattle	LRP
Fed Cattle	LRP
Swine	LRP

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Insurable Crop	Total Crop Acres	% Insured
Apples	6,400	17%
Barley	45,000	10%
Cabbage	2,270	100%
Cigar Binder Tobacco	1,820	65%
Corn	3,750,000	56%
Cranberries	16,300	95%
Dry Beans	6,600	27%
Forage Production	2,400,000	15%
Forage Seeding	550,000	10%
Grain Sorghum	--	0%
Green Peas	37,800	46%
Hybrid Seed Corn	9,515	100%
Mint	3,900	56%
Nursery	1730 farms	2%
Oats	340,000	8%
Potatoes	81,000	47%
Processing Beans	75,000	53%
Processing Sweet Corn	92,800	43%
Soybeans	1,720,000	63%
Wheat	247,000	33%

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# Why Low Participation in WI?

- More diversified production, so less need for external risk management tools
  - More crops per farm
  - Livestock/Dairy common
- Rates seem higher: Premiums jump when cross state border
  - McHenry to Walworth: 40%-75%
  - Washington to St. Croix: 17%-35%
  - Allamakee to Crawford: 16%

# Overview of Policies

- Quick description of major policies
  - APH, CRC, GRP, GRIP, Dollar Plan
- How each determines Coverage (Liability)
- How each Triggers an Indemnity

# Overview of Policies

- Actual Production History (APH)
  - The fundamental crop insurance policy
  - Yield guarantee based on actual yield history
  - If harvested yield is less than yield guarantee, farmer receives an indemnity
  - Multiple Peril Crop Insurance (MPCI)
  - Grower Yield Certification (GYC)
  - Catastrophic Coverage (CAT) is the minimum APH coverage anyone can buy



# Overview of Policies

- Crop Revenue Coverage (CRC)
  - Revenue guarantee based on actual yield history and futures markets prices at plant
  - If harvest revenue is less than revenue guarantee, farmer receives an indemnity
  - Essentially combines APH yield coverage with price coverage
  - More popular than APH

# Overview of Policies

- Group Risk Protection (GRP)
  - If USDA-NASS county average yield less than chosen guarantee, farmer receives indemnity
  - Like APH, but for county yield
- Group Risk Income Protection (GRIP)
  - If county average revenue less than chosen guarantee, farmer receives indemnity
  - Adds low price coverage to GRP
  - Like CRC, but for county average yield

# Overview of Policies

- Dollar Amount of Insurance (Dollar Plans)
  - RMA determines available dollar amounts of coverage and producer chooses amount
  - If stand kill/yield loss occurs, then grower receives indemnity
  - Like APH, but RMA, not grower yield history, determines available coverage.
  - Forage Seeding, Hybrid Seed Corn

# Policies NOT available in WI

- Revenue Assurance (RA)
  - Like CRC, but lower premium for same coverage
  - More popular than CRC when both available
  - Available for corn and soybeans in 19 states (ND to CO to OK to LA-TN-NC to MI)
- Adjusted Gross Revenue (AGR) and AGR-Lite
  - Whole farm income insurance for diversified producers of under-served commodities in under-served states
- Income Protection (IP): farm level income insurance for few crops in few states

# How APH Works

- Unit Structure
- APH yield calculation
- Coverage Level and Price Election
- Premiums
- Late and Prevented Planting
- Farmer Responsibilities

# Insurance Unit

- If yield for the whole unit is less than the unit's yield guarantee, triggers indemnity
  - A 300 acre unit with a 100 bu/ac guarantee would have to yield less than  $100 \times 300 = 30,000$  bu to trigger an indemnity
  - 100 ac with 0 yield + 200 ac with 150 bu/ac = 30,000 bu, triggers no indemnity
- Each unit is possibly/likely several fields
- Farmers do better with more/smaller units

# Unit Structure

- RMA has rules for unit structure
- Each unit
  - Planted to same crop during insurance period
  - Cannot cut across a county line
  - Separate production records for each unit
- Three unit types
  - Basic Unit, Optional Unit, Enterprise Unit

# Basic Unit

- One basic unit for all acres planted to the insured crop on land producer owns/cash rents
- One additional basic unit designation for all acres planted to the insured crop on land the producer share rents with a different landlord
- Producers insuring all acreage of a crop as basic units receive a 10% premium discount.



# Optional Unit

- One optional unit for all acres in different township sections planted to the insured crop on land that the producer owns/cash rents
- Possibly separate optional units for different practices or crop types
  - Dryland and irrigated acreage of the same crop
  - Corn for grain and corn for silage
  - Alfalfa, alfalfa-grass mix, and red clover
- Producers usually want as many optional units as possible

# Enterprise Unit

- Combines all of a producer's acreage for the insured crop in the county into a single unit, whether it is owned, cash, or share rented
- Producers using an enterprise unit pay lower premiums

## Farms A-G: Same operator planting the same crop

<b>Farm A</b> Owned  <b>Township Section 1</b>	<b>Farm B</b> 50-50 crop share lease from Smith	<b>Farm D</b> cash rent lease from Jones	<b>Township Section 2</b>
	<b>Farm C</b> cash rent lease from Smith	<b>Farm E</b> 50-50 crop share lease from Smith	
<b>Farm F</b> Owned		<b>Farm G</b> 60-40 crop share lease from Black	
<b>Township Section 12</b>		<b>Township Section 11</b>	

### Basic Units

- 1) A, C, D, and F
- 2) B and E
- 3) G

### Optional Units

- 1) A and C
- 2) B
- 3) D
- 4) E
- 5) F
- 6) G

### Enterprise Unit

- 1) A thru G

# APH Yield Calculation

- Use actual yield history for unit to determine unit's average yield and calculate unit's yield guarantee
- Up to 10 years of continuous records
- No missing years (can file for exception)
- If less than 4 years, use Transition Yields
- Use a Yield Cup, Cap, and Floor

# Transition (T) Yields

- Need 4 years of yield history
- If only have 3 years
  - Add one 1 year of 100% county T-yield
- If only have 2 years
  - Add one 2 years of 90% county T-yield
- If only have 1 year
  - Add one 3 years of 80% county T-yield
- If have no yield history
  - Have 65% of county T-yield

Year	4 Years	3 Years	2 Years	1 Year	None
2004	143	143	143	143	$112 \times 0.65 = 73$
2003	128	128	128	$112 \times 0.80 = 90$	$112 \times 0.65 = 73$
2002	101	101	$112 \times 0.90 = 101$	$112 \times 0.80 = 90$	$112 \times 0.65 = 73$
2001	122	$112 \times 1.00 = 112$	$112 \times 0.90 = 101$	$112 \times 0.80 = 90$	$112 \times 0.65 = 73$
APH Yield	124	121	118	103	73

# Yield Cup, Cap, and Floor

- Yield Cup: APH yield cannot decrease more than 10% in any 1 year
- Yield Cap: APH yield cannot increase more than 20% in any 1 year
- Note: Good/bad years eventually work their way into APH yield, cup/cap prevent rapid changes
- Yield Floor
  - 0 years of Yield History: 65% of the county T-yield
  - 1 year of Yield History: 70% of the county T-yield
  - 2-4 years of Yield History: 75% of the county T-yield
  - 5 or more years of Yield History: 80% of the county T-yield

# Coverage Level

- Pick percent of APH yield to guarantee:
  - 50%, 55%, 60%, 65%, 70%, and 75%
  - 80% and 85% for some counties/crops
- Unit yield below this yield guarantee triggers an indemnity
- 100% – Coverage Level  $\approx$  Deductible
- Higher coverage level has higher premium



# Price Election

- Crop price used to pay indemnities
  - Each bushel the unit's yield is less than the yield guarantee is compensated at this price
- RMA announces price elections at sign-up, usually based on futures prices
- Available options: 55% to 100% by 1% increments of announced price election
- Usually best to take max price election and adjust coverage level

# APH Example

- 100 ac corn unit, APH yield = 120 bu/ac
- Chooses 65% coverage level
- Yield guarantee
  - $120 \times 0.65 = 78$  bu/ac
  - $78 \text{ bu/ac} \times 100 \text{ ac} = 7,800$  bu for the unit
- Price Election \$2.15/bu, chooses 100%
- Harvest for unit = 6,500 bu
- Indemnity:  $7,800 - 6,500 = 1,300$  bu
- $1,300 \text{ bu} \times \$2.15/\text{bu} = \$2,795$

# Premium Subsidies

- Company receives A&O subsidy, so it cannot add a load to premium
- Producer Premium Subsidy

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Coverage Level (%)	50	55	60	65	70	75	80	85
Premium Subsidy (%)	67	64	64	59	59	55	48	38
Producer Share (%)	33	36	36	41	41	45	52	62

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- Main Point: producers on average should make money with crop insurance

# Catastrophic Coverage Subsidy

- CAT: 50% coverage, 55% price election
- CAT premium completely subsidized
- Producer pays \$100 administrative fee per crop in each county
- CAT cost can be waived for limited-resource farmers

# Premium Calculation

- Consult with crop insurance agent
- RMA Premium Calculator
  - [www3.rma.usda.gov/apps/premcalc/index.cfm](http://www3.rma.usda.gov/apps/premcalc/index.cfm)
    - Requires login ID and password
    - Saves calculations for later use
    - Provides useful print out
- Farmdoc Premium Estimator
  - <http://www.farmdoc.uiuc.edu/cropins/index.html>
- Both are useful for planning and comparing insurance options

# Special Issues in APH

- Late and Prevented Planting
- Replant Provisions
- Farmer Responsibilities
- Fraud and Program Abuse

# Late and Prevented Planting

- Many crops/policies have Late and Prevented Planting provisions
- If weather prevents planting by required date
  - **Tell the crop insurance agent**
  - Plant anyway, but with reduced coverage
  - Plant a different crop, possibly with reduced coverage
  - Leave fallow and receive prevented planting indemnity
- Several rules/restrictions, ask crop insurance agent to explain options and their impact
- Can exclude from policy to reduce premium

# Replant Provisions

- Crop severely damaged early in season so projected yield < 90% of yield guarantee
- Indemnity for actual replant costs
- Maximum = chosen price election x 20% yield guarantee; up to 8 bu for corn, 3 bu for soybeans, and 1 ton for corn silage
- Replanted yield guarantee as for original plant date (no reduction for late planting)



# Farmer Responsibilities

- Know all dates and required activities
  - Sales closing/cancellation
  - Acreage reports
  - File Notice of Crop Damage
  - Submit Claim
- Variety/Hybrid and Practice Restrictions
  - Hybrid maturity restrictions
  - No early cutting alfalfa and planting corn

# Farmer Responsibilities

- Use “good farming practices ... generally recognized by agricultural experts for the area”
  - Extension often defines
  - No coverage for losses due to negligence, mismanagement, etc. (long list)
  - Soybean Rust: would have to treat if experts say so
- Alternative Crop Uses
  - **Get permission from agent first**
  - Can chop for silage corn insured as grain
  - Mow “weeds” in flooded out crop
  - Graze remainder of haled crop

# Farmer Responsibilities

- When a loss occurs
  - File notice of damage within 72 hours of discovery (not occurrence), but no later than 15 days after the end of the insurance period
  - Continue to protect crop from further damage
  - Follow Agent's guidance, leave unharvested strips as requested, provide documents, cooperate with loss adjustors

# Fraud and Program Abuse

- RMA very serious about fraud, federal prosecution if they detect fraud
- Latest statistical and monitoring technology
- Random audits, audit suspicious claims
- Everyone asked to report fraud or program abuse (USDA-FSA, Extension faculty)
- If suspect, contact USDA's Office of Inspector General: (800) 424-9121

# Other Crop Policies

- Quick overview of other policies and how they differ from APH
- CRC
- GRP
- GRIP
- Dollar Plans

# Crop Revenue Coverage (CRC)

- Revenue insurance, not yield insurance
- Most policy provisions same as APH
- Price Election: 100% or 95% of Base Price
- Base Price: Average of daily closing price of harvest time futures contract for the month before normal planting
- Corn CRC Base Price: February average closing price of CBOT December corn futures contract

# CRC Revenue Guarantee

- Preliminary revenue guarantee
  - 100% or 95% of Base Price x APH Yield
- Harvest Price: Average new crop closing futures price for month before expiration of harvest future contract
- Corn Harvest Price: November average closing price for CBOT December futures
- Final guarantee: calculated with whichever price is higher—base price or harvest price

# CRC Example

- 300 acre corn unit, APH yield is 140 bu/ac
- Announced CRC Base Price is \$2.32/bu
- 70% coverage level and a 100% price election
- APH yield guarantee:  $140 \times 0.70 = 98$  bu/ac,  
then  $98 \times 300 = 29,400$  bu for the unit
- Preliminary revenue guarantee  $29,400$  bu  $\times$   $\$2.32/\text{bu} = \$68,208$  for the unit
- Harvest =  $29,800$  bu, Harvest price =  $\$2.05/\text{bu}$
- Harvest Revenue for unit =  $29,800$  bu  $\times$   $\$2.05/\text{bu} = \$61,090$ , which triggers indemnity of  $\$68,208 - \$61,090 = \$7,118$
- APH in this case, no indemnity



# Group Risk Plan (GRP)

- Indemnity received if NASS county average yield is below chosen trigger yield
- Coverage level: % county average yield
- 65%, 70%, 75%, 80%, 85%, and 90%
- Price Election: wide range available, choose 100% to 60% (1% increments), or 45% as CAT

# GRP Example

- Assume 500 corn acres in Adams County
- 2005 expected county average yield: 117.5 bu/ac
- 100% level of protection: \$414.19 (\$3.53/bu)
- Choose 90% coverage yield, implying a trigger yield of  $117.5 \times 0.90 = 105.8$  bu/ac
- Assume 2005 Adams County NASS yield = 100.0 bu/ac, which triggers an indemnity
- Indemnity Calculation: Yield loss  $105.8 - 100.0 = 5.8$  bu/ac, or  $5.8/105.8 = 5.5\%$  loss
- Indemnity (\$/ac)  $0.055 \times \$414.19/\text{ac} = \$22.78/\text{ac}$
- Total Indemnity:  $500 \text{ ac} \times \$22.78/\text{ac} = \$11,390$

# GRP

- County yields not finalized until April, so indemnities come much later
- Must file acreage report, no yield history needed, use good farming practices, etc.
- GRP good if no or poor yield history, yield closely track county average
- Often combine with Hail/Fire policy for localized losses

# Group Risk Income Protection (GRIP)

- Trigger indemnity of county revenue less than county revenue guarantee
- Yield: NASS county yield (just as GRP)
- Expected County Price: average futures contract closing price for 5 days before the sales closing
- Actual County Price: average futures contract closing price for month before harvest (just as CRC harvest price)

# Dollar Plans: Forage Seeding and Hybrid Seed Corn

- List available dollar amounts of coverage
- Indemnity if annual crop value less than chosen amount of insurance
- Key: How is annual crop value calculated
- Forage Seeding: plant stand  $>75\%$  normal, crop value = dollar amount of coverage
- Hybrid Seed Corn: yield at contract prices

# 10 Recommendations

1. Use as many optional units as possible
2. Avoid 80% and 85% coverage levels for CRC and APH: generally over priced
3. Consider getting at least CAT
4. Choose max price election and vary coverage level to get desired premium
5. If no yield history or poor yield history, consider GRP/GRIP with hail coverage

# 10 Recommendations

6. Know hybrid and practice restrictions
7. Know late and prevented planting and replant provisions and restrictions
8. Talk to crop insurance agent before implement alternative crop uses
9. Keep good yield & management records
10. Don't Cheat! Very likely caught and federally prosecuted

# Additional Resources

- USDA-RMA: [www.rma.usda.gov](http://www.rma.usda.gov)
  - Premium Calculator
  - State Fact Sheets, Events/Conferences
  - Official Announcements/Rulings
- National Ag Risk Education Library  
[www.agrisk.umn.edu](http://www.agrisk.umn.edu)
  - Clearinghouse for Extension risk management materials from all states: large
- Farmdoc: [www.farmdoc.uiuc.edu](http://www.farmdoc.uiuc.edu)
  - Publications, Spreadsheet Tools, Income Simulators
  - Premium Estimator for available crops in a county



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