Southeast Climate
EXTENSION | Advancing Climate Extension in Agriculture

Insurance for Row-Crop Producers in Alabama, Florida, Georgia, and the Carolinas

Program Basics

The Risk Management Agency (RMA) of the United States Department of Agriculture (USDA) regulates and subsidizes crop insurance to farmers and ranchers in Alabama, Florida, Georgia, North Carolina, South Carolina, and other states in the U.S. Private insurance companies sell and service policies.

Crop insurance covers yield or revenue losses from drought, excess moisture, freeze, flood, hail, disease, or insect infestation. Crop insurance can also cover revenue losses from price decreases.

To obtain insurance a farmer must choose the type of policy: yield or revenue. In certain counties he can choose a group policy instead of an individual one.

A farmer with an individual policy must provide records for the last 4 to 10 years of his yields on the crop land to be insured. The average of these yields is the farmer's actual production history (APH). County transitional yields are used to fill in any missing year if records cover less than 4 consecutive years.

A farmer must choose a coverage level.

A farmer must also choose the type of unit in which to insure his crop.

A unit is an insurable tract of land or a combination of tracts within a county.

A farmer must insure his entire crop in a county within, typically, one unit.

The 2014 Farm Bill does not change any federal crop insurance program in 2014. Changes to the federal program begin in 2015. For example, farmers will have to comply with conservation provisions for highly erodible land and wetlands.

Individual Yield Policies

Yield policies cover crop losses. Individual yield policies accounted for 53.9 percent of all policies for corn, cotton, peanuts, soybeans, and wheat in Alabama, Florida, Georgia, and the Carolinas during 2008 – 2012. In particular, the policies accounted for 47 percent of corn, 42 percent of cotton, 100 percent of peanuts, 45 percent of soybean, and 48 percent of wheat policies during the 5-year period.

An individual yield policy is called an Actual Production History policy for peanuts and a Yield Protection (YP) policy for all other row crops.

USDA NIFA United States Department of Agriculture National Institute of Food and Agriculture

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How do individual yield policies work?

A farmer must choose a proportion—50 to 85 percent—of her actual production history (APH) to determine her insured yield. The proportion chosen, or coverage level, times her APH is her insured yield.

If the farmer wants an insured yield that is 50 percent of her APH, she chooses a catastrophic policy (CAT).

If the farmer wants an insured yield that exceeds 50 percent of her APH, she chooses a buy-up policy.

A farmer must choose an optional, basic, or enterprise unit in which to insure her yield.

The farmer must also choose the proportion of the Risk Management Agency's projected price that will be used to value a covered crop loss.

RMA sets its projected price of peanuts. RMA's projected price of any other crop is an average of futures prices from the Chicago Board of Trade during the crop's planting season.

A farmer with catastrophic coverage must choose 55 percent (CAT 50/55) or 100 percent (CAT 50/100) of RMA's projected price. A farmer with a buy-up policy chooses as small as 55 percent or as large as 100 percent of the projected price for valuing a crop loss.

A farmer receives an indemnity for a covered crop loss, that is, if her actual yield falls below her insured yield. For example, a farmer with 85 percent coverage would be eligible for an indemnity if her actual corn yield were 80 percent of her normal yield. She would receive an indemnity, a monetary reimbursement, for the 5 percent difference between the insured yield (85 percent of APH) and the actual yield (80 percent of APH).

Individual Revenue Policies

Revenue policies cover revenue losses from decreases in yields, harvest prices, or both. Individual revenue policies accounted for 45.5 percent of all policies for corn, cotton, peanuts, soybeans, and wheat in Alabama, Florida, Georgia, and the Carolinas between 2008 and 2012. In particular, the policies accounted for 52 percent of all policies for corn, 58 percent of all for cotton, 54 percent for soybean, and 52 percent for wheat during the period. An individual revenue policy for peanuts has not been offered but might be in 2015.

How do Revenue Protection policies work?

A farmer must choose the proportion—50 to 85 percent—of his target revenue to insure and whether to have a policy with a harvest price option (RP) or harvest price exclusion (RP-HPE).

Target revenue is the product of the farmer's actual production history and either RMA's projected price or harvest price for a crop.

The product of the coverage level and the target revenue is the insured revenue, or target-revenue guarantee.

If RMA's harvest price exceeds its projected price, the target-revenue guarantee will increase for a policy with a harvest price option (RP) but will not increase for a policy without the option (RP-HPE).

A farmer must choose an optional, basic, enterprise, or whole-farm unit in which to insure his revenue.

A farmer receives an indemnity if his revenue falls below the target-revenue guarantee.

County-Level Yield and Revenue Policies

County-level policies accounted for only 0.6 percent of all policies for corn, cotton, peanuts, soybeans, and wheat in Alabama, Florida, Georgia, North Carolina, and South Carolina during 2008 – 2012. In fact, the policies are only offered for cotton, soybeans, and wheat in a minority of counties in Georgia and the Carolinas.

A farmer with county-level yield insurance, called a Group Risk Plan (GRP), receives an indemnity when the actual county yield for an insured crop falls below the trigger yield, regardless of the farmer's actual yield. The trigger yield is the product of the coverage level that a farmer chooses and the expected county average yield.

A farmer with county-level revenue insurance, called Group Risk Income Protection (GRIP), receives an indemnity when the actual county revenue per acre of an insured crop falls below the trigger revenue, regardless of the farmer's actual revenue per acre. The trigger revenue is the product of the farmer's coverage level, the projected price, and the county average yield. Similar to individual revenue policies, GRIP offers the Harvest Revenue Option (GRIP-HR). The trigger revenue for GRIP-HR is the product of the farmer's coverage level, the higher of the projected price or harvest price, and the county average yield.

The premium for a Group Risk Plan or Group Risk Income Protection increases as the trigger yield or trigger revenue and the coverage level increase.

Group policies are less expensive and involve less paperwork than individual policies.

Area Risk Protection Insurance (ARPI) policies will replace the current county-level policies in 2015.

There will be three ARPI plans: Area Yield Protection (similar to GRP), Area Revenue Protection with Harvest Price Exclusion (similar to GRIP), and Area Revenue Protection (similar to GRIP-HR). A farmer with ARPI will be required to submit production records and plant no later than a RMA-specified date.

Farmer Costs: Insurance Fees or Premia

A farmer with catastrophic yield coverage at 55 percent of the projected price (CAT 50/55) pays a $300 administrative fee.

A farmer with any other policy pays a premium. The farmer's premium is the product of a premium rate, the farmer's share of the premium rate, and the liability that the policy creates for an insurer. The Risk Management Agency (RMA) sets the premium rate and farmer's share of it.

Farmers in Alabama, Florida, Georgia, and the Carolinas paid average premia of $15.91 per insured acre of corn, $22.73 per insured acre of cotton, $20.51 per insured acre of peanuts, $12.53 per insured acre of soybeans, and $9.16 per insured acre of wheat during 2008 – 2012.

The policy's liability is the indemnified value of the insured yield multiplied by acres of the unit chosen or the insured revenue per acre multiplied by acres of the unit chosen.

Liability increases with RMA's projected price and the farmer's coverage level, actual production history, and insured area. Liability of a yield policy also increases with the chosen percent of RMA's projected price.

The premium rate is the percent by which liability is multiplied so that the sum of the farmer's and government's premia for a policy equals the expected indemnity of it.

The premium rate increases with the chosen coverage level.

The premium rate depends on the type of unit chosen by the farmer. A policy for which optional units are chosen has the highest premium rate. A farmer who chooses any other type of unit receives a discount on the premium rate.

Premium rates also vary with the seed types and production practices for a crop, called type/practice in RMA's premium calculator. Seed types and production practices affect production risk. A seed type or production practice that decreases production risk will have a lower premium rate.

The premium rate for individual policies also depends on the relationship between the county's normal yield and the farmer's actual production history (APH).

The higher a farmer's APH is above the county's normal yield, the lower the premium rate. The lower a farmer's APH is below the county's normal yield, the higher the premium rate.

The premium rate for a revenue policy with the harvest price option exceeds the premium rate for the same policy without the option, i.e., with harvest price exclusion.

The percent of the premium rate that a farmer pays is the farmer's share. The farmer's share varies by coverage level and type of unit (Table 1).

Table 1: Farmer's Share of Premium Rate by Coverage Level and Type of Unit

	Coverage Level (%)							
Type of Unit	50*	55	60	65	70	75	80	85
Optional or Basic Unit	0.33	0.36	0.36	0.41	0.41	0.45	0.52	0.64
Enterprise Unit	0.20	0.20	0.20	0.20	0.20	0.23	0.32	0.47
Whole Farm Unit	0.20	0.20	0.20	0.20	0.20	0.20	0.29	0.44

*The catastrophic policy with a covered crop loss valued at 55 percent of RMA's projected price is excluded.

Farmers in Alabama, Florida, Georgia, and the Carolinas paid, on average, 36 percent of the premia for corn, cotton, peanut, soybean, and wheat policies from 2008 through 2012. The shares of the premia that they paid were 35 percent for corn, 36 percent for cotton, 41 percent for peanut, 34 percent for soybean, and 35 percent for wheat policies during the same period.

Farmer Benefits: Indemnities

A farmer with a covered loss receives an indemnity. Indemnities per acre depend on the type of policy, type of unit, level of coverage, and degree of crop or revenue loss. The effects of adverse weather, climate, disease, and pests on yields also differ by crop and the extent of irrigation.

Farmers in Alabama, Florida, Georgia, and the Carolinas received, on average, indemnities of $50.83 per acre of corn, $44.25 per acre of cotton, $36.30 per acre of peanuts, $17.37 per acre of soybeans, and $20.13 per acre of wheat insured from 2008 through 2012.

Additional Resources

Hooper, Alan and Scott Templeton. *Overview of Insurance for Row Crop Farmers in Five Southeastern States*, unpublished report available upon request from second author at stemple@clemson.edu.

Economic Research Service, USDA. "Agricultural Act of 2014: Highlights and Implications: Crop Insurance", http://www.ers.usda.gov/agricultural-act-of-2014-highlights-and-implications/crop-insurance.aspx, accessed during March 20-28, 2014.