

2017 Crop Insurance Update



Strickler Insurance Update

February 22, 2017

Entities

Conservation Compliance

Acreage Reporting by CLU and Uninsurable acreage

Units

Revenue Protection vs Yield Protection

YE

Commodity Price and Impact

- **Verify you are insuring the proper entity and insurable interest** (individuals, **spousal/married**, corporations, LLC's, partnerships, etc.)
- **Verify the SSN or EIN for the policy holder and any SBI's on the policy are correct**
- **Authorization to sign VS POA**

Overview

- Conservation compliance provisions
Part of 2014 Farm Bill
- Premium subsidy withholding
- PM-15-032: Conservation compliance procedures in effect for 2016 crop year

Conservation Compliance



The 2014 Farm Bill linked conservation compliance with the premium subsidy provided to the federally reinsured crop insurance programs. In order to receive a premium subsidy, producers must comply with the highly erodible land (HELC) and wetlands conservation (WC) requirements of the Food and Security Act of 1985, as amended. Producers who have participated in the FSA and NRCS programs have complied with these same requirements since 1985.

Conservation Compliance



The deadline for certifying conservation compliance is June 1st prior to the sales closing date. The deadline for certifying conservation compliance for the 2017 crop year **was** June 1, 2016.

Producers certify compliance with the highly erodible land and wetland conservation requirements by completing a Highly Erodible Land Conservation Certification (form AD-1026)

Non-Compliance

PM-15-032 1A: Three situations resulting in non-compliance

1. Produce and Agricultural Commodity on HEL
2. Plant and agricultural Commodity on a Wetland Converted after 2-7-14
3. Convert a wetland after 2-7-14

Compliance

- File a Highly Erodible Land Conservation and Wetland Conservation Certification form (AD-1026) – on or before June 1 prior to the reinsurance year (**Entity Changes after 6-1**)
- Reinsurance year as it relates to the SCD
 - July 1 through December 1 – reinsurance year equals calendar year plus one

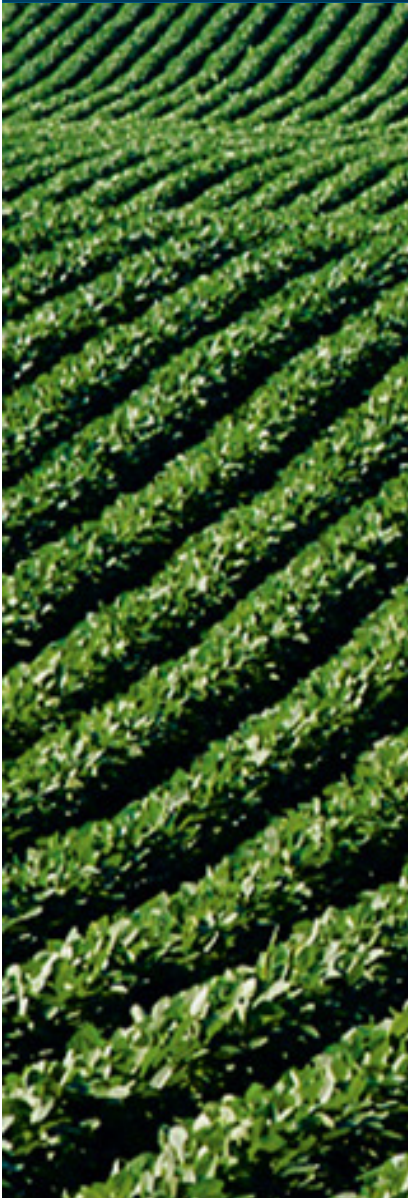
Compliance

- PM-15-032 2B: Eligibility requirements
 - 1. AD-1026 2. Be in compliance 3. Pay any fines by due date
- PM-15-032 3A: Single certification per insured person type

Appendix III of the Standard Reinsurance Agreement narrative changes that include: Reinsurance Year 2017 Common Land Unit (CLU) targeted reporting requirement percentages from the previous requirement of 100 percent by the AIP (company) to 100 percent by the producer for insurance plans Yield Protection, Revenue Protection, Revenue Protection with Harvest Price Exclusion, Area Yield Protection, Area Risk Protection, and Area Risk Protection with Harvest Price Exclusion; a 40 percent reporting requirement for all other insurance plans.

ACRSI Pilot

Acreage and Crop Reporting Streamlining Initiative



- **Basic** (share) (CAT) (Premium Discount)
- **Optional** (FSN, practice, type, etc)
(record keeping requirements)
- **Enterprise Units** (RP & RP-HPE
option- premium discount)
- **Whole Farm** (some crops and plans)
- **Written Unit Agreements**

**The Crop Insurance Handbook
requires both insurable and
uninsurable acreage of an
insured crop to be reported on
the acreage report and the
production report**

Penalties apply if all insurable and uninsurable acreage is not reported

- 1. Loss of New producer status**
- 2. Loss of optional units**
- 3. Possible assigned yields**
- 4. Proration of production from unreported acreage across loss units, resulting in decreased or no indemnity**

Choices

- Different coverage levels for IRR and NI acreage
- Must be above “CAT” level by IRR and NI practice

Level by Practice example



Example

Crop	Practice	Coverage level
Corn	IRR <ul style="list-style-type: none">• Conventional• Certified Organic	65%
Corn	NI <ul style="list-style-type: none">• Conventional• Certified Organic	80%

EU Units By Practice



Enterprise Units by Practice is effective for Spring Crops for 2016 and forward.

Fall Crops were added for 2016 Crop Year
(Wheat and Barley)

What is APH Yield Exclusion (YE)?

- A provision of the 2014 Farm Bill that allows an actual yield to be excluded for a crop year when RMA determines the county per planted acre yield for a crop year was at least 50 percent below the simple average of the per planted acre yield for the crop in the county for the previous 10 consecutive crop years, and the crop year is identified in the actuarial documents.

:

- Yield Protection (Plan 01);
- Revenue Protection (Plan 02); or
- Revenue Protection with Harvest Price Exclusion (Plan 03).

Corn Soybeans Cotton Grain Sorghum

Spring Wheat Spring Barley Spring Canola

APH YE Election



- For the current crop year:
 - The insured must elect YE by the sales closing date by crop/county on an application or policy change form by indicating the “YE” option code.
 - Policyholders who elect YE must understand that ALL actual yields for an eligible crop year are automatically excluded, UNLESS the insured opts out of excluding an actual yield by the production reporting date by identifying the yield not to be excluded in the APH database.
- YE is a continuous election until cancelled.

Scenario – YE Option Only

Year	Eligible For Exclusion	APH	APH with All Eligible Yields Excluded	
2007	No	628	628	Average Yield: (628+746+231+563+430+111+531+0+35+95) / 10 = 337 lbs
2008	No	746	746	
2009	Yes – by Contiguous County	231		Adjusted Yield: (628+746+231+563+430+111+531+0+35+95) / 10 = 337 lbs
2010	No	563	563	
2011	No	430	430	Approved APH Yield: (628+746+563+430+ 111+531+95) / 7 = 443 lbs
2012	No	111	111	
2013	No	531	531	
2014	Yes – by Primary County	0		The approved APH yield is greater than the adjusted yield.
2015	Yes – by Primary County	35		
2016	No	95	95	The producer’s approved APH yield increases from 337 lbs with no options to 443 lbs with the use of the YE option.
	Approved APH Yield	337	443	

Scenario – YE Option with YA

Year	Eligible For Exclusion	T-Yield	60% of Applicable T-Yield	APH	APH with YA	APH with All Eligible Yields Excluded and YA
2007	No	206	124	628	628	628
2008	No	227	136	746	746	746
2009	Yes – by Contiguous County	268	161	231	231	
2010	No	301	181	563	563	563
2011	No	301	181	430	430	430
2012	No	301	181	111	181	181
2013	No	301	181	531	531	531
2014	Yes – by Primary County	301	181	0	181	
2015	Yes – by Primary County	361	217	35	217	
2016	No	361	217	95	217	217
	Approved APH Yield			337	393	471

Definition

An individual that has not actively operated or managed a farm or ranch in any county, in any state, with an insurable interest in a crop or livestock as an owner-operator, landlord, tenant, or share-cropper for more than five crop years, excluding any year that the BFR was under the age of 18, in post secondary studies, or on active duty in the US military.

Benefits

- 1. Additional Premium Subsidy**
- 2. Administrative Fees Waived**
- 3. Easier to use another person's history**
- 4. Yield adjustment 80% rather than 60%**

Individual

Vs

Business Entities

RP Corn Example



Average Yield	= 140 bushels/acre
Level Election	= 80%
Projected Price	= \$3.96/bushel
Harvest Price	= \$4.50/bushel
Harvested Production	= 90 bushels/acre
Initial Guarantee	= 112x \$3.96 = \$453.52/acre
Final Guarantee	= 112 x\$4.50= \$504.00/acre

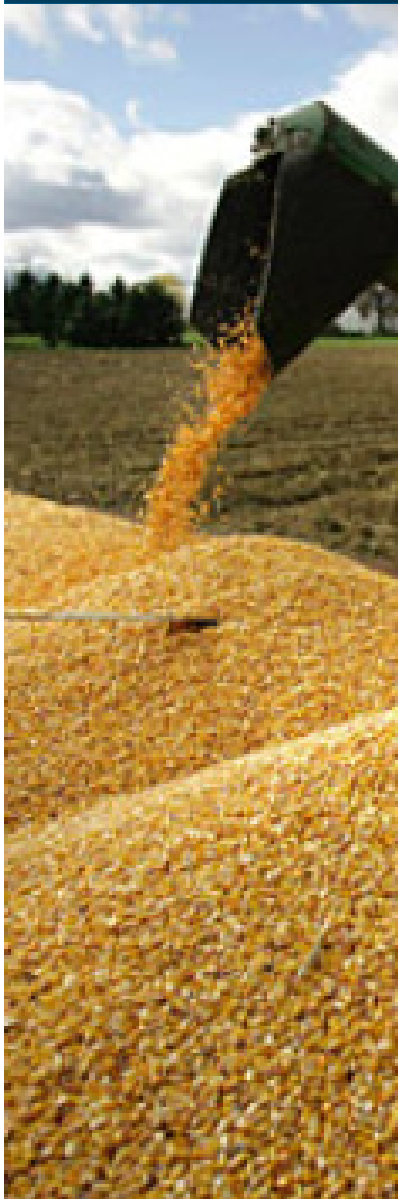
Calculated as follows:

Final Guarantee	= \$504.00/acre
Harvested 90 bu x \$4.50	= <u>\$405.00 acre</u>
Indemnity	= \$99.00/acre

Note:

Final Guarantee = Guaranteed yield X Greater of Projected Price or Harvest Price
Production to Count = Harvested Production x Harvest Price

RP-HPE Corn Example



Without Fall Harvest Option

Average Yield	= 140 bushels/acre
Level Election	= 80%
Base Price	= \$3.96/bushel
Harvest Price	= \$4.50/bushel
Harvested Production	= 90 bushels/acre
Initial Guarantee	= 112 x \$3.96 = \$453.52/acre
Final Guarantee	= 112 x \$3.96 = \$453.52/acre

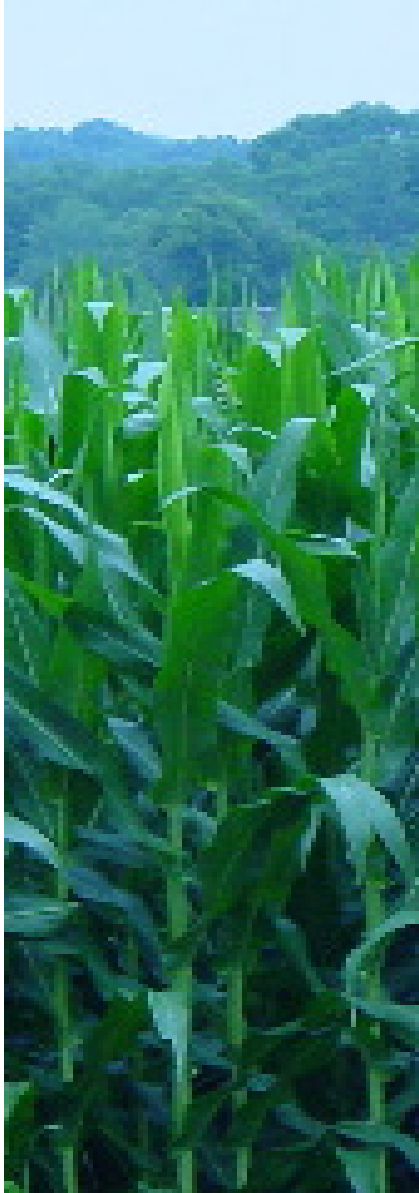
Calculated as follows:

Final Guarantee	= \$453.52/acre
Harvested 90 bu x \$4.50	= <u>\$405.00 acre</u>
Indemnity	= \$38.52/acre

Note:

Final Guarantee = Guaranteed yield X Greater of Projected Price or Harvest Price
Production to Count = Harvested Production x Harvest Price

RP Corn Example



Average Yield	= 140 bushels/acre
Level Election	= 80%
Projected Price	= \$3.96/bushel
Harvest Price	= \$3.20/bushel
Harvested Production	= 90 bushels/acre
Initial Guarantee	= 112 x \$3.96= \$453.52/acre
Final Guarantee	= 112 x \$3.96= \$453.52/acre

Calculated as follows:

Final Guarantee	= \$453.52/acre
Harvested 90 bu x \$3.20	= <u>\$288.00 acre</u>
Indemnity	= \$165.52/acre

Note:

Final Guarantee = Guaranteed yield X Greater of Projected Price or Harvest Price
Production to Count = Harvested Production x Harvest Price

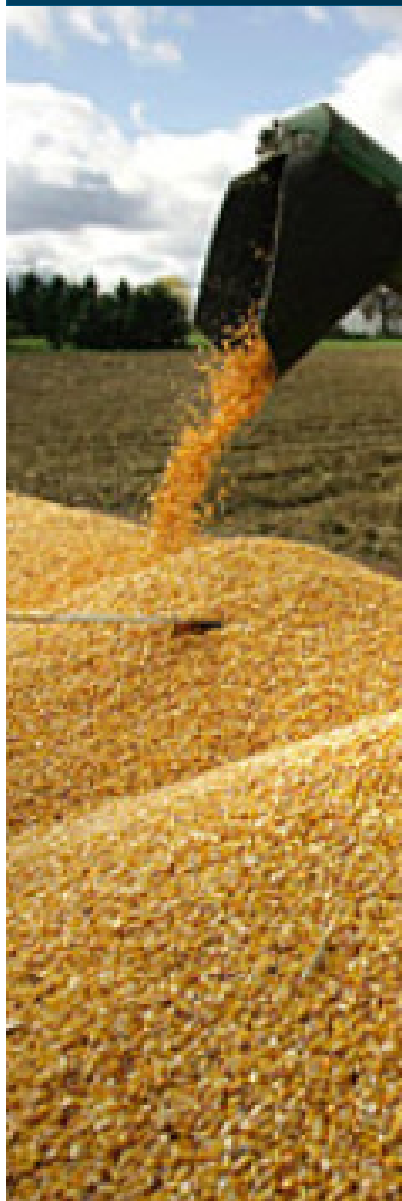
Corn Projected Price

The average of the CBOT **December Futures** during the month of **February**

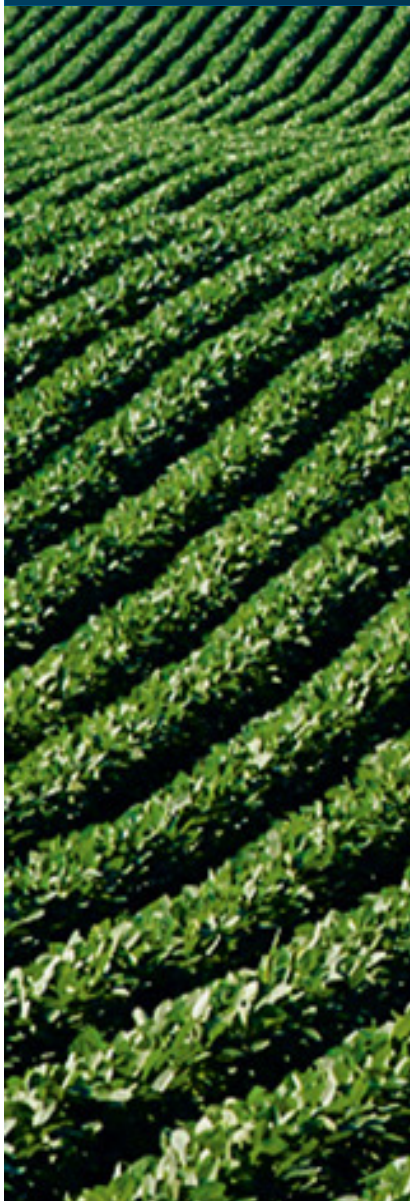
Corn Harvest Price

The average of the CBOT **December Futures** during the month of **October**

RP Corn Harvest Price cannot go up more than 200% but it can go down without limit from the projected price



RP Soybean Example



Average Yield	= 40 bushels/acre
Level Election	= 80%
Guarantee	= 32.0 bushels/acre
Projected Price	= \$10.25/bushel
Harvest Price	= \$12.00/bushel
Harvested Production	= 30 bushels/acre
Initial Guarantee	= 32x \$10.25= \$328.00/acre
Final Guarantee	= 32x \$12.00=\$384.00/acre

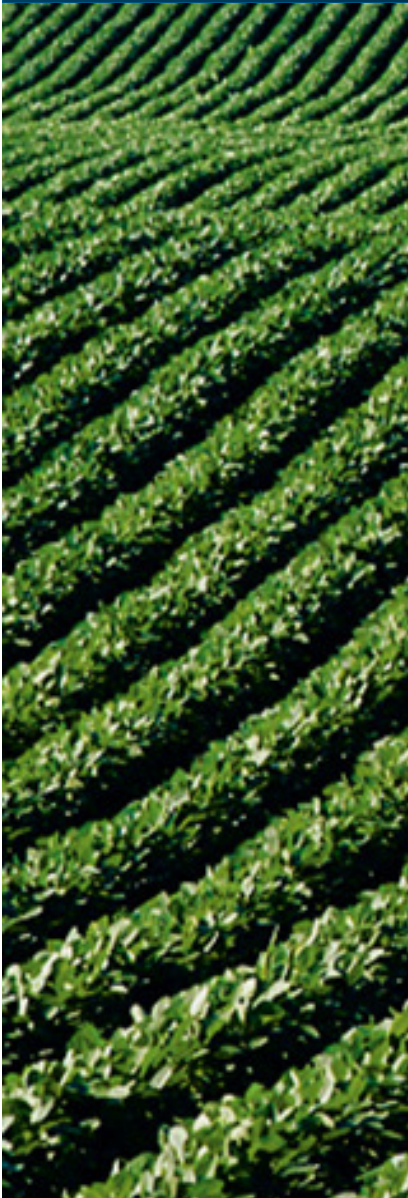
Calculated as follows:

Final Guarantee	= \$ 384.00/acre
Harvested 30 bu x \$10.50	= <u>\$ 360.00/ acre</u>
Indemnity	= \$ 24.00/acre

Note:

Final Guarantee = Guaranteed yield X Greater of Projected Price or Harvest Price
Production to Count = Harvested Production x Harvest Price

RP-HPE Soybean Example



Average Yield	= 40 bushels/acre
Level Election	= 80%
Guarantee	= 32.0 bushels/acre
Projected Price	= \$10.25/bushel
Harvest Price	= \$12.00/bushel
Harvested Production	= 30 bushels/acre
Initial Guarantee	= 32x \$10.25= \$328.00/acre
Final Guarantee	= 32x \$10.25=\$328.00/acre

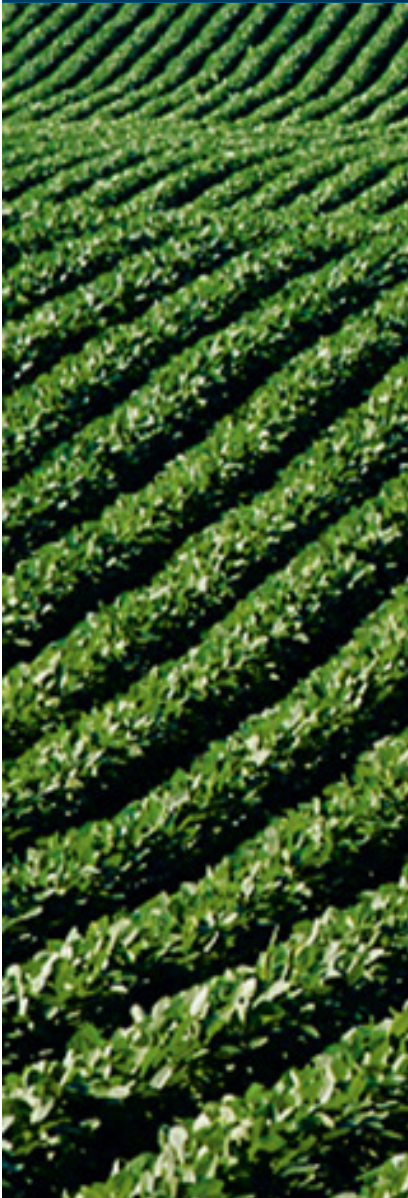
Calculated as follows:

Final Guarantee	= \$ 328.00acre
Harvested 30 bu x \$12.00	= <u>\$ 360.00/ acre</u>
Indemnity	= \$ -32.00/acre

Note:

Final Guarantee = Guaranteed yield X Greater of Projected Price or Harvest Price
Production to Count = Harvested Production x Harvest Price

RP Soybean Example



Average Yield	= 40bushels/acre
Level Election	= 80%
Guarantee	= 32 bushels/acre
Projected Price	= \$10.25/bushel
Harvest Price	= \$8.50/bushel
Harvested Production	= 30 bushels/acre
Initial Guarantee	= 32 x \$10.25 = \$328.00/acre
Final Guarantee	= 32x \$10.25 = \$328.00/acre

Calculated as follows:

Final Guarantee	= \$ 328.00/acre
Harvested 30 bu x \$8.50	= <u>\$ 255.00/ acre</u>
Indemnity	= \$73.00/acre

Note:

Final Guarantee = Guaranteed yield X Greater of Projected Price or Harvest Price
Production to Count = Harvested Production x Harvest Price

Handbook Updates

Soybean Base Price

The average of the CBOT **January Futures (MD, DE, VA) November Futures (PA)** during the month of February

Soybean Harvest Price

The average of the CBOT **January Futures (MD,DE, VA) during the month of November (PA will use November futures during month of October)**

RP & RP-HPE Soybean Harvest Price cannot go up more than 200% but it can go down without limit from the projected price



Added Price Option



The loss examples outlined below are for purposes of illustration only:

Example #1

A corn grower has a Yield Protection Plan MPCl policy. He buys 80% MPCl coverage at \$3.96 per bushel. He also purchases APO coverage at \$1.25 per bushel.

The APH for unit #0100-0000 is 182 bushel

1. The MPCl guarantee per acre is 145.6 bushels (182 x 80%).

2. Due to an insured peril, the grower only harvests an average of 128.6 bushels per acre on the unit, which is 17 bushels per acre below the MPCl Production Guarantee (145.6 bushel guarantee – 128.6 bushels harvested).

3. The indemnity payment per acre is as follows:

a. MPCl Benefit: $\$3.96 \times 17 \text{ bushels} = \67.32 per acre times insured's share

B .APO Benefit: $\$1.25 \times 17 \text{ bushels} = \21.25 per acre times insured's share

c. Total Benefit: $\$5.21 \times 17 \text{ bushels} = \88.57 per acre times insured's share

Added Price Option Example



Example #2

A corn grower has a Yield Protection Plan MPCl policy with enterprise unit structure. There are 1000 acres in the unit. He buys 80% MPCl coverage at \$3.96 per bushel. He also purchases APO coverage at \$1.25 per bushel.

1. The MPCl enterprise production guarantee is 144,000 bushels (180 APH x 80% level of coverage x 1,000 acres).

2. The grower harvests 150,000 bushels on the unit, which is 6,000 bushels above the MPCl production guarantee; therefore, no MPCl indemnity is due (150,000 harvested – 144,000 guarantee = 6,000 above production guarantee).

3. Basic unit #0200-0000 the APH is 182 bushel. APO production guarantee is 145.6 bushels (182 x 80%)

4. Due to a loss from an insured peril, the insured only harvested 50 bushel per acre on basic unit #0200-0000.

5. The indemnity payment per acre is as follows:

a. MPCl Benefit: $\$3.96 \times 0 \text{ bushels} = \0.00 per acre

b. APO Benefit: $\$1.25 \times 95.6 \text{ bushels} = \$119.50 \text{ per acre times insured's share}$

c. Total Benefit: $\$1.25 \times 95.6 \text{ bushels} = \$119.50 \text{ per acre times insured's share}$

SCO



SCO (supplemental coverage option)

**Is available on barley, corn, cotton,
grain sorghum, soybeans, & wheat**

SCO



Not available if producer elected ARC

On the same crop at FSA

Area Based plan

SCO



Must have underlying MPCl

Plan mimics the underlying MPCl

(YP, RP, RP-HPE)

Liability based upon producer's APH yield

**Loss triggers whenever area (county) produces
<86% of expected yield or revenue**

SCO



SCO

Covers from producer's level of coverage

Up to the 86% trigger point

When MPCl coverage level changes

The range of the SCO level changes

SCO Endorsement



Example – SCO Coverage Range

Percent of expected grower revenue	Individual loss coverage (from underlying policy)	Area-based loss coverage (from SCO endorsement)
100%		
95%		
90%		
86%		
80%		SCO endorsement coverage (70% to 86%)
75%		
70%		
65%		
60%	Underlying policy coverage (0% to 70%)	
55%		
50%		
45%		
40%		
35%		
30%		
25%		
20%		
15%		
10%		
5%		
0%		

2017 Prices vs 2016 & 2015



	2015	2016	2017
Wheat	\$5.93	\$5.13	\$4.74
Corn	\$4.15	\$3.87	\$3.96 Est
Sbean PA	\$9.63	\$8.86	\$10.21 Est
Sbean MD	\$9.68	\$8.91	\$10.20 Est
Gsorg	\$3.99	\$3.73	\$3.83

Questions