Crop Insurance 2021
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Market Wise Ag Services began offering crop insurance in 2009 with the goal of helping our clients get the most out of their crop insurance program by synchronizing it with their marketing program.

Another reason was that some agencies were representing these plans as replacements for marketing saying things like "revenue-based crop insurance guarantees you a profit". This is simply not true. We like to say; "***Until the crop insurance company shows up with a fleet of trucks, hauls away your grain then hands you a check for your revenue guarantee, you still have to market your crop."*** In fact, about the only way the insurance company is going to hand you a check for 100% of your "Revenue Guarantee" is if you plant the crop, then it gets totally wiped out with a zero-yield, otherwise you have to market the bushels you produce.

The advent of the fall price reset, which allows for a higher insurance price paid on lost bushels at harvest, was designed to ***enable*** forward marketing, not replace it. That feature reduces the risks associated with forward marketing bushels before harvest, having a natural disaster destroy the crop before harvest, leaving the farmer short of bushels needed to fill the contracts, and facing buying those at a higher price than where they were forward sold. With RP, that risk is practically eliminated, so many more forward marketing tools are in the farmer's marketing toolbox.

2021 Crop Insurance Considerations:

By March 15th of 2021 you will need to make a final decision on your 2021 crop insurance program. This report is designed to help you with that decision.

We will focus specifically on changes and additions to the Revenue Protection Plan. The reason for this is our clients have evaluated all the plan options over the years and except in a few unique situations, have decided to take the Revenue Protection (RP) plan, so rather than muddy the waters by going back over all these plans again, we focus on that plan first. There is a new option for RP buyers this year called Enhanced Coverage Option and we will review that in this first part.

We will send a second report that will provide an overview of all the plans in case you want to review those again just to make sure you are in the best plan for your situation. It will also review unit structure and the options you can add on.

An important note here. The USDA's 2020 Crop Insurance Handbook is 861 pages long, nearly 100 pages longer than it was last year. There is no way we can cover every detail of the policies in this report. This is an overview of these plans. If you need a detailed question answered, or want to know the specific rules, exceptions, etc, just let us know and we can find the information for you.

If you ever need help sleeping, here is the crop insurance handbook link, it's bound to cure insomnia.

https://www.rma.usda.gov/-/media/RMA/Handbooks/Coverage-Plans---18000/Crop-Insurance-Handbook---18010/2021-18010-1-Crop-Insurance-Handbook.ashx

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Revenue Protection Plan (RP)

The majority of our clients chose RP. The primary reasons for that choice are:

- It is an Individual Plan so the coverage and claims are based on your farm.
- It is a revenue plan, so it provides yield and price protection.
- It automatically resets if the fall price is higher than the spring price.
    - This enables forward marketing.
- Here is the RP Spring Revenue Guarantee formula:
    - Spring Price X Actual Production History (APH) X Percent Coverage
- Automatically gives you the higher fall price if that happens.
    - Fall Price (if higher than spring) x APH x Percent Coverage = New Guarantee
- At harvest your revenue is calculated:
    - Your actual yield x the higher of the spring or fall price = realized revenue
    - If realized revenue is below the guarantee, you get a payment.

There have not been any changes in the 2021 policies that would cause us to advise a shift away from the RP plan to another type of plan. If there are changes on your farm that might require a change, we can help you evaluate that.

Once the plan is selected you have to pick your percent coverage and unit structure.

Percent coverage ranges from 50% to 85%. The most popular choices are 75%, 80%, or 85%.

The primary unit choices are the same as in the past: Enterprise Unit, Multi County Enterprise Unit, Basic Unit, Optional Unit. We have full explanations of units in the second part of the report.

Below you can see the USDA's subsidy structure for units and coverage percentages, they are the same as they were in 2020.

Coverage Level		50%	55%	60%	65%	70%	75%	80%	85%
Subsidy Factors by Unit Type	Enterprise Unit	80%	80%	80%	80%	80%	77%	68%	53%
	Basic Unit	67%	64%	64%	59%	59%	55%	48%	38%
	Optional Unit	67%	64%	64%	59%	59%	55%	48%	38%
	Whole Farm Unit	80%	80%	80%	80%	80%	80%	71%	56%

Other options offered in the past to decide on:

Trend Adjustment (TA): Continues to be a very good choice with very few exceptions.

Yield Adjustment (YA) and Yield Cup (YC):
There is no cost to add these (possible very rare exceptions) and the serve to keep your APH as high as possible. You can review details in part two.

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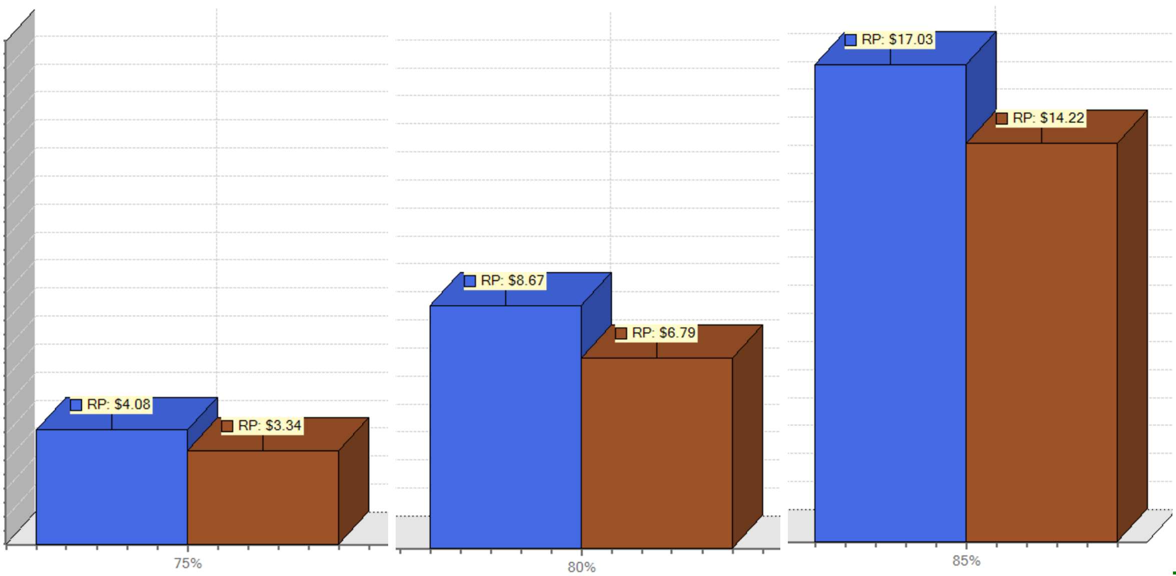
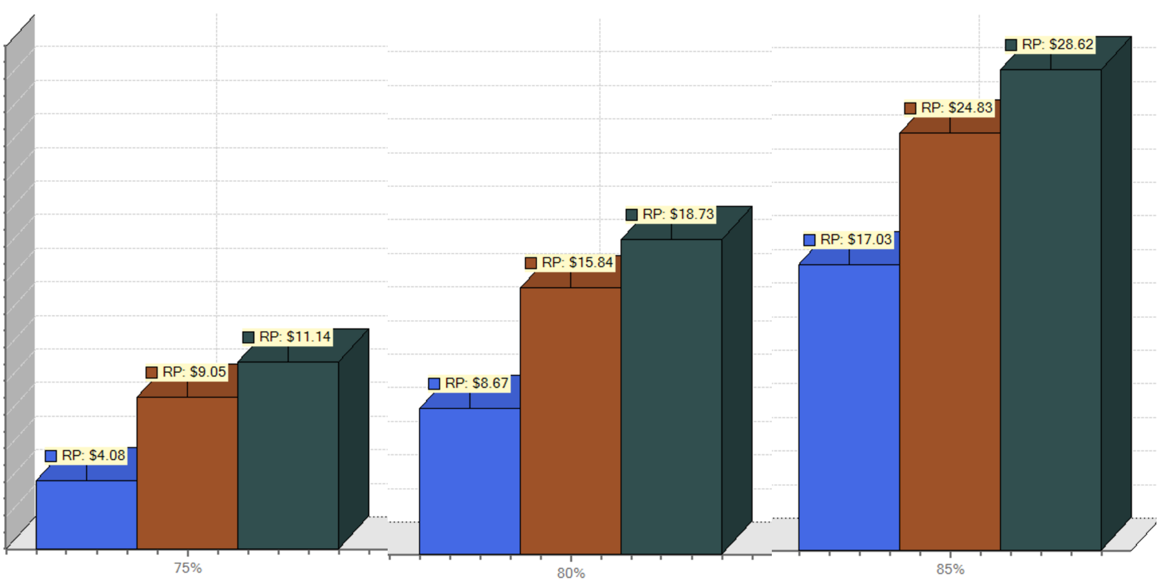
How do rates compare to last year?

- The current quotes for 2021 (blue) are higher than 2020 (brown) because the spring price at this point is $4.44 vs $3.88 last year and grain markets are jumping around so volatility is higher.



How does percent coverage and unit selection impact premium?

- Below is an example from a farm in O'Brien County in NW IA.
- The farm as a rate yield of 185 bu/ac and a trend adjusted yield of 203.
- This quote is for Revenue Protection (RP) with TA, YA, YC.
- At left you have 75% coverage; the middle is 80% and the right is 85%.
- The blue bar is Enterprise Units, the brown bar is Basic Units, the Green Bar is Optional Units.



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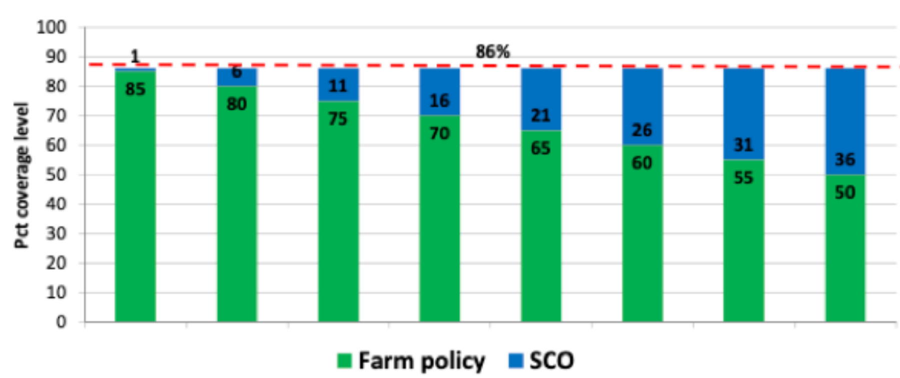
AREA PLANS PURCHASED WITH INDIVIDUAL PLANS:

- When you buy an individual plan of insurance like RP, your indemnity is based on your farm's losses.
- Recently the RMA has offered you the opportunity to buy an "area plan" of insurance to go with your individual plan. The area plans only pay if there is a loss at the county level. You could have a loss on your farm and still not collect on an area plan, and vice versa.
- There are two area plans available and you can buy either or both:
  - **Supplemental Coverage Option (SCO)** which was offered before.
  - **Enhanced Coverage Option (ECO)** this is new for 2021.

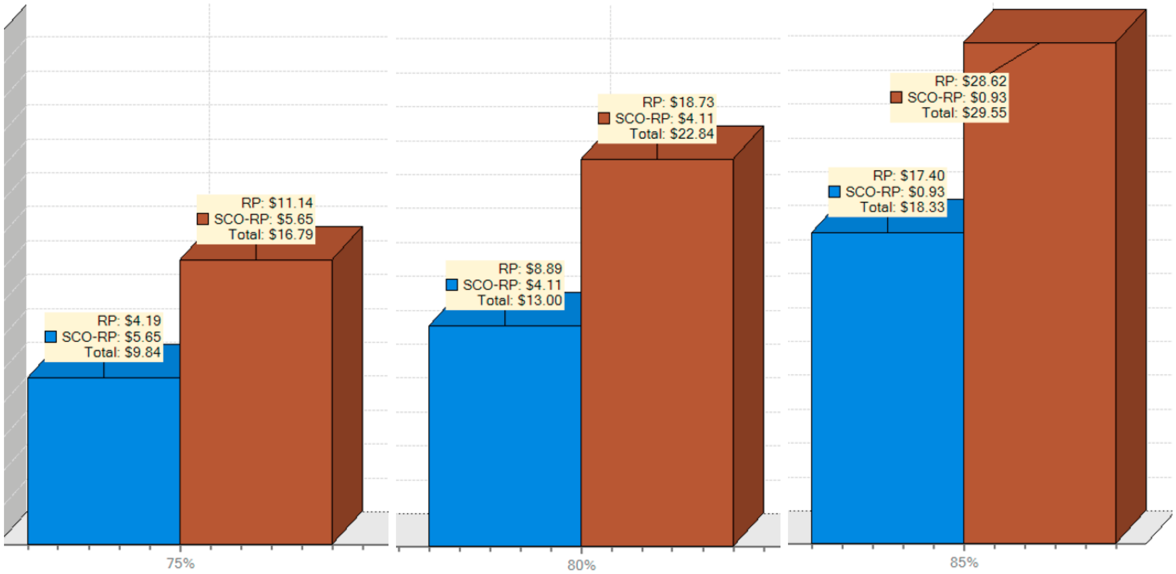
Details on Supplemental Coverage Option (SCO)

- This is one of those rare cases where the eligibility for this policy is contingent upon your farm program election.
- You can only buy this if you picked Price Loss Coverage in the Farm Program.
  - It is NOT available for crops enrolled in ARC County or ARC Individual.
  - Many farmers took PLC on corn.
  - Many farmers took ARC-CO on soybeans, if you did that, you can't buy SCO on soybeans.
  - You can take SCO on Corn and not soybeans and vice versa, but only on crops in PLC program.
- SCO is basically like the county-based revenue coverage you get when you pick the ARC-CO election in the Farm Program.
  - In this case you pay for it, but the government pays 65% of the premium.
- SCO triggers when the county's results fall below 86% of the county's guarantee, and then max out at your elected coverage on your RP policy.
- This blue bars in this graphic show the band covered by SCO, the green covered by RP
- Make no mistake here, SCO ***does not*** give YOU 86% coverage. That is a county level trigger, you can have a loss on your farm, and if the county does not, then no SCO payment is coming.



- Just remember, the lower your RP coverage is, the lower your personal insurance is and the more you are relying on a county loss and SCO payment to protect you.
- SCO follows the type of risk you are protecting on your underlying individual plan. If you have RP, then you collect when the county revenue falls below the county revenue guarantee. If you have YP then you collect if the county's yield falls below the county yield guarantee.

This shows the price of SCO with RP. The left is EU, the right is OU. You can see that SCO is the same price no matter what your unit structure is because it is a county-based product.



For 2021 USDA approved another area plan: Enhanced Coverage Option (ECO).

- This is not a private product, this is a new, federally backed and subsidized product.
- ECO covers a county-based loss at two separate levels:
  - 95% to 86% (a 9% band) with a 44% subsidy.
  - 90% to 86% (a 4% band) with a 51% subsidy.
- An ECO claim ***is not*** triggered by a loss on your farm.
  - Your farm's revenue could fall below the 95% or 90% level and you would not get a payment, in fact your farm could suffer a loss on your RP policy and ECO still might not payout.
- The dollar amount of coverage you get is driven by your farm's APH and the same spring and fall prices used for your RP policy.
  - So, the dollars of coverage each farmer gets will vary based on their yields.
- The way you collect is if the county's realized revenue falls below the guarantee.
  - Therefore, all farmers in the county that take 95% will either trigger or not.
  - All farmers in the county that take 90% will trigger or not.
  - The dollar amount they collect will vary based on their APH
- If you pick the 95% coverage, that protects a 9% drop, from 95% to 86%.
  - Take the spring price x your APH x 9% = Your dollars of coverage per acre.
  - If fall price is higher, take that x your APH x 9% = Your dollars of coverage per acre.
- If you pick the 90% coverage, that protects a 4% drop, from 90% to 86%.
  - Take the spring price x your APH x 94% = Your dollars of coverage per acre.
  - If fall price is higher, take that x your APH x 4% = Your dollars of coverage per acre.

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This example is from the RMA's website:

- ☐ Suppose you purchase Revenue Protection for a corn crop with a 75 percent coverage level and you have also elected ECO.
- ☐ This crop has an expected crop value of $765.00 per acre
- ☐ The liability on the underlying policy is $573.75 per acre ($765.00 x 0.75).
- ☐ This underlying policy leaves 25 percent (or $191.25) uncovered as a deductible.
- ☐ The dollar amount of ECO coverage is based on the trigger level you that you select.
- ☐ In this example, there are 9 percentage points of coverage (from 95 percent to 86 percent). Nine percent of the expected crop value is $68.85 (or 9 percent x $765.00).
- ☐ ECO may cover up to $68.85 of the $191.25 deductible amount not covered by your underlying policy.
- ☐ To collect the full amount of ECO coverage, in this case $68.85, the county's revenue would need to be at or below 86% of its guarantee.

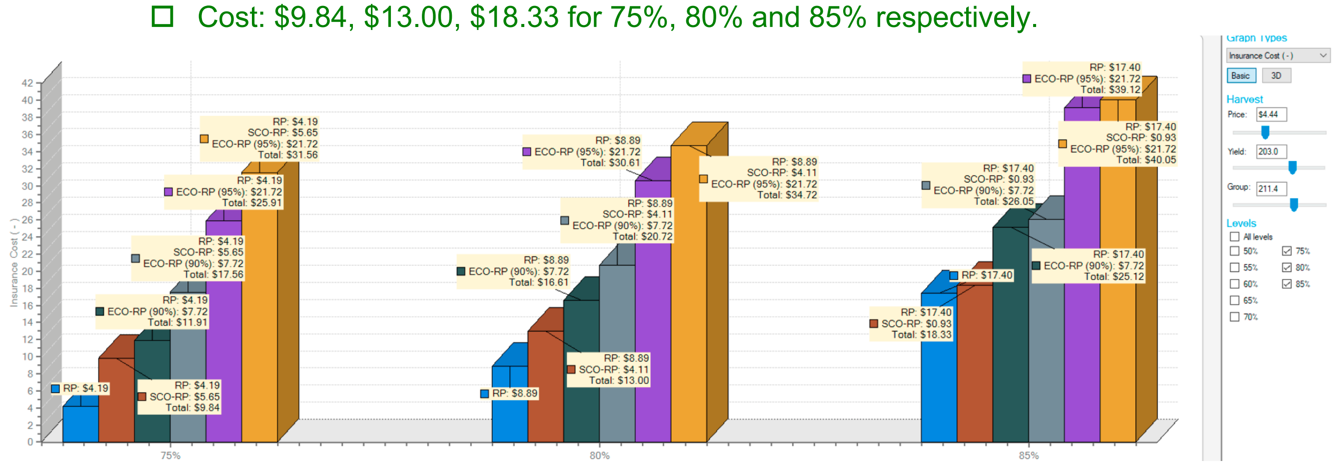
This RMA example of ECO covering your deductible is misleading.

- ☐ The payment from ECO has absolutely nothing to do with losses on your farm.
- ☐ Therefore, ECO does not cover your deductible. You could have a loss on your farm and collect nothing from ECO.
- ☐ What they are assuming in the example is that your yield will mirror the county's yield and that may or may not be the case.

What is the cost?

Since the unit selection does impact the cost or the payout on SCO or ECO the example quotes will all be based on the EU selection. Like before, 75% on the left, then 80%, then 85% on the right. Remember, you can not take SCO if your farm bill selection is ARC.

- ☐ The blue bar is Revenue Protection (RP) with Enterprise Unit (EU), so this is coverage for losses on your farm, but does not go up to those higher levels
    - ☐ Cost is $4.19, $8.89, $17.40 for 75%, 80% and 85% respectively.
- ☐ The brown bar is a stack of Supplemental Coverage Option (SCO) on top of RP.
    - ☐ This stack kicks in if SCO triggers at 86% (county level loss) and covers down to your RP % election if the county loss is that great.
    - ☐ Your RP kicks in when your farm's loss triggers.
        - ☐ Cost: $9.84, $13.00, $18.33 for 75%, 80% and 85% respectively.



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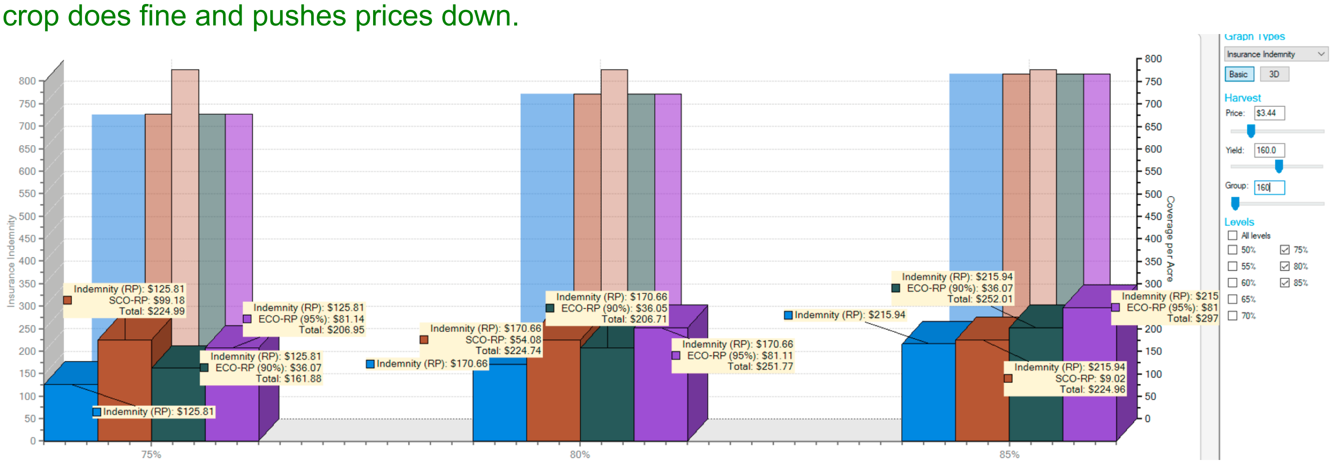
- The green bar is a stack of 90% ECO on top of RP.
  - This stack kicks in if ECO triggers at 90% (county level loss trigger) and covers the 4% band down to 86%, if the county loss is that great.
  - Your RP kicks in when your farm's loss triggers based on your percent coverage.
    - Cost is $11.91, $16.61, $25.19 for 75%, 80% and 85% respectively.
- The gray bar is a stack of SCO and 90% ECO on top of RP.
  - This stack kicks in if ECO triggers at 90% (county level loss trigger) and covers the 4% band down to 86% if the county loss is that great.
  - Then, if SCO triggers at 86% (county level loss trigger) it covers down to your RP election, if the county loss is that great.
  - Your RP kicks in when your farm's loss triggers.
    - Cost is $17.56, $20.72, $26.05 for 75%, 80% and 85% respectively.
- The purple bar is a stack of 95% ECO on top of RP.
  - This stack kicks in if ECO triggers at 95% (county level loss trigger) and covers down to 86%, a 9% band, if the county loss is that great.
  - Your RP kicks in when your farm's loss triggers.
    - Cost is $25.91, $30.61, $38.12 for 75%, 80% and 85% respectively.
- The gold bar is the whole thing, RP, SCO, and ECO at 95%
  - This stack kicks in if ECO triggers at 95% (county level loss trigger) and covers the 9% band down to 86% if the county loss is that great.
  - Then, if SCO triggers at 86% (county level loss trigger) it covers down to your RP election, if the county loss is that great.
  - Your RP kicks in when your farm's loss triggers.
    - Cost is $31.56, $34.72, and $40.05 for 75%, 80% and 85% respectively.

What would these payout?

This first one is low yield low price. It shows a $1.00 drop in the price from spring to fall, and a county wide crop problem that pulls the farm yield <u>and</u> the county yield down to 160 bu/ac. But nationally the crop does fine and pushes prices down.



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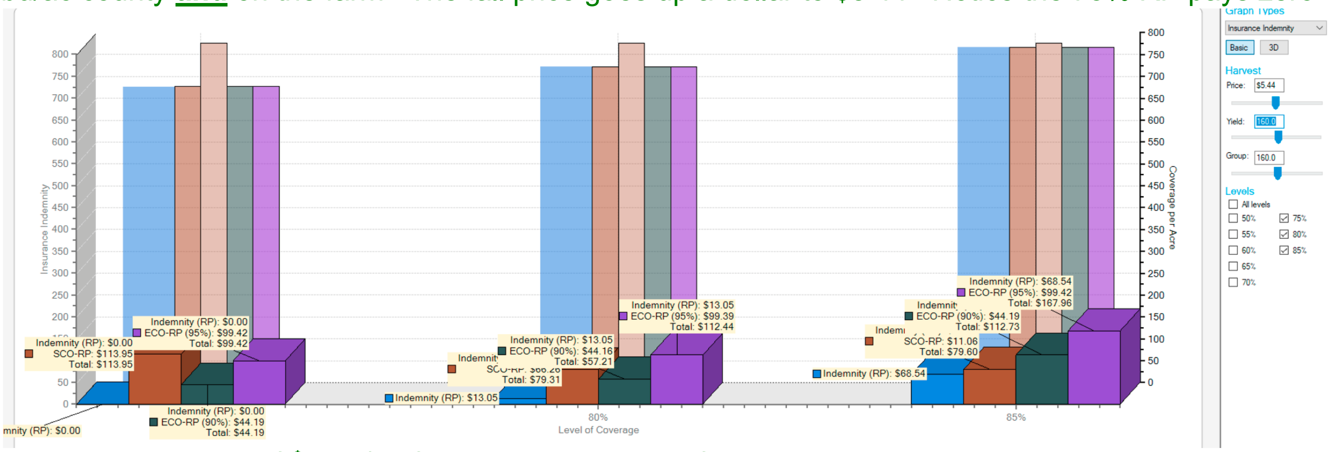
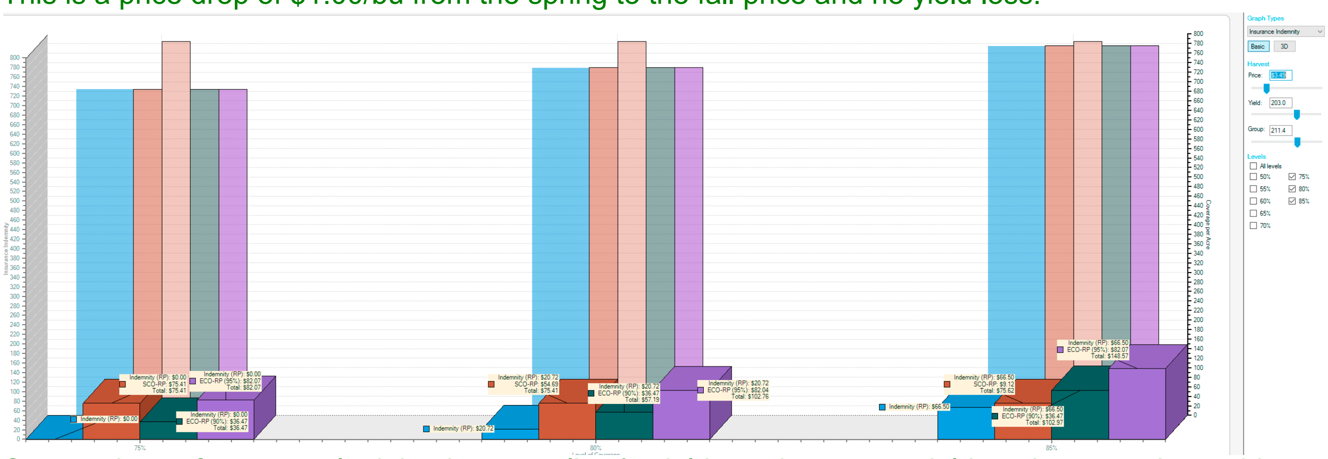
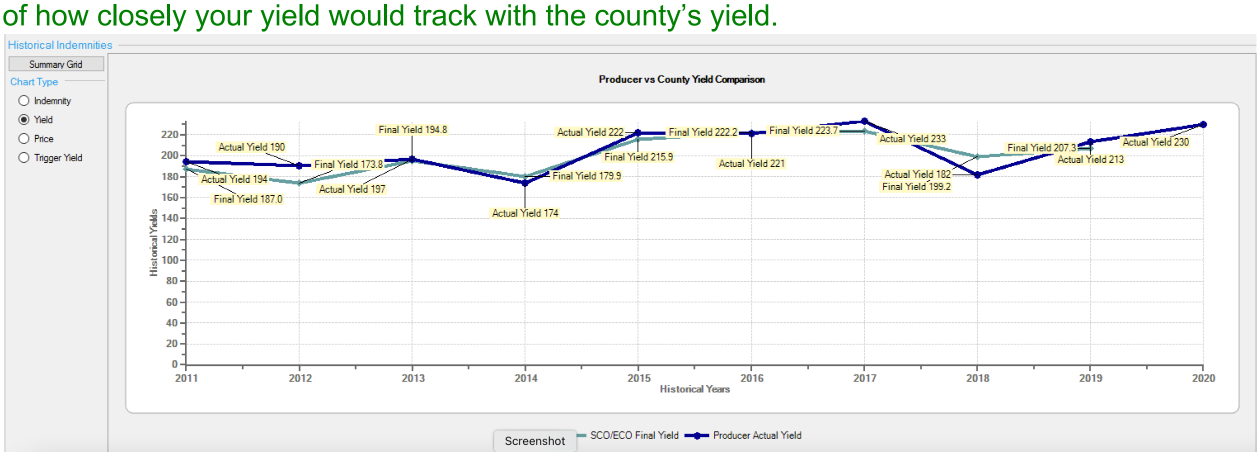
This is a low yield, high price situation, like a regional or US drought and that same yield of just 160 bu/ac county **and** on the farm. The fall price goes up a dollar to $5.44. Notice the 75% RP pays zero.



This is a price drop of $1.00/bu from the spring to the fall price and no yield loss.



Our quoting software can look back at our client's yields vs the county yield to give you a better idea of how closely your yield would track with the county's yield.



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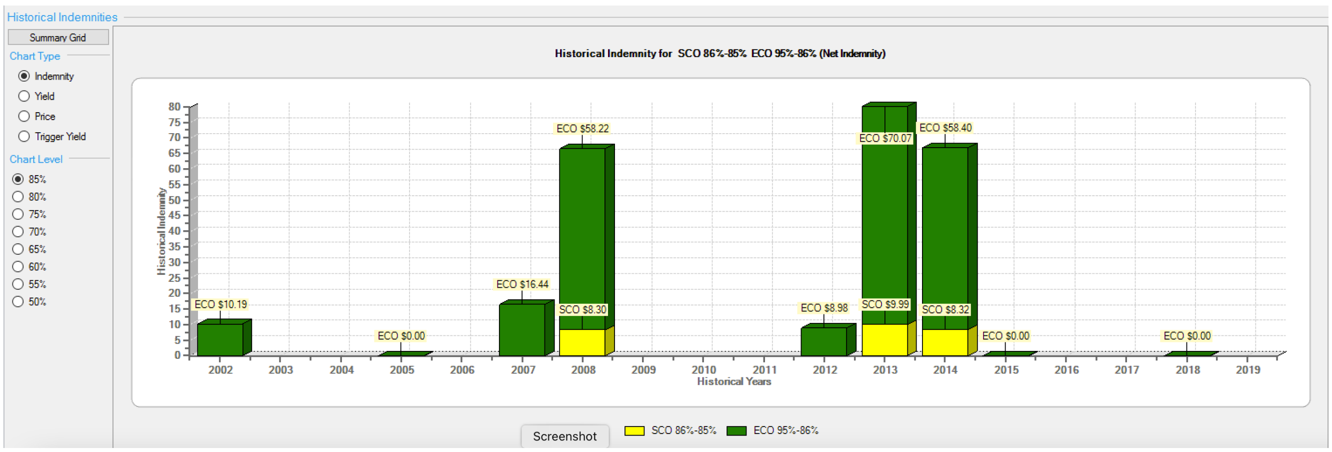
It also looks at historical payouts for different products, including ECO and SCO. Here we look at the Net Indemnity for ECO and SCO had they been offered since 2002. Of the 18 years studied, there were 9 years it would have triggered, but only 6 that would have paid out more than it cost.



With crop values higher this year than they have been the past 5 or 6 years there is merit to increasing your coverage, but you should evaluate increasing coverage on your land and your crop, and don't just look at ECO. For example, in our example farm that we've been looking at, a producer could add a production hail policy at P-85-110% production hail policy that covers 110% of the APH for about the same price as 95% ECO, or other hail and wind combo products.

Summary:

- ☐ These area plans are subsidized, but they are not cheap.
- ☐ We think the terms supplemental and enhanced are a little misleading. These plans ***do not supplement or enhance coverage for losses of your crops or revenue on your farm.***
- ☐ In naming these plans they "assume" that losses at the county level will track your losses.
- ☐ The fact is your crops could be hurt or destroyed by wind, hail, fire, excess moisture or drought without the county triggering a loss in which case you would not get paid on SCO or ECO.
- ☐ Be sure to evaluate the cost of area coverage vs:
    - Increasing your RP coverage percentage
    - Breaking into smaller units like OU rather than EU
    - Increasing named peril coverage like hail, wind, or fire.

We will be happy to discuss your crop insurance options with you and help you use your insurance dollars wisely and get them synchronized with your marketing program.