Materials Prepared for

Federation of Southern Cooperatives

Epes, Alabama

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Adjusted Gross Revenue-Lite Insurance

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CAUTION: These materials are for training purposes only. To learn the details about any certain point, refer to the applicable statute, regulations, handbooks, and policy notices.

Adjusted Gross Revenue-Lite Insurance

The Adjusted Gross Revenue-Lite (AGR-Lite) insurance program is designed to be a whole farm insurance plan, in that it provides protection for multiple crop and livestock enterprises in one policy. It protects against low farm revenues due to both natural causes and market fluctuations.[1]

I. Types of Agricultural Commodities Covered

A covered **"agricultural commodity"** under an AGR-Lite policy includes "[g]rain and non-grain crops, vegetables, fruits, nuts, nursery plants, floriculture, Christmas tress, maple tree sap, animals, products from animals such as milk, eggs, etc, and any other agricultural production, excluding timber, forest, and forest products."[2]

"Animals" are defined as "[l]iving organisms other than plants or fungi that are produced or raised in farming operations, including, but not limited to, aquaculture, bovine, equine, swine, sheep, goats, poultry, aquacultural species propagated or reared in a controlled environment, bees, and fur bearing animals, excluding animals for sport, show or pets."[3]

II. Insured Causes of Loss

AGR-Lite insurance protects against revenue losses that are due to unavoidable natural disasters. The AGR-Lite policy lists the types of events that will be considered unavoidable natural disasters, "including, but not limited to, adverse weather, fire, insects, disease, wildlife, earthquakes, volcanic eruption, or failure of irrigation water

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[1] "Adjusted Gross Revenue-Lite (AGR-Lite)," Risk Management Agency Fact Sheet, RMA Program Aid Number 1907 (July 2008).

[2] Adjusted Gross Revenue-Lite Insurance Policy, "1. Definitions, 'Agricultural commodity'" (Policy No. 07-AGR-Lite).

[3] Adjusted Gross Revenue-Lite Insurance Policy, "1. Definitions, 'Animals'" (Policy No. 07-AGR-Lite).

supply, if applicable, that causes production losses...or market fluctuations that cause a loss in revenue...."[4]

No payments will be made for losses that occur earlier than 10 days from the date the insurer received the completed application.[5]

No payments will be made if the revenue losses are a result of specific causes listed in the policy. Causes that will not be covered include such things as:[6]

(a) **Negligence, mismanagement, or wrong doing** by the insured, any member of insured's family or household, or insured's tenants, employees, or contractors;

(b) **Failure to follow recognized good farming[7] and management practices** for each agricultural commodity, including scientifically sound sustainable and organic farming practices, if applicable;

(c) Water contained by any governmental, public, or private dam or reservoir project;

(d) **Failure or breakdown of irrigation equipment or facilities**;

(e) **Failure to carry out a good irrigation practice**;

(f) Theft or mysterious disappearance,

(g) Vandalism;

[4] Adjusted Gross Revenue-Lite Insurance Policy, "9. Causes of Loss (a)" (Policy No. 07-AGR-Lite).

[5] Adjusted Gross Revenue-Lite Insurance Policy, "9. Causes of Loss (c)" (Policy No. 07-AGR-Lite).

[6] Adjusted Gross Revenue-Lite Insurance Policy, "9. Causes of Loss (a)" (Policy No. 07-AGR-Lite).

[7] "Good farming practices" are the marketing and production methods used to produce the insured agricultural commodities and allow them to make normal progress toward maturity, which can be expected to result in at least the allowable income used to determine the producer's coverage level. For conventional and sustainable farming practices, those generally recognized by agricultural experts in the area are acceptable. For organic farming practices, either those practices generally recognized by the organic industry for the area or those included in an organic plan are acceptable. To comply with the good farming practices requirement a producer may be expected to replace or replant damaged or lost agricultural commodities if the cost of doing so will be less than the income from the sale of the commodities. Adjusted Gross Revenue-Lite Insurance Policy, "1. Definitions, 'Good farming practices'" (Policy No. 07-AGR-Lite).

(h) Inability to market the agricultural commodities due to quarantines, boycotts, or refusal of any person to accept the producer's agricultural commodities;

(i) Lack of labor to properly care for, harvest, or perform any necessary production or post-production operations for any insured agricultural commodity;

(j) **Failure of any buyer to pay the producer for agricultural commodities produced**;

(k) Failure to follow the requirements contained in any processor contract;

(l) Abandonment; or

(m) **Failure to obtain a price for any agricultural commodity that is reflective of the local market value**.

III. Amount of Revenue Guarantee

A producer's revenue guarantee under an AGR-Lite policy is based on a five-year average of income and expenses taken from the producer's income tax returns, multiplied by the coverage level selected by the producer.[8]

The five-year period for which the income and expenses will be averaged will be the five consecutive years prior to the year immediately preceding the insurance year.[9] The historical information must be submitted on the specified forms and must be verifiable using farm tax forms or amendments.

Allowable expenses to be used in this calculation are essentially those expenses that are reported on Schedule F of the tax returns.[10]

Allowable income to be used in this calculation includes farm income from the production of agricultural commodities that the IRS requires to be reported, including only income from:[11]

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[8] Adjusted Gross Revenue-Lite Insurance Policy, "1. Definitions, 'Approved AGR,' 'AGR expense history,' 'AGR income history,'" and "7. Insured Revenue and Available Coverages (d)" (Policy No. 07-AGR-Lite).

[9] Adjusted Gross Revenue-Lite Insurance Policy, "1. Definitions, 'AGR expense history,' 'AGR income history'" (Policy No. 07-AGR-Lite).

[10] Adjusted Gross Revenue-Lite Insurance Policy, "1. Definitions, 'Allowable expenses'" (Policy No. 07-AGR-Lite).

[11] Adjusted Gross Revenue-Lite Insurance Policy, "1. Definitions, 'Allowable Income'" (Policy No. 07-AGR-Lite).

(a) the sale of animals and agricultural commodities purchased for resale minus the basis for these;

(b) the sale of animals, produce, grains, and other agricultural commodities raised;

(c) the taxable amount of total cooperative distributions;

(d) some Commodity Credit Corporation loans reported on tax forms by election;

(e) the taxable amount of Commodity Credit Corporation loans forfeited; and

(f) other income, including federal and state gasoline and fuel tax credits or refunds, income from bartering, payments under contract with a buyer for bypass acreage that the producer did not harvest, and diversion or set-aside payments under other federal or state programs.

Coverage levels and payment rates vary with the number of commodities produced. The producer may select only one coverage amount.[12] For policies insuring a minimum of one commodity, there are four coverage levels/payment rates available:

(1) 65% coverage level / 75% payment rate;

(2) 65% coverage level / 90% payment rate;

(3) 75% coverage level / 75% payment rate; and

(4) 75% coverage level / 90% payment rate.

For policies insuring at least three commodities, there are two coverage levels/payment rates available:

(1) 80% coverage level / 75% payment rate; and

(2) 80% coverage level / 90% payment rate.

There are also maximum annual income levels for each of the coverage level/payment rate categories. These range from $1,388,888 to $2,051,282.[13]

[12] "Adjusted Gross Revenue-Lite (AGR-Lite)," Risk Management Agency Fact Sheet, RMA Program Aid Number 1907 (July 2008).

[13] "Adjusted Gross Revenue-Lite (AGR-Lite)," Risk Management Agency Fact Sheet, RMA Program Aid Number 1907 (July 2008).

IV. Payment Calculation

Payment under an AGR-Lite policy will be based on the difference between the producer's revenue guarantee and his or her adjusted income for the insured year, multiplied by the payment rate selected by the producer.[14]

When calculating the payment rate, the same types of income and expenses will be used for the insured year as were used to determine the amount of the revenue guarantee. However, there may be a reduction in the AGR-Lite payment if the producer's actual allowable expenses for the insured year were less than 70% of the approved expenses used to calculate the revenue guarantee.[15]

Because AGR-Lite income calculations are based on income and expenses reported on the producer's income tax returns, settlement of AGR-Lite claims is delayed until after the producer's tax returns have been filed.[16]

Loss Payment Example: [17]

Assumptions:

- 80% coverage level and 75% payment rate chosen.
- Approved adjusted gross revenue of $100,000 and actual revenue from the farm for the year was $70,000.

Coverage Levels:

- Maximum payment (if total loss): $100,000 x 0.80 x 0.75 = $60,000;
- Revenue level below which coverage is triggered: $100,000 x 0.80 = $80,000.

Loss Scenario:

- $80,000 - $70,000 revenue = $10,000 revenue loss; then
- $10,000 x 0.75 payment rate = $7,500 indemnity payment.

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[14] "Adjusted Gross Revenue-Lite (AGR-Lite)," Risk Management Agency Fact Sheet, RMA Program Aid Number 1907 (July 2008); Adjusted Gross Revenue-Lite Insurance Policy, "11. Claim for Indemnity" (Policy No. 07-AGR-Lite).

[15] Adjusted Gross Revenue-Lite Insurance Policy, "7. Insured Revenue and Available Coverages (d)," and "11. Claim for Indemnity (a)(2)" (Policy No. 07-AGR-Lite).

[16] Adjusted Gross Revenue-Lite Insurance Policy, "11. Claim for Indemnity (d)(1)" (Policy No. 07-AGR-Lite).

[17] "Adjusted Gross Revenue-Lite (AGR-Lite)," Risk Management Agency Fact Sheet, RMA Program Aid Number 1907 (July 2008).

V. Qualifying Criteria for AGR

A producer must meet several qualifying criteria in order to be able to take out an AGR-Lite insurance policy. These criteria include:[18]

1. Have an adjusted gross revenue liability that would not exceed $1 million under the AGR-Lite policy;
2. If insured as an individual, be a U.S. citizen or resident;
3. If insured as a corporation, partnership, or a trust, be permanently established in the U.S. and file a Schedule F tax form or a similar tax form that provides the same information;
4. Have had the same tax entity for seven years, unless a change in tax entity is reviewed and approved by the insurance provider;
5. File or have filed Schedule F tax for five consecutive years, plus the insurance year and the year previous to the insurance year;
6. Not obtain more than 50% of the allowable income from agricultural commodities purchased for resale;

VI. Application Information

There are several documents that must be completed and submitted with an application for AGR-Lite insurance coverage. These documents include, but are not necessarily limited to, the following:[19]

1. An income and expense history calculation worksheet covering five years of allowable income and expenses, and the Schedule F or other tax forms that support the numbers used on this worksheet;
2. A annual farm report for the insurance year listing for each commodity to be produced the expected quantity to be produced and the expected price;
3. If selecting higher coverage levels, a commodity profile report for the previous two years;

[18] Adjusted Gross Revenue-Lite Insurance Policy, "4. Qualifying Person Criteria" (Policy No. 07-AGR-Lite); and "Adjusted Gross Revenue-Lite (AGR-Lite)," Risk Management Agency Fact Sheet, RMA Program Aid Number 1907 (July 2008).

[19] Adjusted Gross Revenue-Lite Insurance Policy, "5. Reports" (Policy No. 07-AGR-Lite).

4. A list of the agricultural commodities in the producer's inventory at the beginning of the insurance year;

5. A report on any changes in the farming operation that will result in lower income in the insurance year than is the historical average.

VII. Cost of AGR-Lite Insurance

A producer must pay both a premium for the AGR-Lite insurance and a $30 administrative fee.[20]

The **premium** is calculated by multiplying the producer's approved guaranteed revenue amount by the coverage level and payment rate selected and then multiplying that amount by the set premium rate.[21] The government subsidizes part of the premium for AGR-Lite. The subsidy level is 48%, 55%, and 59% of the total premiums for the coverage levels of 80%, 75%, and 65%, respectively.[22]

A premium rate calculator is available online at wwwe.rma.usda.gove/apps/permcalc.

The $30 **administrative fee** will be waived if the producer qualifies as a limited resource farmer.[23] A limited resource farmer is one: (1) who had gross farm sales of not more than $155,200 in the previous two years;[24] and (2) whose total household income is at or below the national poverty level for a family of four, or less than 50% of the county median household income in each of the previous two years.[25]

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[20] Adjusted Gross Revenue-Lite Insurance Policy, "6. Annual Premium and Administrative Fee" (Policy No. 07-AGR-Lite).

[21] Adjusted Gross Revenue-Lite Insurance Policy, "6. Annual Premium and Administrative Fee (b)" (Policy No. 07-AGR-Lite).

[22] "Adjusted Gross Revenue-Lite (AGR-Lite)," Risk Management Agency Fact Sheet, RMA Program Aid Number 1907 (July 2008).

[23] Adjusted Gross Revenue-Lite Insurance Policy, "6. Annual Premium and Administrative Fee (c)" (Policy No. 07-AGR-Lite).

[24] The $100,000 level set out in the AGR-Lite policy is actually adjusted each year for inflation. The level applicable to the 2009 crop year is $155,200. See USDA's online tool for determining eligibility as a Limited Resource Farmer at www.lrftool.sc.egov.usda.gov/tool.asp.

[25] Adjusted Gross Revenue-Lite Insurance Policy, "1. Definitions, 'Limited resource farmer'" (Policy No. 07-AGR-Lite)."

VIII. Dispute Resolution Procedures

The AGR-Lite insurance policy provides detailed information regarding procedures to resolve disputes between the producer, the insurer, and the Federal Crop Insurance Corporation (FCIC).[26]

Mediation: If the producer disagrees with any decision made by the insurer, except those involving whether the producer followed "good farming practices," there is the option to attempt to resolve the dispute through mediation. However, both the insurer and the producer must agree to participate in mediation and must agree on the person to act as mediator.

Arbitration: If the producer disagrees with a decision made by the insurer (other than one related to "good farming practices"), and the issue cannot be resolved through mediation or both parties don't agree to mediation, then the dispute must be resolved through arbitration. Regardless of whether the parties have gone to mediation, any arbitration of a dispute must be commenced within one year of the date of the claim denial or other decision in dispute. The arbitration proceeding will be conducted in accordance with the American Arbitration Association rules, except that judicial review of the arbitration decision is allowed.

Good Farming Practices Determinations: If the producer disagrees with the insurer's decision regarding whether the producer followed good farming practices, the producer must request a review by FCIC. The producer may request reconsideration of the FCIC decision regarding good farming practices. If the producer ultimately disagrees with the final FCIC decision, he or she may file suit against FCIC in U.S. district court within one year of the final decision.

Appeals of FCIC Decisions: If the producer disagrees with any determination made by the FCIC other than one relating to "good farming practices," he or she may obtain administrative review and/or an appeal under FCIC's standard review procedures.

IX. States in Which AGR-Lite Is Available

For the 2009 crop year, AGR-Lite policies are available in Alabama, Arizona, Colorado, Connecticut, Delaware, Florida, Georgia, Idaho, Kansas, Maine, Maryland, Massachusetts, Minnesota, Montana, Nevada, New Hampshire, New Jersey, New Mexico, North Carolina, Oregon, Pennsylvania, Rhode Island, South Carolina,

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[26] Adjusted Gross Revenue-Lite Insurance Policy, "13. Mediation, Arbitration, Appeal, Reconsideration, and Administrative and Judicial Review" (Policy No. 07-AGR-Lite).

Tennessee, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, Wyoming, and selected counties in Alaska and New York.[27]

[27] "Adjusted Gross Revenue-Lite (AGR-Lite)," Risk Management Agency Fact Sheet, RMA Program Aid Number 1907 (July 2008); Risk Management Agency map, "Adj. Gross Revenue-Lite (0061), Counties with a 2009 Program," available online at www.rma.usda.gov/data/cropprograms/2009/0061.pdf.