

Risk Management

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What Do I Mean By Risk Management?

- The risk I mean is the risk of losing money when crops or livestock are affected by bad weather
- Several ways to manage the risk
 - Farming practices/conservation
 - Family income from off the farm
 - Community Supported Agriculture
 - Insurance and other federal government programs

Farmers Need to Make Informed Decisions

- I will be talking about crop insurance and other federal government programs
- Programs are voluntary, not required
- Some of you may decide to participate in these programs, some of you may not
- But all of you should make an informed decision

Basis for an Informed Decision

- Know what federal government programs there are
- Know the advantages and disadvantages of each program
- Understand steps to participate in program
- Know what to bring to appointments
- Know what records to keep

Why Risk Management?

- Most counties, in most years, will have some type of natural disaster
- Congress is providing less disaster "aid"
- Good records help farmers
- Lenders may require insurance
- Your participation helps improve programs

Advantages of federal government programs for disaster

- Cash payments
- Already in place—can plan ahead
- May help with business planning
- May be no cost if limited resource or socially disadvantaged farmer
- Alternative to support from family/community

Disadvantages of federal government programs for disaster

- Delay in payments
- Not really designed for small farmers, farmers market vendors, specialty crops
- Recordkeeping burdens
- Spot checks
- Serious consequences for fraud

Overview of Federal Disaster Assistance

- FEMA
 - Assists with housing and with other serious needs and necessary expenses
 - Disaster Unemployment Assistance (states)
 - FEMA helps farmers with the same needs it helps all other citizens with
 - FEMA does not help farmers with farming-related needs

Overview of Federal Disaster Assistance (Cont.)

- USDA assists with needs related to production agriculture
 - Farm Service Agency administers most disaster programs
 - Natural Resources Conservation Service administers most conservation programs
 - Risk Management Agency/Federal Crop Insurance Corporation “reinsures” crop insurance provided by private entities

Overview of Federal Disaster Assistance (Cont.)

- Small Business Administration
 - Disaster housing loans
 - Small business loans
 - Not for “production agriculture”

Getting Inside “the System”

- It can be hard to access disaster programs if not previously involved with USDA
 - Can't help if don't know you're there
 - Not included in damage reports
 - Hard to measure losses (Concerns re fraud)
- Getting in the system begins with registering your farm with FSA and obtaining a farm number. Then you will be added to the FSA mailing list

Getting Inside “the System”

- Purchase crop insurance or apply for NAP by the sales closing date for the crop
- Apply for fee waiver if eligible limited resource producer
- Report crops and acres planted every year
- Report losses promptly
- Report crops harvested every year

Importance of Disaster Declaration

- Some federal government programs require a declaration of a major disaster from the President or Secretary of Agriculture
- Other programs (like Crop Insurance and NAP) are based on your individual losses

Administration of Crop Insurance

- Crop insurance is a federal program, implemented by private insurance providers
- United States Department of Agriculture
 - Risk Management Agency (RMA)
 - Federal Crop Insurance Corporation (FCIC)
- Private insurance providers enter agreements for reinsurance with FCIC
- Federal government approves policies, subsidizes premiums

Crop Insurance Is Where the Money Is (Such as It Is)

- In many cases, disaster readiness begins with purchase of crop insurance or enrollment in NAP
 - These programs fall short for farmers
 - But they provide some help, and are generally necessary to access other help

Crop Insurance Options

- True Crop Insurance
 - Yield Coverage (Traditional Multi-Peril)
 - Revenue Coverage
 - AGR and AGR-Lite
- Other Programs
 - NAP Program*
 - SURE Program*
 - Livestock Forage Disaster Program
 - Livestock Indemnity Program
 - Tree Assistance Program

Overview of Crop Insurance

- When you buy crop insurance, you enter into a binding contract
- As with all contracts, be sure to read and understand before you sign it
- Must comply with contract terms and conditions before you will receive payment
 - For example, report losses promptly, wait for crop loss assessor before you make changes

Crop Insurance Availability

- In general, sold on an individual crop basis
- Available for an increasing number of crops, including organic crops
- In general, no policies for livestock (but exceptions)
- If not available as a standard policy, consider a written agreement
- If crop insurance unavailable, then NAP

Choosing a Crop Insurance Agent

- RMA has an “Agent Locator” website: www3.rma.usda.gov/apps/agents
- Things to look for
 - Licensed
 - Location vs. specialization
 - Cultural competence
 - Knowledgeable
 - Willing to answer questions
 - Check w/ Better Business Bureau

Find Out if Crop Insurance Is Available for Your Crops

- For many years, crop insurance was only available for a few major commodities, such as corn, soybeans, wheat, and cotton
- Now, crop insurance is available for more crops, including through pilot programs
- Availability varies by state (or in some cases, by county) and by year
- Check availability each year

Example—Eligible Crops in Minnesota

- As an example, here are the crops listed for Minnesota on the RMA website
 - Forage crops, Green peas, Hybrid seed corn, Nursery crops, Popcorn, Sweet corn, Apples, Barley, Canola, Corn, Cultivated wild rice, dry beans, dry peas, flax, oats, potatoes, processing beans, soybeans, sugar beets, sunflowers, wheat
 - Some of these crops have restrictions in availability of crop insurance

Example—Eligible Crops in Minnesota (Cont.)

- Many crops have one or more restrictions on availability of crop insurance
 - By county
 - Only when under contract w/ processor
 - Mechanically harvested (not grazed)
 - Wholesale
 - Yield
 - Variety
 - Data on organic

Written Agreements

- If a standard policy is not available for your crop, you may be able to obtain coverage through a “written agreement,” a more individualized policy
- Compare costs and benefits with NAP
 - Fees and premiums
 - Time in recordkeeping
 - Benefits (for 30%, 60%, 90% loss)

Crop Insurance: Yield Coverage Policies

- Most crop insurance covers the risk of lower yields and prevented planting due to natural disaster
- Catastrophic risk protection (CAT) is the minimum level of yield-based coverage
- CAT policies guarantee 50 percent of the farmer’s approved yield. Payments will only be made on the portion of the loss that exceeds 50 percent of approved yield

Yield Coverage Policies and the Price Insured

- CAT coverage payments are based on 55 percent of the expected market price for the crop
- “Expected market price” is defined as the price per unit anticipated during the normal marketing period
- Wholesale price vs. retail price

Yield Coverage Policies and Additional Coverage

- Yield-based coverage is also available at higher percentage levels and price levels
- This is “additional” or “buy up” coverage
- Farmers may insure up to 85 percent of approved yields
- Farmers may insure up to 100 percent of expected market price

Crop Insurance Costs

- Farmers pay an administrative fee for yield-based coverage at the CAT level (Farm Bill increase from \$100 per crop to \$300)
- Additional coverage requires an additional administrative fee and a premium
- The administrative fee may be waived for limited resource farmers upon request
- Limited resource—based on gross sales of agricultural products and total household income

Fee Waiver for Limited Resource Farmers and Ranchers

- Gross agricultural sales for past two years—in 2009, must be less than \$155,200 for each year
- Total Household income
 - National poverty level
 - County median level

Crop Insurance for Livestock

- In general, no crop insurance for livestock
- Some pilot projects
 - Livestock Risk Protection (market prices)
 - Livestock Gross Margin
 - Pasture, Rangeland, and Forage
- May include livestock in AGR-Lite
- May cover forage crops under NAP (and must do so to participate in LFDP)

Whole Farm Revenue Policies

- Whole farm revenue policies may insure revenue from multiple crops and livestock
- Adjusted Gross Revenue Lite (AGR-Lite) provides maximum indemnity of \$1 million. It is available in many states, including both Wisconsin and Minnesota
- Adjusted Gross Revenue (AGR) has a higher coverage limit, but is available in fewer states

AGR-Lite

- Coverage is based upon income and expense data from the farmers' previous five years of tax returns
- Still report yield and price data by crop
- Pay administrative fee and premium
- Program is still a pilot and may change
 - Efforts to decrease paperwork burden
 - Does not cover processing/value-added

Resolving Crop Insurance Disputes

- Dispute resolution can be complicated, due to private insurance providers
- Producer/provider may request FCIC interpretation
- Producer/provider may agree to mediate, or go to non-binding arbitration
- Producer may appeal FCIC decisions
- May seek review in court afterward

Noninsured Crop Disaster Assistance Program

- The Noninsured Crop Disaster Assistance Program (NAP) provides crop loss coverage on crops that are not eligible for crop insurance in a particular county
- NAP must be purchased in advance, by the sales closing date
- Broadly covers crops grown for food and fiber, including forage. Livestock not eligible, except some aquaculture.

NAP Coverage

- NAP is similar to CAT coverage (losses over 50 percent of approved yield, 55 percent of average market price)
- "Additional" coverage is not available
- Must follow "good farming practices."
- In general, must report losses within 15 days of the damage

NAP Costs

- Farmers must pay an administrative fee of \$250 for each crop, up to a maximum of \$750 per county and/or \$1875 per farmer (Farm Bill increase)
- Waiver of the administrative fee is available to limited resource farmers upon request
- Limited resource—based on gross sales of agricultural products and total household income

NAP Benefits if You Have 50% Losses

- No benefits unless losses of more than 50% on one or more crops

NAP Benefits if You Have 100% Losses

- Benefits based on losses over 50%
- $100\% - 50\% = 50\%$
- 55% of expected market price
- So benefits based on about 25% of income expected by NAP (may be less than you actually expect if selling at retail, such as farmers' market)

Steps for Crop Insurance or NAP

- In general, the steps for crop insurance and NAP are the same
 - Obtain farm number
 - Apply for program
 - Pay fees/premiums or request waiver
 - Report acreage planted
 - Report losses promptly
 - Report production (develop a system to make this easy and consistent)

Linkage Requirements

- In general, producers must have obtained crop insurance or NAP coverage, if available, in order to be eligible for other federal disaster programs
- This is a shift in federal policy that has been coming for years, and now it is here
- Socially disadvantaged, limited resource, and beginning farmers may request a waiver of this requirement

Farm Bill Programs

- SURE—Supplemental Revenue Assistance Program
- Livestock Forage Disaster Program (LFP)
- Livestock Indemnity Program (LIP)
- Tree Assistance Program (TAP)
- No regulations have been proposed for any of these programs as of this time

SURE—Supplemental Revenue Assistance Program

- Linkage requirement or waiver
- FSA establishes an expected revenue amount
- Payments based upon 60% of the difference between expected and actual total farm revenue
- Lengthy timeline for payments based on average price for the crop year

Livestock Forage Disaster Program (LFP)

- Linkage requirement or waiver
- Cash payments for eligible producers who suffered grazing losses for eligible livestock because of drought or fire
- Based on monthly feed cost and severity of drought or fire

Livestock Indemnity Program (LIP)

- No linkage requirement
- Cash payments for livestock death losses in excess of normal mortality due to adverse weather

Tree Assistance Program (TAP)

- Linkage requirement or waiver
- Cash payments to eligible orchardists and nursery tree growers for qualifying tree losses due to disaster
- Percentage of replanting costs and salvage costs

Livestock Producers

- No single overarching program
- Report losses, which may be addressed by a variety of programs
 - Production losses (milk, eggs) (Disaster Unemployment)
 - Mortality and low birth rates (LIP)
 - Pasture and feed losses (LFDP)
 - Structural losses (barns, fences, etc.) (hazard insurance, Emergency Conservation Program)

Disaster Assistance Programs: Appeals and Civil Rights

- In general, an adverse decision in a federal program triggers the right of the farmer to file an administrative appeal
- Laws against discrimination vary somewhat by program and implementing agency, but most prohibit treating program applicants or participants less favorably on the basis of membership in a protected class

Other Strategies for Farmers to Manage Disaster Risk

- Diversification
 - Crops and livestock may respond differently to different natural conditions, so that the overall bottom line is less affected
- Conservation practices
- Community supported agriculture
- Contract provisions

Risk-Sharing

- Community Supported Agriculture
 - This model can reduce financial impact of losses
 - Communication with members is key
 - Beginning of season (written contract?)
 - After the disaster
 - Recruiting members for the next year

Address Risk of Loss Due to Disaster in Contracts

- Farmers who enter into written contracts before the crop is harvested should ensure the contract addresses what will happen in the event of natural disaster
 - Excused from performing?
 - Any payment made to farmer?
 - Contract canceled or resumed?
 - How will quality issues be resolved?

For Further Information

- FLAG website, www.flaginc.org
- Farmers' Guide to Disaster Assistance (2008 edition)

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