

How Will SURE Change Crop Insurance Decisions and Farm Program Participation?

G.A. (Art) Barnaby
Kansas State University

2009 Insurance Workshop

“MANAGING THE RISKS OF THE VOLATILITY IN FARM PRICES AND THE GLOBAL RECESSION”

November 12, 2009

Ramada Inn
Salina, Kansas



G.A. (ART) BARNABY, JR.

Professor – Risk Management

Kansas State University

Email: barnaby@ksu.edu

Phone: 785.532.1515

G.A. (Art) Barnaby, Jr., was raised on a diversified farm, located in Elk County, Kansas. Art received his B.S. degree from Fort Hays State University, M.S. from New Mexico State University and a Ph.D. in Agricultural Economics from Texas A&M University.

Art joined the Agricultural Economics faculty in 1979. He currently holds the rank of Professor. Art conducts statewide extension education programs on financial planning, risk, government commodity programs, and crop insurance. Art is an author of the KSU Risk Management WEB page located at *www.AgManager.info*.

His research work with the private sector was the basis for the first revenue insurance contract, Crop Revenue Coverage. Art is a past three time winner of the American Agricultural Economics Association Distinguished Extension Program Award. Art is a co-author on a recently published book titled *“Managing Risk Through Crop Insurance”*, published by John Deere Publishing. Art is a frequent speaker at professional, farmer-producer, ag lender, and insurance industry meetings.

.

Combined SUPplemental REvenue (SURE), with Other Risk Management Tools

DR. G. A. "ART" BARNABY, JR.
KANSAS STATE UNIVERSITY

PHONE: 785-532-1515

EMAIL: barnaby@ksu.edu

Check out our WEB page at

<http://www.AgManager.Info>

Copyright 2009, All Rights Reserved



Combined SUPplemental REvenue (SURE), Average Crop Revenue Election (ACRE), & Crop Insurance

ACRE has \$73,000 effective payment limit

ACRE has a maximum payment limit of 25% of guarantee

Coverage by FSA farm serial number

Coverage is by state

11/9/2009



Kansas State University Copyright 2009, All Rights Reserved

2

Combined SURE, ACRE, & Crop Insurance

SURE has a \$100,000 payment limit

SURE coverage is 115% of whole farm revenue; limited to 90% of expected farm revenue

Coverage is by whole farm

11/9/2009



Kansas State University Copyright 2009, All Rights Reserved

3

Combined SURE, ACRE, & Crop Insurance

Crop insurance has no payment limit

CI is limited to 85% of expected farm revenue/yield; up to 90% with county unit

Coverage is by "field" (optional), by ownership (basic), enterprise unit, or county.

11/9/2009



Kansas State University Copyright 2009, All Rights Reserved

4

Supplemental Revenue Assistance (SURE)

Qualifying requires CAT or higher and NAP be purchased

County requires a Secretary disaster declaration (include contiguous counties) or the whole farm must have a 50% Loss.

Coverage is whole farm and includes all crops in all counties (crosses state lines).

Supplemental Revenue Assistance (SURE)

SURE guarantee = planted acres x % crop insurance coverage x aph/Adjusted SURE aph x insurance price x 115% (120% for 2008 only).

SURE cap = 90% of expected revenue for each crop.
Planted acres x aph/Adjusted SURE aph x insurance price guarantee

SURE is Whole Farm Revenue Coverage Less Revenue to Count

Revenue to Count

1. Value of all crops produced (harvested acres x yield x MYA price) National MYA for corn, soybeans, & sorghum; MYA spring wheat, MYA for Winter wheat
2. ACRE an other government payments
3. 15% of Direct payments
4. All net crop insurance indemnities
5. NAP payments
6. Private insurance indemnity payments do not count against SURE.

SURE Payment = SURE Guarantee less the Revenue to count X 60%

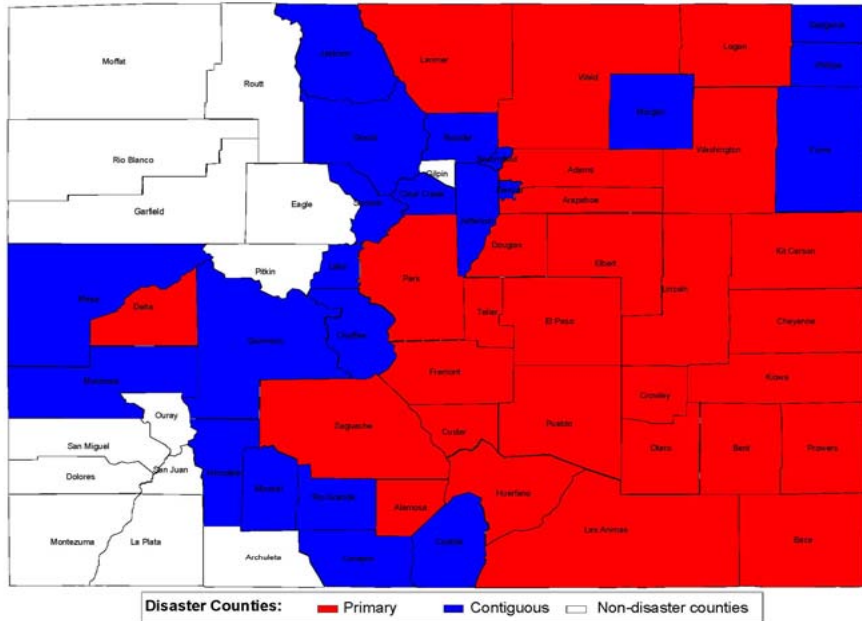
Supplemental Revenue Assistance (SURE)

SURE payments are made after the end of the marketing year, i.e. No payments on 2008 Iowa flood losses until after September 1, 2009.

SURE favors high risk single emprise farms.

SURE provides higher coverage to farmers with higher levels of crop insurance coverage.

2008 Colorado Disaster Declarations



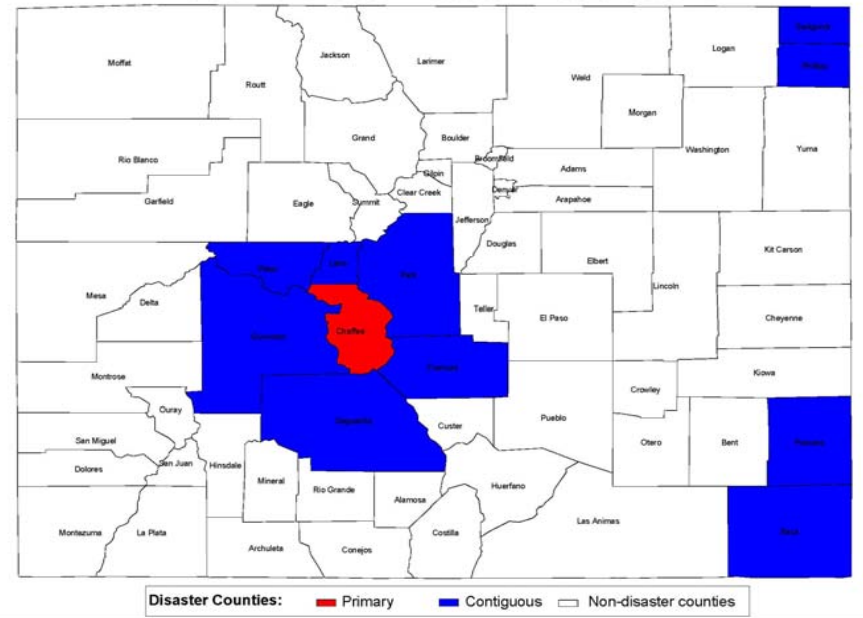
11/9/2009



Kansas State University Copyright 2009, All Rights Reserved

9

2009 Colorado Disaster Declarations



11/9/2009

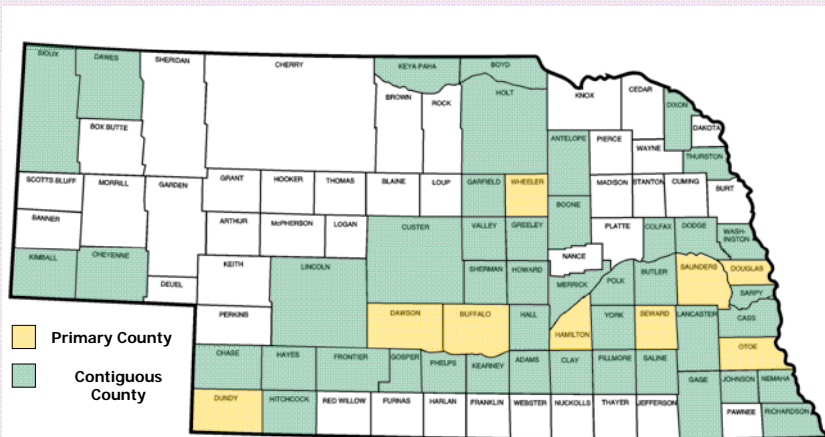


Kansas State University Copyright 2009, All Rights Reserved

10

Agricultural Disaster Designations in Nebraska in 2008

As of February 11, 2009



This map includes agricultural disaster designations by the Secretary of Agriculture for Nebraska counties and for counties in surrounding states that include Nebraska counties as contiguous counties. This map does not include Presidential disaster designations.

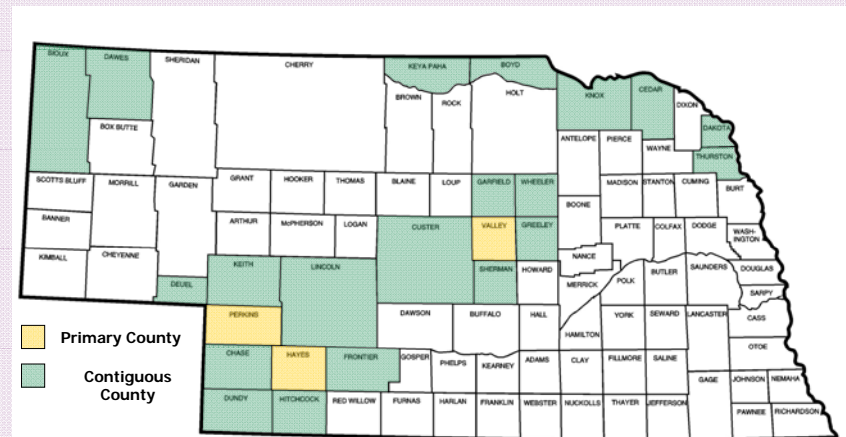


Kansas State University Copyright 2009, All Rights Reserved

11

Agricultural Disaster Designations in Nebraska in 2009

As of October 16, 2009



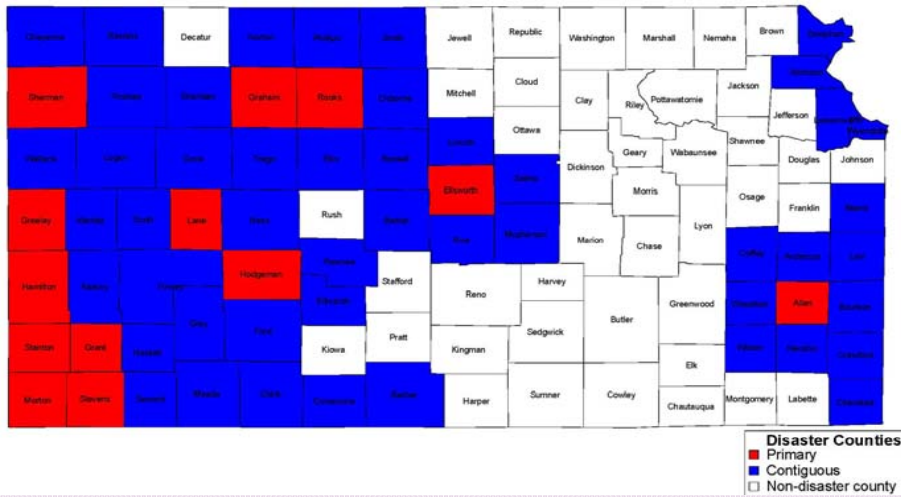
This map includes agricultural disaster designations by the Secretary of Agriculture for Nebraska counties and for counties in surrounding states that include Nebraska counties as contiguous counties. This map does not include Presidential disaster designations.



Kansas State University Copyright 2009, All Rights Reserved

12

2008 Kansas Disaster Declarations



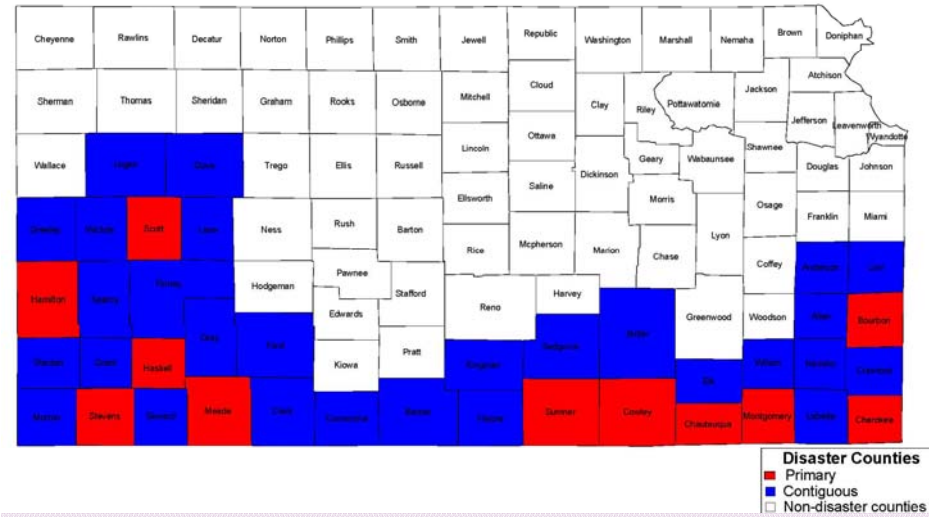
11/9/2009



Kansas State University Copyright 2009, All Rights Reserved

13

2009 Kansas Disaster Declarations



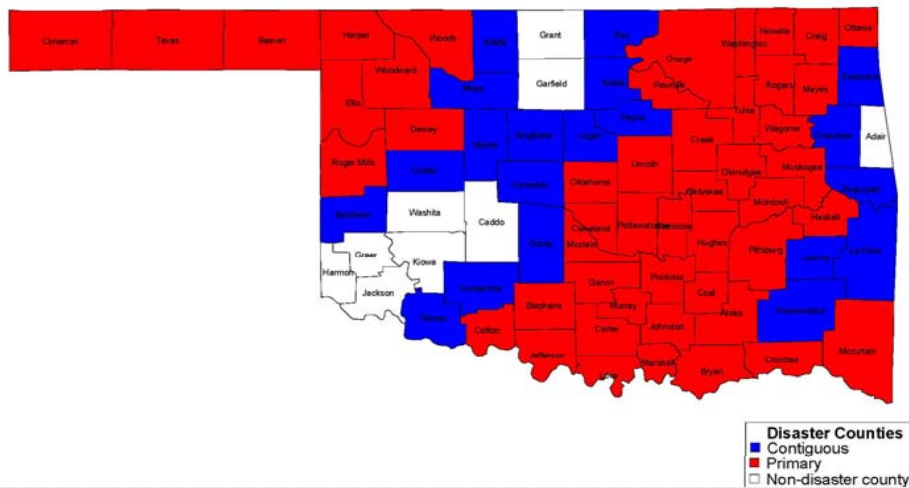
11/9/2009



Kansas State University Copyright 2009, All Rights Reserved

14

2008 Oklahoma Disaster Declarations



11/9/2009



Kansas State University Copyright 2009, All Rights Reserved

15

2009 Oklahoma Disaster Declarations



11/9/2009



Kansas State University Copyright 2009, All Rights Reserved

16

Increased subsidy rate on enterprise & whole farm units

Coverage Level	50	55	60	65	70	75	80	85
Current Subsidy Level	67%	64%	64%	59%	59%	55%	48%	38%
Increase Subsidy for:								
Enterprise Units*	80%	80%	80%	80%	80%	77%	68%	53%
Whole Farm Units*	n/a	n/a	n/a	80%	80%	80%	71%	56%

*New increased subsidy for Enterprise and Whole Farm units are only on insurance plans and in counties that RMA offers Enterprise and Whole Farm units.

Enterprise Units & Private Hail

- Increase coverage 5 to 10% with enterprise unit
- Increase total dollars guaranteed, very important with a wheat price that is nearly \$3 lower.
- Units do not matter if price is the cause of loss.
- Increasing coverage with an enterprise unit also increases coverage under the "free" SURE disaster program.
- Add private hail with a 20% deductible and effectively buy back the units that will cover spot loss. Wheat farmers can wait until next spring to see if they have a crop before adding the private hail insurance.
- Effectively increases coverage without increasing total premium dollars.

Calculate SURE "aph"

60% of T aph Yield:

2008	66.4
2007	18.6 9.0
2006	40.8
2005	45.0
2004	52.7
2003	48.4
2002	N/A
2001	N/A
2000	N/A
1999	N/A

Simple Average	43.7
aph Yield	45.3
SURE Yield	<u>50.7</u>

Copyright 2008, All Rights Reserved

Difference Between All and Winter Wheat MYA Prices

Year	Wheat Type	USA	KS	WA	Wheat Type	Wheat Type	USA	KS	WA	Difference	
1973	Wheat All	3.95	3.75	4.89	Wheat Other Spring	4.28	Wheat Winter All	3.72	3.75	4.89	0.23
1974	Wheat All	4.09	3.86	4.31	Wheat Other Spring	4.41	Wheat Winter All	3.90	3.86	4.31	0.19
1975	Wheat All	3.55	3.42	3.74	Wheat Other Spring	3.98	Wheat Winter All	3.37	3.42	3.74	0.18
1976	Wheat All	2.73	2.59	2.74	Wheat Other Spring	2.68	Wheat Winter All	2.73	2.59	2.74	0.00
1977	Wheat All	2.33	2.24	2.81	Wheat Other Spring	2.45	Wheat Winter All	2.28	2.24	2.81	0.05
1978	Wheat All	2.97	2.89	3.45	Wheat Other Spring	2.89	Wheat Winter All	3.01	2.89	3.45	-0.04
1979	Wheat All	3.80	3.72	3.94	Wheat Other Spring	3.61	Wheat Winter All	3.81	3.76	3.94	-0.01
1980	Wheat All	3.99	3.78	4.06	Wheat Other Spring	4.10	Wheat Winter All	3.88	3.85	4.06	0.11
1981	Wheat All	3.69	3.76	3.96	Wheat Other Spring	3.73	Wheat Winter All	3.68	3.77	3.96	0.01
1982	Wheat All	3.45	3.41	4.01	Wheat Other Spring	3.54	Wheat Winter All	3.42	3.41	4.01	0.03
1983	Wheat All	3.51	3.40	3.68	Wheat Other Spring	3.72	Wheat Winter All	3.42	3.40	3.68	0.09
1984	Wheat All	3.39	3.32	3.45	Wheat Other Spring	3.53	Wheat Winter All	3.32	3.32	3.45	0.07
1985	Wheat All	3.08	2.86	3.41	Wheat Other Spring	3.38	Wheat Winter All	2.98	2.86	3.41	0.10
1986	Wheat All	2.42	2.25	2.51	Wheat Other Spring	2.54	Wheat Winter All	2.33	2.25	2.51	0.09
1987	Wheat All	2.57	2.43	2.82	Wheat Other Spring	2.62	Wheat Winter All	2.49	2.43	2.82	0.08
1988	Wheat All	3.72	3.58	4.19	Wheat Other Spring	3.77	Wheat Winter All	3.65	3.58	4.19	0.07
1989	Wheat All	3.72	3.74	4.04	Wheat Other Spring	3.61	Wheat Winter All	3.78	3.74	4.04	-0.06
1990	Wheat All	2.61	2.51	2.73	Wheat Other Spring	2.58	Wheat Winter All	2.62	2.51	2.72	-0.01
1991	Wheat All	3.00	2.81	3.73	Wheat Other Spring	3.15	Wheat Winter All	2.92	2.81	3.73	0.08
1992	Wheat All	3.24	3.13	3.80	Wheat Other Spring	3.29	Wheat Winter All	3.24	3.13	3.78	0.00

Difference Between All and Winter Wheat MYA Prices

Year	Wheat Type	USA	KS	WA	Wheat Type	Wheat Type	USA	KS	WA	Difference	
1993	Wheat All	3.26	3.00	3.24	Wheat Other Spring	3.58	Wheat Winter All	3.03	3.00	3.21	0.23
1994	Wheat All	3.45	3.32	3.92	Wheat Other Spring	3.42	Wheat Winter All	3.37	3.32	3.91	0.08
1995	Wheat All	4.55	4.59	4.83	Wheat Other Spring	4.59	Wheat Winter All	4.41	4.59	4.81	0.14
1996	Wheat All	4.30	4.63	4.14	Wheat Other Spring	4.20	Wheat Winter All	4.33	4.63	4.11	-0.03
1997	Wheat All	3.38	3.16	3.39	Wheat Other Spring	3.53	Wheat Winter All	3.23	3.16	3.36	0.15
1998	Wheat All	2.65	2.53	2.63	Wheat Other Spring	3.00	Wheat Winter All	2.52	2.53	2.59	0.13
1999	Wheat All	2.48	2.25	2.77	Wheat Other Spring	2.88	Wheat Winter All	2.29	2.25	2.72	0.19
2000	Wheat All	2.62	2.65	2.70	Wheat Other Spring	2.85	Wheat Winter All	2.51	2.65	2.62	0.11
2001	Wheat All	2.78	2.69	3.23	Wheat Other Spring	2.90	Wheat Winter All	2.72	2.69	3.19	0.06
2002	Wheat All	3.56	3.41	3.83	Wheat Other Spring	3.82	Wheat Winter All	3.41	3.41	3.78	0.15
2003	Wheat All	3.40	3.15	3.75	Wheat Other Spring	3.62	Wheat Winter All	3.27	3.15	3.70	0.13
2004	Wheat All	3.40	3.25	3.68	Wheat Other Spring	3.51	Wheat Winter All	3.32	3.25	3.58	0.08
2005	Wheat All	3.42	3.31	3.32	Wheat Other Spring	3.66	Wheat Winter All	3.32	3.31	3.21	0.10
2006	Wheat All	4.26	4.56	4.49	Wheat Other Spring	4.46	Wheat Winter All	4.17	4.56	4.42	0.09
2007	Wheat All	6.48	5.93	7.58	Wheat Other Spring	7.16	Wheat Winter All	6.13	5.93	7.51	0.35
2008	Wheat All	6.80	7.15	6.40	Wheat Other Spring	7.40	Wheat Winter All	6.60	7.15	6.25	0.20
2009	Wheat All	5.05	?	?	Wheat Other Spring	0.00	Wheat Winter All	?	?	?	
						Average Difference					0.10
						Maximum Difference					0.35
						Minimum Difference					(0.06)

11/9/2009



Kansas State University Copyright 2009, All Rights Reserved

60

Combined ACRE, DCP, & SURE Payments with Payment Limits

Compare ACRE & DCP on OK Wheat

	ACRE
Planted Base Acres	1.00
SURE Guarantee	310.63
Less SURE Value of Crop	50.50
Less 15% of Direct payments	1.50
Less ACRE Payment	54.68
Less Net Crop Ins. Pymt.	205.95
Gross SURE Payment	0.00
Pay 60% of Sure Payment	0.00
4 years of Direct Payments	39.98
ACRE Payment	54.68
Total Government Payments	94.66

11/9/2009



Kansas State University Copyright 2009, All Rights Reserved

61

Combined ACRE, DCP, & SURE Payments with Payment Limits

I. Value Of Production & Direct Payments

Production	10.0
2009/10 Wheat NASS Price	5.05
Production Value to Count	50.50
DP on Base payment Ac.	15.00
DP on 83.3% of Base Acres	12.50

11/9/2009



Kansas State University Copyright 2009, All Rights Reserved

62

Combined ACRE, DCP, & SURE Payments with Payment Limits

II. State ACRE Payment

1 2007/08 Wheat NASS Price	\$6.48
2 2008/09 Wheat NASS Price	\$6.78
3 ACRE Benchmark (Strike) Price	\$6.63
4 OK State Yield by Year	State
5 2004	34.5
6 2005	31.9
7 2006	23.6
8 2007	27.8
9 2008	36.9
10 State Olympic Average Yield	31.4
11 ACRE Coverage X 90%	\$187.36
12 Actual 2009 State Yield	21.0
13 Max (2009/10 MYA Price, 70% X Loan)	5.05
14 Revenue to Count	106.06
15 Gross ACRE Payment	81.30
16 25% Payment Cap	46.84
17 Pay the Lesser of In 15 or In 16	46.84

11/9/2009



Kansas State University Copyright 2009, All Rights Reserved

63

Combined ACRE, DCP, & SURE Payments with Payment Limits

III. Farm ACRE Payment

18 Farm's Olympic Yield	44.0
Benchmark Price	6.63
19 Farm's Crop Ins. Premium	\$9.37
20 Farm Benchmark	<u>\$301.09</u>
21 Farm Yield in 2009	10.0
22 Farm Revenue to Count	<u>\$50.50</u>
23 Eligibility Requires Farm Revenue to be less than Farm If No, then ACRE payment for the farm is zero and Stop	<u>YES</u>
24 Farm's Olympic Yield Ratio / State Olympic Yield	1.401
25 Farm Level ACRE Payment	<u>\$65.64</u>
26 2012) Payment Factor 0.833 (0.85 in	<u>\$54.68</u>

Combined ACRE, DCP, & SURE Payments with Payment Limits

IV. RA-HPO Crop Insurance

1 Crop Ins. Coverage Level	70%
2 Crop Insurance aph	44.0
3 Crop Ins. Price Election	\$8.77
4 \$ Crop Ins. Coverage	<u>\$270.12</u>
5 Yield	10.0
6 Crop Ins. RA Harvest Price	\$5.48
7 Final Revenue Guarantee	<u>\$270.12</u>
8 \$ to Count	<u>\$54.80</u>
9 Indemnity Pymt (RA-HPO)	<u>\$215.32</u>
10 Crop Ins. Premium	\$9.37
11 Net Indemnity Pymt (RA-HPO)	<u>\$205.95</u>

Combined ACRE, DCP, & SURE Payments with Payment Limits

V. SURE Payment

1 SURE "aph"	44.0
2 Coverage (Same as Crop Ins.)	70%
3 Price (Same as Crop Ins.)	<u>\$8.77</u>
4 SURE 115% Factor; 120% in 08	115%
5 SURE Coverage	<u>\$310.63</u>
6 90% Maximum Revenue Cap	<u>\$347.29</u>
SURE Guarantee Lesser of line	
7 5 or line 6	<u>\$310.63</u>

Combined ACRE, DCP, & SURE Payments with Payment Limits

Compare ACRE & DCP on OK Wheat

	ACRE	DCP	ACRE	DCP
Planted Base Acres	1,000	1,000		
SURE Guarantee	310,633	310,633		
Less SURE Value of Crop	50,505	50,505		
Less 15% of Direct payments	1,499	1,874		
Less ACRE Payment	<u>54,676</u>	0		
Less Net Crop Ins. Pymt.	<u>205,946</u>	205,946		
Gross SURE Payment	<u>0</u>	52,309		
Pay 60% of Sure Payment	0	<u>31,385</u>		
4 years of Direct Payments	39,984	49,980		
ACRE Payment	54,676	0		
Total Government Payments	94,660	81,365		
Payment Difference		13,294		
% Payment Difference		16%		
SURE when over ACRE Limit		0		

Combined ACRE, DCP, & SURE Payments with Payment Limits

Compare ACRE & DCP on OK Wheat

	ACRE	DCP	ACRE	DCP
Planted Base Acres	1,000	1,000	2,500	2,500
SURE Guarantee	310,633	310,633	776,584	776,584
Less SURE Value of Crop	50,505	50,505	126,261	126,261
Less 15% of Direct payments	1,499	1,874	3,749	1,874
Less ACRE Payment	54,676	0	73,000	0
Less Net Crop Ins. Pymt.	205,946	205,946	514,865	514,865
Gross SURE Payment	0	52,309	58,709	133,583
Pay 60% of Sure Payment	0	31,385	35,225	80,150
4 years of Direct Payments	39,984	49,980	99,960	124,950
ACRE Payment	54,676	0	136,689	0
Total Government Payments	94,660	81,365	271,874	205,100
Payment Difference		13,294		66,775
% Payment Difference		16%		33%
SURE when over ACRE Limit		0		35,225

11/9/2009



Kansas State University Copyright 2009, All Rights Reserved

68

Unanswered SURE Questions

- FSA will use the RMA trend adjusted count yield (40.1) for setting the SURE guarantee for a GRIP insured farm. The state committee will set the county yield for rain fall index insurance.
- GRIP/GRP allows farmers to buy coverage equal to 1.5 times the value of the crop. The reason is that county yields vary less than farm yields but SURE is settling losses on farm level yields. Will FSA include the 1.5 scalar on line 7, table 3, generating a SURE guarantee of \$381.98 on line 9? Without the scalar the SURE guarantee is \$254.65.

11/9/2009



Kansas State University Copyright 2009, All Rights Reserved

69

Unanswered SURE Questions

- When calculating the 90% of expected crop value limit cap, FSA will apply the limit on SURE coverage for each crop individually. For example if farmers have an insurable crop and a NAP crop, farmers cannot exceed the 90% cap on benefits for the insured crop and the NAP crop will bring down the average.
- Is NAP coverage required for SURE when FSA approves the practice but RMA does not on an otherwise insurable crop, e.g. double crop dryland grain sorghum?

11/9/2009



Kansas State University Copyright 2009, All Rights Reserved

70

Combined ACRE, DCP, & SURE Payments When Over Payment limit

- SURE works best on single enterprise farm!
- A large number of acres under NAP will lower the average whole farm coverage.
- Ghost Crop is **not** applied to uninsurable crops due to practice, e.g double crop dryland sorghum.

11/9/2009



Kansas State University Copyright 2009, All Rights Reserved

71

SUMMARY

■ ACRE

- Participation in either or both programs
- Start Date 2009
- Signup, before June 1 (annually)
- After signup, in ACRE for the duration of Farm Bill
- Cost 20% Direct & 30% loan reduction & no CC
- Farm Serial #

■ SURE

- Participation in either or both programs
- Start Date 2008
- Signup, None; May have to "certify" all acres insured
- Annual (June 1 for 2010)
- Insure all crops
- Whole farm, all crops

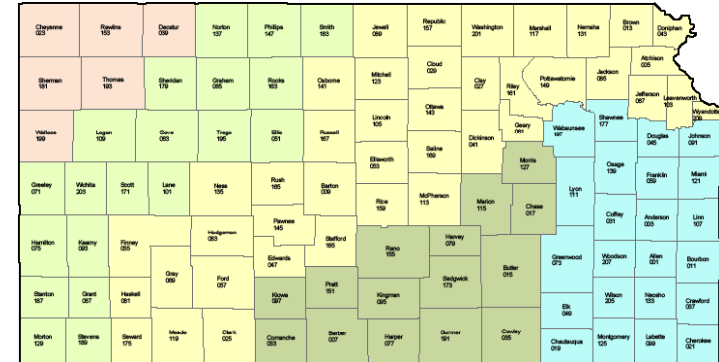
11/9/2009



Kansas State University Copyright 2009, All Rights Reserved

72

KANSAS 2009 Crop Year Final Planting Dates WHEAT



October 15, 2008
 October 31, 2008
 October 20, 2008
 November 5, 2008
 November 15, 2008

Note: This is not an official document. The 2009 actual documents are the official documents.

USDA / Risk Management Agency
 Topeka Regional Office
 Telephone: (785) 266-0248
 September 2008

11/9/2009



Kansas State University Copyright 2009, All Rights Reserved

73

Thank You

DR. G. A. "ART" BARNABY, JR.
KANSAS STATE UNIVERSITY

PHONE: 785-532-1515

EMAIL: barnaby@ksu.edu

Check out our WEB page at
<http://www.AgManagerInfo.com>

Copyright 2009, All Rights Reserved

