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### Why Your Recommendation Not to Buy 85% Crop Insurance?<sup>1</sup>

Art,

*I read your comment in Successful Farming about the disincentive to buy higher than 80% revenue insurance as it would not be a benefit for the SURE program. What about those that intend to enroll farms in the ACRE program? The additional premium paid for an 85% level policy will increase their farm expected revenue when adding the crop insurance premium paid. Right now with the depressed expected prices on the revenue policies, I can see where ACRE may have more possibility of making a program payment than SURE. Of course they must consider the cost associated with participating in ACRE. In addition, some farmers need to look at the highest level possible to make sure COP is covered.*

*I seem to be fielding as many questions about the farm bill as I am on crop insurance this year. One of our company field reps was at a meeting in the Mid-West recently where the county FSA CED stated that crop insurance has no impact on any of the FSA farm programs. The cart clearly got placed in front of the horse with this program.*

*Thanks for any input you can provide on my question.*

*Crop Insurance Agent*

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Dear Crop Insurance Agent,

If the quote is correct, then the FSA CED's statement that "crop insurance has no impact on any of the FSA farm programs" is clearly an incorrect statement, unless she was referring to ACRE. Farmers must insure all of their crops to be eligible for SURE coverage (the new "free" disaster program). The higher the crop insurance coverage purchased by farmers, then the higher their SURE coverage.

Will ACRE pay depends on a number of factors, including the forecasted 2008-09 Marketing Year Average (MYA) price, state yields, the 2009-10 MYA price and the individual farmer must meet their individual farm benchmark test to receive payments, even if the state triggers ACRE payments. The ACRE decision will have no impact on the crop insurance decision in the major corn states. The exception is a farm located in a small state like Delaware. Because there are only 5 Delaware counties, ACRE is almost a "county" program like GRIP and may have some impact on crop insurance. However, in Iowa where the flood losses occurred there will be SURE payments because of low yields and prices that have declined by more than 20%. If there are no payments then one would have to question if the USDA developed the implementations rules that Congress intended in the SURE Law.

My suggestion, farmers not buy coverage higher than 80% was an over simplification of some very detailed issues. The SURE program has a per acre 90% cap on payments. As a result farmers insured with 85% coverage will receive higher 85% indemnity payments but their SURE payment will be reduced for each indemnity dollar paid over the SURE 90% cap. However, there are conditions where farmers will not hit the SURE payment cap even if they buy 85% coverage.

The conditions where 85% crop insurance coverage will not reduce SURE payments include:

1. If USDA uses the net indemnity payments (payments after premiums are deducted) to count against the SURE guarantee that will reduce the chances of a reduction in SURE payments for farmers with 85% coverage. The Bush administration planned to count gross indemnity payments but the new administration may use net indemnity payments and that will reduce any reduction in SURE payments for farmers with 85% coverage.
2. If farmers have planted a non de minimis crop that requires a \$250 NAP fee for SURE coverage, then the crop is "insured" at 50% of yield and 55% of the "expected" price. The lower NAP coverage when averaged in with the insurable crops at 85% coverage will also lower the chances of a reduction in SURE payments caused by the purchase of 85% crop insurance coverage.
3. If farmers have any historical low yields in their crop insurance history that have been replaced with 65% of the T yield, then the SURE adjusted aph will be higher than their crop insurance aph. The higher SURE adjusted aph will increase the SURE 90% cap and reduce the chances of a reduction in SURE payments.

4. The crop insurance claims are settled on the harvest month average futures prices while SURE payments are based on the national Marketing Year Average (MYA) price. These prices will not be the same. If the MYA is higher than the crop insurance harvest price that too will reduce the chances of a reduction in SURE payments for 85% insured farmers.
5. Any private insurance, including UP, will not reduce any SURE payment. So one alternative is buy coverage 80% coverage and supplement it with private crop insurance coverage.

Because many of these detailed implementation rules will not be published by March 15, if 85% coverage makes sense then I would suggest ignore the SURE payment cap and buy 85% coverage. Clearly there are a number of conditions where 85% insured farmers may suffer no reduction in a SURE payment. Also remember farmers will not be able to collect any SURE payments until about a year after harvest, while crop insurance will pay within a few weeks after the harvest date. Therefore, insured farmers will have the time value of money for a year when compared with SURE payments.

I understand that you are asking for a simple answer but there no "one size fits all". Because the exact rules for SURE have not been developed, that will further complicate the decision. Finally even if the rules were published, public policy in that past has changed the rules after the fact. For example, farmers had to pay the NAP and CAT fees on 2007 fall seeded crops to be eligible for any SURE claims on the 2008 crop. This after the yield was already known on that fall seeded crop.

Thanks for the question.

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