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### **Should Farmers Cut their Fertilizer to Claim CRC Insurance Payments?<sup>1</sup>**

*Art,*

*I have had more than one wheat farmer say that they were not going to apply recommended amounts of fertilizer (N or P) because their CRC insurance guarantee was more than what they think the crop will gross... so why fertilize. In some cases they have 30 units of N on but a lab recommendation would call for 70-80 units N for a 50 bu crop.*

*I don't have an insurance policy in front of me, but isn't there language in there that addresses this?*

*What are you telling farmers and what could potentially happen to farmers (with regard to CRC) if they don't fertilize adequately?*

*Extension Educator*

Dear Educator,

Yes, the policy says farmers must follow good farming practices. Therefore, the loss adjuster could deny the claim for not following good farming practices. Those farmers

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will also lower their future aph yield and lower their future aph that will lower future guarantees and increase their premium rates. That lower aph will also lower future SURE guarantees that is the new free disaster program that adds free supplemental revenue insurance to farmers' crop insurance coverage.

In any case there is no reason to do this because the low price will trip claims without an insurable yield loss. Many soybean farmers were paid a claim on their revenue insurance policy in 2008 but they had no insurable yield loss. There is also the possibility that price will increase.

ART

Dear Troy & Art,

We in Washington State truly appreciate what you and Art Barnaby have done in regards to getting the word out on the SURE and ACRE program. I think the ACRE program here in Washington State for dry-land wheat producers is almost a no-brainer with a projected State Program Guarantee of a little over \$360 an acre to start with. But I am also afraid that many producers will not understand the program, and forego its' long-term protection over the remaining duration of the Farm Bill.

Having said that, I am curious as to what you might have heard how they will calculate the Farm Benchmark Yield for a producer. Of course what if a producer does not have 5 years of production records, etc. RMA yields? County FSA yields?

Also, I have been in contact with the Montana Grain Growers Association, discussing both of these programs. In regard to the SURE program, I thought it was almost set in stone that a producer would subtract his "gross indemnities", as opposed to "net indemnities" from SURE for the final SURE payment. Montana Grain Growers Association say this subject is still up for grabs, and I think our Washington Association of Wheat Growers will lobby for using "net" of course. What have you heard in regards to this issue? And who should we contact in D.C., besides our elected officials from our State?

Extension educator

Dear Extension educator,

The easy question first. The Bush Administration planned to use gross indemnity payment. The author of SURE intended it to be net indemnity, so the decision is up to the new administration. The use of the net indemnity payment would increase the SURE payment and would be to the advantage of growers. SURE is a revenue guarantee and there are 60 of the 105 Kansas counties eligible for SURE payments. The NASS price used to settle the 2008 SURE claims is down more than 20% so it is only going to take a small yield loss to trigger SURE payments in those disaster counties. SURE is a revenue guarantee so payments are triggered with lower prices or lower yields or a combination of

lower prices and yields. Farmers who are not in a disaster county or a contiguous county are also eligible for SURE payments but that will require those farmers to show a 50% revenue loss, so the easy way to be eligible is to be located in a disaster or contiguous county.

In addition there is an ad hoc disaster program for 2008 in the stimulus package. It will allow farmers who failed to pay NAP or CAT fees in 2008 to have “a do over”. It will also increase the SURE payments for farmers who paid their 2008 premiums and NAP fees on time. This is for 2008 only; it does not apply to 2009.

For 2009 the NAP fee was increased from \$100 to \$250. While we don’t know if there are going to be disaster counties or crop losses in 2009, the farmers with the higher crop insurance coverage will also receive higher SURE coverage. Remember SURE is a revenue guarantee not yield guarantee as was the case for the previous disaster programs.

As you pointed out, ACRE has two triggers. First the state must trigger payments, and then the farm must trigger too with farm revenue below the benchmark. My understanding is that FSA is arguing over if they can use crop insurance records. Many, if not most farmers will have no other records but their crop insurance records.

ACRE is a “put” option on expected state revenue. Farmers will pay 20% of their direct payment for the next 4 years (“put” premium) for an ACRE “option”. Currently the Wheat and Soybeans are “in the money” options, i.e. if prices ended up at current levels assuming an average state yield, these crops would pay ACRE payments. Corn is out of the money and will require prices to be lower than current levels to trigger payments assuming an average state yield.

In any case I would wait until mid-May (signup is before June 1) to make the ACRE decision. Markets could change or the winter wheat crop could freeze and that would change the decision.

I don’t see the ACRE decision as a “no brainer”; like options farmer could pay the premiums for ACRE and receive nothing. There are other considerations too. If a farmer is planting soybeans on wheat base the “premium” cost may only be \$2 per acre for the next 4 years (\$8 total) for a chance at \$100. However, if farmers were planting soybeans on rice base then the “premium” cost may be \$20 for the next 4 years (\$80 total) for a chance at \$100. The point is when planting on wheat base the cost of being wrong is very low and farmers are paid ACRE payments based on the crop that is actually planted. Also if the state guarantee is \$360 then the most a farmer could be paid is 25% times \$360 for a maximum payment of \$90, even if the bottom falls out of the market. This maximum only applies to farmers under the payment limit. If a farmer is over the payment limit with a 1,000 acres of wheat then this farmer will have a maximum payment of \$73 not \$90 (1,000 acres times \$73 equals the maximum effective payment limit of \$73,000).

Lower yields could also trigger payments if that doesn't cause higher prices and eliminate ACRE payments. For example if a large number of acres are planted this year then some of those additional acres will be planted on marginal corn growing acres. While this additional production may cause lower prices, the marginal acres could also lower the states' average yield per planted acre. This combination would increase the ACRE payment. But the reverse is also true. Few acres planted to corn on the best land could increase the average state yield but have prices increase too because of the reduced size of the total crop and cause the ACRE payment to be eliminated.

*Dr. Barnaby,*

*At a recent seminar you stated that if you are connected to a county that was declared a disaster than the adjoining counties would also qualify for payments under the SURE program. What steps do I need to take to receive payments?*

*Grower*

Dear Grower,

Nothing for now. Next summer farmers will need to "certify" all of their acres were insured or covered with NAP, unless the crop meets the *de minimus* test. If there are crops that farmers failed to pay NAP or CAT fees, they will be allowed to pay those fees for 2008 when they "certify" their insurance coverage. This "do over" on NAP and CAT fees applies to 2008 crops only. For 2009, SURE requires all NAP and crop insurance be signed up by sales closing (March 15 for spring crops in most of the Country).

*Dear Art,*

*I noticed in your last email with the Q&A section about de minimus acres, you spoke of the \$9,090 rule for large farmers. Could you elaborate on that for me? When does it come into play, etc.*

*If it is easier you can call me too. Thanks for all the information, great stuff!*

*Ag Lender*

Dear Lender,

A crop is considered *de minimis* if the crop value is less than \$9,090 (\$3,636 for 2008). However, until the rules are released by FSA, farmers will not know what yield or price will be used to calculate the crop value. A *de minimis* crop does not count in the SURE guarantee or against the SURE guarantee. A "large" farm with \$500,000 of crop revenue can meet the test of a *de minimis* crop if the value of the crop is less than 5% of the crop revenue, \$25,000. A *de minimis* crop does not require farmers to insure it or pay NAP fees to be eligible for SURE.

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