New FCIC insurance covers more crops

WASHINGTON, D.C. — Faced with an ever-rising ante for production costs, farmers now stand to lose more than ever if natural disaster strikes their crops.

With last summer's severe drought well in mind, many farmers may look into new insurance options provided for virtually all crops this year by the Federal Crop Insurance Act of 1980.

Federal crop insurance has been around about four decades. But until now, it wasn't available in many parts of the country, and often farmers had to rely on an array of disaster relief and loan programs when drought, hail, pests, disease, and other calamities struck.

The new program will protect crops when ASCS disaster payments are phased out after the 1981 harvest. Subsidized crop insurance will then replace the complex system of disaster payments and emergency loans that has built up over the years, explains USDA economist Clayton Ogg.

Program changes will provide more protection through higher yield and dollar guarantees. They also provide much greater flexibility. Farmers can tailor coverage to individual financial situations, change policies from year to year as risk management needs change and receive insurance guarantees based on individual yield history.

A major attraction of federal crop insurance is that the Government pays 30 percent of the premium price with the subsidy covering up to 65 percent of established yields.

When the 1980 Act was written, only 1,626 of the nation's roughly 3,000 counties had crop insurance, Ogg notes Half of them had insurance for wheat, and many insured corn, soybeans, cotton, tobacco, and various other crops

Originally, 250 counties were to be added annually until all counties were covered However, this spring the Secretary of Agriculture announced that by 1982 insurance will be available in all counties where the six crops currently eligible for disaster payments are grown wheat, cotton, grain sorghum, rice, corn, and barley

The insurance can be purchased from private insurance agents, banks, production credit associations, and county ASCS offices, as well as from local offices of the Federal Crop Insurance Corporation.

Although deadlines for obtaining coverage for spring crops are past—deadlines vary with crops, regions, and seasons—there's still time to buy protection for many fall crops in most areas. Producers can find out deadlines from local sources of the new insurance.

Farmers can choose to cover 50, 65, or 75 percent of their normal yield, Ogg says. They can then select from a range of three guaranteed prices, with the highest insured price set within 90 percent of the projected market price.

Although the 75-percent coverage of the full projected price is available, the 30 percent discount off the premium price covers only the first 65 percent of the guaranteed yield. Producers less in need of protection can select smaller amounts of coverage that cost only a fraction of the higher options.

This year, eligible producers can still receive ASCS disaster payments along with crop insurance—without the 30 percent discount off the premium—if they participate in farm programs for wheat, cotton, grain sorghum, corn, rice, or barley.

Premium payments and program features vary among counties and crops. As an example, let's look at the protection a farm in an Iowa county can get on its corn and soybean crops this year.

Let's say the fictitious farmer chooses 75-percent coverage for 200 acres of corn and 100 acres of soybeans. Let's assume also that

- The average corn yield is 110 bushels, according to FCIC records.
- The 75-percent yield guarantee at $2.70 a bushel means a subsidized premium of $9 90 an acre for corn.
- The average soybean yield is 30 bushels per acre.
- The soybean price guarantee chosen is $7 a bushel, which costs $8.50 an acre for the premium.

Now let's assume that severe drought reduces the 1981 corn yield to 20 bushels per acre and soybean yield to 10 bushels. Payment for the damaged corn crop under the subsidized Federal Crop Insurance Program is calculated as follows.

1) 75 percent of the 110 bushel average yield = 82.5 bushels
2) 82.5 bushels (guarantee)-20 bushels (production) = 62.5 bushel loss
3) 62.5 bushels x $2 75 = $168.75 per acre
4) $168 75 x 200 acres = $33,750 payment

Payment for the soybean damage is determined this way.

1) 75 percent of the 30 bushel yield = 22.5 bushels
2) 22.5 bushels (guarantee)-10 bushels (production) = 12 5 bushel loss
3) 12 5 bushels x $7 = $87.50 per acre
4) $87.50 x 100 acres = $8,750 payment

The subsidized insurance program would pay $42,500 for the two damaged crops. At premiums of $9.90 an acre for corn and $8 50 an acre for soybeans, premium costs were $2,830, leaving a net benefit of $39,670.

The tradeoffs between insurance benefits and premium costs depend, of course, on extent of losses and the level of protection chosen. Insured farmers who suffer no losses must still pay the premium.

However, the premium payments are a tax-deductible business expense, thus lowering the cost of insurance protection

If, in the example above, the farmer had decided against insurance, but had participated in the 1981 feed grain program, disaster payments would have covered the corn crop But soybeans aren't eligible for disaster payments.

Let's see how the farmer would fare under the low yield disaster program, without insurance. Assuming a target price of $2.40 a bushel and the same yield reduction as above, payments would be calculated as follows.

1) 60 percent of the 110 bushel average = 66 bushels (only production below 60 percent of normal yield is eligible)
2) One-half the target price = $1.20 per bushel (the payment rate equals one-half the target price)
3) 66 bushels (eligible) - 20 bushels (production) = 46 bushel loss
4) 46 bushels x $1.20 = $55.20 per acre
5) $55.20 x 200 acres = $11,040 payment

Farmers who want to minimize risk can choose to pay the higher, nonsubsidized crop insurance premium and receive the combined protection in 1981.

Assuming the same corn and soybean acreage and coverage as above, premium charges would be $3,370, up $540 from the subsidized premium costs. But the combined potential returns from insurance and disaster payments—assuming the same damage—would rise substantially. $42,500 + $11,040 = $53,540.

In this example, participating in the feed grain program and paying the additional corn premiums increased total payments by $11,000. The actual result would depend on the level of coverage and the extent of any loss from drought, wind, hail, disease, or other natural disaster.

Under the new program, there will be one straightforward system for everyone. Previously, a vast array of programs sprung up wherever farmers suffered losses.

Premium rates are set by the FCIC, based on the potential risk of crop loss in each area. This should encourage farmers to plant crops that are better suited to their particular area.

The expanded protection will serve farmers' financial needs by helping ensure cash flow stability.

This will make it easier to obtain and pay loans, especially for those producers who don't have a big capital reserve

Forward contracts will also be more secure with insurance to guarantee funds for meeting the contract.