A crop insurance newsletter

FarmPLUS
INSURANCE SERVICES

5048 U.S. Highway 29
Blairs, VA 24527
434-835-0107 * 800-458-3440
434-835-0109 (fax) cropins@farmplus.com
www.farmersontheweb.com

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Winter 2014

Sales deadline pending for spring-planted crops

The winter months are filled with planning for the upcoming spring, summer and fall months. This year, as in the past, the sales deadline for corn, soybeans, tobacco, cotton and grain sorghum is **Feb. 28, 2014** in North Carolina and **March 15, 2014** in Virginia.

The sales deadlines apply for those wishing to initiate coverage on a crop, but also these deadlines apply to those who wish to do any of the following:

1. Adding a crop to a policy.
2. Change plan of insurance. Example: Yield Protection to Revenue Protection.
3. Level of coverage—most policies offer 50-percent to 85-percent levels.
4. Change in unit structure. Example: Optional Units to Enterprise Units.
5. Adding options to policies. Example: A cotton-seed endorsement.
6. Change in entity type. Example: Individual to spousal or corporation.
7. Cancellation of crop policy.

While the last year has been generally successful in farming circles, it was not without its difficulties. Heavy rains caused significant losses in wheat crops, prevented-planted acreage, quality issues and low yields, especially in tobacco and double-cropped soybeans. Losses were significant but certainly not extreme.

The need for experience in crop insurance was never more evident than in 2013. Quality losses, once finally adjusted, on wheat varied substantially based on steps that were taken during harvest and loss adjustment.

Prevented-planted payments on double-cropped soybeans were often much less than anticipated unless the agent was called in to research eligibility prior to the claim being filed or worked.

A higher value has been given to experience due to the complexity of losses in 2013. With over 50 years of combined experience within FarmPlus Insurance Services, it is our hope that you will continue to place your trust in our handling of your crop insurance needs.

Acreage reporting deadline for small grains is Jan. 15

If you haven't already reported your wheat, oats and/or barley plantings, please do so by **Jan. 15, 2014**. This reporting deadline applies in North Carolina and Virginia.

Beginning with the 2013 crop year, all reporting deadlines were made the same between the Farm Service Agency (FSA) and the Risk Management Agency (RMA). In other words, crop reports are due to your crop insurance agent and local FSA office by **Jan. 15**.

It's important to note that only crops with an intended use for grain are insurable. Crops reported to FSA, or us, as forage or left standing/cover crops are not insurable. However, uninsurable acreage of the insured crop should be reported to your agent. For example, barley for forage should be reported if you have a barley policy.

Typically, the production from uninsurable, unreported acreage is considered as "production-to-count" against insured acreage. As an example, if Joe Farmer plants wheat for hay and also has wheat for grain but does not report the hay acreage and Joe decides to thrash the acreage that was planted for hay, the bushels produced would be counted against Joe's insured-acreage guarantee. The moral of this story is to report all acres of all intended uses of the insured crop to FSA and to us.

Also, always verify the intended use for all reported acreage at FSA to be sure that the correct intended use is shown. Acreage that is shown for forage cannot be insured.

As a reminder, each crop has a final-plant date, and in small grains there is a 15-day late-planting period, in which a farm looses 1 percent of coverage per day. Beyond that late-planting period, acreage is uninsurable. Please keep this in mind when reporting. There are occasions when acreage is uninsurable with the farmer unaware that coverage doesn't exist.

Finally, it is extremely important that the acreage report is timely. For the 2014 crop year, every acreage report that is not received timely will require a field inspection by an adjuster to verify that the crop in its current condition

*See **Acreage reporting** on page 4*

Brent's Two Cents
by Brent Craig

About FarmPlus

We have been in business for over 20 years. Our office consists of three agents, and seven other employees that handle crop insurance. Also, two employees handle auto, farm and home insurance. We are an independent agency that has contracts with three, and soon to be four crop insurance providers. We have access to over 20 different adjusters.

We serve 36 counties in North Carolina and Virginia and handle over 700 farming operations. We meet with our customers in person before every sales-closing date, which is **February 28 in North Carolina** and **March 15 in Virginia**. We also send out quarterly newsletters to update our customers and prospects.

We value our relationships that we have developed over the years with our growers. It takes time to earn trust and to get to know our customers. After all, people buy from people.

Cotton

North Carolina will benefit from a new final-plant date on cotton. In 2013, the final-plant date was May 15 with a 15-day, late-planting period. For 2014, the final-plant date has been moved to May 25 with a five-day late-planting period. Producers have gained 10 days more to plant without a 1 percent per-day guarantee penalty. After May 25, the late-plant penalty is a 1-percent reduction in guarantee per day for five days.

The cotton-seed endorsement is still around for 2014 and can be purchased to increase the coverage per acre of the cotton crop. It is based on a ratio of seed-to-lint. The ratio calculated for Stanly County, N.C., is 1.273 *times* the lint guarantee. The price election on the seed is $240 per ton. So if a producer has a 1,000 pound/acre average yield and is at a 75-percent level of coverage, he has a 750-pound guarantee. Then, he/she can pick up about $114 more coverage per acre for about $2 per acre. An 80-level Enterprise Unit (EU) without the seed endorsement will cost about $9 per acre more and coverage will only be increased by about $40 per acre. In some cases, the seed endorsement may be the way to go.

FarmPlus dinner meetings for 2014

Jan. 9, 2014: Thursday, dinner at 5:30 p.m., Jay's Seafood, 40439 Stoney Gap Road, Albemarle, N.C.
Feb. 4, 2014: Tuesday, dinner at 6 p.m., Person County Office Building, 304 S. Morgan St., Roxboro, N.C. Catered by Fat Boys (Jimmy Harris)
Feb. 10, 2014: Monday, lunch at 12 p.m., Sagebrush Restaurant, 170 Nye Circle, Wytheville, Va.
Feb. 10, 2014: Monday, dinner at 6 p.m., Lone Star Restaurant, 1905 Woodland Drive, Mt. Airy, N.C.
Feb. 11, 2014: Tuesday, dinner at 6 p.m., Rockingham County Farm Service Agency, 525 NC 65, Suite 120, Reidsville, N.C.
Feb. 13, 2014: Thursday, dinner buffet at 6 p.m., Ernie's Restaurant, 1010 John Randolph Blvd., South Boston, Va.
Feb. 18, 2014: Tuesday, dinner at 6 p.m., McLeansville Wildlife Club, 6045 Rock Quarry Road, McLeansville, N.C. Catered by Kelly Shepherd
Feb. 20, 2014: Thursday, lunch at 12:30 p.m., The Franklin Center, 50 Claiborne Ave., Rocky Mount, Va. Catered by Henry Jamison
Feb. 20, 2014: Thursday, dinner at 6 p.m., Olde Dominion Agricultural Complex, 19783 US Hwy. 295, Chatham, Va.

Beware of new-breaking ground

New-breaking ground (NBG) is any land **not** planted to a row crop and harvested in any of the previous three-crop years. Any NBG is considered uninsurable with the following exceptions:

- If the acreage was not planted two of the three previous crop years to comply with another U.S. Department of Agriculture (USDA) program.
- The acreage emerged from the Conservation Reserve Program (CRP) in either of the two most recent crop years.
- The acreage consists of less than 5 percent of the unit.
- The acreage was not planted due to crop rotation. Example: Alfalfa rotated for five years then corn.
- The acreage was in a perennial tree, vine or bush crop within the last three years.

New-breaking ground can potentially be discovered by the loss adjuster when working a claim. In fact, some adjusters may check prior land history on large claims or high-dollar crops such as tobacco.

We, as your agent, are not tasked with finding where NBG exists within an acreage report. It is the farmer's responsibility to identify new-breaking acreage within his/her acreage report. We will normally ask about NBG when confirming acreage prior to keying those acres to a policy.

There is a procedure for reduced coverage on NBG. The new-breaking acreage must be less than 320 acres, and the farmer must be able to provide (1) soil maps showing that 75 percent of the acreage must be in soil class 1, 2, 3 or 4. (2) the farmer must give a statement as to how the land will be broken, whether sprayed

*See **NBG** on page 4*

EU vs. OU and what qualifies

One decision to be made at this time of year is whether to choose an Enterprise Unit (EU) structure or an Optional Unit (OU) structure.

An EU is an aggregate or a single unit created from what could be multiple (OUs). Optional Units are normally determined by the Farm Service Agency (FSA) farm serial number (FSN). In other words, each FSN is a separate OU. Enterprise Units can typically be bought at a premium that is 40 percent of the OU price, but not everyone qualifies for EUs. To qualify for EUs, the farmer must plant the insured crop on at least two FSNs and must meet the 20/20 rule. The 20/20 rule states that the farmer must have 20 acres or more on two different FSNs, or 20 percent of the total-planted acreage of the insured crop in the county on each of two FSNs. To meet the 20/20 rule, small-planted acreage on multiple farms may be "aggregated:"

Example of qualifying EUs:

- Example 1: FSN 1234 equals 22 acres. FSN 8754 equals 80 acres.
- Example 2: FSN 2054 equals 20 acres. FSN 2345 equals three acres. FSN 6742 equals three acres. Because the total-planted acreage is 26 acres and 20 percent of that amount is 5.2 acres, the two farms with three acres each are aggregated to exceed the 5.2 acres or 20 percent.
- Example 3: FSN 8354 equals 200 acres. FSN 8237 equals 20 acres

Examples that do not qualify:

- Example 1: FSN 7489 equals 20 acres. FSN 7490 equals three acres. The second farm does not exceed the 20 percent or 20-acre rule.
- Example 2: FSN 9542 equals 150 acres. FSN 9543 equals 13 acres. The second farm does not exceed the 20 percent or 20-acre rule.
- Example 3: FSN 5328 equals 20 acres in County A. FSN 5329 equals 20 acres in County B. This scenario does not qualify because EUs are determined by county.

Following are variables that lend themselves to use of EUs:

1. farms that are located close together
2. planting dates and conditions are similar
3. land fertility and quality are similar
4. wildlife pressure is similar
5. frequency of hail storms is small.

It is our experience that some crops are better suited for EUs than others. Due to variability in deer pressure and early and late-planting season, soybeans are often **not** well-suited for EUs.

Corn, while often well-suited for EUs, may not be well-suited when planted on different soil types.

Wheat is often well-suited for EUs; however, the wheat harvest can be interrupted, as happened in 2013, causing bad results when using EUs.

Enterprise Units are most beneficial for premium savings in good years and for increased payouts in bad years. This is explained by the fact that typically EUs allow for higher levels of coverage. Optional Units work best when rainfall is spotty and when soil, wildlife pressure, and other factors are highly variable.

Every farmer should weigh EU vs. OU for benefits vs. costs.

Yield trend adjustment expanded to more states and counties

In the past three years, a new option has been offered in stages across the country on the major crops. Corn, soybeans, wheat and now cotton have an option available in most counties known as the "Trend Adjustment (TA) Option." This option came about as an effort to recognize the upward trend in yields that has been achieved over recent years. This upward trend has been accomplished due to improvements in technology and farming practices such as improved genetics, improved equipment technology, precision farming, etc. The upward yield trend is problematic within crop insurance, because crop insurance normally uses a 10-year yield database as a basis for determining coverage. Further, since coverage is determined on a farm serial number (FSN) basis and because of crop rotation, yield averages can sometimes include yields that are 20 or more years old. An argument can be made that a 100-bushel (bu)/acre(ac) corn yield in 1990 might be equivalent to a 140-bushel corn yield in 2014.

To "adjust" a yield database to allow for more realistic yield average for a crop, a TA factor is assigned on a crop and county basis that is intended to correct a yield from the past to a current day yield. For example, the TA factor for soybeans in Davidson County is 0.42 bushels per acre per year. Therefore, if the option is chosen, a yield in a database that is 10 years old, for example, would be "adjusted" to 10 *times* 0.42 or

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NBG
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for no-till, bottom-plowed, chisel-plowed, disked, etc. (3) the farmer must show that a conservation plan exists with USDA or must certify that one is not required. If these three conditions are met, the farmer qualifies for an approved yield of 65 percent of the county yield for the crop planted on the NBG. If the farmer can show that the land was broken out in the past, for example with a 578-producer print, he/she would be eligible for 80 percent of the county T-yield for the crop planted.

Our experience is that many farmers have not insured NBG at these reduced coverages, other than perhaps for tobacco crops.

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5048 U.S. Highway 29
Blairs, VA 24527

Yield trend adjustment
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4.2 bushels per acre higher than the yield that was actually achieved. Following is an example of the calculation on an entire farm database:

Trend Adjustment Example
Assumption: Soybean TA factor is 0.42 bu/ac/year.

Normal Method

Year	Yield Avg.
2005	30 bu/ac
2007	32 bu/ac
2009	33 bu/ac
2011	25 bu/ac
2013	36 bu/ac
Avg. = 31.2 bu/ac	

Trend Adjusted

Trend Adjustment Calculation
30 bu/ac + (9 x 0.42)bu/ac = 33.8 bu/ac
32 bu/ac + (7 x 0.42)bu/ac = 34.9 bu/ac
33 bu/ac + (5 x 0.42)bu/ac = 35.1 bu/ac
25 bu/ac + (3 x 0.42)bu/ac = 26.3 bu/ac
36 bu/ac + (1 x 0.42)bu/ac = 36.4 bu/ac
Avg. = 33.3 bu/ac

By selecting the TA Option, the grower improved his/her average yield by 2.1 bu/ac. At a 70-percent level and a price of $12.50 per bushel, this grower could achieve $18.38 additional coverage per acre without increasing his/her level of coverage. Often, a grower can buy the TA Option to achieve an effective coverage that is as high as the next level of coverage but without the decreased premium subsidy of a higher level of coverage. Likewise, a grower can sometimes buy the next lower level of coverage and achieve as much or more coverage for a lesser premium than currently being paid. The "catch," if you will, is that once using the TA option, the grower loses two mechanisms that are commonly used when calculating "Approved Yields." One mechanism that is lost is the "Cup." The Yield Cup is a mechanism that allows the approved yield to fall no more than 10 percent from one year to the next. For example, if a grower has an approved yield of 100 bushels per acre on corn in 2014 and suffers a severe loss, the least that the farmer's approved yield could drop would be 10 bushels per acre, down to a 90 bu/ac average. The other mechanism that is lost when choosing the TA Option is the "Floor." A yield floor is the least "approved" yield that can be shown, which is a percentage of the county T-yield. Without a yield floor, farms with extremely poor averages would have very little coverage and would be far below the county T-yield.

The moral of the story is that the TA Option is an option that farmers should consider, especially farmers that have consistently strong yield averages across all farms. It is an option that is perhaps made for the most successful farmers.

Acreage reporting
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could feasibly achieve 90 percent of the yield history for the farm. If that determination cannot be made, no coverage will exist. A timely acreage report can consist of the following:

- a signed and dated acreage-reporting form issued by the crop insurance company
- an FSA 578-producer print delivered or mailed to the crop insurance agent
- a verbal acreage report delivered by phone

Any acreage report mailed must be postmarked by **Jan. 15**. Any verbal acreage report must be accomplished by **Jan. 15**. Our preference is that the farmer report to FSA first. He then obtains an FSA 578-producer print, and then transfers that information to our acreage-reporting form and submits the FSA 578 and acreage-reporting form to us.

It should be noted that any unsigned or verbal acreage reports carry no guarantees of accuracy. In other words, the agency will be responsible for properly attaching the proper acreage to the policy when that acreage is obtained from a signed-acreage report. Any errors pertaining to unsigned documents or verbal transcriptions are given at the farmer's risk. Please report **timely**.

Changes in the 2014 tobacco program

In 2013, a rotation requirement was added to the tobacco policy that required land be rotated away from tobacco at least every third year in order for tobacco on said land to be insurable.

For 2014, the rotation requirement has been removed from the policy. This change resulted from political pressure. While this is a welcome change to many growers, it is also a cause for concern because it will most certainly increase the loss ratio for tobacco.

Another change for 2014 is a 40 cents per-pound increase in the price election to $2.15 per pound. Hopefully, the market average in 2014 will exceed $2.15 per pound, but if not, a hazard will be created by the attractive price election within the tobacco policy.

The Risk Management Agency (RMA) has clearly stated in the past that the loss ratio for tobacco must decrease in order to maintain a tobacco policy in all tobacco-growing areas. Each year, and again in 2014, RMA has increased rates to try to solve the loss-ratio problem.

We're hopeful that 2014 will bring good weather and strong pricing to avoid an unfavorable loss ratio.

How are price elections determined?

Often, the question is posed: "How are prices determined for my crop insurance coverage and my crop insurance loss?" For crops that do not have revenue protection, known as APH (Actual Production History) crops, the price election is determined as the average price for the prior year for the crop. For example, the tobacco policy is an APH crop policy and the price election has been determined to be $2.15 per pound for the 2014 crop year.

For grain crops with Revenue Protection (RP), the question of price election is more complicated. Each crop has a "Price Discovery Period" for the Projected Harvest Price and also for the Harvest Price. Each of these prices is an average of the closing price of a future for the crop in question. The following chart shows the futures contract that is used to calculate the Projected Harvest Price for corn, soybeans, grain sorghum and cotton.

				Projected Harvest Price		**Harvest Price**	
State	Market	Crop	Contract	Start	End	Start	End
North Carolina	CBOT	Corn	December	Jan. 15	Feb. 14	Sept. 1	Sept. 30
Virginia	CBOT	Corn	December	Feb. 1	Feb. 28	Oct. 1	Oct. 31
North Carolina	ICE	Cotton	December	Jan. 15	Feb. 14	Oct. 1	Oct. 31
Virginia	ICE	Cotton	December	Feb. 1	Feb. 28	Oct. 1	Oct. 31
North Carolina	CBOT	Soybeans	January	Jan. 15	Feb. 14	Nov. 1	Nov. 30
Virginia	CBOT	Soybeans	January	Feb. 1	Feb. 28	Nov. 1	Nov. 30

Grain sorghum uses the same pricing that is shown above for corn but is 97.8 percent of the corn price.

The "Minimum Revenue Guarantee" is obtained by multiplying: the producers average yield *x* the chosen coverage level *x* the projected harvest price. The "Final Guarantee" is obtained by multiplying: the producers average yield *x* the chosen coverage level *x* the **higher of** the projected harvest price and the harvest price. The producers "Revenue" is obtained by multiplying: the producers actual yield *x* the harvest price. Any loss is determined by subtracting the Revenue from the Final Guarantee.

It should be noted that the price that the farmer actually received for his grain or cotton is not normally used in calculating losses. Only when quality is very low, there are some policies that have provisions that use the farmer's price received in calculating quality-adjustment losses. This is true of cotton with quality problems, and also with grain crops with quality issues such as low grade, toxins or low-test weight. In any case, every farmer should always try to achieve the best selling price for their crops, as crop insurance indemnities are typically unaffected by how well or how poorly a producer markets his/her crop.

Yield reports for spring-planted crops now due

Recently our office sent production reporting forms to all growers with acreages of corn, soybeans, grain sorghum or tobacco for which a loss has not been paid.

If a loss exists on these crops and you're expecting a claim settlement, the yields on those acres will be automatically obtained through the loss settlement. Our office is interested in receiving yield data on non-loss acreage through the production reporting form. Timely reporting of yield data to us is important for several reasons: (1) good yields contribute to higher-yield averages which translate into better coverage for future years (2) in order to provide accurate quotations for the 2014-crop year, the 2013-yield data must be included in the yield database (3) failure to report yields results in an ever-declining yield average because unreported yields result in the usage of 75 percent of the prior year, yield average being used for the current year and (4) a farmer is not eligible for Optional Units if he/she didn't report yields in the prior year.

Production reports are due this spring; however, we prefer that you report 2013 yields while that information is still on your truck's dashboard or your desk rather than filed away with your 2013 taxes.

Farm maps are available

Maps of your farming operation are available through our office, which are in full color and in full -page, half-page or quarter-page formats. The half-page and quarter-page formats are printed in such a way that they can be stapled to make booklets. These booklets contain forms for note pages where a grower can insert plant dates, chemical application dates, etc. If you would like a map booklet for your operation, contact Cindy Urias at 800-458-3440.

Farm, home, auto, life and health insurance

While our primary focus has always been crop-insurance coverage, Jennifer Minter is always eager to help you with your farm, home, auto or any other insurance coverage that you have an interest in. Claudia Franklin can also be of service to you in these areas. We are an independent agency which means that we have many companies to offer; and therefore, are almost always very competitive.

If you would like to receive an advanced copy of subsequent newsletters, please send us an e-mail to *cropins@farmplusins.com.* Also, there are times when information might be beneficial to you that, with your e-mail address, we will be able to get this information out to you as quickly as possible.

The e-mail of the Farm-Plus Insurance Services has changed. Our new e-mail is *cropins@farmplusins.com*. The old e-mail address will be active for a few more months, but we want to transition folks to our new e-mail as soon as possible.

If you are a member of a grower's group or association such as young farmers, we will be glad to sponsor or co-sponsor meetings and give an overview of crop insurance to the members. Often small group meetings provide the best venue for questions and answers that our growers want or need to know.