

# DEMaND

Developing and Educating Managers and New Decision-makers



*Are you planning to be the next generation farm operator? Whether you represent the transition of generations, or that of employee to owner or as a new entrant to the business, a fresh look at management will be necessary. Michigan State University Extension offers help to beginning farmers with this transition through the Beginning Farmers DEMaND series offering articles, workshops and additional resources.*

## Insurance Options for Vegetable Growers

**Ben Phillips, Michigan State University Extension**

E3413 May 2021

Vegetable farmers face many challenges. In 2017 and 2018, excessive rain near harvest time prevented pumpkins from being harvested and rotted the last few pickings of melons, watermelons, peppers, and tomatoes. In the prolonged wet 2019 spring, some growers, who would normally put in many separate sweet corn plantings for continual harvest, reduced the number of plantings to focus on transplanted vegetables and pumpkins in the limited time they had between rain events. In that same year, early spring rains drowned seedlings of early-planted Brassicas and root crops. In 2020, favorable vernalizing conditions followed by heat caused bolting in early-planted biennial vegetables. Thankfully, risk management programs can take the edge off of major losses from lower yields, crop losses, or prevented planting from weather events such as these.

You may find the following table of acronyms helpful:

### Acronyms Used in This Bulletin

Acronym:	Stands for:
APH	average production history
AR	approved revenue
FSA	Farm Service Agency
IPA	insurance per acre
NAP	Noninsured Crop Disaster Assistance Program
RMA	Risk Management Agency
USDA	United States Department of Agriculture
WFRP	whole-farm revenue protection

For many farms, crop insurance is an option for the crops they raise. Whole-farm revenue protection (WFRP) and average production history (APH) insurance are two distinct insurance options administered through the Risk Management Agency (RMA) of the United States Department of Agriculture (USDA). They can be purchased through private crop insurance agents. The APH plan is for certain processing vegetables in certain counties and is tailored more for large-scale production on well-established farms. If you are an experienced large acre producer but new to one of those crops, inquire with a private insurance agent who works with farms.

Unfortunately, there are many crops for which insurance is not available. The Noninsured Crop

# DEMaND

## Developing and Educating Managers and New Decision-makers

Disaster Assistance Program (NAP), administered through the Farm Service Agency (FSA) of the USDA, is available for crops not covered by crop insurance. A producer must sign up through their local FSA office for NAP. If you grow fresh market specialty crops, your best options are WFRP or NAP.

Growers can pay in to WFRP and NAP plans, and they can collect losses under both. However, they are limited to collecting up to the WFRP deductible amount in NAP payments. Growers can also layer WFRP and APH plans, which can qualify them for premium discounts.

Finally, there are hail coverage plans independent of all of the other options, but they can be layered on top of the other plans.

In any case, Michigan State University (MSU) Extension reminds you to register your business with the state; to keep your acreage, yield, and revenue paperwork in order; and to always contact your trusted legal and tax advisors. A brief overview of how to participate in these insurance and disaster relief options, and what circumstances and conditions could activate plan coverage follows.

### WFRP Insurance Through RMA

RMA offers WFRP insurance [\(1\)](#) nationwide through private insurance agents, who can be found with the Agent Locator tool. [\(2\)](#)

WFRP is based on your average gross income over five years, as reported in Schedule F tax forms. As of 2020, new provisions reduce the impact of losses during the five-year history, such as excluding the lowest year. This number is then compared to what you expect your gross income to be for the next crop year using allowed on-farm revenue streams. Examples of nonallowable revenue streams include custom hire agricultural work, contract growing, government program payments (such as Conservation Reserve Program participation), and post-production processing.

The approved revenue (AR) is the lower of these two numbers, and the insured revenue for that year is AR multiplied by the coverage level, between 50% and 85%, and a subsidy based on the number of crops grown on the farm.



Spring rains causing root rots and fruit rots in strawberries.

At the end of the season, after you have filed your farm income taxes, a loss adjuster will review it for allowable revenue and expenses, inventory adjustments, unharvested or unsold production, and production lost from causes not covered by the program to determine a revenue. A loss indemnity payment is made when the total revenue for the year falls below the insured revenue and compensates for that loss.

A farm can have:

- no more than \$8.5 million in insured revenue,
- no more than \$2 million in expected revenue from animals and animal products,
- no more than \$2 million in expected revenue from greenhouse and nursery, and
- no more than 50% of total revenue from commodities purchased for resale.

# DEMaND

## Developing and Educating Managers and New Decision-makers

Use the following formula to calculate insured revenue with WFRP:

$AR \times \text{\_\_\_\% coverage level} \times \text{\_\_\_\% subsidy} = \text{insured revenue.}$

Your eligibility and premiums can be calculated in more detail with the RMA Cost Estimator tool. (3) The Cost Estimator provides only a general premium estimate. Refer to your crop insurance agent and policy for specific information regarding insurance coverage, calculations, conditions, application deadlines, and exclusions.

### APH Insurance Through RMA

RMA offers APH insurance (4) on cabbage, green peas, machine-harvested pickling cucumbers, mint, onions, potatoes, processing beans, and processing tomatoes in certain counties in Michigan. The programs are accessed through private insurance agents, who can be found with the Agent Locator tool. (2) Growers can make a written agreement with their insurance agent to cover these crops in other counties not written into the standard APH program.

Each of these programs generally works similarly for each of the crops, with minor differences in options and coverage levels. Each crop's APH program has details on their calculation at the Michigan RMA website. (2) Basically, the APH is calculated as an average crop yield from a minimum of four years and maximum of 10 years and is then multiplied by your coverage level percentage to get a guaranteed yield. A loss occurs when your actual yield falls below your guaranteed yield amount. Many of these programs also entail working with your contracted buyer as well as your insurance agent.

Use the following formula to calculate expected revenue with APH:

$APH \times \text{\_\_\_\% coverage} - \text{\_\_\_\_ actual yield} \times \text{\_\_\_\$ elected price} \times \text{\_\_\_\% share} = \text{expected revenue per acre.}$

Your eligibility and premiums can be calculated in more detail with the RMA Cost Estimator tool. (3) The Cost Estimator only provides a general premium estimate. Refer to your crop insurance agent and

policy for specific information regarding insurance coverage, calculations, conditions, application deadlines, and exclusions.

### NAP Through the FSA

FSA offers NAP nationwide (5) to producers of noninsurable crops to protect against catastrophic natural disasters that result in lower yields, crop losses, or prevented planting. NAP may also be available if crop insurance does exist for a crop, but coverage is not available for your crop type or intended use such as fresh market versus processed market. The FSA handles NAP at the county level, and offices can be found with the Service Center Locator tool. (6)

For all coverage levels, the 2018 Farm Bill (7) set the NAP service fee as the lesser of \$325 per crop or \$825 per producer per administrative county, not to exceed a total of \$1,875 for a producer with farming interests in multiple counties. The schedule of fees and premiums follow a standard formula. For catastrophic level 50/55 coverage, the maximum premium for a producer is \$6,562.50 (the maximum payment limitation of \$125,000 times a 5.25% premium fee). Effective for 2019 through the 2018 Farm Bill, the payment limitation has been increased to \$300,000 per payment limitation. This maximum payment limitation multiplied by the 5.25% premium factor results in a higher maximum premium of \$15,750 for each eligible payment limitation. Keep in mind that the higher premium is a result of a higher level of coverage and therefore, a higher maximum payment for an eligible claim. However, a limited resource farmer, beginning farmer, veteran of the armed forces, or socially disadvantaged farmer (8) may qualify to have the premium reduced by up to 50% and the administrative fee waived.

NAP covers prevented planting when unplanted acres are greater than 35% of intended acreage or covers loss of yield when loss is greater than 50% of a crop's APH yield per acre at 55% of the national average market price. The APH is calculated as an average crop yield from a minimum of four years and maximum of 10 years. The 2014 Farm Bill authorized coverage levels ranging from 50% to 65% of production in 5% increments at 100% of the average market price. This is called the *NAP Buy-Up*.

# DEMaND

## Developing and Educating Managers and New Decision-makers

A farm's average adjusted gross income cannot exceed \$900,000 to be eligible for NAP payments. Also, NAP payments received are limited to \$125,000 per crop year, per farm for catastrophic coverage and \$300,000 for buy-up coverage levels.

Use the following formula to calculate expected revenue with basic NAP:

$$\text{APH} \times 50\% \text{ coverage} \times \$ \text{ FSA price} \times 55\% \times \text{ \% of affected crop} = \text{expected revenue per acre}$$

Use the following formula to calculate expected revenue with NAP Buy-Up:

$$\text{APH} \times 50\text{-}65\% \text{ coverage} \times \$ \text{ FSA price} \times \text{ \% of affected crop} = \text{expected revenue per acre}$$

Your eligibility and premiums can be calculated in more detail with the NAP Buy-Up Estimated Premium Calculator (9) (requires eAuth Access through FSA). This tool will also tell you if you are eligible for RMA APH insurance. Refer to your FSA Service Center and policy for specific information regarding NAP coverage, calculations, conditions, application deadlines, and exclusions.

### Individual Crop Hail Coverage

Individual crop hail coverage is also available through private insurance agents who work with RMA's Federal Crop Insurance Corporation policies. It can be found with the Agent Locator tool. (2) Nearly all crops in Michigan can be insured with a stand-alone hail policy.

This product provides hail coverage as a dollar amount of insurance per acre (IPA) on individual crops. You can purchase a limited amount of IPA per crop, but exceptions to buy more may be approved. A loss occurs when hail damages the crop to an extent above the applicable deductible. Some crops do not have a deductible, and a loss happens when any hail damage occurs. There are many options for setting up the coverages of a hail plan's additional endorsements for things that have nothing to do with hail, such as transportation damage, fire, wind damage, and theft. Different types of hail coverage may require production history data. For these reasons, it would be best to talk with a licensed crop insurance agent to determine what might work best for your operation.

Use the following formula to calculate expected revenue with crop hail coverage:

$$\% \text{ loss} \times \text{IPA} - \text{deductible (if there is one)} = \text{expected revenue per acre.}$$

### Which Plan Is for You?

Remember, an insurance policy is not a payment to you that should be relied on with any frequency. It is pure risk reduction, and it has its own costs. Your job is to decide how much and which type of insurance is worth it as an annual cost to you that can limit a much more significant cost if nature isn't cooperative. Some of these options may be useful to you. However, with each passing of the Farm Bill, these policies are subject to change. So, follow up with whichever agency is responsible for running the crop insurance program that best suits you.

WFRP, APH, and crop hail insurance are administered by the USDA RMA and offered through private insurance agents you can find with the Agent Locator tool. (2) The NAP is administered by the USDA FSA and offered at county-level offices you can find with the Service Center Locator tool. (6)

### Program Details

- 1 RMA WFRP insurance (<https://www.rma.usda.gov/en/Policy-and-Procedure/Insurance-Plans/Whole-Farm-Revenue-Protection>)
- 2 RMA Agent Locator tool (<https://www.rma.usda.gov/informationtools/agentlocator>)
- 3 RMA Cost Estimator tool (<https://ewebapp.rma.usda.gov/apps/costestimator/>)
- 4 RMA APH insurance (<https://www.rma.usda.gov/en/RMALocal/Michigan>)
- 5 FSA NAP Buy-Up (<https://www.fsa.usda.gov/programs-and-services/disaster-assistance-program/noninsured-crop-disaster-assistance/index>)

# DEMaND

## Developing and Educating Managers and New Decision-makers

6 FSA Service Center Locator tool

(<https://offices.sc.egov.usda.gov/locator/app?state=mi&agency=fsa>)

9 NAP Buy-Up Estimated Premium Calculator

(<https://apps.fsa.usda.gov/nap/costtool/login.do>)

7 2018 Farm Bill

([https://www.farmers.gov/sites/default/files/document/s/FSA-FarmBill2018\\_WhatsChanged-19.pdf](https://www.farmers.gov/sites/default/files/document/s/FSA-FarmBill2018_WhatsChanged-19.pdf))

8 Definitions of limited resource farmer, beginning farmer, socially disadvantaged farmer, and veteran of the armed forces

(<https://www.nrcs.usda.gov/wps/portal/nrcs/main/national/people/outreach/slbfr/>)

### Resources

#### GreenStone Farm Credit Services

<https://www.greenstonefcs.com/insurance/crop-insurance>

GreenStone crop insurance specialists provide expertise and knowledge to design a risk management portfolio tailored to your individual needs.

#### Michigan Farm Bureau Insurance

<https://www.farmbureauinsurance-mi.com/Crop/>

Farm Bureau Insurance has crop insurance specialists in regions throughout the state whose sole focus is to help you with your risk management needs via crop insurance.

#### MSU Extension Farm Business Management Team

[https://www.canr.msu.edu/farm\\_management/](https://www.canr.msu.edu/farm_management/)

The MSU Extension Farm Business Management Team assists farmers, agriculturally related businesses, industries, families, and individuals to improve their lives and achieve their goals through an educational process that applies management, production, and economic knowledge to critical issues, needs, and opportunities.

#### USDA Farm Service Agency

<https://www.fsa.usda.gov/index>

The FSA is a customer-driven agency with a diverse and multi-talented work force, dedicated to achieving an economically and environmentally sound future for American agriculture.

#### USDA Risk Management Agency – Education and Training

<https://www.rma.usda.gov/Topics/Education-and-Training>

RMA's education team seeks to educate farmers, ranchers, and producers with real-time crop insurance program information and risk management tools.

## MICHIGAN STATE UNIVERSITY | Extension

MSU is an affirmative-action, equal-opportunity employer, committed to achieving excellence through a diverse workforce and inclusive culture that encourages all people to reach their full potential. Michigan State University Extension programs and materials are open to all without regard to race, color, national origin, gender, gender identity, religion, age, height, weight, disability, political beliefs, sexual orientation, marital status, family status or veteran status. Issued in furtherance of MSU Extension work, acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture. Quentin Tyler, Interim Director, MSU Extension, East Lansing, MI 48824. This information is for educational purposes only. Reference to commercial products or trade names does not imply endorsement by MSU Extension or bias against those not mentioned. Produced by the MSU Extension Educational Materials Team. 1P-05:2021-WEB-PA/RH WCAG 2.0