

## Crop Insurance Sign-up for Corn Due by March 15

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Vermont farmers interested in crop insurance for their corn crop for the upcoming season have until March 15 to contact their insurance sales representative. Crop insurance as a risk management tool is increasing in popularity each year. In 2007, about 70% of Vermont's corn was covered by some crop insurance policy.

But why should farmers even consider crop insurance? Many farmers comment that crop insurance is expensive and does not pay. But stop and think about this remark. Does insurance ever really "pay?" Does it pay to carry fire insurance? Does it pay to carry liability insurance? Does life insurance pay, especially when you have to die to collect?

In reality insurance does not pay unless you have a disaster. In all situations you are better off if you do not have a disaster. Do you want to have a car wreck, a fire, or die to collect on your insurance? No one wants those things to happen but the payoff is that you know that if an accident or fire occurs, you have insurance to cover your losses. Same with crop insurance.

How does crop insurance work? What exactly is the loss you are protecting and how does it offer coverage if a disaster does occur?

The first part of crop insurance for corn silage is to determine your actual production history. This is your average production over the last 5 years. For this story, let's assume that your corn silage has averaged 20 tons per acre. This is the base yield for your corn silage crop.

The next step is to calculate the percent of coverage you desire for your crop. Think of what level of a crop below your 5-year average that you can stand to lose. This is like your deductible for your car or fire insurance. You have to stand some loss before the insurance coverage kicks in. The same is true for crop insurance. You have to stand some loss before insurance kicks in. If the farmer chooses the 75% level, the farmer has assured a yield of 15 tons per acre. The farmer would have to stand the first 5 (25% of 20 ton) ton loss before insurance kicks in.

Example:

20	Tons per acre average yield (APH)
<u>x \$0.75</u>	Coverage level percentage
15	Tons per acre guarantee
<u>- 10</u>	Tons per acre actually produced
5	Tons per acre loss
<u>x \$32</u>	Price election (2008 price election)
\$160	Gross indemnity per acre
<u>-\$9</u>	Estimated premium per acre (varies by county)
<b>\$151</b>	<b>Net indemnity per acre</b>

The farmer decides to price insurance and finds out they can purchase a policy for \$9 per acre (this is the cost to the farmer after the federal government picks up part of the total cost). The indemnity payment for corn silage is \$32 per ton of insured loss. At these rates, the farmer decides to take out insurance this year at the 75% coverage level.

The clock speeds ahead. Its now mid September and its been “one of those years.” A wet spring, a dry spell in July at pollination time, and a cold September has wacked the corn. At harvest the farmer finds his yield is only 10 tons per acre. This is below the guaranteed 15 ton guaranteed level.

The farmer calls his insurance company before harvest and is told to leave a couple of rows in the center of the field for on-site inspection. A representative from the insurance company shows up in a few days and confirms the loss.

To calculate the farmer’s indemnity payment, the agent takes the guaranteed level of 15 tons and subtracts the actual yield of 10 tons. The covered loss is 5 tons per acres. The loss payment for corn silage for 2008 is \$32.00 per ton. Multiply 5 tons times \$32 and the farmer will receive a \$160 for the value of the insured loss. After deducting the \$9 cost per acre, the farmer will net \$151 per acre for the loss.

Will insurance pay for this farmer? Depends on what the farmer thinks the chance is for incurring a loss. Can he afford to incur a loss without putting the farm at financial risk? Insurance does pay in the case of losses but it’s up to the farmer to make that decision.

What will is cost? In this example, the farmer will pay a premium of \$9 per acre. This rate is lower than expected because the USDA has subsidized the rate by up to 67%.

So does the farmer buy insurance? No one can make the decision for farmer. Its part of the freedom of making decisions and running your own farm business. In our case, the farmer decided to purchase crop insurance before the March 15 deadline. Is the farmer glad he bought insurance? Yes, if he has a loss. If he does not have a loss, he may have wished he hadn’t but then he may be glad he was covered “just in case.”

As most farmers know, APH crop insurance covers the loss of a crop due to any unavoidable natural occurrences during the current or previous insurance year. And there will be no payment made for losses due to negligence, mismanagement, or wrongdoing by the insured, the insured’s family, members of the household, tenants, employees, or contractors; crop abandonment; bypassing of acreage; or other causes listed in the insurance policy.

A list of crop insurance agents for Vermont can be obtained from your FSA office or contact Jericho Bicknell at 802-656-0346 or email at: [jericho.bicknell@uvm.edu](mailto:jericho.bicknell@uvm.edu)