Crop Insurance Newsletter

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Combination Policy Grain Crops & Cotton

IN THIS ISSUE……

The new, much awaited, combo policy has been released for grain crops (i.e. wheat, barley, corn, soybeans, grain sorghum and cotton). There are many changes, too many to mention in this article; however we will highlight some of the more significant ones.

Misreported Information Factor (MIF) has been removed. This is a much welcomed change. The MIF factor reduced your indemnity payment when reported information such as acreage was more than 10% of what was reported. Now under reported or over reported acres will be adjusted at claims times with **NO** penalty applied.

- Enterprise Units (EU) qualifications changed. The old rule, commonly referred to as the 20/20 rule, required at least 20 acres or 20% of the unit to be planted on at least two farm serial numbers. The new rule allows you to add acreage together or aggregate farms to meet the 20/20 rule. It is now much easier to qualify when small acreages are involved. You must still plant on at least two farm serial numbers.
- Revenue plans (CRC & RA) are now combined into one revenue plan (RP).
- The actual production plans (APH) has been changed to yield plan (YP).
- Both the RP & YP plans will now use the same discovery period to determine the price election. In the past, revenue products always had a different price election than APH plans.

Your combo policy will be issued at the same coverage level as your prior policy. We encourage you to read your new combo policy or at least the change addendum that has been sent.

Price Election Announced to Date:

Burley Tobacco	*$1.64*	*Dark Tobacco*	*$2.06*
Flue Tobacco	*$1.60*	*Peanuts*	*$0.25*
Fresh Market Tomatoes	*$5.10 TN*	*Fresh Market Tomatoes*	*$5.75 VA*

In 2010, a new tobacco policy was issued. Along with the new policy came many questions as to the workings of the policy.

First and foremost, the new policy is a poundage guarantee. Poundage guarantee is no change for Flue and Dark. However, it is a change for Burley. For instance, if your average yield for a given Farm Serial Number (FSN) is 2500 lbs. and you elect the 70% coverage; your production guarantee is 1750 lbs. per acre. If your Production to Count (PTC) was 1000 lbs., your initial loss would be 750 lbs. multiplied by price election of $1.75.

Quality adjustment (QA) has proved to be the most controversial item in the new policy. It should be looked at as a supplement payment due to an insured cause of loss. **Reasonable value** of tobacco to be applied has proven most difficult to determine due to a number of factors. A wide range of prices for a particular grade among major and secondary contracts existed. More than expected "wild cat" tobacco was produced with no contract which meant the tobacco was sold on an auction market or directly to dealers at a greatly reduced price compared to a standard contract. QA is triggered only when the **average value** falls below 75% of price election. Price election in 2010 for flue and burley was $1.75. This equates to the trigger being $1.31.

If **average value** is determined to be $1.00 per lb., a supplemental payment is generated. A factor will be created by dividing the average value by the price election ($1.00 / $1.75 = 0.571). This factor is applied to the Production to Count (PTC) (1000 lbs. x 0.571 = 571 lbs.) The net result is an additional $750 payment.

An example is provided below showing computation with and without quality adjustment.

Risk Management Agency (RMA) continues to wrestle with this issue in an effort to come up with guidelines for the 2011 crop year which will be consistent and applied to all companies.

The new policy created a single basic unit by FSN regardless of share arrangement. This was new for Flue and Dark. If you have acres of a given FSN that you have 100% share and acres on the same FSN that you share with another entity, this constitutes one unit. At loss time both guarantees will be added together and both production will be added together when calculating a loss.

In summary:

- All types of tobacco are a poundage guarantee.
- Quality Adjustment is triggered when **average value** is less than 75% of price election.
- In order to qualify for quality adjustment, you **must** contact us **each** time an insured cause of loss occurs.
- Only 1 unit by FSN.

Payment without quality adjustment

2500 yield
X .75 level of coverage
1750 guarantee in lbs.
-1,000 PTC
750 poundage shortage
X $1.75 price election
$1313 indemnity payment

$2063 = secondary payment with QA
-$1313 = primary payment without QA
$750 = additional pay due to QA

Indemnity Payment with quality adjustment

2500
x .75 level of coverage
1750 guarantee in lbs.
-571 PTC with QA ($1.00÷$1.75x1,000 lbs. PTC)
1179 poundage shortage
x $1.75 price election
$2063 indemnity payment

Pasture & Hayland Insurance

Pasture and Hayland insurance was introduced as a pilot program in 2010 in Virginia and has been extended for 2011 in Virginia and North Carolina. This coverage falls under the Pasture, Rangeland & Forage (PRF) program. A supplemental fact sheet is included in this newsletter.

This pilot program has performed very nicely for producers in the 12 states that it has been offered. To date the program has paid out $186,625,991. However, 2010 has produced mixed results in our area, primarily due to extremes we have experienced in rainfall during 2010. One such example was Tropical Storm Nicole dumping an excessive amount of rainfall in last four days of September, in excess of 5 inches in a number of grids. Prior to that, little rainfall was experienced for September. However, the average for September in most grids showed above normal for the month which ultimately showed above normal rainfalls for both August/ September and September/ October intervals. Hopefully, his anomaly will not occur in 2011. However, the June/July interval provided a large payment for those that picked that interval.

I am convinced, with tweaking, this program will work efficiently for the Southeastern United States. We have had a number of conversations with Kansas City RMA on how to improve the program. Performance of the program over the last ten years shows that in most grids a loss would have been triggered about 50% of the time when you consider all intervals. Given the fact that the federal subsidy is up to 59%, the message is "stay the course".

Due to lessons learned in the 2010 crop year, we advised producers to spread their risk out by choosing more intervals or covering the entire growing season, thereby increasing chances to trigger payments.

If you have not entered the program and wish to, you must sign up for the 2012 year by September 30th, 2011. This is a continuous policy which means the policy will roll from year to year unless you cancel in writing before the September 30th sales closing date.

Policy Entity Information

The very first step towards making sure you are properly insured is to verify the policy name and tax I.D. number are correct. **Your name and tax I.D. number should be reported to us the same as it appears on your tax return**. The company cannot send out a 1099 without the correct legal name and social security number or tax I.D. number. How your crops are insured and how they are recorded at FSA should be one and the same. Occasionally, **insured entity types do change** - marital status changes, an individual creates a partnership, corporation, officers are added or removed from a corporation, etc.

Any change which involves adding or removing a social security number (SSN) or tax I.D. number (EIN) must be reported to us by sales closing date or prior to the crop being planted if the change occurs after sales closing date. Failure to do so will void the policy if reported after sales closing and after the crop is planted. Correcting a SSN or EIN must be reported to us **as soon as possible**. Bottom line; notify us of any change or intent to change immediately. Failure to make timely changes or corrections could result in payments being reduced or denied.

In certain cases, crop receipts may not match crop insurance schedule of insurance. In those cases, a "paper trail" should show the distribution back to match the schedule of insurance.

*** **E-Mail Address**

We are currently working on compiling a database of insured's e-mail addresses. With this database we will be able to send out e-mail alerts, notifications, and reminders. This will reduce some of the paper that you will receive, as well as let you get timely information about any changes or updates on crop insurance issues.

Please fill out the enclosed form with your e-mail address and/or make any changes to any other information. If you would prefer, you can e-mail the information to cjohnson@jtdavisins.com instead of mailing in the form.

Replant Provisions

Replant provisions are made available for most spring crops provided you meet the minimum requirements. This means you are eligible for a replant payment if you have to replant due to an insurable cause of loss as outlined in your policy. **You must notify us before you replant the crop.** We will then submit a claim. An adjuster will be in touch with you to assist you in the process. **Do not** replant the crop until an adjuster has made contact with you. Your claim will be expedited so there will be no delay to you in replanting your crop.

*Sales closing for all **spring crops** in VA, TN, and WV is March 15, 2011. NC and SC **spring crops** sales closing is February 28, 2011. Sales closing for **fall crops** is September 30.* What does this mean for you? It's time to review the information.

Your crop insurance policy is a continuous policy. If you do not make a change, including cancellation, your policy for the upcoming year will be in place with the current plan and level of coverage that you elected the previous year. You may want to give us a call to go over what crops and counties you currently have on your policy. Producers who have added a new county, crop, or farm should notify us as soon as the information is available so we can keep your policy up to date. With high premium subsidies, **now** is the time to insure **all** your crops at a very affordable cost per acre. **Any changes to your policy must be completed by sales closing.**

Harvesting Crops Different Than Insured

Any crop that is to be harvested for a use other than originally intended, requires an appraisal before being put to that use. Notify us at least two weeks prior to harvest. If procedure is not followed, there will be no coverage on those acres. However, premium remains.

Examples:
Wheat, soybeans, or oats insured as grain, but cut for hay.
Corn insured as grain, but chopped for silage.

KEY POINTS TO REMEMBER

- Report all losses **immediately** when they occur. Proper documentation is a must.
- When adding a new farm, please notify us as soon as possible. We must have the necessary paperwork signed and entered into our system by acreage report due date.
- If FSA is reconstituting a farm, we must have the necessary paperwork in place by production reporting, which is 45 days after sales closing.
- In order to have separate optional units (insure by FSN), production must be kept separate.

Crop Insurance Linked to SURE

Guarantee levels for FSA's crop disaster program SURE (Supplemental Revenue Assistance Payments) reward those who invest in high levels of crop insurance protection. Therefore, the higher your level of crop insurance coverage, the higher your guarantee under the SURE program. In a way, SURE is like free, additional crop insurance coverage. For producers to be eligible for SURE they must have obtained a policy or plan of insurance for all crops through either the Federal Crop Insurance Act or FSA's Noninsured Crop Disaster Assistance Program (NAP). There are only limited exceptions to the rule.

How is SURE Calculated?

SURE payments are calculated based on 60% of the difference between the SURE Disaster Program Guarantee and the Total Farm Revenue. For insured crops, the guarantee is based on the level of coverage the producer has elected. Higher levels of coverage will result in higher crop guarantees.

The farm's SURE guarantee cannot exceed 90% of the expected revenue for the farm. Unlike crop insurance, there are some limits to the total amount one can collect from USDA assistance programs. Contact your local FSA office for details.

How to Evaluate Crop-Hail Insurance

Hail is a catastrophe that is most likely to totally destroy a part of your crop and leave the rest undamaged. The part hail takes out may well be less than the deductible of your Multiple Peril Crop Insurance policy or it may not lower your yield enough for a revenue insurance policy to kick in.

Crop-Hail Insurance Can Fill That Gap

While crop insurance policies protect you against losses severe enough to significantly drop the yield per insured unit, Crop-Hail insurance gives you acre-by-acre protection that can be up to the actual cash value of the crop.

Crop-Hail is especially important to those with group policies, like GRIP, which leaves individuals exposed to spot losses due to hail. You can also buy additional Crop-Hail coverage during the growing season (prior to damage) to protect added profit potential from bumper crop yields or higher-than-normal crop values.

Even if your frequency of hail damage is low, remember that Crop-Hail coverage is rated for your area. It is an inexpensive way to protect against hail damage.

"OUR BUSINESS IS KEEPING YOU IN BUSINESS"

WHY SHOULD I INSURE MY PASTURE & HAYLAND?

■ Good Risk Management

- ■Keep plans on track (maintain herd size)
- ■Government pays up to 59% of your premium
- ■Tax Deductible
- ■Affordable cost
  - ■Tailor your coverage to "fit your pocketbook"

■ Satisfies linkage at FSA

- ■ Disaster program for hayland
- ■ Livestock Forage program for pasture
- ■ Eliminates requirement for NAP
  - ■$500/pasture and hayland

■ Program paid out $79,017,868 in 2008 in 12 states

- ■ "The Program Works"

PRF POLICY DETAILS

■ Provides protection when rainfall is below normal as determined by coverage level you choose. You can trigger a loss if rainfall falls below 10% of normal.

■ You must allocate a percentage of your total insured acres-your total risk-for a given type, grid and share into at least 2-month time periods called Index Intervals. You may choose from eleven Index Intervals.

- ■ How to select an interval
- ■ What months are most critical for rainfall to produce forage?

■ You must elect to insure grazing land or hay land. Different county base values apply to each type.

■ You select a Protection Factor with a value between 60 and 150 percent of the County Base Value. This further customizes your coverage.

■ You choose a coverage level of 70, 75, 80, 85, or 90.

■ You can choose to insure only the acres important to your grazing program or hay operation.

■ Sales closing - September 30th 2010
Acreage reporting - November 15th 2010
Premium billing - July 1st 2011

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WE BRING TO YOU:

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- SERVING THE FARMER FOR 42 YEARS
- 100% DEVOTION TO CROP INSURANCE
- FAST CLAIM TURN AROUND

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SALES CLOSING FOR SPRING CROPS:
VA, TN, AND WV IS MARCH 15TH, 2011
NC AND SC IS FEBRUARY 28TH, 2011

SALES CLOSING FOR FALL CROPS IS SEPTEMBER 30TH

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