

Fundamentals of Pecan Risk Management



Agribusiness Alliance CIR Group Inc.
CROP INSURANCE RESOURCE

***“Crop Insurance,
It’s Good to
Talk Farming”***

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February 2017



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Five Categories of Agricultural Risk



- 1. Production Risk**
- 2. Market Risk**
- 3. Financial Risk**
- 4. Human Risk**
- 5. Legal Risk**



A Wide Range of Federal Crop Insurance Programs

- **Common Crop Insurance Policy offers**
 - Yield Protection (YP)
 - Revenue Protection (RP)
 - Revenue Protection with Harvest Price Exclusion (RPHPE)
- **Whole Farm Revenue Protection (WFRP)**
- **Livestock Risk Protection (LRP)**
- **Livestock Gross Margin (LGM)**
- **Pasture, Rangeland, and Forage (PRF)**
- **Group Risk Plans (GRP)**



Farm Service Agency Pecan Programs

- Non Insured Disaster Assistance Program
 - NAP
- Tree Assistance Program
 - TAP



Important Dates

Sales Closing Date

- Date by which an application must be filed
 - Specified in the County Special Provisions or by FSA State Office
-
- Pecans > January 31
 - NAP Pecans > February 28
 - TAP Pecans > 90 days after damage becomes apparent



Pecan Risk Management

- Written Agreement (Pecan Coverage)
 - Pecan Revenue Policy
- Whole Farm Revenue Protection
- Non Insured Disaster Assistance (NAP)
- Tree Assistance Program (TAP)

Pecan Revenue Policy

- By Written Agreement Only in North Carolina
- At least four years of Verifiable Production and Gross Sales records

Written Agreements

- Evidence the crop can be produced in county
- Legal Description of Land
- FSA, Farm Serial Number, Tract, Fields
- FSA Map
- Viable Marketing Outlet

Pecan Revenue Policy

- Two Year policy
 - Must agree to insure two years
- Claims are year by year



Pecan Revenue Policy

- Insurance based on your Gross Sales per acre over the past 4-6 years
- Coverage levels 50%-75%



Pecan Revenue Policy

Insured Crop

- All acreage you have a share in county
- Grown for harvest as pecans
- Grown in orchard that is inspected and approved by company
- Grown on trees that have produced at least 600 pounds per acre
 - In at least one of the previous four years

Pecan Revenue Policy

Insured Crop

- Orchard that consists of at least one acre

The following can be approved by RMA:

- Grown on trees that have been hedged
- Direct Marketed

Units

- Basic Units is everything you have 100 percent share in county
- Optional units –
 - Must be located on non-contiguous land
 - Separate records for at least the most recent consecutive two crop years
- Enterprise Units
 - At least two parcels of non-contiguous land
 - And at least two of parcels must contain lesser of 20 acres or 20 percent of the insured crop in entire unit

Causes of loss

- Adverse Weather
- Failure of irrigation water supply if caused by insured peril during the insurance period
- Fire caused by an insured peril
- Insect and disease except for insufficient or improper application of control measures
- Decline in Market Price

Duties in Event of Loss

- Notify company within 72 of initial discovery of damage
- Notify company at least 15 days prior to harvest
- Notify company at least three days before the harvest should have started if the crop will not be harvested

USDA Subsidy

	50	55	60	65	70	75	80	85
Premium subsidy % Basic Units	67	64	64	59	59	55	48	38
Your share %	33	36	36	41	41	45	52	62
Enterprise Unit subsidy%	80	80	80	80	80	77	68	53
Your Share%	20	20	20	20	20	23	32	47

Whole Farm Revenue Program



- Revenue from all commodities produced on the farm:
 - Including animals and animal products
 - Commodities purchased for resale (up to 50% of total)
 - Excluding timber, forest, forest products, and animals for sport, show or pets
- Replant costs (with approval)

What are the features of WFRP?

- Coverage levels 50-85%
 - 5% increments
 - Diversification of 3 commodities (commodity count) required for 80% and 85%
 - No catastrophic level of WFRP available
- Historic revenue is adjusted to reflect farm expansion
 - Automatic indexing process accounts for farm growth historically (Insured may opt out of Indexing)
 - Expanding operations provision allows for up to 35% growth over historic average with insurance company approval

What are the features of WFRP?

- Costs for market readiness operations may be left in the approved revenue
 - Minimum required to make commodity market ready
 - On farm, in-field or close proximity to field
 - No added value costs may be included
- You may also purchase other Federal crop insurance policies covering individual commodities
 - Must be at buy-up coverage levels
 - Any indemnities from these policies will count as revenue earned under WFRP



What are the features of WFRP?

- All farm revenue is insured together under one policy
 - Individual commodity losses are not considered, it is the overall farm revenue that determines losses
- Premium subsidy is available and depends on farm diversification
 - Farms with 2 or more commodities (commodity count) receive whole-farm premium subsidy
 - Farms with 1 commodity receive basic premium subsidy



Where is WFRP Available?

- The entire United States...every county!
- The first crop insurance product available nationwide

*Note that not all crops may be insured in all counties.

WFRP limits for qualification:

Coverage Level	Commodity Count (Minimum Required)	Maximum Farm Approved Revenue
85	3	\$10,000,000
80	3	\$10,625,000
75	1	\$11,333,333
70	1	\$12,142,857
65	1	\$13,067,923
60	1	\$14,166,167
55	1	\$15,454,545
50	1	\$17,000,000

- Covers up to \$8.5 million of revenue
- Farm/ranch may have up to \$1 million in expected revenue from animals and animal products
- Farm/ranch may have up to \$1 million in expected revenue from greenhouse/nursery

What kinds of farms can benefit from WFRP?

- Well-suited for:
 - Highly diverse farms
 - Farms with specialty commodities
 - Farms selling to direct markets, specialty markets, regional or local markets, and farm-identity preserved markets
- Available to all farms or ranches that qualify
- There are some limits for qualification

How is the amount of insured revenue determined?

- WFRP insured revenue is the lower of:
 - Your current year's expected revenue (determined by your farm plan) at the selected coverage level, or
 - Your historic revenue adjusted for growth at the selected coverage level



Does diversification on my farm matter for WFRP? Yes!



- The number of commodities produced are counted toward the diversification requirement within WFRP
 - Each commodity must provide a calculated percentage of the expected farm revenue to be counted
 - Commodities providing small amounts of revenue may be grouped to meet the qualification



Does diversification on my farm matter for WFRP? Yes!

- The diversification measure determines:
 - Eligibility for WFRP
 - Potato farms must have 2 commodities
 - Commodities insurable with other revenue coverage must have 2 commodities
 - Eligibility for the 80 & 85% coverage levels
 - Requires 3 commodities



Does diversification on my farm matter for WFRP? Yes!

- The diversification measure also determines:
 - The amount of the diversification discount to the premium rate
 - Whole-farm premium subsidy for farms with 2 or more commodities



Other facts to understand about WFRP:

- WFRP covers revenue 'produced' in the insurance year
 - A commodity not harvested or sold will count as revenue
 - A commodity grown last year and sold this year will not be covered
 - For commodities that grow each year, like cattle, only the growth for the insurance year counts.
 - Example: Calves worth \$800 at beginning of the year and to be sold at \$2000, the value insured will be \$1200
 - Inventory and Accounts Receivable are

What causes a loss payment under WFRP?



- Natural causes of loss and decline in market price during the insurance year
- Taxes must be filed for the insurance year before any claim can be made (2016 insurance year requires 2016 year farm taxes to be filed)
- When revenue-to-count for the insurance year is lower than insured revenue, a loss payment will be made.

What will my agent need from me?

- Five years of farm tax forms
 - For 2016, requires tax forms from 2010-2014
 - Exceptions are made for Beginning Farmers and Ranchers, Qualifying persons not required to US Tax Return (Tribal Entities), and producers that were physically unable to farm one year.
- Needs to know if you are a:
 - Calendar year tax filer
 - Fiscal year tax filer and what your fiscal year is
- Information about what you plan to produce on the farm during the insured year
 - Used to complete the Intended Farm Operation Report
- Other information as applicable
 - Such as supporting records, your organic certification, inventory or accounts receivable information

What is the timeline for WFRP?

- Sales begin upon release of actuarial materials
- Last day to purchase: Sales Closing Date
 - County specific date- Jan 31, Feb 28 or March 15
 - Intended Farm Operation Report is completed
- Revised Farm Operation Report Due (like an acreage report)
 - July 15 for Calendar and Early Fiscal Filers (Jan-July fiscal years)
 - By end of first 30 days of fiscal year for August, September, October fiscal years
 - By Oct 31 for November and December fiscal years

What is the timeline for WFRP?

- Billing dates
 - August 15 for Calendar and Early Fiscal Filers (Jan-July fiscal years)
 - December 1 for Late Fiscal Filers (August-December fiscal years)
- Final Farm Operation Report completed earlier of:
 - Time of loss determination
 - By next year's Sales Closing Date
 - If not completed-limited to 65% coverage the next year

Are there new features for 2016?

- Streamlined records requirement for direct-to-consumer sales
- Removed percentage limits for producers selling animals and/or nursery products
- Minimized tax record burden for USDA-qualified “Beginning Farmers and Ranchers” as well as qualified persons not required to file a US Tax Return

How do I buy WFRP protection?



- Purchase through a Crop Insurance Agent:
 - The agent locator tool on RMA's website:

<http://www.rma.usda.gov/tools/agent.html>

NAP Coverage

- Administered by Farm Service Agency (FSA)
- Grapes coverage is based on Actual Production History (APH)
 - Coverage is 50-65% of APH
 - 55-100% of the market price established by FSA

Basic Coverage

- 50% of APH
- 55% of price determined by FSA
- Administrative Fee of \$250 per crop
 - Maximum \$750 per county
 - Maximum \$1,875 for multiple counties

Basic Coverage

- Administrative Fee is waived for
 - Beginning Farmers (10 years or less)
 - Socially Disadvantaged producers
 - Limited Resource
 - Women producers

Additional Coverage

50% - 65% of APH

100% of Price as determined by FSA

Premium will be 5.25% of liability

Premium will be 50% of 5.25% for

- **Limited Resource / Beginning / Socially Disadvantaged Farmers**
- **Limited by payment limitations**

Payment limitation

- NAP payment limits \$125,000 per entity

Contact Information

Producers are strongly urged to contact a local Farm Service Agency Office for NAP and TAP coverage.

www.usda.fsa.gov



Contact Information

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