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FEDERAL CROP INSURANCE

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Government sponsored crop insurance has been available since the Federal Crop Insurance Corporation (FCIC) was authorized by Congress in 1938. Until recently, FCIC insurance has only been available for a few crops in limited areas. The Federal Crop Insurance Act of 1980 significantly expanded both number of crops covered and counties in which insurance is available.

Buying federal crop insurance is a strictly voluntary decision by each farmer. Each selects a desired level of coverage and pays a premium based on the extent of risk in the area where his land is located. Most counties have at least two premium risk areas.

Risks covered by federal crop insurance are so broad that it is commonly called "all-risk" insurance. It covers all natural hazards which can destroy crops or reduce yields such as drought, flood, hail, wind, fire, frost, wildlife, insects and diseases.

This year's deadline for purchasing all-risk insurance for small grain crops has already passed. For row crops and flax, insurance can be purchased only until April 25. This year federal crop insurance is available through private agents. Many companies sell federal crop insurance under the title All-Risk Crop Insurance. Names of agents selling All-Risk insurance can be obtained from your county ASCS office. Local agents can provide specific information on cost of insurance for your farm.

When insurance is purchased, you elect one of three levels of yield protection. These options are 50%, 65% or 75% of the historical average yield for the county or specific risk area. Once the yield option is selected, the next step is to choose one of three price levels set annually by FCIC for all areas. For 1982 the price levels are \$2.00, \$2.70 and \$3.00 for corn and \$4.50, \$6.00 and \$7.00 for soybeans.

The premium paid by a participant and payments received for insured losses will depend upon the selected yield protection and price levels chosen. Average premium rates are calculated for each county and adjusted for differences in levels of risk within the county. Insurance agents have tables showing these rates for each area of the county. Farmers with at least three years of verified yield records may request individualized yield guarantees.

In order to make all-risk crop insurance more attractive, the Federal Government pays 30% of the premium cost for the two lower levels of protection (50% and 65%). If maximum protection (75%) is elected, the government pays none of the extra cost for the added 10% coverage. If a farmer desires, he may purchase equivalent fire and hail insurance under a different policy. If he buys this separate coverage, the FCIC premium is reduced by deleting these coverages from the FCIC policy.

Crop insurance for individual areas is based on tables that each insurance agent will explain. Included on the back page are data from one of these tables for corn. For example, a farmer checks with his insurance agent and finds that the average yield base for the area where his farm is located is 50 bushels/acre. From the legal description of the land, it is determined that the land is located in Risk Area

EXAMPLE: CORN ALL-RISK INSURANCE

Yield Level	Price Choice	Premium/acre	
		Risk 1	Risk 2
75%	$3.00	$15.35	$22.50
75%	2.70	13.80	20.20
75%	2.00	10.30	14.95
65%	$3.00	$9.85	$14.50
65%	2.70	8.90	13.00
65%	2.00	6.60	9.65
50%	$3.00	$6.15	$9.05
50%	2.70	5.55	8.10
50%	2.00	4.15	6.00

1. Further, assume that 65% coverage at the $3.00 price level is desired.

With this information, the agent determines from this table that your premium is $9.85, whereas if your land were in Risk Area 2 it would have been $14.50. With this selected yield level, a loss will be collected only if the yield falls below 32.5 bushels/acre (.65 x 50). Suppose actual yield is only 25.5 bushels. The loss would be $21 ($3 times 32.5-25.5). The same type of calculation can be compared for any other yield and price choice combination outlined in insurance tables for specific proven base yields and risk areas.

Federal Crop Insurance should be examined like any other insurance. Remember it can provide a way to manage risk by using insurance designed to help you recover operating costs. Each farmer needs to consider whether the cost of premiums outweighs the financial problems caused by a crop failure. The decision to purchase crop insurance depends on your analysis of the probability of low yields so that a loss will occur. Keep in mind that this year the ASCS disaster payments program has been discontinued. Only farmers who purchase insurance will be compensated for low yields.

A farmer in a low debt situation with good cash reserves may feel little need for crop insurance.

A farmer with low equity and cash flow problems, however, may decide that he can't survive another year without crop insurance if he should experience very low yields this year.

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