CROP INSURANCE FOR ORGANIC OPERATIONS

CONTRACT PRICING, UNIT TYPES, AND WHOLE FARM REVENUE PROTECTION WITH MEGAN VAITH

Location:
Scotland,
South Dakota

Licensed to sell crop insurance in:
South Dakota, Iowa, Nebraska, Minnesota, Oregon, Texas, Missouri, and Kansas

With a degree in agricultural business, Megan Vaith has been selling crop insurance for six years in southeast South Dakota. Recently, she shifted to a new position at a company focused exclusively on organic crop insurance.

> "We looked at the marketplace and there just really aren't a lot of options out there for organic producers, as far as agents specialized in organic. There are options that organic producers have that are different than conventional. Agents should know the ins and outs."

Megan sells insurance for operations of varying size that produce crops such as corn, soybeans, wheat, rye, popcorn, and Kernza.®

Contract pricing

Federal Multi-Peril Crop Insurance (MPCI) will cover the higher prices of select organic commodities, with organic price elections. However, if contracts have already been set, organic producers are eligible to use a contract price option for their revenue coverage. Using this option, the farmer would be able to insure contracted crops at the contract price. For each crop where contract pricing is available, the government sets an upper dollar limit, referred to as the maximum contract price.

> "Take soybeans, for example. If you're certified organic in 2020, your price protection on crop insurance is $18.03 per bushel, but the maximum contract price for soybeans is $31.55 per bushel. If you have a contract with higher prices for your soybeans, that could make a massive difference come claim time."

For most spring crops, if a farmer is interested in adding contract pricing onto their MPCI policy, the deadline is the sales closing date on March 15, and contracts would need to be presented by the acreage reporting deadline of July 15. The agent will then pass the contract information to the underwriter.

> "At that time, the amount of revenue covered is increased based on the contract price. Of course, that increases your premium as well, but it doesn't increase enough that it's not worth it. In my opinion, it's totally worth it. You already have the contract anyway, you're getting a higher price, and you get so much better insurance and higher likelihood to collect in the event of a loss."

More information about the contract price option from U.S. Department of Agriculture's Risk Management Agency can be found at: rma.usda.gov/en/Fact-Sheets/National-Fact-Sheets/Contract-Price-Addendum

Unit types

Part of putting together a MPCI policy is determining what types of units are the best fit, or how to divide up an operation to insure the different land parcels or enterprises. Many factors go into selecting unit type, and farmers should discuss their options with their agent. Below, see Megan's explanation for each unit type.

Enterprise units take into account the entire crop planted and combine all fields together. At claim time, production across parcels will be added up to see an overall picture of whether a loss is triggered. Because sections are averaged together, if one field has high yields and another has low yields, they could potentially offset each other and not trigger a claim for the low yields. This unit type receives the highest amount of federal premium subsidy.

Optional units divide an operation by individual farms and crops, each with their own yield history. Every unit is evaluated individually at claim time. If one unit has high yields, and another has low yields, the farmer could still collect on the unit with low yields.

Basic units count all owned and cash-rented acres in the same county together, but each crop is separate, and if applicable, each share arrangement is separate. Each unit is evaluated individually at claim time.

Whole farm units are the least commonly used type of unit structure, and combine all insurable acres of all crops that the farmer grows within a single county. This is not related to Whole Farm Revenue Protection.

Using Whole Farm Revenue Protection for organic operations

Whole Farm Revenue Protection (WFRP), often referred to as "Whole Farm," is federal crop insurance that covers the revenue of an entire operation for a wide variety of commodities. Megan says some producers should think of WFRP as an umbrella policy that can help them insure crops not otherwise insurable. Specifically, she recommends layering MPCI coverage with WFRP.

> "There are lots of misconceptions out there that producers should just be [using] WFRP and that's it. That's not what I recommend. If they have crops that can be insured with MPCI, they should use MPCI where they can."

One example Megan cites is prevent plant acres. While WFRP does not offer prevent plant coverage, MPCI does. By layering both policies, a farmer could potentially cover both prevent plant acres and crops not covered by MPCI.

Q: Why is crop insurance an important part of an operation?

A: Crop insurance is the only input cost on your operation that can actually pay dividends back. It's a safety net that you have built in, in case everything falls apart. Let's take 2012. We didn't know it was going to be a drought when we were starting to plant. You know, it was kind of dry. So, we still put in our normal input costs. Then, everything fell apart and we entered this huge drought. The thing that was there to save producers was crop insurance. So, if the option is there to cover losses, why would you not take advantage of it?

> "I have realized in this business, organic farmers have way more questions than conventional farmers, because it's a different scenario every year. They need to have an agent that has experience and knows all of the rules involved."

United States Department of Agriculture
National Institute of Food and Agriculture
North Central Extension Risk Management Education

This material is based upon work supported by the U.S. Department of Agriculture-National Institute of Food and Agriculture under award number 2018-70027-28586