www.agmanager.info
abarnaby@agecon.ksu.edu
(785) 532.1515 (phone)
(785) 532.6925 (fax)

G.A. "Art" Barnaby Jr.

Disclaimer: This web page is designed to aid farmers with their marketing and risk management decisions. The risk of loss in trading futures, options, forward contracts, and hedge-to-arrive can be substantial and no warranty is given or implied by the author or any other party. Each farmer must consider whether such marketing strategies are appropriate for his or her situation. This web page does not represent the views of Kansas State University.

USDA Defines the Disaster Assistance Program[1]

USDA has announced the plans for the Crop Disaster Assistance Program. It is very similar to the previous disaster program. USDA has defined the "market price" as the Actual Production History (APH) price election[2] and the payment rate was increased from 50 percent to 65 percent of the "market price" as defined by law. Under the current program the NASS price is only used for the payment rate if there is no APH insurance offer on the crop.

The original KSU disaster aid model incorrectly defined the "market price" as the higher of the National Agricultural Statistics Service (NASS) seasonal average price or the APH price. This is the correct "market price" for setting the 95% per acre limit, but for the disaster payment rate the correct "market price" is the APH price on insurable crops.

However, these definitions of "market price" will not prevent "highly" revenue insured farmers from exceeding the 95% payment limit. Because of the larger revenue insurance payments caused by changes in price combined with a higher disaster aid payment rate that increased from 50% to 65%, it is expected more farmers will exceed the 95% limit than occurred with the last disaster assistance program.

Disaster Assistance Defined. The current disaster program contains a per acre payment limit equal to 95 percent times the higher of the APH yield or Olympic average county yield times the

---

[1]Prepared by G.A. (Art) Barnaby, Jr., Professor, Department of Agricultural Economics, K-State Research and Extension, Kansas State University, Manhattan, KS 66506, March 22, 2005, Phone 785-532-1515, e-mail – abarnaby@agecon.ksu.edu.

[2]APH is the new name for the Multi-Peril Crop Insurance Contract (MPCI) prior to its name change.

higher of the APH price or the NASS seasonal average price. This is the same definition used in the prior disaster program and the first disaster program to contain the 95 percent limit. USDA will deduct from this per acre payment limit net crop insurance payments, disaster payments and the value of production. Growers over the 95% limit will have their disaster assistance payments reduced one dollar for each dollar they are over the 95% limit.

The value of production is defined as the actual yield times the higher of the APH price or the NASS seasonal average price. This is also the same definition as used in the prior disaster programs.

Producers will be paid disaster assistance based on lost production that is below 65 percent of "historical yields", defined as the higher of the APH yield or the 5 year Olympic average county NASS yield. Insured growers' disaster assistance payments are based on the lost production times a payment rate equal to 65 percent of the APH price versus 60 percent for uninsured growers. In addition, uninsured growers must purchase crop insurance for their next crop at a level greater than the catastrophic coverage or they must sign up for the Non-Assistance Program (NAP) on uninsurable crops administered by the Farm Service Agency (FSA).

The crop disaster assistance program also has a payment limit of $80,000 per person that was in the previous disaster program. Producers with gross incomes greater than 2 ½ million dollars are also ineligible to receive disaster assistance payments.

There are no major changes in this disaster assistance program from the previous one except the disaster assistance payment rate was increased 50 percent to 65 percent of the "market price" for insured growers. The current details as published by FSA are posted on the web site at: http://www.fsa.usda.gov/pas/publications/facts/html/cdp05.

Original KSU Model Corrected. The KSU original model used to estimate disaster aid has been CORRECTED to reflect the correct definition of the crop disaster "market price" payment rate. The initial model incorrectly calculated the disaster payment rate based on the higher of the NASS price or APH price. The incorrect definition of "market price" would have overestimated 2003 soybean disaster claims that had a NASS price of $7.34 versus a $5.30 APH price. The estimates would have been correct on 2004 soybean losses because the APH price is 50 cents higher than the NASS price.

The model correctly defined the "market price" used to set the 95% payment limit, which is the higher of the NASS seasonal average price or the APH price but the same "market price" is not used for the disaster aid payment rate. USDA also has other definitions of "market price" used for the crop insurance program in addition to the APH price that include GRP, GRIP, GRIP-HRO, RA, RA-HPO, IP, and CRC prices but these prices are not used in the disaster assistance program.

The KSU model was also updated with the current reduction values for crops that are not mechanically harvested. The non-harvest reductions are applied in Kansas and it was assumed the same reductions were applied in other states.

The updated KSU model for estimating disaster assistance payments is posted on the web site www.AgManager.info. The link to the menu for the model is at: http://www.agmanager.info/crops/insurance/risk_mgt/default.asp. This link will take the user to the main menu. The user will need to simply scroll down to find the model. The KSU disaster assistance model is in Excel and the users will need to Right-Click on their mouse and "Save Target" to their disk. The KSU estimated disaster assistance model will require users to have Excel on their computer.