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SURE Calculator (New Standing Disaster Aid)[1]

Farmers have been writing to say the FSA SURE calculator shows no SURE payments if they are insured with revenue insurance. If one reads the disclaimer, **the FSA SURE calculator is not complete**. While it is possible the final FSA rules will create an economic incentive not to buy revenue insurance, but until those FSA rules are published, it is too early to jump to that conclusion. However, CAT insured farmers and farms that are highly diversified with crops, hay, pasture, cattle, etc. will find little protection in SURE. Remember one can also be diversified by distance because SURE is a whole farm revenue guarantee that crosses county and state lines for the first time. **SURE favors farmers with a single enterprise with all production in a single county and in counties with high production risk.**

The Missouri Farm Service Agency (FSA) office and other State FSA offices have posted a SURE calculator to estimate the SURE payments under the new disaster program. Please note the following disclaimer by the FSA office.

The calculator and instructions linked below are for informational purposes only. This calculator in no way binds FSA to potential payments under SURE and should not be relied on to make management decisions. This is a tool that producers and others may use in familiarizing themselves with SURE calculations and allows them to run various

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scenarios based on basic levels of insurance coverage versus buy up levels of insurance coverage. ***It is important to note that this calculator only addresses yield based crops and does not address value loss crops or those plans of insurance that are revenue based, including but not limited to, AGR or AGR Lite.*** *It does not include calculations for situations such as prevented planting, first crop-second crop, and several other scenarios. The calculator does not test for production loss.*

The link to the FSA SURE calculator is:
http://www.fsa.usda.gov/Internet/FSA_File/sure_calculator.xls

One will note the **calculator is not for revenue based products;** therefore one would assume this includes, Group Risk Income Protection (GRIP), Crop Revenue Coverage (CRC), and Revenue Assurance (RA). So while this program will help producers with some of their decisions it does not provide answers to the most important questions that are necessary for farmers to make informed decisions on the type and level of crop insurance coverage to purchase on their winter wheat. It is extremely unlikely that FSA will provide any official answers before the sales closing date for winter wheat crop insurance. There are many questions but these are some of the more important questions:

1. How will the "expected price" used to set the SURE guarantee and the 90% cap on SURE payment be defined for farmers insured under Crop Revenue Coverage (CRC) and Revenue Assurance with Harvest Price Option (RA-HPO) be set? Will FSA use the price guarantee in the RA/CRC policy that is the higher of the planting price or the harvest price or will all SURE coverages be based on the APH[2] price, irregardless of the type of insurance purchased?

2. There are uninsurable acres when neither crop insurance nor NAP is available. For example if a farmer's crop is hailed out and the claim is settled but the farmer decides to replant those failed crop acres after the final planting date, then those acres will not be covered by crop insurance. The question is will those uninsured acres violate the SURE requirement that all acres must be insured or is there some definition of a "ghost crop"? If no, then will the revenue from those uninsurable acres count against the SURE guarantee?

3. The Law appears to state that any yield in farmers' historical aph that were replaced with a "plug yield" (60% of T) will receive an adjusted SURE aph by dropped all of the plug yields from the yield history and average the remaining actual yields for the years with yields greater than 60% of T. Is that correct?

4. Will the net or gross crop insurance indemnity payment count against the SURE guarantee?

[2] Capitalized APH is used to indicate the yield coverage product. The old product name was Multi Peril Crop Insurance (MPCI). The lower case aph is used to describe the proven yield that is use for APH and revenue insurance products.

5. Will SURE make any adjustment for prevented planting or late planting? Under prevented planting the crop insurance coverage is reduced to 60% of the guarantee. There is also a 1% reduction in the insurance guarantee for each day insured farmers plant after the final planting date.

6. If farmers plant wheat in the fall and do not insure it but destroy the wheat in the spring before harvest and replant to soybeans, will they regain their eligibility for SURE? If yes, would these same farmers be ineligible if they graze the wheat in the fall or spring before replanting to soybeans?

7. Will farmers who farm in two separate counties need a Secretary's disaster declaration in both counties to be eligible for SURE? If yes, then this means farmers will need to meet the 50% farm level yield loss across both counties to be eligible for SURE. Is that correct?

8. Is brome grass growing on a few acres in a water way a "crop" and therefore requires NAP fees? If farmers hay or graze the brome grass is it then a "crop", i.e. no allowance for a de minimis crop?

9. How will FSA set the SURE coverage level for farmers insured with GRIP/GRP, or forage insured under Pasture, Rangeland, Forage Vegetative Index (PRF-VI) or the Pasture, Rangeland, Forage Rainfall Index (PRF-RI)? How will FSA do farm level SURE loss adjustment for farms that are insured under the area plans? How will FSA set SURE coverage and complete farm level loss adjusting for farmers insured under Adjusted Gross Revenue (AGR) and AGR-Lite that are based on income tax records?

10. Will the 07/08 MYA NASS price and the 08/09 MYA NASS price be used to set the strike price in the 2009 ACRE program? If so will FSA provide an estimate for the 2009 SURE guarantee to farmers at signup.

The first two questions are the most important for winter wheat producers making crop insurance decisions. If the APH price is used that will lower the value of revenue insurance. There were also a large number of wheat farmers that planted soybeans or grain sorghum on wheat acres after harvest. Will those "double" crops that are uninsurable acres in most Kansas counties count against the SURE payments?

After a brief review, the FSA calculator apparently doesn't adjust the SURE aph yields for any yield "plugs" that allows farmers to replace a low yield with 60% of T in their aph. The elimination of plug yields is in the Law, so one would assume the adjustment to aph will be required by FSA. Also the FSA calculator uses the APH (MPCI) price for the SURE guarantee. However that doesn't necessarily mean the APH price will be used for the revenue insured farmers too. If the APH price only is used by FSA, then the rule will lower SURE payments to revenue insured farmers and create an incentive not to pay the higher premiums for revenue insurance.

This is the only calculator I have seen for SURE but with so many undefined parameters one should not run though the calculator assuming the calculated results will be the payment under SURE. **The most critical decision that will need to be made is; will SURE guarantees be based on the higher of the planting price or harvest price for farmers who paid the higher premium costs for RA-HPO and CRC?** The other major factor is the dropping of the "plug" yields (60% of T) in the aph. This model does not make the aph adjustment for low yields replaced with 60% of T, but it does appear the Law requires the adjustment. Therefore, if farmers run the FSA SURE calculator and it generates no SURE payments for their farm, this is not the final answer. Until FSA defines price and yield in SURE one will not know the expected value of the SURE coverage.

<u>What should farmers do about 2008 Losses?</u> This lack of information is a major problem for farmers trying to make informed decisions before paying 2008 NAP fees and any required CAT fees to be eligible for SURE payments on 2008 crop losses. Therefore, if farmers have 2008 losses they can pay the $100 CAT and NAP fees on any 2008 uninsured crop, until September 16. That will make the farmer eligible for SURE but they cannot collect from 2008 CAT or NAP if they did not pay the fee before the 2008 sales closing date. This will give a low level of coverage under SURE, but it may not pay at that low level. The FSA SURE calculator may help with this question if all of the insurance is CAT or APH. However, if FSA defines the price and yield for SURE based on APH price and makes no adjustment to the aph, it is likely many revenue insured farmers will receive no SURE payments. Currently the FSA calculator makes no adjustment for the SURE aph yield or the revenue prices.

In Kansas crops are not crops until they are in the bin. Therefore, growers with 2008 wheat losses or if they have a large number fall crop acres, then the best suggestion is pay the $100 NAP fees on pasture and other uninsured crops. One should check with the FSA office to make sure of the crops that will need the 2008 NAP or CAT fees to maintain eligibility for fall crops. Clearly there are still weather perils that could destroy fall harvested crops and the SURE payment would be helpful. So is it worth the risk to save a couple of $100 on large farm even if we assume FSA makes decisions that are not favorable to farmers?

<u>What is the optimal level and type of insurance for winter wheat?</u> This lack of information on SURE is also a problem for farmers making winter wheat insurance decisions too. If buying revenue insurance eliminates any SURE payments, some farmers may want to cut their coverage level and save premium. Because there are still so many unknowns and one will likely not have answers before September 30, the best suggestion is to **buy the level and type of crop insurance you planned to buy on wheat without considering SURE**. The one exception is farmers who have been buying CAT insurance so they will be eligible for ad hoc disaster with a 65% yield trigger. This is no longer a good strategy. Cat insured farmers will have their SURE coverage based on 50% coverage at 55% of the price. There is little effective coverage under either program, so those farmers may want to consider buyup at the 65% or 70% level.

One complicating factor is farmers with high risk ground who are allowed to insure at the CAT level and then purchase buyup (65% for example) on the rest of their acres. One would assume those acres would be based on CAT for the SURE program too. The reason those farmers are buying CAT is that in some cases the premium rate can exceed 100%.

Don't forget the pasture. Farmers will need to pay NAP fees for pasture and hay to maintain eligibility for 2009 SURE. In many cases those fees are not due until December 1, so it is possible that more information will be available on SURE rules. Farmers should check with their FSA office for the final NAP payment dates on all of their uninsurable "crops". The NAP fee has been increased from $100 to $250 for 2009 crops.

Do base acres adjust SURE? I was asked this question in a meeting and I agreed with the question but after more reflection I don't think that is correct. ACRE is only available on base acres but SURE is available on all crops including crops that have no base. In fact farmers are required to insure or pay NAP fees on all crops to be eligible for SURE. So I think the correct answer is ACRE is only on base acres, but SURE is on all acres, even for farmers with no base.

New entities? This farm bill creates major incentives to create new entities. It would be a clear advantage if one corporation or LLC was farming and another corporation or LLC was cash renting pasture and hay. FSA will likely challenge new entities that are created, therefore if ones cow herd is a small part of the operation it may make sense to sell the cows and cash rent the pasture or sell the pasture.

One would also expect that Kansas Farmers my drop one or more crops out of their rotation. This "free" SURE coverage is improved with less diversification therefore, many Kansas farmers may drop dryland grain sorghum out of their rotation and replace those acres with dryland corn. Likely many Corn Belt farmers will drop wheat out of their rotation.

SURE may also cause farmers in low hail risk areas to change from optional units to higher coverage enterprise crop insurance and at the same time increase their SURE coverage. For example change from 75% optional units to 80% enterprise unit under crop insurance and increase their SURE revenue coverage to 80% also. If the farm has only one enterprise, for example 100% wheat, then their crop insurance and SURE coverage would have the same unit structure. One could then self insure for hail or buy private hail insurance. Indemnity payments from private insurance contracts do not count against the SURE guarantee.