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More KS Counties Approved for 2008 Disaster Assistance under SURE¹

Farmers in counties that are designated primary disaster counties or counties that are contiguous to a primary disaster county are eligible for disaster assistance under **S**upplemental **R**evenue (SURE) if all of their crops are insured or covered with Noninsured Crop Disaster Assistance Program (NAP). **The deadline to pay any required \$100 NAP/CAT (Catastrophic) fees on 2008 crop losses is Monday, May 18, 2009 to maintain 2008 SURE eligibility.** The 2008 SURE coverage was increased from 115% to 120% as a result of the stimulus legislation and will **not** require crop losses on all crops. Only one crop will need to show a 10% yield loss. **It is possible to have a SURE claim without having a crop insurance claim!** Normally insurance has a deductible, but the "free" SURE revenue "insurance" coverage is over 100%, **so don't miss the deadline, Monday, May 18** for 2008 SURE.

SURE is not your father's disaster program. SURE is a whole farm crop only revenue guarantee (pasture and grazing was removed), therefore SURE claims will be generated by a loss in crop prices, yields or a combination of prices and yields. Estimated price losses on 2008 crops are so severe that without the 10% yield loss requirement on one significant crop, that was in the Farm Bill technical legislation passed by Congress last fall, 2008 SURE claims could (likely) be generated without a yield loss. The Farm Service Agency (FSA) SURE rules have not been published, but even with the 10% yield loss requirement, it may be easier to meet this test than expected. For example, the Law

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calls for an adjusted SURE actual production history (aph) that for some farmers will be higher than their crop insurance aph, thus making it easier to meet the 10% yield loss test for farmers in the approved disaster counties (figure 1). Farmers in disaster approved counties are **strongly encouraged to meet the Monday deadline** even if only part of their farm is located in a disaster county, unless they have bumper yields on all of their crops.

Farmers who are in a non-designated disaster county can qualify individually for SURE eligibility but must prove a 50% crop revenue loss. That will be easier than expected because prices have declined by more than 20% for revenue insured farmers. Those farmers will need about 30% yield loss to qualify for SURE in those 38 counties that were not approved for disaster. **This rule does not apply to famers in the disaster designated counties (figure 1).**

The stimulus package increased the SURE coverage from 115% to 120% and allowed farmers to sign up late by paying NAP/CAT fees at FSA. Farmers with revenue insurance and even “small” yield losses will want to maintain eligibility for 2008 SURE claims. Assuming revenue prices are used for SURE, then if farmers are in a disaster county it is strongly suggested farmers pay any \$100 NAP/CAT fees to maintain eligibility.

2008 SURE. If revenue prices are used for 2008 revenue insured wheat farmers and they are allowed to use their harvest price that was higher, then SURE claims have already suffered a 21.3% loss caused by declining prices and will require only the 10% yield loss on one crop of significance in the 67 USDA approved 2008 Kansas disaster counties to trigger 2008 SURE payments. While the price loss is even greater assuming revenue prices are used for corn, grain sorghum and soybeans, the APH² price will also show a price loss (line 8, table 1). However for APH insured wheat the APH price is 38.1% out of the money. It will require a “large” wheat yield loss to trigger SURE payments on wheat for APH insured farmers, unless the other crops are very low too because the Marketing Year Average (MYA) wheat price is 38.1% higher than the APH crop insurance price election.

It is possible USDA will substitute APH prices in SURE for revenue insured farmers and that will greatly reduce any 2008 SURE payments but it might increase 2009 payments on some crops. If SURE public policy substitutes APH prices for revenue insured farmers, then SURE is nearly worthless for 2008 wheat losses. Under this scenario, revenue insured farmers would have a larger indemnity payment to count than the APH insured farmers, so revenue insured farmers would receive smaller SURE payments. This reduction in SURE payments will be even greater if gross indemnity payments are deducted from the SURE payment because the premiums are greater for revenue insured farmers. However, the expectation is revenue insured farmers will be allowed to use their revenue price used to settle crop insurance claims in their SURE coverage.

² APH in capital letters refers to the crop insurance product that covers yield only and replaces MPCI. The lower case aph refers to actual production history that is RMA’S proven yield method and is used in the APH, CRC, RA, IP and other insurance products for expected yield.

2009 SURE. For 2009 the price loss in the wheat SURE claim is even greater, 32.5% (line 12, table 1). The wheat APH price would generate a price loss of 19.5% (line 15, table 1). The 2009 MYA price is an estimate, but if correct, the price loss will likely generate SURE payments with only the minimum 10% yield loss required on one crop of significance.

The APH and revenue prices are inverted for 2009 on grain sorghum and soybeans (also cotton). Therefore, the price loss for 2009 SURE payments is in to the claim by 13.2% for APH insured soybean farmers (line 15, table 1). While showing only a small SURE loss for revenue insured soybean farmers that would likely generate no claim if the higher revenue insurance premiums are not deducted first, unless there are yield losses too. Currently the 2009 MYA prices for corn and grain sorghum are both higher than the crop insurance price elections. However, because the grain sorghum price was inverted, APH grain sorghum is much closer to a claim with MYA prices that are only 5.2% higher than the APH price election versus 13.7% for revenue insured farmers and will require a smaller yield loss to trigger a claim (lines 12 & 15, table 1).

2009 USDA Designated Kansas Disaster Counties. Currently there are no filings in process to declare disaster status in any Kansas county. It is reasonable to assume some of the Oklahoma counties that border Kansas will be declared primary disaster counties and that will make some Kansas counties contiguous. Contiguous counties are also eligible for SURE claims, otherwise farmers must show a whole farm revenue loss of 50%. However, with a 2009 wheat price loss of 32.5% (forecasted), it will only require about an 18% yield loss to meet the 50% crop revenue loss for SURE eligibility on a single enterprise wheat farm located in non-disaster designated counties. Kansas has not hit the hail and tornado season yet so it is reasonable to expect there will be Kansas counties designated as 2009 disaster counties and eliminate the 50% revenue loss requirement. Once USDA declares a county a disaster then there is no 50% farm level revenue loss requirement but farmers must still show a 10% yield loss on one crop of significance.

SURE Rules? The FSA has not published SURE rules, so there is no guarantee that revenue insured farmers will be able to use the revenue price that was used to pay crop insurance losses. It is also unclear if gross or net indemnity payments will be deducted from the SURE coverage. If FSA uses gross indemnity payments that will be a penalty for revenue insured farmers because they are paying higher premiums than APH insured farmers. Farmers will not know what yield and prices FSA will use to determine if a crop is *de minimis* and thus avoid the requirement for crop insurance/NAP coverage. It is also likely that FSA will not publish implementation rules until December. If so, then winter wheat farmers will plant their third wheat crop without knowing the rules. The author has good reason to believe most of these technical points will favor farmers but likely there will be issues. It is likely that higher levels of crop insurance will be preferred once the SURE rules are published, but it is impossible to determine that optimal level of insurance coverage until after FSA publishes the SURE procedures. However, it is not worth the gamble to save a “few” dollars on NAP/CAT fees only to lose SURE payments.

Table 1. Estimated Weighted National Marketing Year Average (MYA) Price and Percent SURE Price Loss (05/13/09)

Crop	Wheat ¹		Month	Corn ¹	Grain Sorghum ¹	Soybeans ¹
	Month	Price				
	Jun	7.62	Sep	5.02	4.60	10.70
	Jul	7.16	Oct	4.37	3.96	9.94
	Aug	7.64	Nov	4.26	3.68	9.38
	Sep	7.43	Dec	4.05	2.87	8.97
	Oct	6.67	Jan	4.36	3.27	9.97
	Nov	6.28	Feb	3.87	2.83	9.55
	Dec	5.91	Mar	3.86	3.10	9.12
	Jan	5.90	Apr	3.87	2.99	9.89
	Feb	5.79	May			
	Mar	5.70	Jun			
	Apr	5.69	Jul			
	May		Aug			
1	USDA Est. 2008/09 NASS Price	6.85		4.20	3.80	9.65
2	% of 08-09 NASS Price Settled³	97%		76%	79%	82%
4	07-08 NASS Published Price¹	6.48		4.20	4.08	10.10
3	KSU Est. 2008/09 NASS Price²	\$6.77		\$4.15	\$3.37	\$9.80
ACRE						
5	2009 ACRE Strike Price, Average of 2007/08 & 2008/09 MYA Price	6.62		4.17	3.72	9.95
6	Assume an "Average" State Yield, 2009 ACRE Payment Price X 90%⁴	5.96		3.76	3.35	8.95
7	Assuming an "Average" Yield, Maximum ACRE Price to Exceed the 25% Cap on Payments⁵	4.47		2.82	2.51	6.72
8	KSU Forecast of the 2009/10 New Crop MYA Price⁶	5.92		4.28	4.05	8.59
9	\$ ACRE in (out) of the Money	\$0.04		-\$0.53	-\$0.70	\$0.37
10	% ACRE in (out) of the Money	0.7%		(12.6%)	(18.7%)	3.7%

¹NASS Published Prices.

²The NASS 2008-09 marketing year is a weighted Marketing Year Average (MYA) price. The 2008-09 MYA price is averaged with the 2007-08 MYA price to set the strike price for the 2009 ACRE program. Also the 2008-09 MYA price is used to settle claims on the 2008 SURE programs.

³The estimated 2008-09 MYA price is about 95% complete for wheat because the wheat marketing year starts June 1 through May 31 while the marketing year for the other crops is September 1 through August 31 therefore the 2008-09 MYA price for corn, grain sorghum and soybeans is about 80% complete.

⁴The 2009/10 MYA price would need to fall below the strike price to trigger assuming the state yield is equal to the state Olympic 5 year average yield.

⁵The maximum 2009/10 MYA price necessary to hit the 25% of coverage payment limit. Once the ACRE 25% of coverage payment limit is hit, then prices will need to fall below 70% times the loan rate (\$1.365 for corn) to trigger additional payments because there is no counter cyclical payment. The maximum price will be lower for farmers over the \$73,000 payment limit.

⁶It is assumed the market traded nearby futures prices adjusted for percentage basis for MYA cash price over the past 24 months, is the best current estimate of the MYA price to settle ACRE claims.