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### **SURE Is Not Your Father's Disaster Program<sup>1</sup>**

Do you understand how SURE, the new "free" disaster program, and ACRE, the new commodity program, work? Would you like a better understanding of how and where crop insurance and SURE worked together? Your crop insurance can help crop growers reduce their financial risk and increase their Farm Service Agency's (FSA) farm program benefits by helping you select the best crop insurance coverage to maximize both your SURE coverage and crop insurance protection.

SURE is not your father's disaster program. It is a whole farm **revenue guarantee** while past programs provided payments only if yields fell below 65% of a grower's approved yield. SURE covers price and yield risk that is very similar to revenue insurance. SURE provides coverage on top of one's crop insurance coverage and under some extreme conditions it is possible to collect a SURE payment without triggering a crop insurance payment.

Unlike past free disaster programs where all growers received the same coverage, SURE is tied to the type and level of crop insurance selected by the grower. Growers who buy higher levels of coverage will receive a higher level of "free" SURE coverage. SURE provides almost no protection to farmers who purchase CAT coverage. Only insured

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growers with “buy up” coverage really benefit from the additional revenue coverage provided by SURE.

Because of the design of the new Farm Bill, growers will make their decision on March 15 on their level of their “free” SURE coverage when they make their crop insurance decision. The selection of the type and level of crop insurance purchased will set their FSA’s disaster benefits. Therefore growers can make an informed decision or a decision by default, but it will be made on March 15.

SURE has a 90% of expected revenue as a cap on combined crop insurance and SURE coverage. A number of experts have stated that if growers buy coverage greater than 75% they will be over the FSA SURE 90% cap and “leave money on the table” at FSA. For example 80% coverage would generate a SURE guarantee of 92% (80% crop insurance X 115%) or 2% over the cap, while 75% crop insurance would generate a SURE guarantee of 86.25% or 3.75% under the cap. Growers with 80% coverage are 2% over the cap if all of their insurance contracts are at 80% coverage level or greater, their crop insurance aph equals their SURE aph, and the insurance loss settlement price equals their SURE loss settlement price. Seldom are all of those conditions met but if all of those conditions are met SURE will only pay 60% of the claim while crop insurance will pay 100% of the claim. Buying the lower level of coverage will leave 3.75% of any SURE payment on “the table at FSA” plus reduce one’s crop insurance coverage by 5% assuming all of these conditions are met.

In most cases growers will not exceed the FSA 90% cap because of the following reasons:

1. If growers have prevented planting acres that will reduce the crop insurance liability (dollars of coverage) and that will reduce the SURE coverage putting growers below the 90% cap. Growers can offset some of this reduction in SURE by adding the additional prevented planting coverage to their crop insurance contract. This change also increases growers’ crop insurance protection against the peril of prevented planting.
2. Growers with any significant crops that are not insurable must pay the \$250 Noninsured Assistance Program (NAP) fee up to \$750 per county. A crop that can meet the *de minimis* (non-significant) test is defined as a crop with less than \$9,091 of value or 5% of the whole farm crop revenue, i.e. the *de minimis* value will be larger for larger farms. Livestock and pasture are not included in the SURE calculations but hay, silage, or any mechanically harvested crops are included and must be covered with either crop insurance or NAP to be eligible for SURE, unless the crop meets the *de minimis* test. NAP provides a 50% yield guarantee at 55% of the NAP price. NAP crops when combined with 80% or greater crop insurance coverage on the insurable crops, will increase the total SURE coverage for growers planting uninsurable crops covered by NAP. This is because the 90% cap is only applied after all crops are combined for SURE, so

farmers can be over the 90% cap on one crop but below the cap on other crops, and the average for the total farm will be under the 90% cap.

3. Crop insurance allows growers to replace a low yield with 60% of the “county yield” (T yield) and increase their aph. Under SURE growers are allowed to drop their entire crop insurance “plug yields” and average the remaining high years. Many growers will have a SURE aph that is higher than their crop insurance aph, therefore even those growers with crop insurance coverage greater than 80% will not be over the 90% cap on SURE because the SURE aph will be used to calculate the cap.
4. Revenue insurance settles on the harvest time futures prices, while SURE settles claims based on the post harvest cash price. The 2009 CRC settlement claim winter wheat price was \$6.35 while the SURE settlement price will be about \$4.84 (estimated 2009/10 MYA price posted on AgManager.info). That is more than \$1.50 lower and SURE is a revenue guarantee that includes lower prices in the loss claim. The lower price will increase the SURE payment! **Growers who purchased 75% coverage will leave crop insurance dollars on the table and SURE dollars on the table when compared to those with 80% coverage.** Growers can do nothing about their past decisions but growers can change their crop insurance coverage on March 15. For example, if one is a sorghum-wheat producer, they are locked in on their winter wheat crop insurance but they could increase their sorghum crop insurance coverage and increase their SURE coverage because SURE is a whole farm revenue guarantee.
5. SURE payments are paid about a year after harvest while crop insurance indemnities are normally paid during the year that the loss occurred. Often farm incomes are lower during a crop loss year so any crop insurance payment is taxed at a reduced rate. While a SURE payment a year later may occur during a good income year and be taxed at a higher rate. In any case a crop insurance payment has greater value than a SURE payment because of the time value of money. If farmers need to borrow extra funds to cover cash flow needs while waiting on a SURE payment then clearly one must account for the time value of money.
6. There is a \$100,000 payment limit in SURE. Farmers who buy lower crop insurance coverage to limit the amount they are over the 90% cap must consider the payment limit. If a grower is over the payment limit then there is no need to consider the 90% cap because the grower will hit the payment limit first anyway. Because crop insurance has no payment limit this grower would also be giving up payments under crop insurance by electing a lower coverage to avoid the 90% cap; that will not affect producers over the limit. This crop limit will be less for producers who collect livestock death loss payments, emergency feed, and other livestock disaster program payments because those dollars also count against the \$100,000 payment limit.

7. All government payments count against the SURE payment. This includes 15% of direct payments, 100% of ACRE payments, 100% of counter cyclical payments, and 100% of marketing loan deficiency payments. Corn, sorghum, soybeans and wheat are not expected to trigger any counter cyclical payments so only 100% of ACRE and 15% of direct payments are likely to be deducted from SURE payments. So growers who will collect ACRE payments in states/crops that triggered ACRE payments will have those payments count against their SURE payment. Therefore those growers that did not elect ACRE will get a larger SURE payment if they had crop losses. The exception is growers over the payment limit. Growers over the payment limit might as well elect ACRE even if they think the odds of collecting are low, because if they have a crop loss they will hit the SURE \$100,000 payment limit. ACRE will give these growers a second payment limit of \$73,000. "Large" growers over the payment limit will then be able to collect \$173,000 if their state triggers an ACRE payment and they trigger a SURE payment. If the state does not trigger they are no worse off because they will still collect the \$100,000 maximum from SURE with a crop loss. In some cases growers will be able to qualify for more than one entity for payment limits, so they should check with their local FSA office before assuming one is limited to one entity.
8. There are other conditions that will cause growers not to exceed the 90% cap with higher levels of crop insurance coverage. Because there are so many conditions that must be met, in most cases growers with 80% crop insurance coverage will be under the 90% SURE cap, especially when one factors in the \$100,000 payment limit on SURE. So what happens if Congress changes the Law as they did on the 2008 crop and increase the SURE coverage from 115% to 120%? Congress will do what Congress will do, but there is no way to forecast their behavior. However if Congress increases the SURE coverage to 120% they could also increase the cap to 95% and then there would be no penalty for buying 80% coverage beyond the above discussion.
9. The Risk Management Agency (RMA) has a 3 year pilot that increases the subsidy on an enterprise unit. Growers who currently are purchasing 70% optional units will receive a subsidy equal to 59% of their premium but they can increase their crop insurance coverage to 80% under an enterprise unit and increase their subsidy from 59% to 68% of the premium. In addition, the enterprise unit also receives a premium discount. Increasing the coverage from 70% to 80% will increase the "free" SURE revenue coverage. Growers will likely want to supplement their enterprise unit with private hail coverage because the effective hail protection is less in an enterprise unit. However, private hail indemnity payments do not count against the SURE payment so there will be no reduction in any SURE payments when growers' hail claims are paid privately verses hail payments paid by a reinsured product.
10. Originally there was a discussion to deduct gross rather than net indemnity payment from the SURE payment. However, the final decision was to deduct the

net payment by unit from SURE. Comparing two corn farms of equal size but one with 10 optional insurance units versus a corn farm with one enterprise unit, and there are insurance claims on half of the optional units versus a claim on the enterprise unit. Only the grower with an enterprise unit will be able to deduct the entire crop insurance premium causing a higher SURE payment. The corn grower in this example with optional units will be able to deduct only about half of the premiums and this will lower the SURE payment. This is another incentive for growers to select enterprise units over optional units.

11. Fruit, vegetables, and other uninsurable crops are covered by the NAP program but this is a 50% yield guarantee at 55% of the NAP price. The NAP coverage will also generate a very “low” SURE coverage too. Therefore, farmers in some states can select the Adjusted Gross Revenue (AGR) contract that will cover all of the NAP crops at a higher coverage level than provided by NAP. The purchase of AGR will increase the free SURE coverage on all crops. If these farmers have corn or other insurable crops then they would be insured under the grower’s current crop insurance contract and AGR will adjust for the corn coverage. It is even more important to have the highest level of SURE coverage with a diversified crop farm because SURE averages all crops together. SURE provides the most protection for a single enterprise farm.
  
12. Indemnity payments from private crop insurance do not count against the SURE payments. Therefore farmers who add additional private coverage will still receive the full SURE payment. Private insurance premiums cannot be deducted and the private coverage does not increase the SURE coverage either. Only reinsured products are considered in the SURE calculations. This effectively makes private insurance coverage more attractive to growers because any private insurance indemnity payments will not reduce any SURE payments. Check with your local crop insurance agent for the types and premium costs of private crop insurance for crops on your farm. Private coverages do vary by insurance company.

SURE requires one’s farm (only needs to be part of the farm) to be in a disaster county and suffer a 10% yield loss on one significant crop. Growers in a non-disaster county will need to show a 50% revenue loss to be eligible. Many growers in disaster counties are receiving payments for “shallow losses”, a long time issue with Corn Belt growers. In a few cases, growers will have a SURE claim without a crop insurance claim!

Congress has discussed another Ad Hoc disaster aid program but why with a standing disaster program in SURE? If Congress wants to provide an Ad Hoc disaster program, then they could run it through SURE with only minor changes rather than create a new additional disaster program. If Congress wants growers paid quicker they could pay an “estimated” SURE & ACRE payment based on the 5 month national average price. The current settlement price for both programs is the Marketing Year Average (MYA) price but the MYA price is not a simple average. The monthly cash prices are weighted by sales, therefore over half the MYA price is determined in the first 5 months of the

marketing year. FSA use to make a preliminary deficiency payment based on the 5 month average price, so there is no reason the same procedure could not be applied to SURE and ACRE. Making an estimated payment based on the first 5 months of the marketing year would move the payment up 7 months and is about as fast as payments could be made because some crop insurance contracts require National Agricultural Statistical Service (NASS) county yields and ACRE requires the state yield to be published. The NASS yields are typically published about 5 months in to the marketing year. FSA has spent a lot of time to make SURE work. Now they have most of it in place and it would reduce FSA overhead cost to run any Ad Hoc disaster program through SURE rather than create a new program. This new program has clearly created administrative problems for the local county FSA people who make these programs work. Is there any reason to add a new disaster program to an already complicated program for FSA to administer, especially since SURE would only require some minor changes to address the issue?

SURE is a better disaster program than many expected, assuming growers purchased higher levels of coverage and they are not highly diversified. SURE is a 90% whole farm revenue guarantee rather than the traditional 65% yield triggered disaster program. Corn-soybean growers have been receiving SURE payments equal to about 15% to 20% of their crop insurance payment but with shallow losses the percentage is much higher. There have been a few cases where the SURE payment was double that of the crop insurance payment. That can only happen with a small loss, i.e. a shallow loss.

The simple solution is in most cases any grower that reduces their crop insurance coverage to avoid the 90% cap will likely regret the decision. At the very least the suggestion that farmers insured at the 80% coverage level will be over the 90% cap assumes the claim settlement price is the same for both crop insurance and SURE. This is a very unlikely outcome and in many cases there will be a large difference between the two prices. Increasing crop insurance coverage by taking advantage of the increased enterprise subsidy that can be as much as 80% of premium, and then supplement the coverage with private hail will get the most coverage per premium dollar when all three coverages are included; i.e. reinsured crop insurance, SURE, and private crop insurance such as crop hail.