



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

G.A. "Art" Barnaby Jr.

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The Prevented Planting Decision is Really Complicated¹

Dear Art,

I am an Extension Educator and as you may be aware, Ohio is approximately 11% planted on corn and with more rain in the forecast. It would take very favorable good weather for us to get more corn planted before the June 5th insurance deadline. The more prevented planting information we can make farmers aware of the better questions they can ask their insurance agents and the less likely they are to violate rules and regulations that go along with preventative planting. We will certainly credit you with whatever you can provide us with.

Extension Educator

Dear Extension Educator,

Anything East and North of Kansas is having the same prevented planting problems, if that makes the Ohio farmers feel any better. Normally I am dealing

¹Prepared by G. A. (Art) Barnaby, Jr., Professor, Department of Agricultural Economics, K-State Research and Extension, Kansas State University, Manhattan, KS 66506, May 27, 2011, Phone 785-532-1515, e-mail – barnaby@ksu.edu.

with drought that caused the primary crop to fail. Kansas never seems to have too much moisture, and sometimes that moisture comes in the “solid form”.

Once the final planting date has passed on the first crop, then the question is do farmers plant a second crop and what will the impact be on ones insurance and SURE protection. As it turns out the rules for planting a second crop on prevented planted acres are different than they are for planting a second crop on failed acres that were planted, such as planting sorghum after a failed winter wheat crop.

The prevented planting decisions are very complicated, especially if a “second crop” is planted. Below I am assuming corn as the first crop with a 6/5 final planting date, and soybeans as the second crop with a final planting date of 6/20. Those dates are for most Ohio counties, but they vary across the country. In many counties the final corn planting date is May 31, so readers need to check the final date for their crop in their county. After the final planting date farmers may plant but the guarantee is reduced 1 percent for each day late up to 25 days late.

Options. Farmers with corn acres that are eligible for prevented planting have at least 4 options: 1). Elect to take the prevented planting payment that in most cases is equal to 60% of the coverage and leave “black dirt”; 2). Plant corn after the final planting date with a 1% guarantee reduction for each late day; 3). Switch crops and plant soybeans on all acres prior to the final soybean planting date, assuming one can plant; and 4). After the late planting corn date (normally 25 days after the final planting date, or “drop dead date”), collect 35% of the prevented planting payment on corn and then plant a crop with a “benefit”, for example planting soybeans. If soybeans are on the policy then they will be insured but with a late planting reduction in guarantee.

There are large economic incentives to plant if possible for the following reasons:

- a. Assume Ohio corn cannot be planted by 6/5, the final planting date. A second crop is not planted, i.e. no benefit such as haying, cash rent, planting soybeans, etc. Farmers must leave the unplanted corn acres as “black dirt”. Farmers meeting those conditions pay 100% of the premium and are paid 100% of their prevented planting claim that for most farmers is 60% times their guarantee (\$ of coverage). Farmers can buy prevented planting coverage up from 60% to 70% for additional premium prior to sales closing, March 15 in most states. Under those conditions the Actual Production History (APH) is not impacted if prevented planting acres are total acres in the unit for the crop (corn in our example). That is not true if some of the acres are planted. Farmers must have 20 acres or 20% of the unit prevented from planting to be eligible for a prevented planting claim. Also underwriting rules

require farmers to plant if that is possible prior to the final planting date; it is not a voluntary action. This underwriting rule is often difficult to enforce but if it is “clear” that it was possible to plant then the claim may become “difficult”.

- b. Most farmers with prevented planting will only collect 60% of their spring guarantee for prevented planting. A farmer with expected revenue of \$6 times 180 bushel APH equals \$1,080. Assume they purchased 65% coverage; then the Revenue Protection (RP) guarantee is \$702. A prevented planting claim would equal 60% times \$702 = \$421. Prior to sales closing, farmers can buy up from 60% to 70% for prevented planting but Risk Management Agency (RMA) would not allow farmers to increase their prevented planting coverage in North Dakota. They could only buy at the previous level of prevented planting coverage or lower. I don't know if that RMA underwriting rule applied nationwide.
- c. In the above example the SURE guarantee under prevented planting starts with \$421 rather than \$702, and “greatly” reduces the SURE guarantee.
- d. There is a 1% reduction in the guarantee (65% to 64%) for each late day the crop is planted. So one day late would reduce the coverage from \$702 to \$691. However, the \$691 is a higher number for the SURE guarantee than prevented planting coverage of \$421. If planting of corn takes place up to 10 days late it may still pay to plant. In our example if the farmer has 65% coverage that would be reduced to 55% for planting 10 days late. One can plant later with a 1% reduction for each late day up to 25 days, but after 10 days I would think most farmers would either take the prevented planting payment or switch their planting to soybeans in our example.
- e. If a significant amount of the corn is forward priced then there is greater economic incentive to plant the corn because it must be planted before the harvest price attaches and the producer is subject to cancellation penalties (margin losses). The higher the corn price the greater the incentive to plant corn even with the reduction in the guarantee. The payment trigger changes, but if harvest prices are 10% higher, then one has about the same dollar guarantee planting 10 days late. Currently corn prices are about 12% higher than the insurance strike price. Also some farmers may have sold out of the money puts against their insurance contract, but they only have 60% of the insurance coverage in most cases, if they don't plant.

- f. If the farmer can plant at least 20 acres in two insurance units for a total of 40 acres, even with the reduction in coverage for late planting, farmers will receive the enterprise unit discount, otherwise the premium rate is higher and is deducted from the prevented planting claim. If they plant no acres often their premium will more than double and reduce their net prevented planting payment. In this case farmers will want to plant at least 40 acres of corn before the late planting date (June 30 in our example). They would have a 25% reduction in their guarantee but they would cut their premium by half or more on all of the acres. Planting 40 acres would have little effect on a farmer with 1,500 acres of prevented planting corn but the premium reduction would be large making the net prevented planting payment much larger.
- g. Prevented planted acres are based on maximum number of planted acres for the crop in 1 of the prior 4 years. Total prevented planting acres (the combined soybeans and corn in our example) cannot exceed total crop acres. An exception is growers with an approved double crop history for soybeans and adds another level of complexity. A prevented planting loss must be reported to the insurance company's loss adjuster within 72 hours after farmers decide they are unable to plant. The claims adjuster must determine eligible prevented planting acres. Agents cannot be involved in any potential loss, and agents are not allowed to receive cropland acres and other information from FSA that allows a person to calculate eligible prevented planting acres.
- h. Farmers can plant a "second or alternative" crop by switching from corn to soybeans prior to 6/20 in our example. There is no reduction in soybean coverage for late planting and farmers receive full soybean coverage that was purchased prior to the March 15 sales closing. The full soybean coverage is then carried over to the SURE guarantee. In this case there is no impact on the corn APH because the acres were all planted to soybeans, a zero acreage report is filed on the corn, and no corn premium is due.
- i. Growers may plant soybeans on the prevented planted corn acres after the late planting date for corn (final planting date plus 25 days or "drop dead date" for corn) and collect a 35% prevented planting claim and pays 35% of the premium. If for some reason the soybeans were not insured then it would eliminate eligibility for SURE but in most cases soybeans will be listed on the policy but planted in the late planting period. In this case the soybeans are planted 11 days or more late. The soybean guarantee would have a guarantee reduction of at least 11 percent, but the farmer

receives a benefit from any soybeans that are produced plus a 35% prevented planting corn payment.

- j. If one cannot plant either soybeans or corn before the late planting date (drop dead date for both crops), farmers can still plant but their coverage is their prevented planting coverage and any production will be deducted from the prevented planting payment. In most cases farmers would not plant but would take the prevented planting payment and leave “black dirt”. There may be one exception. If on July 1 (or drop dead date for your county) the corn price is \$10, then farmers might plant because the harvest price will attach if their corn is planted, even if planted after the late planting date. There would likely be a hit on their APH yield for next year. At harvest, if the harvest price is higher than the spring price, then the coverage would be greater than the prevented planting coverage and that would increase the SURE guarantee.
- k. If there is added land then the rules become even more difficult. That case was omitted and likely will depend on many individual factors and one’s agent will need to provide final answers.
- l. The prevented planted acres do not change the state ACRE yield calculation so there is no impact on the yield that might cause ACRE payments.
- m. The location of the prevented planting acres is likely to cause prices to remain “high” and further reduce the chance for an ACRE payment.
- n. The harvest price does not attach unless the crop is planted (new this year). So higher prices will not increase the prevented planting payment. However, if the crop is planted after the late planting date (drop dead date), then the harvest price does attach. This is the latest interpretation of the rule by RMA.
- o. Group Risk Income Protection (GRIP) and Group Risk Plan (GRP) have no prevented planting coverage. These farmers may still be able to collect from SURE, but the 150% factor is reduced to 100% before calculating the SURE guarantee. A few companies offer a private endorsement to GRIP for prevented planting, but few farmers purchased the private coverage and that coverage will not appear in the Risk Management Agency’s (RMA) statistics.
- p. Prevented planting acres can trigger the county disaster designation, so farmers can collect SURE payments.

- q. If the state level ACRE should trigger and/or the SURE eligibility is triggered, then prevented planting acres are counted at the farm level as “considered planted”.
- r. One needs to remember some of the southern states have the corn planted but were flooded out. Those farmers have very different options but the same peril caused the loss, excess moisture. Because of SURE, most will take 100% of the insurance claim that is 100% of the coverage (not 60% as is the case for prevented planting) and if possible, plant a second crop at risk (uninsured). When planting a second crop on failed acres that were planted, SURE treats the second crop as a ghost crop, unless there is a double cropping issue. (I am not sure how a farmer would double crop corn and beans.) This is not an option for a prevented planting claim.

Warning: There are over 200 pages of regulations on prevented planting in the RMA manual. This paper clearly does not include all of the possibilities and SURE just adds another level of complexity. Therefore, the author strongly suggests growers talk with their crop insurance agent before making any final decisions. There is no “one size that fits all”. One would expect there will be cases when it pays not to plant and decision points will change over the next 30 days. Higher market prices may also cause some to plant late with reduced guarantees, when otherwise they would not plant. There is the additional complexity that some farmers have forward priced some of their crop and in some of the affected regions the basis has gained strength, normally a good thing but may not be this year. Also some farmers have sold out of the money puts against their insurance contracts and they have additional incentives to plant corn, even if a few days late.

Should farmers plant the second crop and claim 35% of the prevented planting claim?

Farmers who have purchased 80% or 85% coverage and elected the 70% buy up level of prevented planting will gain a sizeable prevented planting payment. This is also true even if one selects the 35% option. Corn for example at \$6 times 180 bushel APH times 80% coverage times 70% additional prevented planting times 35% equals \$211.68 paid after the late planting date (final planting date plus 25 days in most cases). Farmers would then pay 35% of the premium and they could plant soybeans in the late period with a reduced soybean guarantee. If farmers can get at least 20 acres of corn planted in two units, even with the reduction in coverage for late planting, farmers will get the enterprise unit discount. If they get nothing planted of the first crop (corn) then they will pay the basic unit rate without the premium discount.

Farmers who purchased lower coverage levels may wish not to file the prevented planting claim on the corn, especially if they can switch to soybeans and finish planting before the final soybean planting date. Farmers who have purchased 65% coverage and elected the standard prevented planting coverage of 60% will have a smaller payment. For example, \$6 times 180 bushel APH times 65% coverage times 60% prevented planting times 35% equals \$147.42. Some farmers may think the payment is not large enough to accept the impact on their APH and the reduction in guarantee on the late planted soybeans.

Farmers with CAT coverage would be the least likely to file a 35% prevented planting claim and plant a second crop late. They would only be paid 60% times 35% times a very low CAT dollar of coverage and they would still have their APH impacted with the yield. Those with CAT coverage will also find that SURE provides very little protection.

Only 1.5% of the Ohio corn acres are covered with APH based CAT in 2010. However, there were 25% of the Ohio corn acres that were uninsured, and another 8% were covered with some type of GRIP/GRP. The private insurance market offers a private prevented planting endorsement for GRIP, but my understanding is that most GRIP insured farmers did not purchase the additional private coverage. This suggests that about 33% of Ohio corn acres have no prevented planting coverage based on 2010 insured acres. This same estimate would hold for 2011 because most farmers do not make large changes in their crop insurance decision from year to year. In addition, they are not eligible for SURE payments if they are uninsured, so they have a super large incentive to plant something!

Insured acres are an approximation. This year will be a good example in Ohio. If there are prevented planting claims then those acres will be counted as RMA insured acres but they will not be counted as planted acres by NASS. I am using the NASS planted acres as the potential number of insured acres, so the 2010 data may be more reflective of the percent of insured acres than will be the case when using the 2011 complete data.

I would think most farmers will want to plant corn up to 10 days late or switch and plant soybeans, assuming they can plant before the final planting date. Farmers would have full coverage on the soybeans. If they cannot plant soybeans until after the late corn planting date, then one could plant soybeans late with the reduction in guarantee but that is partially offset with the 35% claim on the prevented planted corn. The tradeoff between the impact on APH and collecting a 35% prevented planting on the "first crop" corn will likely depend on the level of insurance purchased. Those with higher coverage levels are more likely to claim the 35% prevented planting payment and plant the late soybeans with the reduced guarantee.

While farmers are not required to plant a “second crop” of soybeans on the eligible prevented planted corn acres. They have the option to take the prevented planting payment and leave “black dirt”, but I expect most farmers will plant. Most farmers are “farmers”, and planting is something they will do if at all possible. Most farmers are in the crop production business and not the government payment collection business. I just love to smell the diesel fuel fumes in the morning and hear the roar of those twin turbo charged combines (pick your color) cutting wheat, and I will bet Ohio farmers have the same gene!

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