



RIGHT RISK

Exploring Farm Revenue Protection Options

Alaskans Tim and Kathy Dworak have been heavily invested in the peony business for the last six years. They started with just a half-acre of plants but, once those started generating revenue, they quickly expanded to a full acre.

Their 75 laying-hens produce eggs that they sell through a local coop. Kathy has been taking primary responsibility for the farming operation, while Tim's full-time job at a local construction company provides the couple with health insurance and retirement benefits.

Kathy and Tim have approached their

farming activities as a healthy hobby that generates enough cash to pay for itself. However, with the second half-acre of peonies now producing revenue, their dream of being profitable farmers is becoming a reality.

The Dworaks are starting to think big in terms of what their business could look like in the near future. One aspect they did not anticipate was a mutual interest in doing a better job of managing the risk in their operation. Kathy took it upon herself to explore what kind of risk management tools are available as they think about their plans and ambitions for expanding the operation.

Kathy located the USDA Risk Management Agency (RMA) website (rma.usda.gov) and began exploring what crop insurance programs are available in Alaska. She found that Alaskan producers could buy crop insurance for barley, cabbage, forage production, oats, potatoes, and wheat. She also found that the Whole-Farm Revenue Protection (WFRP) pilot program was available in Alaska.

Kathy next investigated what programs are available from the USDA Farm Service Agency (FSA) to help manage risk. She discovered that the FSA Disaster Assistance Programs offer a Noninsured Crop Disaster Assistance Program (NAP). NAP provides financial assistance to producers of noninsurable crops when low yields, loss of inventory, or prevented plantings are experienced due to natural disasters. Disasters can include weather events such as drought, hail, excessive winds, excessive moisture, freeze, tornados, hurricanes, and floods, as well as earthquakes and volcanic eruptions.

Kathy decided to first check further into the WFRP program to see if it could be used to manage the risks associated with producing peonies and eggs. Then, she would delve further into NAP to see how it might fit their operation.

Whole-Farm Revenue Protection offers producers an opportunity to insure all eligible farm commodities on under one insurance policy. It uses the operation's

whole-farm, historical average revenue and expenses from five consecutive tax-years as the basis for coverage. Adjustments are made according to WFRP policies, but the intent of the program is to match, as best as possible, the whole farm revenue protection needs.

Kathy discovered that up to \$8.5 million of revenue could be covered and that it fit well with operations like theirs that are marketing into specialty or direct markets. Expanding operations are accommodated under WFRP with a provision that allows the insurance company to approve the operation as an expanding operation with the potential to produce up to 35 percent more revenue than the historic average. The new value can then be reflected in the insurance guarantee.

The expected revenue from nursery and greenhouse production that can be covered under WFRP is limited to \$1 million maximum. Kathy knew the \$1 million maximum was not a problem, given that their estimated total annual revenues were closer to \$130,000 (Table 1). She also noticed that revenues generated by crops grown in a hoop house are not protected by WFRP.

Kathy learned that diversification of farm production is an important consideration under WFRP in terms of the level of coverage available and what it costs the producer. For example, two or more commodities to count would allow them to receive an 80 percent premium subsidy for any level of coverage between 50 percent and 75 percent of their revenue. If



Table 1: Estimated Annual Revenues

	Units	Unit Price	Number of Units	Total Revenues	Percent of Revenues
Peony stems	stems	\$4.00	32,000	\$128,000	96.3%
Eggs	dozen	\$5.00	975	\$4,875	3.7%
Estimated Annual Revenues				\$132,875	100%

USDA Risk Management Agency Fact Sheet
Whole-Farm Revenue Protection
 Revised August 2017

Whole-Farm Revenue Protection (WFRP) provides a risk management safety net for all commodities on the farm under one insurance policy. This insurance plan is tailored for any farm with up to \$5 million in insured revenue, including farms with specialty or organic products, livestock, both crops and livestock, or those marketing to local, regional, domestically produced, specialty, or direct markets.

Availability: WFRP is available in all counties in all 50 states.

Causes of Loss
 WFRP provides protection against the loss of insured revenue due to an insurable natural cause of loss which occurs during the insurance period and will also provide secondary loss coverage if an insured is insured during the coverage period for a list of covered causes of loss-year. See the policy for a list of covered causes of loss-year.

Important Dates
Sales Closing, Cancellation, & Termination Dates: Calendar Year and Early Fall Year Files: January 31, February 28, or March 15 (by county) Late Fall Year Files: November 29

Revised Farm Operation Report Dates: July 15 All other dates: August 15

Coverage Change Date: August 31

Insurance Period
 Coverage is provided for the duration of the producer's tax year (the insurance period). The insurance period is a calendar year if taxes are filed by calendar year, or a fiscal year if taxes are filed by fiscal year.

Reporting Requirements
Revenue Report: You must submit a notice of loss within 72 hours after discovery that revenue for the policy year could be below the insured revenue. Inspections may be required for losses. You must file from time to time for required for losses. You must file from time to time for required for losses. You must file from time to time for required for losses.

Eligibility
 Eligibility for WFRP coverage requires you to:
 • Be eligible to receive Federal benefits;
 • Risk Management Agency Whole-Farm Revenue Protection

USDA Disaster Assistance
 UNITED STATES DEPARTMENT OF AGRICULTURE
 FARM SERVICE AGENCY
FACT SHEET
 OCTOBER 2017

Noninsured Crop Disaster Assistance Program for 2015 and Subsequent Years

OVERVIEW
 The Noninsured Crop Disaster Assistance Program (NAP), authorized by the 2014 Farm Bill and administered by the U.S. Department of Agriculture (USDA) Farm Service Agency (FSA), provides financial assistance to producers of noninsurable crops to protect against natural disasters that result in lower yields or crop losses, or prevent crop planting. For further information on whether a crop is eligible for NAP coverage, producers should contact the FSA county office where their farm records are maintained.

ELIGIBLE PRODUCERS
 An eligible producer is a landowner, tenant or sharecropper who shares in the risk of producing an eligible crop and is entitled to an ownership share of that crop. The 2014 Farm Bill specifies that an individual's or entity's average adjusted gross income (AGI) cannot exceed \$900,000 to be eligible for NAP payments. Also, NAP payments received, directly or indirectly, will be attributed to the applicable individual or entity and limited to \$125,000 per crop year, per individual or entity. (To learn more, visit www.fsa.usda.gov/factsheets.)

ELIGIBLE CROPS
 Eligible crops must be commercially produced agricultural commodities for which crop insurance is not available and be any of the following:
 • Crops grown for food;
 • Crops planted and grown for livestock consumption, such as grain and forage crops, including native forage;
 • Crops grown for fiber, such as cotton and flax (except linen);
 • Crops grown in a controlled environment, such as mushroom and forest-raised; and
 • Specialty crops, such as honey and maple sap;
 • Sweet sorghum and biomass sorghum;
 • Industrial crops, including crops used in manufacturing or grown as a feedstock for renewable biofuel, renewable electricity or bio-based products.

ELIGIBLE CAUSES OF LOSS
 Eligible causes of loss include the following natural disaster:
 • Damaging weather, such as drought, freeze, hail, excessive moisture, excessive wind or hurricanes;
 • Adverse natural occurrences, such as earthquake or flood; and
 • Conditions related to damaging weather or adverse natural occurrences, such as excessive heat, plant disease, volcanic ash (VOA) or insect infestation.

The natural disaster must occur during the coverage period, before or during harvest, and must directly affect the eligible crop.

COVERAGE LEVELS
 NAP provides basic coverage equivalent to the catastrophic level risk protection plan of insurance coverage, which is based on the amount of loss that exceeds 50 percent of expected production at 55 percent of the average market price for the crop.

The 2014 Farm Bill authorizes higher levels of coverage ranging from 50 to 65 percent of production in a previous occurrence, at 100 percent of the average market price. Additional coverage must be elected by a producer by the application date.

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they could count egg sales as a second commodity, it would make a big difference.

Kathy read where the WFRP commodity count is based on achieving 1/3 of the revenue needed for USDA perfect diversification. In their case, a 2-commodity farm would receive 50 percent of its revenue from each commodity for perfect diversification. In order to count, the second commodity must provide at least 1/3 of 50 percent of the revenue or 16.7 percent.

Dworak's egg revenue makes up only 3.7 percent of their expected revenue. Kathy read where commodities can be grouped together to reach the threshold. However, they don't produce anything else.

With only one commodity to count, their premium subsidy would be limited to somewhere between 67 and 55 percent, depending upon the level of revenue



coverage selected. Kathy thought this might work for them, but it was time to look at what NAP coverage might offer.

The Dworak's peony crop is eligible for Noninsured Crop Disaster Assistance Program coverage. Basic NAP coverage is offered at the catastrophic (CAT) level for a service fee of \$250 per crop. However, CAT coverage provides protection only for the value of any loss over 50 percent of expected production, based on the approved production history (APH). Furthermore, CAT protection only pertains to losses at 55 percent of the average market price for the crop. This didn't seem like much protection to Kathy, but she discovered that buy-up coverage was added to NAP in the 2014 Farm Bill to make it more appealing to producers like she and Tim.

NAP buy-up coverage would allow the Dworak's to cover up to 65 percent of their APH at 100 percent of the expected market price. Furthermore, market price, which historically had been established on a state-by-state basis (within a state everyone shared the same average market price), now more accurately reflected the intended use of the crop.

FSA has the flexibility to establish average market prices based on different markets for producers who elect buy-up coverage and can provide acceptable documentation of those prices. Kathy thought that their marketing agreements for peony stems would help them in this regard to more accurately protect the value of their production.



Buy-up coverage premiums under NAP are estimated based on 5.25 percent of the revenue guarantee. By Kathy's calculation, this means that coverage of their \$128,000 of peony revenue would cost them around \$4,368 in buy-up premium at the 65 percent coverage level ($\$128,000 \times 65 \text{ percent} \times 5.25 \text{ percent}$), plus the \$250 service fee. If their production level dropped below 20,800 stems (32,000 x 65 percent), they could be eligible to collect a NAP payment that would bring their revenue back up to the insured level (\$83,200).

Kathy discussed her findings with Tim. They decided that the next step would be to contact their local FSA office and set up an appointment to learn more about how NAP might help them manage their revenue risk. They also decided they should find a licensed crop insurance agent to discuss WFRP.

Right now they are more worried about protecting against yield losses than revenue losses, because they have marketing contracts in place. However, they see how WFRP could provide more overall protection. They feel that they need to learn more about WFRP and how it compares to the protection offered by the NAP program.

Additional Resources:

RightRisk Courses

<http://RightRisk.org> > Courses

RightRisk Risk Analysis Tools

<http://RightRisk.org> > Resources

USDA Risk Management Agency

<http://www.rma.usda.gov>

USDA Farm Service Agency

<http://www.fsa.usda.gov>

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To learn more, see:
<http://RightRisk.org>

