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The Impact of The Agricultural Risk Protection Act of 2000 on Crop Insurance Programs

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Market Report	Yr Ago	4 Wks Ago	1/19/01
Livestock and Products, Average Prices for Week Ending			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	67.85	*	79.88
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	89.12	91.76	94.27
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	94.02	*	96.48
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	107.02	119.12	121.61
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	35.50	*	38.50
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	35.50	*	*
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	110.75	118.69	108.60
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	74.00	*	75.75
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	163.00	149.00	157.00
Crops, Cash Truck Prices for Date Shown			
Wheat, No. 1, H.W. Omaha, bu	2.81	3.32	3.39
Corn, No. 2, Yellow Omaha, bu	1.81	2.01	1.89
Soybeans, No. 1, Yellow Omaha, bu	4.43	4.87	4.46
Grain Sorghum, No. 2, Yellow Kansas City, cwt	2.99	3.77	3.57
Oats, No. 2, Heavy Sioux City, IA , bu	*	1.22	1.36
Hay, First Day of Week Pile Prices			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	82.50	110.00	115.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	35.00	68.50	67.50
Prairie, Sm. Square, Good Northeast Nebraska, ton	*	95.00	100.00

* No market.

After considerable discussion and alternative proposals, crop insurance reform became a reality in the form of the Agricultural Risk Protection Act (ARPA) last summer. Here are some of the key features of the act.

Increased Subsidies. The premium subsidies are increased substantially, particularly at the higher coverage levels. The other significant change is that the subsidy level, as a percentage of the full risk premium, is now the same for both the regular APH multiple peril crop insurance (MPCI) and the Crop Revenue Coverage (CRC). A summary of the old and new subsidies is presented below.

New Crop Insurance Subsidy Levels

Coverage Level	Previous APH	Previous CRC	New Law
50/100	55%	42%	67%
65/100	42%	32%	59%
70/100	32%	25%	59%
75/100	24%	18%	55%
85/100	13%	10%	38%

Actual Production History (APH): Each insured unit has its own yield for coverage purposes based on a minimum of four years of actual production history and a maximum 10-year moving average of actual yields. A number of low yield years can reduce the APH and hence future coverage. ARPA allows producers to substitute a yield equivalent to 60 percent of the county yield for each year that the actual yields fall below that yield. This adjusted APH will then be used to calculate the coverage.

The true history using the actual yields will still be used to calculate the premium rate.

Quality Loss Adjustments: Quality loss adjustments have been a feature of the crop insurance program. This feature is now enhanced with an option to purchase quality loss adjustment on a basis that is smaller than the crop insurance unit. This is designed to offer additional protection for commodities that are sold on an identity preserved basis.

Compliance: ARPA strengthens the compliance aspects of the crop insurance program. Agents and adjusters whose claims exceed 150 percent of the average of claims by all other agents and adjusters in the same area, will be audited. The Farm Service Agency (FSA) will now be involved in monitoring and fact finding in alleged cases of program fraud and abuse.

Good Farming Practices: The definition of "good farming practices" has been expanded to include scientifically sound practices on sustainable and organic farming operations. A pilot program is being considered for organic producers.

Program Fees: For coverage levels of 65 percent or greater, the policy fee is increased from $20 per crop per county to $30 per crop per county.

Research and Development: Much of the research and development for new products and insurance programs such as coverage for additional crops has been done in the past by the Risk Management Agency of USDA. ARPA prohibits RMA from this function in the future. This is now the responsibility of the private insurance sector, farm organizations and research institutions such as universities or partnerships of entities interested in developing new insurance tools to assist in farm risk management. RMA will still be responsible for approving and underwriting any new products. The bill placed a research priority on underserved crops and areas, multi-year coverage, revenue insurance products, cost of production programs and livestock insurance.

Comparison of Premiums: Following is a sample comparison of premiums. Note that these are shown for comparison purposes and do not represent quotes for a specific farm. The premiums shown for the "old" program represent the full rates prior to ARPA without additional discounts. In both 1999 and 2000 there were additional discounts. For example, the premium actually paid in 2000 for the Lancaster County situation would be 25% less or $7.86 for the regular MPCI-APH program rather than the $10.48 shown. The actual CRC premium in 2000 would have been $14.19 rather than $18.92. The subsidy levels shown in the previous table for the "old" program represent the percentage subsidies for the basic program without the emergency discounts added on in 1999 and 2000.

Comparison of Crop Insurance Premiums, Per Acre
Corn, 75% Coverage

			APH		**CRC**	
			Old	**New**	**Old**	**New**
Lancaster Co.	**Non-irrigated**	**APH = 100**	$10.48	$6.45	$18.92	$10.07
Madison Co.	**Irrigated**	**APH = 150**	$ 7.21	$4.41	$14.75	$ 7.65
Dawson Co.	**Irrigated**	**APH = 160**	$ 7.53	$5.00	$15.45	$ 8.59
Prices used to make the calculations			$1.90*	$2.00**	$2.51***	$2.50****

* Established price for 2000 by RMA.
** Established price for 2001 by RMA.
*** Spring CRC price for 2000.
**** Price selected to show comparable premiums for the new program. Actual price used in 2001 will be the average of the DEC corn contract on the CBOT during the month of February.

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