The University of Arizona
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Cooperative Extension

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An Overview of Risk Management Agency Insurance Products and Farm Service Agency Programs Available for Arizona Agricultural Producers as of December 2012

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Managing risk in agriculture is not a new concept as the agricultural industry is inherently volatile. Arizona agricultural producers are vulnerable to the positive and negative impacts of consumer demands, weather, public policy, and water and pesticide regulations, which all can have tremendous influence on the success of the operation. Understanding the types of risk and the tools to manage these risks is just as important to the producer as knowing how to grow the commodities.

The United States Department of Agriculture's Risk Management Agency has defined five primary categories of risk: production, finance, price or market, institutional, and human or personnel risk. While all areas of risk are important and should be considered, this bulletin gives a brief overview of several tools provided by two different government agencies to assist agricultural producers in managing several risk areas.

The Risk Management and Farm Service agencies both have risk management programs available to agricultural producers, but they vary in assistance methods. In general the Risk Management Agency (RMA) manages the USDA crop and livestock insurance products provided to agricultural producers, while the Farm Service Agency (FSA) manages the USDA disaster assistance programs available to agricultural producers. RMA assist in the development and underwriting of the crop insurance programs, which are then sold by private insurance companies, with premium subsidies provided to the agricultural producer. FSA programs are developed and delivered directly by the agency.

Crop insurance is a risk management tool that allows growers to insure against losses due to adverse weather conditions, fire, insects, disease, and wildlife. The main two types of insurance available to producers are multi-peril crop insurance (MPCI) and crop-revenue insurance or crop revenue coverage (CRC):

- *Multi-peril crop insurance* covers the broad perils of drought, flood, insects, disease, etc., which may affect many insured parties at the same time and present the insurer with excessive losses. To make this class of insurance, the perils are often bundled together in a single policy (an MPCI policy).
- *Crop-revenue coverage* is a combination of crop-yield insurance and price insurance. The policy pays an indemnity if the combination of the actual yield and the cash settlement price in the futures market is less than the guarantee.

Disaster assistance programs provide financial assistance to producers who experience natural disaster losses, resulting from drought, flood, fire, freeze, tornadoes, pest infestation, and other calamities. Although disaster assistance programs can provided some of the same benefits as insurance products, they are not the same and can be used in combinations when the loss is due to natural disasters.

Tables 1 and 2 provide a quick overview of the current RMA insurance programs and FSA disaster programs available in Arizona. A brief description of each program is given below each table. Although not all insurance products are listed as available in all counties in Arizona, cases can be made to extend one product's coverage into another county.

For more in-depth coverage of any of the RMA insurance products, visit http://www.rma.usda.gov/ and go to the quick links section of the webpage. RMA also provides an on-line tool to evaluate the potential cost and payouts of all its insurance products. The tool allows the selection of state, county and all products available in the selected region. It then assists in building an example policy for review. However, these estimates serve just as guidelines. Only a licensed insurance agent can determine the final cost of the policy. Visit this website to use the cost estimator tool: www.rma.usda.gov/tools/premcalc.html.

For additional information about FSA programs and products, visit http://www.fsa.usda.gov/FSA.

USDA Crop Insurance Programs Available in Arizona										
	Risk Management Agency (RMA)									
	(All Part of the Combo Insurance Plan)									
Commodity	**AGR-Lite**	**Actual Production History (APH)**	**Crop Revenue Coverage (CRC)**	**Dollar Amount**	**Dollar Fixed**	**Livestock Gross Margin**	**Livestock Risk Protection**	**Pecan Revenue**	**Revenue Assurance**	**Vegetation Index**
Crops										
Apples	√	√								
Barley	√	√								
Chilies	√				√					
Corn	√	√	√							
Cotton	√	√	√						√	
Cotton Ex Long	√	√								
Dry Beans	√	√								
Forage Prod.	√	√								
Grain Sorghum		√								
Citrus: Grapefruit, Lemons, Mandarins, Minneola Tangelos,Navel, Sweet and Valencia Oranges	√	√								
Nursery	√			√						
Pecans	√							√		
Potatoes	√	√								
Wheat	√	√	√							
Other Crops	√									
Livestock										
Apiculture										√
Pasture/Rangeland	√									√
Dairy	√					√				
Feeder Cattle	√						√			
Fed Cattle	√						√			
Lambs	√						√			
Swine	√						√			
Other Livestock	√									

RMA Insurance Products:

1) **AGR-Lite:** A whole-farm, revenue-protection plan of insurance. The plan provides protection against low revenue due to unavoidable natural disasters and market fluctuations that affect income during the insurance year. **(All Arizona counties)**

2) **Actual Production History (APH):** Policies insure producers against yield losses due to natural causes such as drought, excessive moisture, hail, wind, frost, insects, and disease. The farmer selects the amount of average yield he or she wishes to insure; from 50–75% (in some areas to 85%). The farmer also selects the percentage of the predicted price he or she wants to insure, between 55 and 100% of the crop price established annually by RMA. **(Only in Cochise, Graham, Greenlee, La Paz, Maricopa, Mohave, Navajo, Pima, Pinal, Yavapai, Yuma)**

3) **Catastrophic Risk Protection (CAT):** The minimum level of coverage offered by RMA which meets the requirements for a person to qualify for certain other USDA program benefits (50% coverage/55% price election).

4) **Crop Revenue Coverage (CRC):** An RMA insurance plan that covers revenue losses due to low yield, low price, or any combination of the two. **(Only in Cochise, Graham, Greenlee, La Paz, Maricopa, Mohave, Navajo, Pima, Pinal, Yavapai, and Yuma)**

5) **Dollar Plan Amount:** Provides protection against declining value due to damage that causes a yield shortfall. Amount of insurance is based on the cost of growing a crop in a specific area. A loss occurs when the annual crop value is less than the amount of insurance. The maximum dollar amount of insurance is stated on the actuarial document. The insured may select a percentage of the maximum dollar amount equal to CAT (catastrophic level of coverage), or additional coverage levels. **(Only in Graham, La Paz, Maricopa, Pima, Pinal, Yavapai, and Yuma)**

6) **Dollar (Fixed):** An RMA insurance plan that provides protection against declining revenues when there is damage that causes a yield shortfall and when there is no price increase in the market. **(Only in Cochise)**

7) **FCIC:** The Federal Crop Insurance Corporation, a wholly owned government corporation administered by the Risk Management Agency within USDA.

8) **Livestock Gross Margins:** Provides protection against loss of gross margin (market value of livestock minus feed costs).

9) **Livestock Risk Protection:** A single peril price insurance program for swine, fed cattle, and feeder cattle. LRP provides price protection for feeder cattle producers. The insurance for feeder cattle may reduce the downside price risk for feeder cattle producers, but it does not eliminate other risks, such as sickness or death of the cattle or rising feed costs. **(All Arizona counties)**

10) **Multi-Peril Crop Insurance:** An insurance program to minimize risk and help protect farmers against loss of production below a predetermined yield or unit guarantee which can be calculated using the producer's actual production history.

11) **Pecan Revenue:** A revenue program of insurance. It provides protection against unavoidable loss of pecan revenue due to standard causes of loss of yield as well as decline in market price. **(Only in Cochise, Graham, Greenlee, Maricopa, Pima, and Pinal)**

12) **Revenue Assurance:** Protects a producer's crop revenue whenever low prices or low yields, or combination of both, cause the crop revenue to fall below the guaranteed revenue level. **(Only in Cochise, Graham, Greenlee, La Paz, Maricopa, Mohave, Pima, Pinal, and Yuma)**

13) **Apiculture/Vegetation Index:** This new pilot program uses rainfall and vegetation greenness indices to estimate local rainfall and plant health, allowing beekeepers to purchase insurance protection against production risks. The Vegetation Index is based on the U.S. Geological Survey's Earth Resources Observation and Science (EROS) and provides Normalized Difference Vegetation Index (NDVI) data derived from satellites observing long-term changes in the greenness of the earth's vegetation since 1989. The program divides the country into six regions of differing weather patterns. **(All Arizona counties)**

USDA Disaster and Other Assistance Programs for Arizona

	FARM SERVICE AGENCY (FSA)										
Commodity	**SURE**	**NAP**	**TAP**	**ELAP**	**LFP**	**LIP**	**ECP**	**GRP**	**SWP**	**CREP**	**Emergency Loans**
Crops											
Apples	√		√								
Barley	√										
Corn	√										
Cotton	√										
Cotton Ex Long	√										
Dry Beans	√										
Forage Prod.	√										
Grain Sorghum	√										
Citrus: Grapefruit, Lemons, Mandarins, Minneola Tangelos, Navel, Sweet and Valencia Oranges	√		√								
Nursery	√										
Pecans	√		√								
Potatoes	√										
Wheat	√		√								
Other Crops	√	√									
Livestock											
Pasture/Rangeland		√									
Dairy	√					√					
Feeder Cattle	√			√	√	√					
Fed Cattle	√			√		√					
Lambs	√			√	√	√					
Swine	√			√		√					
Other Livestock	√			√	√						
Whole Farm/Ranch	√										√
Farm/Ranch Land							√	√	√	√	√

FSA Programs:

1) **Supplemental Revenue Assistance Payments (SURE):** Provides financial assistance for crop production and/or quality losses due to a natural disaster.

2) **Noninsured Crop Disaster Assistance Program (NAP):** Provides financial assistance to producers of non-insurable crops when low yield, loss of inventory, or prevented planting occurs because of natural disasters. NAP is not available for crops where catastrophic (CAT) is available such as APH, CRC Dollar, or Tree base, and if AGR-lite insurance is acquired, NAP is no longer available (See RMA Handout).

3) **Tree Assistance Program (TAP):** Provides financial assistance to qualifying orchardists to replace eligible trees, bushes, and vines damaged by natural disasters.

4) **Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish (ELAP):** Provides emergency relief to producers of livestock, honeybees, and farm-raised fish. Covers losses from disaster such as adverse weather or other conditions, such as blizzards and wildfires not adequately covered by any other disaster program.

5) **Livestock Forage Disaster Program (LFP):** Provides financial assistance to producers who suffer grazing losses due to drought or fire.

6) **Livestock Indemnity Program (LIP):** Provides assistance to producers for livestock deaths that result from disaster.

7) **Emergency Conservation Program (ECP):** Provides emergency funding and technical assistance for farmers and ranchers to rehabilitate farmland damaged by natural disasters and to carry out emergency water conservation measures in periods of severe drought.

8) **Emergency Farm Loans:** Producers can borrow up to 100% of actual production or physical losses, to a maximum amount of $500,000.

Other FSA programs not included in the table:

9) **Conservation Reserve Program (CRP):** Provides annual rental payments for planting permanent vegetation on idle, highly erodible farmland.

10) **Conservation Reserve Enhancement Program (CREP):** State and federal partnerships provide incentive payments for installing specific conservation practices that help protect environmentally sensitive land, decrease erosion, restore wildlife habitat, and safeguard ground and surface water.

11) **The Farmable Wetlands Program (FWP):** Reduces downstream flood damage, improves surface and groundwater quality, and recharges groundwater supplies by restoring wetlands.

12) **The Grassland Reserve Program (GRP):** Helps landowners restore and protect grassland, rangeland, pastureland, and scrubland, and provides assistance for rehabilitating grasslands.

13) **The Source Water Protection Program (SWP)**: Helps prevent source water pollution through voluntary practices installed by producers at local levels. Source water is surface and ground water consumed by rural residents.

14) **Emergency loans are** to help producers who own or operate located in a county declared by the President or designated by the Secretary of Agriculture as a primary disaster area or quarantine area.

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