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Noninsured Crop Disaster Assistance Program and Whole-Farm Revenue Protection: Understanding the Differences

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Contents

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This publication helps explain and differentiate between two risk-management options that can help protect farm businesses from losses and prevented yield caused by weather or other disasters. These federally subsidized programs are Whole-Farm Revenue Protection and the Noninsured Crop Disaster Assistance Program.

Photo: Lance Cheung, USDA

Introduction

Farming is an especially risky business because farmers have few means of protecting their crops and livestock from variances in weather, and they are often at the mercy of markets influenced by factors beyond their control. To help farmers protect themselves from undue risk, the federal government offers several forms of assistance, including subsidized crop insurance and other programs that can aid farmers whose crops or animals are lost or can't be sold at a reasonable price.

Sometimes the array of programs can be bewildering, and the options confusing. This publication helps explain and differentiate between two risk-management options: Whole-Farm Revenue Protection and the Noninsured Crop Disaster Assistance Program.

WFRP Basics

Whole-Farm Revenue Protection (WFRP) is a unique form of federally subsidized crop insurance that insures the revenue from an entire farm operation, rather than just one specific crop. It is the only federally subsidized crop insurance policy available in every county in the United States. WFRP can provide coverage for all your

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Primer on Whole-Farm Revenue Protection Crop Insurance: Updates for 2018

Whole-Farm Revenue Protection *(Mien Narration Video)*

crop and livestock products, up to $8.5 million in insured revenue. It is available through your local crop insurance agent in any county in the United States. The terms and rules of the policy are set by the USDA Risk Management Agency (RMA) through the Federal Crop Insurance Corporation (FCIC), a government-owned corporation that administers the Federal crop insurance program.

WFRP was created to provide risk management to farmers with diverse crop and livestock production systems. It is a more convenient and sometimes less expensive means to insure a whole farm's revenue, when compared with purchasing separate crop insurance policies for each individual crop and livestock enterprise. Furthermore, WFRP can cover any crop or livestock product, unlike single-crop or livestock insurance products that are only available for certain designated crops and in limited geographic areas.

Any legally defined farm is eligible to purchase WFRP crop insurance. (A farm is defined by USDA as any place from which $1,000 or more of agricultural products were produced and sold, or normally would have been sold, during the year.) To purchase WFRP, the farmer must generally have at least five years of tax records. Beginning farmers who have been farming 10 or less years only need to have three years of tax records filed to be eligible. In some cases, you may be able to use the historical tax records to demonstrate revenue production of a farm that you have recently acquired.

To learn much more about WFRP, see the ATTRA publications *Crop Insurance Options for Specialty, Diversified, and Organic Farmers; Primer on Whole-Farm Revenue Protection Crop Insurance: Updates for 2018*; and *Documentation and Recordkeeping for Whole-Farm Revenue Protection (WFRP).*

NAP Basics

The Noninsured Crop Disaster Assistance Program (NAP) was created to provide an alternative form of catastrophic peril coverage for crops that are not covered through the Federal crop insurance program. Any legally defined farm in the United States is eligible to purchase NAP.

The USDA Farm Service Agency (FSA) administers NAP, which can provide a limited amount of risk protection for farm crops when there is no equivalent federally subsidized single-crop insurance policy available in the county where the farm is located.

Details about NAP are available at the USDA website www.fsa.usda.gov/programs-and-services/disaster-assistance-program/noninsured-crop-disaster-assistance/index.

What Crops Are Eligible for NAP?

NAP is only available for crops and locations where federal single-crop insurance products are not available. The availability of federally subsidized crop insurance for any given specific crop varies significantly across counties in the United States. Even a major crop such as wheat is not eligible for crop insurance in many U.S. counties, and policies for specialty crops are often quite geographically limited. The USDA Risk Management Agency website has a "Map Viewer" tool at https://prod-webnlb.rma.usda.gov/apps/MapViewer/index.html that shows at the county level which products are insurable in the United States.

Table 1 (left) shows the top 15 crops insured through the NAP program in 2014 and 2015.

Interestingly, grass has been by far the most popular crop to cover with NAP protection. Also note that there are many crops without a federally subsidized single-crop policy available (making them eligible for NAP). And many NAP applications are for crops for which a federally subsidized policy exists, but is just not available in the applicant's county.

Table 1. Top NAP Crops

15 crops with the highest count of Noninsured Crop Disaster Assistance Program applications from 2014 to 2015

	Year 2014		Year 2015	
Position	Crop	Active applications	Crop	Active applications
1	GRASS	38,812	GRASS	56,575
2	SORGHUM FORAGE	2,870	GREENS	6,360
3	SQUASH	1,940	SORGHUM FORAGE	6,169
4	PEPPERS	1,519	SQUASH	5,421
5	WATERMELON	1,369	PEPPERS	5,097
6	MILLET	1,354	WATERMELON	3,668
7	SWEET POTATOES	1,294	PEAS	3,335
8	OATS	1,170	BEANS	3,011
9	PUMPKINS	1,135	MILLET	2,898
10	WHEAT	1,122	OATS	2,828
11	GREENS	1,027	PUMPKINS	2,813
12	TOMATOES	953	TOMATOES	2,798
13	BEANS	921	CUCUMBERS	2,638
14	CUCUMBERS	899	HERBS	2,437
15	PEAS	750	WHEAT	2,210

Source: U.S. Dept. of Agriculture, Farm Service Agency and Economic Research Service.

Also, note that this table shows a significant increase in the use of NAP between 2014 and 2015. This is likely to have occurred because NAP buy-up coverage became available in 2015.

The bottom line is that it's important to work with your crop insurance agent and your local Farm Service Agency office to determine what options are available in your county for the crops you produce.

Main Differences between NAP and WFRP

In 2015, WFRP became the first crop insurance policy to be made available nationwide. Previously, crop insurance coverage was only available for particular crops and in counties where those crops had an established production history. The WFRP policy provides up to 85% protection of the value of the range of products you produce, based on the lower of your expected gross adjusted revenue in the year of insurance or the historical five-year average adjusted gross revenue of your farm.

NAP, on the other hand, provides coverage for individual crops when there is no crop-specific insurance policy available in the county where the farm is located. For example, no counties in the Midwest qualify for crop insurance on onions, so producers in that region could use NAP to protect that crop. With NAP, a farmer can buy up to 65% of the approved yield of the crop, up to 100% of the approved price of the crop.

A farmer in the very first year of farming is eligible to use NAP. WFRP, on the other hand, requires demonstrated evidence of revenue from three previous years for a beginning farmer (less than 10 years of farming experience), and five previous years for an experienced farmer.

Also, note that *revenue* crop insurance is not available for every crop through single-crop insurance. Consequently, the advantage of having both price and yield protection is not always available, except through WFRP.

Comparing Cost and Protection

The cost of WFRP coverage is based on the specific crop and livestock products grown during the insurance year and on the location of the farm. The RMA has a Cost Estimator on its website that can provide an idea of the expense of a WFRP policy. Your insurance agent can help you use this tool.

The level of coverage available through WFRP is up to 85% of the approved revenue of the farm, if the farm produces at least three crop and livestock products. The premium cost is subsidized depending on the level of coverage and the number of crops insured. If you are a beginning farmer, you can get a 10% discount on the premium cost.

Applying for WFRP can be quite complicated, especially for highly diversified farms. Applying for NAP is fairly straightforward, requiring far less paperwork than a WFRP application.

There are two types of NAP: NAP basic and NAP "buy-up." For farms operating in a single county, NAP basic has a maximum cost of $825 for three or more noninsured crops. (If the farm operates in more than one county, cost can go up to a maximum of $1,950). This is called a "service fee," not a premium, and it is waived for documented beginning, limited resource, socially disadvantaged, and qualified veteran farmers or ranchers. Thus, for these groups, NAP basic protection is free.

However, NAP basic only kicks in after there has been greater than a 50% loss of the approved yield of the crop in the insurance year. And then it only pays out a maximum of 55% of the value that was lost. This is not complete risk protection, but it is certainly better than nothing.

NAP buy-up, on the other hand, requires that you pay a premium on top of the service fee. Your premium depends on the coverage level, which can vary from 55% to 65% (in 5% increments). The maximum "premium" will not exceed $6,562.50, added to the cost of the service fee. There are premium discounts for beginning, limited resource, socially disadvantaged, and qualified veteran farmers or ranchers. Organic producers and direct marketers also may exercise the buy-up option to obtain NAP coverage of 100% of the average market price at coverage levels of between 50% and 65% of expected production (USDA, 2019).

Note that under provisions of the 2018 Farm Bill, buy-up coverage is not available for crops intended for grazing (USDA, 2019).

Remember that even for the NAP buy-up, losses are not compensated until a 50% loss of the

The level of coverage available through WFRP is up to 85% of the approved revenue of the farm, if the farm produces at least three crop and livestock products.

approved yield of the crop has occurred. NAP should really be thought of—and was intended to be—a "catastrophic" program.

Example #1

A farmer has a 5,000-acre certified organic farm in Montana, has been farming for the last six years, and grows three crops (winter wheat, malting barley, and emmer). Of these, only winter wheat and malting barley are insurable under the federally subsidized crop insurance program in her county (Hill County). Should she protect her emmer with a NAP or WFRP policy in 2018?

Table 2 below provides production details for this example. Prices for the organic wheat and barley are the highest prices available under a special contract price addendum program, which allows organic farmers to insure at the contracted prices of their products up to the maximum indicated in Table 2. The emmer price is what was being offered to organic grain growers in 2017.

If this farm had an historic adjusted whole-farm revenue of $821,510, then at an 85% coverage level, the farm would be guaranteed an insured revenue of $698,284. The subsidized premium for this policy would cost $47,653. Subtracting the premium cost from the insurance guarantee, the farmer is protected up to $650,631. In other words, the farm would need to suffer an insurable loss of whole-farm revenue of 22% of expected revenue before seeing any payment from the policy.

In this example, a NAP policy would only be available for the emmer crop, because there is no revenue-based crop insurance policy available for emmer. NAP buy-up offers only a 65% coverage level and the farmer would have to experience a 50% loss in revenue on the emmer before ***any*** support would kick in. A 65% NAP buy-up policy on the emmer would cost $19,895 plus a $325 service fee, for a total of $20,220.

Table 2. Montana Organic Grain Farm Simple Example

2018 Expected Adjusted Revenue

Crop	Acres	County Average Yield per Acre	Price per Unit	Revenue
Organic winter wheat	2,000	11 bushels	$16.49	$362,780
Organic malting barley	2,000	11 bushels	$8.20	$180,400
Organic emmer	1,000	583 pounds	$0.50	$291,500
Totals	**5,000**			**$834,680**

If the farmer were to purchase separate single-crop Revenue Protection policies for the organic wheat and barley, the premium at an 85% coverage level would be $48,453 on the organic wheat and $47,137 on the barley. Adding the NAP coverage (for the emmer) and single-crop coverage (for the wheat and barley), the total premium cost for the farm would be $115,735.

It is important to note that the single-crop revenue protection would insure the organic wheat crop at the higher $16.49 per bushel organic premium level. However, barley insurance does ***not*** have the special contract price addendum option in this county of Montana and is therefore limited to a lower per-bushel organic projected price of $7.00—meaning some degree of underinsurance. The organic projected price is an estimate made by the USDA Risk Management Agency.

Although the WFRP policy might appear to be the more cost-effective option in this situation, it is important to note that WFRP deductibles can be high. Also notice that a WFRP indemnity is paid only after the whole farm's revenue hits the critical guaranteed level (called the "trigger" point).

Additionally, note that with WFRP, if both the wheat and barley were impacted by an insurable cause of loss due to disease, but the emmer did really well, the farm's revenue might not reach the level of loss to trigger an indemnity payment. By contrast, when you buy individual revenue protection, the revenue loss needed to produce a claim is independent of the revenue losses or gains of the other crops you are growing.

Finally, notice that no single-crop policy is available for emmer. So it can only be covered by NAP, unless insured under WFRP.

There is no easy choice, even in this simple example. Ultimately, insurance decisions are, in part, a function of cost, but they are also influenced by the level of risk you are willing to accept (a measure referred to as your "risk aversion") and many other factors specific to your situation.

Example #2

A farmer has been growing two certified organic crops for six years: hay (grass) and wheat. He grows 200 acres of each in San Luis Obispo

County, California. There is no type of protection in the county for hay, but there is Revenue Protection available for a spring wheat crop. What is the least-costly protection the farmer can get for these two crops?

Table 3 offers the basic data used for analysis.

The historic average approved whole-farm revenue for this farm is $115,000, and the cost of a WFRP policy would be $2,605. Because only two products are grown, the highest coverage level available is 75%. (A commodity count of at least three is required to cover the whole-farm revenue at the 80% or 85% level of coverage.) The policy would not begin to pay out until the farm's revenue dropped below $86,250.

Alternatively, the farmer could insure the wheat with a Revenue Protection policy at 85% coverage and use NAP to insure the hay. The wheat Revenue Protection policy would cost $9,715 and the "trigger point" where an indemnity payment would begin would be when the price dropped below $9.40 per bushel.

The farmer could insure the wheat for a maximum of $15.90 per bushel under a contract price addendum policy. Thus, even though the farmer has a contract price of $16.49 per bushel, the maximum insured price is $15.90 per bushel, meaning the farmer would be underinsured. The NAP 65% buy-up policy for the organic hay would cost $3,115, including a $250 service fee. Again, the farmer would have to experience a loss of more than 50% of the hay revenue before any payment would be made.

In this example, the WFRP policy ($2,605) would cost far less than the alternative combination of RP and NAP ($12,830). It's true that the RP on wheat would kick in independent of what happened to the hay production, whereas the WFRP policy requires a significant whole-farm revenue loss before a loss payment would be forthcoming. However, the price difference between using NAP and WFRP for hay is very significant, and suggests that WFRP is a better choice than NAP in this illustration.

Table 3. California Two-Crop Organic Farm Simple Example

2018 Expected Adjusted Revenue

Crop	Acres	County Average Yield per Acre	Price per Unit	Revenue
Organic Winter Wheat	200	11 bushels	$16.49	$36,278
Organic Hay	200	2.1 tons	$200	$84,000
Totals	**400**	**583 pounds**	**$0.50**	**$120,278**

Reference

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Further Resources

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Notes

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