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Agricultural Outlook Forum

Presented: February 17, 2006

NEW HORIZONS FOR REVENUE INSURANCE

Russell Redding
Deputy Executive Secretary
Pennsylvania Department of Agriculture

2006 AGRICULTURAL OUTLOOK FORUM



Russell C. Redding
Executive Deputy Secretary
PA Department of Agriculture
February 17, 2006



The Five-Year Check-Up

- An evaluation of the Agricultural Risk Protection Act
- The Prospects for Eliminating Disaster Assistance



Several Objectives of This Presentation

- Provide overview of PA's response to a crop disaster
- How ARPA has benefited PA producers
- Development of AGR-Lite
- Future policy considerations to expand participation in AGR-Lite



1999 – A “Teachable Moment”

- Established a Crop Insurance Task Force
- Initiated an educational program
- Provided \$60 million in state crop loss assistance
- Initiated a \$5.6 million state-sponsored Crop Insurance Assistance program to cover fees and part of premium



ARPA

- Addressed many concerns identified by PDA Crop Insurance Task Force
- Provided opportunity for state to take lead role in designing a program that we felt addressed our crop insurance needs (508.h)
- Provided additional emphasis on “low participation” states – or “high priority” states

(Continued)



ARPA (continued)

- Additional cost share
- Additional producer education opportunities
- Commitment to help producers make improved risk management decisions



Producers Responded

- The number of insurance policies in PA increased by 118%, acres increased 83%, protection in force 127%
- Significant numbers of PA producers experienced multiple year disasters 1999-2005
- Producers received loss payments of \$140 million 2000-2005 -- \$3.69 for each dollar of producer paid premiums
- PA crop insurance, premium assistance nearly \$13 million from 2000-2005



PA Producers' Concerns With Traditional Crop Insurance

- No insurance programs available for many commodities
- Producer records are financial with less emphasis on yield/production as required for APH
- Many market their crops through livestock – measuring end value is more feasible than trying to account for fed production
- Insuring on a crop-by-crop basis doesn't fit



PA Department of Agriculture Responded

- Conducted, in partnership with RMA, an aggressive education and outreach program, raising the awareness of need to have crop insurance
- Requested RMA to streamline the Adjusted Gross Revenue Program (AGR) and expand it statewide – did not happen

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The header features a collage of agricultural images: a green plant on the left, a brown animal in the center, and a blue sky with white clouds on the right. Below the collage is a horizontal line with a yellow and white checkered pattern.

PA Department of Agriculture Responded (continued)

- Requested private insurance industry to develop a streamlined AGR and expand statewide – limited interest because of lack of financial incentives
- As a last resort, PDA submitted AGR-Lite so our producers would have the opportunity to participate in crop insurance



Policy Objectives of AGR-Lite

- Overarching objective – to protect the farm income of producers. We believe our producers should have access to a crop insurance program designed to fit their needs
- Make meaningful crop insurance available to commodities without insurance programs

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Policy Objectives of AGR-Lite (continued)

- Develop programs that are easier for producers to understand that also reduce private sector delivery costs



AGR-Lite Benefits

- Whole farm protection from a single policy, revenue policy follows marketplace – easier to understand
- Provides broad coverage for almost all commodities including livestock

(Continued)



AGR-Lite Benefits (continued)

- Crops marketed through animals are captured in an efficient manner
- Will work for loan collateral for lenders, resulting in their encouragement of producers to participate in insurance
- Makes it possible for added marketing emphasis by the private sector

(Continued)



AGR-Lite Benefits (continued)

- Provides a way to insure NAP crops, including pasture and grazing in a practical way
- Quality and value standards are based on producers' history instead of being set by insurance contract
- Plan is a win-win: producers win by having broad access to insurance protection – federal government wins by offering workable crop insurance protection as encouraged by ARPA



How AGR-Lite Works

- Protection based on previous 5 years of income (tax returns)
- Protection is in form of Adjusted Gross Revenue (use lesser of 5 year average or the projection of the next year's farm plan)
- Producer chooses levels of coverage

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AGR-Lite Status

Participation

- Available in 17 states
- Work continues
 - More states
 - Modifications



Where AGR/AGR-Lite Makes Sense

- Grower of otherwise uninsurable crops
- Umbrella over selected individual crop coverages
- Interested in protecting the bottom line for operation from severe economic loss
- Interest in coverage based on historical quality and price

(Continued)



Where AGR/AGR-Lite Makes Sense (continued)

- Poor yield records
- Where gross income survived droughts better than APH



AGR-Lite

- Full partnership with RMA and FCIC
- Shared goals – make meaningful crop insurance available to more farmers



The Future

- Could AGR-Lite be the vehicle to minimize the need for Ad-Hoc Disaster payments?
- Could it be used as the vehicle to channel low price protection to producers?

(Continued)



The Future (continued)

- Can AGR-Lite provide unavoidable income loss protection to producers of diversified Ag Commodities?
- Yes, it already provides gross income protection to ag commodities, but will require significant considerations.

(Continued)



Thank you.