

## **2012 Drought Questions and Answers**

Aug 6, 2012

### **Insurance Companies' Ability to Make Indemnity (Claims) Payments**

**Q: Because crop insurance indemnity payments will be in the billions of dollars; will my Approved Insurance Provider (AIP) be able to cover my indemnity (claims) payment?**

A: Yes, all AIPs who sell and service Federal crop insurance policies must have surplus adequate to cover their written premium, after all reinsurance considerations, equal to meeting the obligations for two catastrophic loss years. The AIP must meet certain regulatory and financial standards which are monitored and reviewed by RMA to ensure financial soundness. In addition, because the policies are reinsured by the Federal Crop Insurance Corporation (FCIC), if an AIP is unable to pay any indemnities owed, any losses you have will be paid by the FCIC based on your insurance policy.

### **Your Responsibilities When Crops Are Damaged by Drought**

**Q: What should I do when my crops are damaged by drought?**

A: Contact your AIP (agent) before putting spring-planted crop acres to another use such as harvesting for silage, diverting irrigation water, destroying the crop, or abandoning the acres. Notice of damage must be given within 72 hours of the initial discovery of damage or loss of production, but not later than 15 days after the end of the insurance period, even if the crop has not been harvested. It is very important to work closely with your AIP before making any changes to the care of the insured crop. The AIP must have a chance to appraise and release the acres before the crop is put to another use, destroyed, or abandoned. If an accurate appraisal cannot be made, or you disagree with the appraisal at the time acreage is to be destroyed or no longer cared for, you and the AIP can select representative sample areas of the crop to be left intact for future appraisal purposes. In this case, the representative sample areas must continue to be cared for, with the exception of irrigation, until the final appraisal can be made.

**Q: Should I continue to care for crops damaged by drought?**

A: Crops that have been damaged and will be taken to harvest must be cared for and maintained using generally recognized good farming practices. Agricultural experts in the area can advise on farming practices required to maintain the production in the field and to help protect the crop from further damage. With the AIP's agreement, you may destroy or abandon the crop and leave representative sample areas in accordance with paragraph 88 of the Loss Adjustment Manual (LAM). The representative sample areas must be maintained as if the entire crop was left intact until the AIP conducts a final inspection and releases the representative sample areas. Failure to properly maintain the crop following damage could result in a determination that the cause of loss was not covered and, therefore, no claim payment is due.

**Corn Cut for Silage**

**Q: Can my corn, insured for grain, be cut as silage and/or sold as feed?**

A: Yes, but you must contact your AIP before cutting any corn insured as grain for silage. If any portion of the crop will not be harvested or will be put to another use (i.e., harvested as silage in a county where corn is insured only on a grain basis), the insured crop must be appraised as soon as possible, but before the corn is cut for silage. If an accurate appraisal cannot be made, the AIP may defer the appraisal until such time an accurate appraisal can be made (i.e., using the maturity line appraisal method versus stand reduction appraisal method). If you disagree with the initial appraisal, request to defer the appraisal, and if the AIP agrees, representative sample areas of the unharvested crop may be left for future appraisal in accordance with paragraph 88 of the LAM. In this case, the representative sample areas must be cared for and maintained, with the exception of irrigation, until the final appraisal can be made.

**Other Crops Insured after Failed Corn Crop**

**Q: Can I plant and insure soybeans after my failed corn crop has been appraised and released?**

A: Contact your AIP (agent). Planting a soybean crop following a failed corn crop is generally not a recognized good cropping practice and the soybeans cannot be insured unless agricultural experts indicate it would be a recognized good farming practice in your area and all other policy provisions have been met.

## **Irrigation Water Diversion**

### **Q: Can irrigation water be diverted?**

A: Before diverting any irrigation water you should notify your AIP (agent). For purposes of loss mitigation only and with AIP approval of the irrigation water diversion, losses due to the diversion of irrigation water may be a covered cause of loss.

Example: A corn crop grown under a center pivot irrigation system is determined, due to extreme high temperatures and wind conditions, that the crop will not survive if the normal amount of irrigation water continues to be applied to the full circle. The irrigation water could be stopped over one half of the center pivot and instead apply the water to the crop in only one half of the center pivot. This could prevent the loss of the entire crop by providing enough water to the remaining crop to provide for normal plant growth.

### **Q: Do I need to wait to divert water until instructed to do so by the AIP?**

A: You should notify your AIP before you divert any irrigation water. However, failure to do so will not, in itself, result in denial of your claim. Advance notification allows the AIP the opportunity to verify the appropriateness of such diversion at the time you make the decision to divert the water. If you have already diverted the irrigation water, all possible documentation to show that diverting irrigation water is appropriate should be maintained. Recommendations from local Cooperative Extension System (CES) or USDA, Natural Resources Conservation Service (NRCS) (or other source recognized by CES, or NRCS to be an expert in this area) should be used to document this decision.

## **Crop Insurance Coverage for Crops Containing Aflatoxin**

### **Q: What should I do if I suspect my grain production contains aflatoxin?**

A: You must notify your AIP before harvesting or placing harvested grain in storage if you suspect your grain contains aflatoxin. Because aflatoxin can worsen in storage, aflatoxin losses are only insurable if the grain is tested at an approved testing facility before being moved into commercial or on-farm storage. You may arrange with your AIP to leave representative sample areas of the unharvested crop from which the adjuster can obtain samples for aflatoxin testing. Losses resulting from an increase in the aflatoxin level while in on-farm storage, or failure to get proper aflatoxin testing, are not covered under the crop insurance policy.

**Q: What should I do if I suspect my grain production contains mycotoxins other than aflatoxin?**

A: You must notify your AIP of your suspicions at the time you file a notice of loss or damage. Samples for mycotoxin testing (other than for vomitoxin) must be taken before the grain enters storage. Samples for vomitoxin testing can be taken while grain is in storage. You may also arrange with your AIP to leave representative sample areas of the unharvested crop from which the adjuster can take samples for mycotoxin testing. Losses from mycotoxins are not covered under the crop insurance policy if the proper samples for mycotoxin (other than for vomitoxin) testing were not taken before storage.

**Drought Coverage for Cover Crops and Fall Seeded Crops**

**Q: Will Prevented Planting coverage be available for fall seeded crops that cannot be planted due to extended, severe drought conditions?**

A: Prevented Planting coverage is available for drought or failure of the irrigation water supply due to drought during the prevented planting insurance period, or the inability to prepare the land for irrigation using your established irrigation method due to an insured cause of loss. Please consult with your AIP (agent) for more information. Prevented planting will be provided only if, by the final planting date (or within the late planted period if you chose to plant the crop) you provide verifiable documentation that shows the drought condition and your AIP finds the documentation acceptable. To determine a claim for prevented planting of non-irrigated acreage due to an insured cause of loss, AIPs take into consideration if the area that is prevented from being planted has insufficient soil moisture for germination of seed, or would make insufficient progress toward crop maturity due to a prolonged period of dry weather to achieve the per acre guarantee on the acreage. There is rarely enough soil moisture at the time a crop is planted to carry the crop to full maturity. Normally, a non-irrigated crop depends on expected seasonal rains throughout the growing season to mature. "Insufficient soil moisture for progress toward maturity" means the crop may germinate but there is insufficient moisture to sustain the germinated plants. For an irrigated crop, AIP's take into consideration whether you had a reasonable expectation of having adequate water to carry out an irrigated practice or you are unable to prepare the land for irrigation using your established irrigation method.

**Q: If I receive a prevented planting payment for a spring crop, can I then plant a cover crop to control soil erosion without the prevented planting payment being reduced?**

A: If a cover crop can be planted after the final planting date and is not hayed or grazed before November 1, the prevented planting payment for the spring crop will not be reduced.

**Q: If I receive a prevented planting payment for a spring crop and then plant the acreage to a cover crop, can the cover crop be hayed or grazed without the prevented planting payment being reduced?**

A: If a cover crop is hayed, grazed, or otherwise harvested before the end of the late planting period for the insured crop that was prevented from being planted, no prevented planting payment is allowed on the insured crop. If a cover crop is planted after the end of the late planting period (or final planting date if no late planting period) for an insured crop that is prevented from being planted, but is not hayed or grazed before November 1, the prevented planting payment will not be reduced. If a cover crop is hayed or grazed after the end of the late planting period for an insured crop that is prevented from being planted and before November 1 of the crop year, the prevented planting payment will be reduced by 65 percent. If a cover crop is hayed or grazed after November 1 of the crop year in which an insured crop is prevented from being planted, the prevented planting payment will not be reduced. A cover crop harvested for grain, seed, etc., is presumed not to have been grown for conservation or soil improvement and the policy provisions for second crops or crops planted before the end of the late planting period will apply.

### **Assistance to Producers**

**Q: Does USDA provide any financial assistance to help with the cost of crop insurance?**

A: Yes, your premium for crop insurance is subsidized by the Federal Government. A percentage of the total premium for a buyup crop insurance policy is paid by FCIC. The percentage FCIC pays depends on several factors, such as the type of insurance plan and coverage level you choose.

### **Precision Farming for Crop Insurance Claims**

**Q: Are automated planter and combine monitor records from a precision farming technology system allowed for crop insurance claims?**

A: Yes, if the automated planter monitor and combine monitor are integrated with Global Positioning System technology and yield mapping software. Contact your AIP (agent) for more information about the requirements and use of precision farming technology and your crop insurance policy.

**Q: If I am using automated planter and combine monitor records for crop insurance claims, do I need to keep any other production records?**

A: Yes, you should maintain alternate production records by insurance unit, type and practice, from third party sources (such as grain buyer settlement sheets, commercial storage records, etc.) and provide your AIP access to any farm-stored

grain to assist in validating the accuracy of your precision farming technology system records.

**Q: Am I required to calibrate my precision farming technology system for each crop year?**

A: Yes, you must provide written documentation that you have calibrated the system for each crop year and for each crop according to the owner's manual specifications, and the results of any sensor calibration adjustments you made to your automated monitoring systems. The results of the calibration must not exceed 3 percent when compared to the actual weighed production harvested from the acreage used to calibrate the sensors.

**Farm Weighed Production**

**Q: Can I use grain carts with scales or other types of farm scales for weighing production?**

A: Yes, you may weigh and store production on your farm to keep records of separate production for optional units, basic units, and separate production from insured and uninsured acreage. Your weighed production will be used for crop insurance provided it is within 3 percent of the adjuster-measured and calculated production. You must use acceptable scale types and meet acceptable weight tickets/records. Acceptable scale types are: non-portable farm scales, commercial elevator scales, or grain carts if the grain cart can produce printed tickets showing the weight, or has an integrated display panel to show the weight of the production in the cart (if the cart is available so the cart's capacity can be determined). If you have acceptable harvested production from a precision farming technology system, this procedure will not apply.

**Insurance Programs for Livestock Producers**

**Q: While severe drought conditions are devastating to grain farmers, they have insurance protection available to soften the blow, what is available for livestock producers?**

A: RMA offers pilot insurance programs for livestock, and for pasture, rangeland and forage.

**Q: Are there any Federal crop insurance programs available for livestock producers suffering losses from higher feed costs due to the drought?**

A: The Livestock Gross Margin (LGM) provides protection against the loss of gross margin (market value of livestock minus feed costs). The Pasture, Rangeland and Forage program would assist with increased feed costs.

**Q: What types of livestock are covered by Livestock Gross Margin insurance?**

A: Swine, Cattle and Dairy Cattle (milk) are covered under the LGM program.

**Q: Does Livestock Gross Margin insurance provide coverage for death loss due to drought?**

A: No, Livestock Gross Margin insurance does not insure against death loss or any other loss or damage to your swine or cattle.

**Q: Are local prices used to determine feed costs for Livestock Gross Margin insurance?**

A: No, prices of feed and livestock are determined using the Chicago Mercantile Exchange Group commodity futures contracts. The price you pay locally for feed is not used.

**Q: How are indemnities (claims) determined?**

A: The indemnity is the difference between the guarantee and the actual gross margin for the insurance period you have chosen. Livestock Gross Margin for cattle allows early indemnity payments after the last month of the producer's marketing plan.

**Q: Are there any Federal crop insurance programs available for livestock producers suffering losses to their pasture and hay acreage?**

A: Yes, RMA offers two pilot programs that provide insurance for Pasture, Rangeland, and Forage. The Rainfall Index and the Vegetation Index programs are area insurance plans that insure against a decline in an index value. The Rainfall Index program insures against a decline in an index value that is based on the long-term historical average precipitation for the area for a specific period of time. The Vegetation Index program insures against a decline in the Normalized Difference Vegetation Index that is an index value based on the long-term historical average density of photosynthetic biomass on the ground for the area for a specific period of time.

**Q: Do the Rainfall Index and Vegetation Index programs provide insurance if I graze my acreage?**

A: Yes, both the Rainfall Index and Vegetation Index programs cover eligible acreage that is used for livestock grazing.

**Q: How quickly are earned indemnity payments issued under the Rainfall Index and Vegetation Index programs?**

A: Earned indemnity payments are generally issued within 60 days after the end of the index interval you chose. Both the Rainfall Index and Vegetation Index programs give you the flexibility to choose specific time periods during the year to insure your acreage. The Rainfall Index program offers coverage for 11 specific, 2-month, time periods during the year and you can select up to six time periods. The Vegetation Index program offers coverage for 10 specific, 3-month, time periods during the year and you can select up to four time periods. The availability of multiple, specific, time periods throughout the year gives you the ability to customize the coverage to your specific needs. They also result in indemnity payments being issued more timely so you can buy supplemental feed for your livestock.

**Q: Where are the Rainfall Index and Vegetation Index programs available?**

A: The Rainfall Index program is available in: Alabama, Arkansas, California, Eastern Colorado, Florida, Georgia, Kansas, Maryland, Minnesota, Missouri, Montana, New York, North Carolina, North Dakota, Oklahoma, Pennsylvania, South Carolina, Texas, Virginia, and Wisconsin. The Vegetation Index program is available in: Arizona, Western Colorado, Idaho, \*Nebraska, Nevada, New Mexico, Oregon, \*South Dakota, Utah, and Wyoming.

\* Will be under the Rainfall Index program beginning in 2013.

**Q: How many Pasture, Rangeland and Forage acres are insured under the Rainfall Index and Vegetation Index programs?**

A: In 2012 there are over 480 million acres insured with about \$786 million in liability.

**Q: Have producers received any indemnities in 2012?**

A: Yes, RMA has paid approximately \$62.4 million in indemnities that have been earned since January 2012.

**Maximum Crop Insurance Price**

**Q: What is the maximum price limit in my revenue protection contract?**

A: The maximum price limit for corn and soybeans is the base price multiplied by two. For example, in most of the country the corn base price is  $\$5.68 \times 2 = \$11.36$  maximum price limit.