

Comparing Enterprise Units to Basic or Optional Units

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The deadline to sign up or make changes to crop insurance policies for 2010 spring planted crops is March 15th in Iowa and surrounding states. One of the questions farmers will likely be asking is “Should I elect to insure my corn and soybean crops by basic, optional or enterprise unit coverage?”

A large increase in premium subsidy for the use of enterprise units began in 2009. The launch of a 3-year pilot increased the subsidy level for electing enterprise units. In Iowa, nearly 50% of eligible acres moved from traditional basic or optional units to enterprise units. Nearly 85% of all Iowa’s crop acres in 2009 were covered by Crop Revenue Coverage (CRC) or Revenue Assurance (RA) policies for both corn and soybeans. Iowa farmers elected to use enterprise units on nearly 50% of these 2009 eligible crop acres. You can expect a similar move for 2010, but there’s more interest among farmers in adding hail coverage.

Which type of unit to choose depends on your particular farming situation? There are four choices.

- * Optional units--each farm and crop are insured separately. For example, if you farm three different farms in a county, each has its own coverage.
- * Basic units--all of your owned and cash rented acres in the same county are combined together, but each crop is separate.
- * Enterprise units--all acres of the same crop in the same county are combined. So, all your corn acres are insured separately from your soybean acres.
- * Whole farm units—all corn and soybean acres you farm in the county are combined.

Enterprise Unit

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	Typical County with 16 Townships		Example Township with 36 sections																																			

To demonstrate the use of enterprise unit coverage, the graphic to the left features a typical county with 16 townships. If you elect coverage for enterprise units on corn, then all your corn fields in the county are combined for federal crop insurance coverage.

Let’s say all your farm ground is located in just 4 sections featured in the upper-left hand corner of the township (the red circle designates section numbers 5, 6, 7 and 8).

Electing corn as an enterprise unit could be beneficial since a peril such as drought, wind or hail would likely impact all the farms since they are located in contiguous sections of land. However, what if you have other farms scattered across the county? If a peril occurs that impacts only a few farms, you might not have a large enough revenue loss to collect an indemnity payment.

Savings of up to 80% on the premium are possible by moving from traditional basic or optional units to an enterprise unit, but the risk of coverage might actually increase. The percent of the unit coverage discount varies by state, county and crop. After harvest the bushels and the dollars received from the individual units are combined anyway. The financial stability of the farm business depends on the returns from all the acres, so insuring them as a total unit at a lower cost makes economic sense.

Advantages vs. disadvantages of Enterprise Units

If the ground you farm has similar proximity—the farms are close together and have similar yields and similar APHs--enterprise units could be an advantage. Another advantage to consider with enterprise units is it is easier to qualify for prevented planting and replant claims than with basic or optional units, because more acres are included. Remember, there is always the 20-20 rule, a minimum of 20 acres or 20% of the unit has to qualify. As some farmers found out in 2008 and 2009, you won't be able to claim a replant or prevented planting payment if you don't have at least 20 acres or 20% of the unit needing to be replanted or have planting prevented.

Consider adding hail coverage

The decision whether to use enterprise unit coverage vs. more traditional basic or optional coverage in 2010 should also consider a peril such as hail. This is because hail could hit one or two farms, but not necessarily all farms that are covered by enterprise units. This is especially true if you plan to market your crop pre-harvest and commit a large portion of your APH bushels to delivery. Consider adding companion hail to reduce the risk of having severe losses on individual farms yet not triggering an indemnity payment because all fields are grouped together in the county under enterprise unit coverage.

Generally, with enterprise units the more acres you combine into one unit, the lower the cost per acre. But the probability of collecting a payment is lower as well. If you change to enterprise units, you can keep the coverage level the same and reduce the premium. You could also pay the same premium and increase the coverage level. Many farmers increased their coverage level in 2009 as their input costs increased and crop prices remained volatile. The decision to pre-harvest a large percentage of bushels should bring closer scrutiny of the unit coverage you elect.

Comparing Basic vs. Optional Units

Now consider those same 4 sections featured in the example earlier with a Typical County with 16 Townships. Those sections were identified in the red circle (5 through 8). Using the graphic to the right, consider the various lease arrangements for a total of 5 farms. Three of these farms are crop share arrangements, one is cash rented and one is owned. Electing Basic Unit coverage would provide 3 separate Basic Units as designated by the type of ownership and not the sections that contain the farm.

Now consider these same 5 farms, but this time you elect the Optional Unit. Each farm in a section stands alone. This is how most producers choose to insure their farm ground for various CRC and RA policies and keep APHs separately. Also, keep in mind the CRC discount is based on number of planted acres for the crop. The RA discount is based on number of sections, or FSA unit numbers, up to 10, that the farmer insures in a given county.

Other considerations for unit coverage decisions

Crop disease and quality issues could arise in 2010. Farmers in some areas of Iowa saw problems with mold on corn in fields at harvest in 2009. Again, if you have such issues on one farm and not the other, you probably aren't going to collect with enterprise units if it is not a widespread disease or quality problem.

However, it is still a good idea to keep yield records for each individual land unit, in case you want to go back to optional units, or for FSA program documentation. These include the Supplemental Revenue (SURE) and the Average Crop Revenue Election (ACRE) programs. The deadline for proving 2009 APHs on your farms is April 30th, 2010.

Switching to enterprise units is something to consider for 2010. Work with your crop insurance agent and understand the advantages and disadvantages of each of your alternatives and its impact on the ability to bear crop revenue risk.

Basic Unit				Optional Unit			
Share with Jones 2.00	Share with Smith 1.00		Share with Jones 2.00	Share with Jones 2.02	Share with Smith 1.00		Share with Jones 2.01
Farm/Section 6		Farm/Section 5		Farm/Section 6		Farm/Section 5	
Cash Rent 3.00			Owns 3.00	Cash Rent 3.01			Owns 3.02
Farm/Section 7		Farm/Section 8		Farm/Section 7		Farm/Section 8	
Insured has 3 Basic Units: 1 with Smith = Unit 1.00 1 with Jones = Unit 2.00 1 for Cash Rent & Owned = Unit 3.00				Insured has 1 Basic Unit: 1 with Smith = Unit 1.00 Insured has 4 Optional Units: 1 with Jones = Unit 2.01 1 with Jones = Unit 2.02 1 for Cash Rent = Unit 3.01 1 for Owned = Unit 3.02			