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Prepared by Steven D. Johnson
Iowa State University Extension and Outreach
Farm and Ag Business Management Specialist

Crop Insurance Coverage Frequently Asked Questions

Maintaining crop insurance coverage and understanding the claims process will be crucial for many farmers this year. Drought damage is an insurable loss under multiple peril crop insurance policies. Since the losses will be widespread, expect crop insurance representatives to be very busy meeting needs of thousands of insured farms. Consider these Frequently Asked Questions (FAQs) as a means to become better informed about crop insurance policies covering 2012 losses.

Question: How many of Iowa's corn and soybean acres are covered by crop insurance?
Iowa farmers planted 23.5 million acres to corn and soybeans in 2012. Approximately 90 percent of all these acres are covered by some form of multiple peril crop insurance. About 90 percent of the insured acres feature Revenue Protection (RP) policies which guarantee 65 to 85 percent of the farm's average yield times the higher of the projected price (average futures price in the month of February) or the harvest price (average futures price in the month of October) for the December 2012 corn futures and November 2012 soybeans futures contracts. The projected prices (February futures) in 2012 were $5.68/bu for corn and $12.55/bu for soybeans.

About 7 percent of the state's acres are covered by Yield Protection (YP) policies, which also insure yield losses, but the priced used to determine the indemnity payment for these policies is limited to the projected price, that is the February futures prices.

The balance of the state's insured acres are county-based Group Risk Protection (GRP) and Group Risk Income Protection (GRIP) policies. Loss claims for these policies will not be made until late in the winter of 2012-13 when the final county yields are determined.

Question: What should an insured farmer do once a crop loss is recognized?
1. Notify the insurance agent within 72 hours of the discovery of damage. A notice of loss can be made by phone, in writing or in person. Although drought loss is not immediate, farmers should contact their agent as soon as they feel a loss is present.
2. Continue to care for the crop using "good farming practices and protect it from further damage, if possible.
3. Get permission from the crop insurance company, also referred to as your Approved Insurance Provider (AIP), before destroying or putting any crop to an alternative use.

Question: Who will appraise the crops and assess loss.
The crop insurance company will assign a crop insurance adjuster to appraise the crop and assess the loss. The insured farmer must maintain the crop until the appraisal is complete. If the company cannot make an accurate appraisal, or the farmer disagrees with the appraisal, the company can have the farmer leave representative sample areas.

These representative sample areas of the crop are to be maintained – including normal spraying if economically justified – until the company conducts a final inspection. Failure to maintain the representative sample areas could result in a determination that the cause of loss is not covered. Therefore, no claims payment is due to the producer.

Once appraised, the crop can be released by the company to be:
1. Destroyed – through tillage, shredding or chemical means*;* or
2. Used as silage or feed.

Question: Once released, may I harvest my corn as silage or feed?
Check with your crop insurance company. In a county where corn can be insured as grain only, the corn can be released, or harvested as silage and/or sold as feed. Any grain will be counted as production for your claim. In a county where corn can be insured as silage, the harvested silage will be counted as production.

Question: What is the difference among insurance units?
Remember, any insurance indemnity payments will be settled based on actual harvested production over the entire insurance unit. Most farms make a decision annually to insure crops separately by farm or farm ownership in a section of land (basic or optional units) or to combine all corn fields (corn enterprise units) and all soybean fields (soybean enterprise units) within a county boundary. The unit still has farm-level coverage, but there would be less chance of collecting an indemnity payment for a yield loss on crops across a larger geographical region like a county. Many farmers elected enterprise unit coverage in 2012 to receive a lower premium. This means that all production of that insured crop for that farmer will be combined with their other farms in the county to determine the potential indemnity payment.

Question: When will farmers be receiving indemnity payments for their crop insurance losses?
It will be late fall or winter before most all claims can be processed. As adjusters work through a large volume of claims this fall, they will be paying the claims as they are processed. The insurance companies will not be able to defer any payments or portions of payments to the following year for tax purposes. When a crop insurance indemnity payment is made, a 1099 will be provided to the insured for the year that payment is made. With heavy requirements for crop insurance loss claims, a farmer will want to plan ahead with their crop insurance company to manage indemnity payment timing.

Question: What is the maximum price that the harvest time indemnity price (average October futures price) can reach?
The new common crop insurance policy that was initiated last year set the maximum increase in the indemnity price from the initial (February) value to the harvest (October) price at 100 percent. Thus, the maximum harvest indemnity price values this year are $11.36/bu for corn and $25.10/bu for soybeans, respectively.

Question: Can indemnity payments for drought be deferred for income tax purposes until 2013?
The 2012 crop losses will most likely be due to drought and heat related conditions or what the

IRS statues refer to as destruction or damage to crops. In essence, receipt of insurance proceeds is treated as a “sale” of the crop. Under a special provision, taxpayers on the cash method of accounting may apply to include crop insurance and disaster payments as income in the taxable year following the year of the crop loss if it is the taxpayer’s practice to report the majority of their income from the sale of crops in the next tax year.

Deferability of crop insurance proceeds requires the taxpayer to make an election on their income tax return. Only the portion of the payment due to yield loss is deferrable. Since the harvest price (October average futures price) will likely exceed the projected price (February average futures price) this year, all losses will likely be categorized as yield loss, and therefore deferring this payment for 2013 income tax purposes may be common.

Insureds should consult with their individual tax preparer to get advice, not their crop insurance company.

Question: Is there a crop disaster program available for the 2012 crops?
No, the Supplemental Revenue (SURE) program in place since the 2008 crop year was not funded for the 2012 crop, the final year of the 2008 Farm Bill due to expire on September 30, 2012. New disaster funds would likely have to be included as “ad hoc” funding by Congress or incorporated into the new 2012 Farm Bill currently awaiting debate and passage in the House of Representatives.

Question: Will I be asked to provide proof of my bushels produced this year for crop insurance verification?
All multiple peril crop insurance users are subject to production verification on a random basis. If a claim that exceeds $200,000 is filed for an individual crop and policy, verification of production is automatically required, by regulation.

Question: Will there be enough money to pay all the drought claims?
The potential exists for the 2012 crop insurance indemnity payouts to be the largest in history. The USDA’s Federal Crop Insurance Corporation (FCIC) evaluates the financial stability of the insurance companies every year to ensure they have adequate funds to meet their obligations. The government will act as a reinsurer to guarantee that all claims are paid in a timely fashion.