



AGRICULTURAL ALTERNATIVES

Agricultural Business Insurance

Whether you are currently engaged in an agricultural business or are in the process of starting one, insurance should be part of your risk management strategy. Risk management can take many forms, including insurance, production and marketing diversification, and business structure. Insurance shifts some of the risk from your business to the insurance carrier.

There are many types of business insurance that you should consider. This publication will describe these types of insurance and some options to be considered to aid you in the decision-making process. This publication is not designed to provide recommendations for all types of agricultural operations. You should seek the advice of a trained insurance professional to determine which coverages best fit your operation. Insurance companies offer many of the same basic coverages, but when tailoring an insurance package for your operation, you should discuss your options with several insurance agents or brokers.

Insurance is available for the business, its employees, and the crops and livestock you may be producing. Insurance is also available to cover the revenue of your operation. A single company may have policies for all these items, or you may have separate companies and policies for each form of coverage. Coverage options and premium costs may vary considerably from one company to another. As insurance will be one of your top ten expenses, you should explore all your options when considering insurance alternatives.

Insurance policies covering the business include general liability, product liability, business property, vehicle, and employee dishonesty. Each of these types of insurance has various options to consider. Insurance policies contain statements of what is covered and what is excluded, or not covered,



by the policy. You should read these statements closely and have them explained to you by the person selling the policy. Not knowing what is or is not covered will have no bearing on whether any claim you submit will be paid. Also, policies will not cover damages above the limits set by the policy. For example, a \$1 million liability policy will only pay up to the \$1 million limit.

Not all operations will need all types of insurance. For example, a business with no employees (one where the owner provides all labor) will not need employee dishonesty or workers' compensation insurance. The business structure may also dictate some types of insurance coverage. A partnership, for example, may carry life insurance on both partners for the value of each partner's share of the business. Key person insurance is also available that will cover the monetary loss of a key employee or owner.

Insurance Covering General Liability

A general liability policy traditionally covers bodily injury and property damage, personal injury, and product liability.

The insurance carrier or company will pay for these types of accidents if the damages occur within the policy term. Each of these types of coverage is listed under separate sections of the policy and will generally have different limits of coverage. The insurance company will only pay up to the dollar limit of the policy.

Exclusions (losses that the insurance company will not cover) are also spelled out in the policy. For bodily injury and property liability coverage, some of these exclusions may include livestock at shows or in competition and any damage caused by aircraft, watercraft, or motor vehicle. Also, any injury to an employee while working will not be covered by the liability policy but will be covered under workers' compensation insurance.

Most farm owner's policies include a limited amount of product liability insurance. However, if you direct market any portion of your production, you should consider increasing your level of product liability insurance. If someone becomes ill from consuming any of your products, the product liability insurance will cover this illness or injury to the limit of the policy. The premium is based on the amount of sales and the owner's experience in producing the product if you have any value-added enterprises. The company will gather information on your business practices from you to set the premium price.

If your operation uses pesticides or spreads manure, you should consider increasing the level of environmental coverage. In the case of a fire to your pesticide storage facility, for example, extensive cleanup may be required if water is used to extinguish the fire. This may lead to runoff of pesticides and may come under the liability section of the policy. If your operation uses or plans to use any hazardous materials, you should inform your insurance provider. Also, case law has held that livestock farmers are responsible for spreading manure that contaminates a neighboring well or water supply, so be sure your environmental coverage is adequate.

Insurance Covering Property

Most people are familiar with insurance covering personal property. This same type of insurance also may be used to cover the property of your farm operation. Some of the basic covered losses may include fire/lightning, theft, vandalism, and wind/hail. However, most policies will cover anything that is not specifically excluded in the policy. Be sure to consult your insurance agent and carefully read your policy for these exclusions. In particular, damage from flood waters may not be covered.

There are three basic ways of calculating the value of something that has been lost or damaged due to insurable losses. These are actual cash value (ACV), replacement cost value (RCV), and functional replacement cost (FRC). Your policy may use any one or a combination of these to value the damaged property.

ACV is the cost to replace the property less accumulated depreciation. For example, if a tractor that originally cost

\$50,000 ten years ago is lost in a fire, the value of the tractor will be \$50,000 minus whatever depreciation is attributed to the tractor. If the accumulated depreciation for the tractor is \$20,000, the insurance payment will be \$30,000. The depreciation used in this calculation does not necessarily match the depreciation rules you use for tax purposes.

RCV is the amount needed to repair or replace the damaged property. For example, if a building damaged by fire or wind is repairable, the value will be the cost of the repairs to that building. If the building is a total loss, the value received will be the cost to replace the building up to policy limits. The value will be for a building of the same construction and size.

FRC is similar to RCV in that the item will be repaired or replaced with similar kinds and quality of materials. FRC is designed to protect property that is somewhat obsolete but still usable. However, if it was damaged or destroyed, you would not want to rebuild an obsolete building. FRC coverage assigns a "value" to the obsolete building's usability and applies that value to a new structure that is a functional replacement. For example, a "bank barn" on a fruit farm has limitations. FRC would provide a "pole building" as a replacement. Because a fruit farmer cannot store bulk bins in the loft and the lower level may have ceilings too low to store equipment, they might only be able to use only 25 percent of the structure. In this case a \$50,000 pole building would provide more usable space than a \$150,000 to \$200,000 bank barn.

Damage to your buildings, structures, and dwellings are covered under the property section of your insurance policy. This section may include silos, portable buildings, and pens. Many companies will have different coverages for different types of buildings. Structural makeup and/or condition will determine which type of coverage the company will allow. The company may also elect not to insure a structure if they determine that the structure is not in adequate condition. The insured may also elect not to insure a specific structure if the structure is not worth replacing if damaged.

Dwellings and any structures attached to the dwelling may be considered as a type of structure. Dwellings should be insured for between 80 and 100 percent of their reconstruction value. The items contained in the dwelling are traditionally covered under the household property section of the policy and these items are usually valued at ACV. Policies usually specify the value limits of personal property. Additional coverages are available and will be listed in the policy. These may include credit card theft, identity theft, and tree removal.

Miscellaneous equipment and small equipment will be covered under the property section of the policy. Scheduled equipment defines or covers itemized equipment (for example, a John Deere 4020 worth \$10,000). Tools and equipment may be grouped into a single dollar value instead of providing an itemized list. Umbrella or blanket policies may also be used to increase coverage levels beyond the basic policy. However, small and beginning farmers may not require that much protection. For more information concerning farm owner policies, see extension.psu.edu/farm-owners-insurance.

Insurance Covering Employees

Before hiring any employees, contact your insurance carrier to determine if they offer workers' compensation insurance. This pertains to all employees, including part-time and after-school or summer employees. Having workers' compensation insurance is critical to any operation or business before hiring any employees. Traditional farm owner's policies will not cover an employee injured on the job unless there is workers' compensation coverage. Also, be sure that any volunteer helpers are listed under your workers' compensation coverage.

If your current insurance company does not offer workers' compensation insurance, ask for a recommendation of a company that does. A company or business can elect to self-insure for workers' compensation. However, the company or business will also have to prove that they have enough resources to be able to self-insure. Self-insuring is generally not recommended for agricultural businesses.

Most states have programs that offer workers' compensation insurance. State-sponsored coverage is traditionally more expensive than that available from private companies. However, private companies may elect to not cover a start-up business because the company does not have a history of employing workers. Some farmers' associations or trade associations may offer a group workers' compensation insurance package for their members. You may be able to receive a lower cost package through one of these organizations than through a state program.

Your workers' compensation insurance premium is based on the type of operation, kinds of work your employees do, and amount of your annual estimated payroll. For example, a horticultural operation using migrant harvest labor for short periods may have a higher premium than a grain operation with one or two full-time employees. Also, an operation with only \$20,000 in payroll will pay a lower premium than an operation with \$150,000 in yearly payroll. Office employees will have a lower cost per unit of pay than field employees. There are premium reductions available for experienced employers who have been in business for several years. Also, claims history will affect the amount of premium you pay. Although sole proprietors and partners are not covered under workers' compensation policies, corporate owners may choose to be covered.

Workers' compensation carriers will require an audit of your payroll records each year to determine the amount of premium due for the past year. Fluctuations in payroll are adjusted for the expiring year and any additional premium will be due immediately. The results of the expiring policy audit are a good estimate of future coverage needs. If you add additional employees during the year, contact your insurance agent to adjust your policy. Companies will require payroll records to be kept on file for a specified time (usually three years) for audit purposes.

In the event an employee is injured, you must follow all guidelines established in the policy. Document any injury or event that may result in a future claim, and keep all records

pertaining to the claim or injury on file for future reference. Past injuries may resurface in the future, which may result in the need to revisit prior claims. For example, an employee exposed to a pesticide may have adverse effects from that incident several years from the occurrence of the accident. In this case, prior documentation will be critical in determining the history of the claim.

Individuals who work for shares of a community-supported agriculture (CSA) operation may create a long list of questions. You should consult your insurance provider and attorney for clarification regarding using this type of labor. Although working for shares could be viewed as payment, no payroll taxes are paid, so this is a gray area for workers' compensation insurance.

Insurance Covering Over-the-Road Vehicles

Any vehicle licensed by a state should be insured. In fact, many states require proof of insurance before issuing a license for a vehicle. You may be required to provide copies of driver's licenses to the insurance company for anyone who will drive a business vehicle. Each state has specific laws governing who may operate particular types of vehicles within that state. For example, some states require a Commercial Driver's License (CDL) to operate a large truck covered under a farm license plate.

Some companies may offer discounts for a fleet of vehicles used in the operation. These vehicles may be required to be owned by the business and not the individual owner, depending on the structure of the business. If the business operates under a fictitious name, the business must be listed on the registration as the owner of the vehicle.

For commercial vehicles, cargo coverage is required for the contents or load the vehicle is carrying. Cargo coverage is an additional coverage added to the existing policy. Unless specifically listed on the policy, your vehicle policy will not cover animals transported in a truck or trailer. If you routinely transport animals to or from an auction or any other destination, the animals will need to be covered on your farm owner's policy.

In Pennsylvania, you can purchase a farm registration sticker that limits the time of day, miles driven, and cargo hauled for a reduced fee compared to a regular farm registration. These vehicles should be listed and covered on your farm owner's policy and not itemized on your vehicle insurance.

Crop Insurance

Multi-peril crop insurance is a valuable risk management tool that allows you to insure against losses on your farm due to adverse weather conditions, price fluctuations, and unavoidable pests and diseases. Which crops you cover, the insurance products you choose, and the level of coverage is totally your decision. Crop insurance allows you to shift unavoidable production risks to an insurance company for the payment of a fixed amount of premium per acre.

The crop insurance program is the centerpiece of the federal government's effort to provide a safety net for farmers. Crop insurance is available nationwide and gives you the freedom to choose the level of coverage you need based on your own risk experiences and preferences. A minimum level of yield-based crop insurance, called catastrophic risk protection or CAT insurance, is available to all farmers regardless of size for no premium cost (all premiums are paid by the federal government, but there is a \$300 administrative fee for each crop insured in a county). Higher levels of crop insurance (buy-up protection) are also federally subsidized and you pay only 33 to 62 percent of the actual cost of the insurance (depending on the level of coverage selected). You must be in conservation compliance and conform to highly erodible land and wetland conservation provisions to be eligible for crop insurance subsidies.

You have a wide range of crop insurance policies from which to choose. Yield protection coverage is available for major crops in most counties. Revenue protection, dollar value, and area risk protection policies may also be available. Insurance protection is also available on a revenue basis for your entire farm (whole-farm revenue protection). Prevented planting coverage is also a feature on many types of crop insurance policies.

Yield-based crop insurance protects you against yield losses due to natural causes such as drought, excessive moisture, hail, wind, frost, insects, and disease. You select the amount of average yield to insure, from 50 to 75 percent (and up to 85 percent for barley, corn, grain sorghum, soybeans, and wheat). You can also select between 55 and 100 percent of the crop price established annually by USDA's Risk Management Agency (RMA). If your harvested production plus any appraised production is less than the yield you insured, you are paid an indemnity based on the difference.

Revenue protection plans that provide protection against both yield and price risk are available for corn, grain sorghum, soybean, barley, and wheat. You select a level of revenue to protect based on your price and yield expectations. Losses are paid if your revenues fall below the revenue guarantee based on Chicago Board of Trade (CBOT) prices. Two revenue plans are available: the first is called revenue protection, which uses the higher of a projected (early season) or harvest CBOT futures price to set your revenue guarantee, and the second is called revenue protection with harvest price exclusion, which for a reduced premium sets your revenue guarantee at the projected early season price only. The revenue that counts against your guarantee, for both revenue programs, is your production multiplied by the applicable price based on CBOT prices. CAT coverage level is not available for the revenue protection insurance plan.

Dollar plan coverage provides protection against declining value due to damage that causes a yield shortfall. The amount of insurance is based on the typical cost of growing a crop in a specific area. A loss occurs when the annual value of the crop is less than the amount of insurance. The maximum dollar amount of insurance is stated on the actuarial document. You may select a percent of the maximum dollar amount equal to CAT (catastrophic level of coverage) or higher cover-

age levels. The dollar plan is available for forage-seeding and fresh-market sweet corn in Pennsylvania.

Whole-farm revenue protection (WFRP) policies insure the revenue of your entire farm rather than an individual crop by guaranteeing a percentage of your approved farm revenue. WFRP uses information from the past five consecutive years of your Schedule F tax records to calculate the policy's approved revenue guarantee. You can buy WFRP alone or with other buy-up-level crop insurance policies. For example, if you raise corn and soybeans along with livestock and other crops, you could still cover your corn and soybeans under individual crop insurance policies and use WFRP as an umbrella policy over the rest of your operation. You cannot use CAT coverage with WFRP.

Pasture, rangeland, and forage (PRF) coverage is available for hay and forage, and apiculture coverage is available for honey bees and by-products under the rainfall index (RI) plan of insurance. Unlike traditional county-based area risk protection insurance, RI is based on the location of your farm in grids that measure 0.25 degree of longitude and latitude (approximately 13.2 by 17.2 miles in Pennsylvania). The RI policy protects you against yield losses related to lack of precipitation and uses a rainfall index as a measure of crop productivity.

The supplemental coverage option (SCO) is a crop insurance option that provides additional county-level coverage for a portion of your underlying crop insurance policy deductible for major field crops and certain specialty crops. The amount of SCO coverage you can purchase is based on the level of protection in your individual crop insurance policy. SCO coverage begins to pay when the county average yield or revenue for the crop falls below 86 percent of its expected level. The maximum amount of your SCO coverage is paid out when the county average yield or revenue falls to the coverage level of your underlying crop insurance policy. The federal government pays 65 percent of the premium cost for SCO. If you elected to participate in the agriculture risk coverage (ARC) program (a new program started under the 2014 Farm Bill and administered by the USDA Farm Service Agency), then you are not eligible for SCO coverage.

Prevented planting coverage provides protection whenever an eligible crop cannot be planted because of adverse weather conditions, provided it is a condition general to the geographic area. Prevented planting coverage is automatically part of all individual barley, corn, soybean, grain sorghum, oat, and wheat policies (including CAT policies). Basic prevented planting coverage provides an amount of protection equal to 60 percent of the insurance guarantee; higher levels of protection at the 65 and 70 percent level are available for additional premium for buy-up-level policies. Prevented planting coverage is not available on area plans.

The crop insurance program has a lot of products and options that may fit your operation. Several types of coverages may be used to provide the overall level of protection you need. Although the crop insurance program is administered by the federal government, crop insurance is only sold by private crop insurance agents. See the USDA Risk Management Agency's website at www.rma.usda.gov to locate an agent in

your area (click on the “Agent/Company Locator” on the RMA home page).

Optional USDA Farm Service Programs to Manage Risk

The federal government has other programs designed to help you manage your risk. Four important programs administered by USDA FSA that could impact your farm are the Noninsured Disaster Assistance Program, Agricultural Risk Coverage, Price Loss Coverage, and the Dairy Margin Coverage for dairy producers. Fact sheets on these programs can be found at www.fsa.usda.gov/news-room/fact-sheets.

The Noninsured Crop Disaster Assistance Program (NAP) provides financial assistance to producers of crops for which multi-peril crop insurance coverage is not available and may be purchased for less than one acre of production per crop. NAP is designed to help reduce financial losses when natural disasters cause major reductions in production. NAP provides production loss coverage from 50 percent of expected production to 65 percent in 5 percent increments at 100 percent of the average market price. Basic coverage levels of 50 percent of expected production and 55 percent of expected average market price is also available.

NAP coverage is available through your local USDA Farm Service Agency office. Individuals or entities are eligible to earn benefits under NAP if their average adjusted gross income for the three preceding tax years is \$900,000 or less. Any of the years can be higher than \$900,000 as long as the average of the three years meets the requirement; average gross income compliance must be certified each year. To purchase NAP coverage, you pay a service fee of up to \$325 per crop per county (with fees capped at \$825 per producer per county, but not to exceed a total of \$1,950 for producers growing crops in multiple counties). NAP payments are limited to a maximum of \$125,000 per crop year for basic coverage and \$300,000 for buy-up coverage per individual or entity. Beginning, limited resource, and traditionally underserved farmers



are eligible for a waiver of the service fee and a 50 percent premium reduction. Sign-up deadlines and coverage periods for NAP vary by crop; contact your local Farm Service Agency office for more information.

Agricultural Risk Coverage (ARC) and Price Loss Coverage (PLC) are programs authorized under the Farm Bill. Farm operators must choose between participating in either the ARC or the PLC program. These programs give farm operators and landowners the choice of county- or farm-level revenue coverage (ARC-CO and ARC-IC) and fixed-price supports (PLC). If either ARC option is chosen, the farm is not eligible for the Supplemental Coverage Option (SCO) available under crop insurance. Producers who choose SCO are eligible for PLC. Please see your local Farm Service Agency office for more information.

The Dairy Margin Coverage Program (DMC) is a voluntary risk management program for dairy producers that offers protection when the difference between the all milk price and the average feed cost (the margin) falls below a certain dollar amount selected by the producer. Dairy producers have the choice of a catastrophic coverage level of coverage (for an annual administrative fee and no additional premium cost) and various levels of buy-up coverage (for additional premium). Catastrophic coverage provides payments to participating producers when the national dairy production margin is less than \$4 per hundredweight (cwt). The national dairy production margin is the difference between the all-milk price and average feed costs. Producers may purchase buy-up coverage that provides payments when margins are between \$4 and \$9.50 per cwt. To participate in buy-up coverage, you pay a premium that varies with the level of protection that you elect.

Other Types of Insurance

Other types of insurance may apply to your business or operation. These types of insurance may include health and life insurance for yourself and family members or as options offered as part of a benefit package for employees, business interruption insurance, employee dishonesty insurance, and key employee insurance. Although insurance can be expensive, you need to carefully assess the risks you face and the ability of your business to survive and remain competitive if you face a major loss. Offering benefits such as health insurance and life insurance are excellent ways to attract and retain good employees.

Business interruption insurance covers the income of the business if a major loss occurs rendering the business unable to operate. For example, this may be due to the loss of a barn and marketable animals in that barn. The business will not have income until new animals can be raised to the same size as the lost animals. Property insurance should pay for the lost animals, but the business income flow should be covered under business interruption insurance.

Employee dishonesty insurance may cover a business that direct markets or if an employee has control of the check-book and records. If an employee is keeping some of the cash

received during the marketing of the product, employee dishonesty insurance will cover this type of loss. You may also want to have financial employees covered with a bond to protect the business.

A business owner may use life insurance in their farm transition plan. Life insurance may be used to provide a portion of an estate to a survivor who is not involved in the business. Life insurance may also be used to protect partners and your family in case you die unexpectedly.

The business owner may offer health insurance to employees as part of a benefits package. Health insurance may help attract or retain key employees. For agricultural businesses to compete with other businesses, they need to offer attractive packages to employees. Recent changes to the employer healthcare requirements may impact your business, so make sure that you are complying with all applicable laws.

Another type of insurance available is key employee insurance. This policy is written to cover a key employee that is very valuable to the business. The insurance will provide income to the business in case such an employee can no longer perform their duties. An example of this type of employee may be the farm or business manager. If a person who oversees the day-to-day operation of the business cannot fulfill their duties, the business will suffer. This insurance will provide coverage to hire an employee with the same skill sets in this event.

You may want or need to consider other types of insurance for your operation. Some companies offer discounts on premiums if you use that one company for all your insurance needs. Discounts are under the judgment of the company and not the insurance salesperson. Discounts may also have guidelines established by the company that will need to be met by the insured. Consult your insurance agent regarding any possible discounts their company may offer.

This publication has outlined some of the key types of risk management products needed by agricultural businesses. For information specific to your business, contact an insurance professional or professionals, as one source may not be able to provide for all your needs. It is important to read the policy, fully document any claims, and talk to your insurance agent in the event of any changes to your operation.

For More Information

Books

Babcock, B. A. *Risk Management and the Environment: Agriculture in Perspective*. New York: Springer Publishing, 2010.

Prasad, J. D., and B. Gangaia. *Agricultural Risk Management*. Boulder: BS Publications, 2015.

Websites

Crop Insurance

extension.psu.edu/crop-insurance

Business Owner's Insurance

extension.psu.edu/business-owners-insurance

Farm Owner's Insurance

extension.psu.edu/farm-owners-insurance

Product Liability Insurance

extension.psu.edu/product-liability-insurance

Specialty Insurance Products

extension.psu.edu/additional-specialty-products-insurance

USDA Farm Service Agency

www.fsa.usda.gov

USDA Risk Management Agency

www.rma.usda.gov

Vehicle Insurance

extension.psu.edu/vehicle-insurance

Whole Farm Revenue Protection

extension.psu.edu/whole-farm-revenue-insurance

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