



# Episode 67: The Truth about Crop and Livestock Insurance Premiums

Bonita:

Welcome back y'all! We are here today to have another conversation about a favorite topic at Farm Commons lately: insurance! Specifically, crop and livestock insurance. There are just so many things to cover when it comes to crop and livestock insurance and we can't get enough (jokingly). Today we will be exploring why crop and livestock insurance is so different from other types of insurance. Kate and I are gonna walk you through. How's it going, Kate?

Kate:

Hey Bonita! You know, today is pretty cool and rainy. But the last few weeks have been HOT. And we have been talking about crop and livestock insurance a lot on the podcast, but for good reason. I'm watching my garden wilt daily and it's a reminder that now is great time to focus in on crop and livestock insurance as a risk management tool for farmers and ranchers. Let's get into it!

Bonita:

In some of our recent conversation about crop and livestock insurance, we met with farmers to discuss what crops are insurable, how to access insurance, what liability means, and more. But today we are taking a slightly different approach.

One benefit of having so many conversations with farmers about crop and livestock insurance is that we've heard questions and concerns from farmers about crop and livestock insurance. And the business savvy reasoning behind decisions to buy AND to not buy it.

Specifically, we had a recent conversation with a group of farmers about what practices they could use to make it more likely that their crop and livestock

insurance claims will be successful. And a really important concern came up: If I make a crop and livestock insurance claim, won't my premium increase?

Kate:

Yesss such a good question! If crop and livestock insurance premiums go up when a claim is made, crop & livestock insurance really only becomes worthwhile for huge catastrophes– like total crop loss. And if we look at the likelihood of that happening....eh. crop and livestock insurance might not feel worth the price tag for an unlikely catastrophe. And that's just smart business. Let's hear it from a farmer we spoke to, Penny:

*Penny*

*But I also wanted to say that I think of insurance as something for major catastrophe, because if you file a lot of small claims, I think your premiums are going to go out of sight to where you can't afford it. So so I think, like, I'm not going to bother the agent for the siding on the garage, we just buy some more siding or make it and put it up. And for the tree, we're going to cut the stump off, which is about 20 feet tall. And the whole thing was higher than the house and just take care of it. For me, a catastrophe would be if the entire barn burns down or the whole flock of sheep had a know drowns or something. We had a friend who was away at work and her whole flock drowned in a pasture that was low. So those those are the things that you would file for. But on the other hand, you're asking for increased premiums or being dropped. So it's got to be something pretty cataclysmic.*

Bonita:

You'll notice that Penny is talking about property insurance AND crop and livestock insurance there. She recently had a storm come through and damage her garage, and she applied her knowledge of property insurance to crop and livestock insurance: don't file a claim unless it's crucial, to keep premiums low. This is wise! With many insurance policies, filing a claim can lead to an increase in your premium rates that could stay in effect for 2-5 years. The size of the increase will depend on your situation. Actually, it's a good idea to have a conversation with your insurer when you buy your policy to get a sense of how much your premium rate might

increase after a claim. That can help you figure out whether or not you want to file a claim when the time comes.

Kate:

Great tip, Bonita. This kind of logic applies to many property policies, including homeowners' insurance, farm property insurance, and auto insurance! These policies are adjusted on a **per-individual basis**. This means that the insurance company considers your individual risk level when making adjustments to your premium. If you file a claim, your statistical likelihood of filing a claim in the future increases— and so do your premium rates. This is different from health insurance policies, where risk levels are not adjusted on a per-individual basis. You can safely file a health insurance claim without seeing your premium rise.

So when it comes to policies like property insurance, car insurance, etc, Penny is right on the nose! In fact, when doing some reading for this episode I saw sources online that actually only recommended only filing a claim in the event of catastrophic loss.

Bonita:

Oof yeah, since those per-individual kind of policies are what most of us interact with, it's no wonder that farmers are approaching crop and livestock policies with a hesitancy to file claims. BUT, federally-subsidized crop and livestock insurance policies work very differently!

Kate:

Yes! If you file a claim with crop and livestock insurance, your premium will NOT increase! I repeat— you can file a crop or livestock insurance claim without repercussion on your premium rate!

Bonita:

This is surprising to a lot of people, because it goes against the profit-driven insurance system we are familiar with. With federal crop and livestock insurance, a farmer in Texas can file for drought-related losses year after year, even as the climate becomes more arid. They will not see their individual premium increase

each year. Now, to be totally, 100% accurate, if you really do suffer loss after loss after loss, year over year, that will have an effect on the revenue you can show.... which over time.... Will cause a continual reduction in the amount of revenue you can insure..... So it's not going to let you party like it's 1999. But it's not like auto insurance either!

Obviously this is not a money-making scheme, and that's the point. The USDA is not out to make a profit. But they do have an obligation to make sure the entire system of subsidized crop and livestock insurance policies remains financially sound, so premiums DO occasionally increase. But when they increase, they increase for everyone in the area growing that crop, or who hold the same policy. Even though farmers buy crop and livestock insurance from private insurance companies, the insurer has to sell the policy at the federally-determined rate, so there isn't variation between insurance companies on premiums.

Kate:

So the agriculture industry really enjoys special status when it comes to crop and livestock insurance. And this actually goes way back to the 1930's when the US was trying to recover from the Great Depression and the dust bowl. There was no federal crop and livestock insurance then, and private insurers could not provide affordable crop and livestock insurance either because there was such high risk of loss in agricultural production or because the loss amount was unpredictable. This was bad news for farmers, bad news for people trying to buy food, and bad news for the economy. A crisis, really.

Bonita:

The federal government stepped in. In 1938 Congress passed the Federal Crop Insurance Act and created the first federal crop insurance program. Two main goals were to protect the income of farmers from crop failure or price collapse and to protect consumers from food shortages and high prices. And the government does this by subsidizing the premiums for crop and livestock insurance- on average, around 60% of a farmer's premium costs are covered by public funds.

Kate:

This system definitely has flaws when you look at it from other angles. It can enable large-scale farms to operate without adopting practices that would make their land more drought resilient, for one thing. If a farmer will be paid out for drought-related crop loss multiple times in a row, with little impact on their premium or insurable revenue, they may have little incentive to change their farming practices. But the downsides of the current crop insurance system are a story for another time. We're here to make sure folks are able to make a good decision for themselves about whether a crop and livestock policy meets their needs and is in line with their values

Let's hear from another farmer, Lisa, who operates a ranch in Florida.

*Lisa: it made me just think of, you know, the years I've been farming and what I actually have dealt with and not necessarily did anything about it. You know, like with livestock, you know, I've had, you know, predators attack, you know, some of my sheep at some point, maybe like one or two here and there. And, you know, I didn't think of having livestock insurance at the time because I just thought, hey, it's probably really expensive to have livestock insurance.*

Bonita:

I think there are so many farmers out there who, like Lisa, will suffer through huge business losses without assistance because they assume assistance is not accessible to them. And for good reason, given prior experience with other types of insurance. But considering the government subsidies for crop and livestock insurance and the premiums, it could be really worthwhile for a producer like Lisa to explore crop and livestock insurance.

It doesn't take long to run a few scenarios through the Risk Management Agency's premium cost estimator, just to get an idea of what the price might be. And reach out for help if you have issues using the cost estimator linked in the show notes.

Kate:

And just to bring it home here, what we are ultimately trying to do is keep farm and ranch businesses going strong. Risk management is just as important to a successful business as a solid crop plan, marketing efforts, and thriving plants and animals. And insurance is a really key component of risk management. So we want farmers to know that there IS crop and livestock insurance available to them, even as small diversified operations.

Bonita:

Yes! There are a ton of crop and livestock insurance plans out there. Some will cover specific crops or animals, some will cover specific risks (like delayed planting). And some will cover the revenue of entire operations, which is super ideal for small and diversified operations. You can check out episode 47 if you're interested in more information on that- or read the guide linked in the show notes!

Kate:

We hope this spring is bringing you just enough rain and sun to keep your mind at ease. And if not, know that crop and livestock insurance is a tool you can turn to. Happy growing everyone- until next time!

Bonita: Bye!

