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July 2019
NSGLC-18-06-02i

Sea Grant Law Center

Crop Insurance and Mississippi River Flooding: Basic Overview

This fact sheet was prepared by the National Sea Grant Law Center as part of the Agricultural and Food Law Consortium.

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USDA United States Department of Agriculture
National Agricultural Library

This material is based upon work supported by the National Agricultural Library, Agricultural Research Service, U.S. Department of Agriculture.


Photo by Nile Red Media.

Over the past few months, pounding rains have cause the Mississippi River to flood at levels that have not been seen for 90 years, causing wide ranging impacts. According to the National Weather Service, this year's flooding is the longest-lasting since the Great Flood of 1927, which serves as a benchmark for Mississippi River flooding.

Throughout the Mississippi River basin, farmland has been flooded for months. America's corn belt experienced the wettest year in 125 years from June 2018 to June 2019. In Mississippi alone, approximately 500,000 acres in the Delta are underwater, 225,000 of which is agricultural farmland. This has led to delayed and prevented plantings throughout the region. For instance, soybean plantings were significantly behind the planting times in recent years. Late planting could have negative effects on crops, such as reduced yields due to late pollination and maturation. Further, farmers will not be able to harvest their crops until the middle of October, putting the crops at danger of being killed by frost.

Federal crop insurance could be a source of aid for those affected by this spring's flooding. Eligible producers can purchase crop insurance to protect against the risks of adverse weather, plant disease, insect infestations, and declining commodity prices. However, crop insurance is forward looking and covers future losses. Thus, producers must already have purchased a policy in order to be protected against this year's floods.

The Federal Crop Insurance Act permanently authorized the crop insurance program, which receives mandatory funding. Federal crop insurance is a public-private program administered by the U.S. Department of Agriculture's (USDA) Risk Management Agency (RMA). The RMA drafts the policies, sets rates, and regulates Approved Insurance Providers (known as AIPs). AIPs are the private insurance companies selling and servicing crop insurance policies. The Federal Crop Insurance Corporation (FCIC) reinsures the policies and subsidizes the AIPs' costs.

Crop Insurance Overview

Crop insurance policies and the crops they cover vary by location. Farmers who grow most major crops, such as corn, cotton, and soybeans, or certain specialty crops, such as fruit, vegetables, and tree nuts, as well as livestock producers with pastureland and forage, can purchase crop insurance. From 2000-2016, corn, soybeans, wheat, and cotton comprised roughly 75% of the acres in the crop insurance program and 80% of all claims paid.

For aquaculture producers, only limited policies are available. While there are some crop insurance plans available to certain shellfish growers, such as clam growers in Massachusetts or oyster growers in Louisiana, crop insurance is not available for many aquaculture operators.

Types of Coverage

CAT Coverage: The most basic kind of crop insurance is known as catastrophic coverage, or CAT coverage.

- If a producer has a crop loss of over 50%, coverage is triggered and the producer receives 55% of the commodity's estimated market price. Thus, CAT coverage is often referred to as 50/55 coverage.
- While eligible producers do not need to pay a policy premium for CAT coverage, as the premium is subsidized by the federal government, they do have to pay an administration fee.

Buy-Up Coverage: If an eligible producer would like coverage beyond that provided by a CAT policy, he or she can purchase what is known as buy-up coverage.

- Buy-up coverage can be purchased in 5% increments.
- In addition to an administration fee, the producer must pay a premium.

Types of Policies

There are four basic types of policies- individual yield, individual revenue, area-based yield, and area-based revenue.

- Individual policies are based on the producer's own farmed acres. Area-based policies are based on yields or revenues in a county or region.
- Yield based policies only account for the amount of the crop produced, providing coverage from losses due to natural causes. Revenue based policies also take market prices into account.

Prevented Plantings Coverage

Certain crop insurance policies may contain provisions for prevented plantings, which occur when a producer fails to plant an insured crop using proper equipment either by the designated final planting date or during the designated late planting period. The RMA determines final planting dates and late planting periods on a crop and area basis. To be covered, the producer must be prevented from planting by a cause covered by his or her policy during the policy period.

Sources:

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