Prevented Planting Changes for 2017

Nov 22, 2016

Q: Why is RMA making the update to the prevented planting coverage factors now?

The United States Department of Agriculture’s Office of Inspector General issued a report in 2013 that recommended that RMA review prevented planting coverage factors and make changes if necessary. RMA has evaluated the results of a third party evaluation of prevented planting coverage factors, solicited comments from stakeholder groups, and conducted independent analysis. As a result, the prevented planting coverage factors are ready to be updated for 2017.

The audit can be found here: https://www.usda.gov/oig/webdocs/05601-0001-31.pdf.

Q: What exactly is prevented planting coverage?

A: Prevented planting coverage provides producers valuable protection in the event they are unable to plant an insured crop by the final planting date or during the late planting period due to an insured cause of loss. When adverse weather prevents planting, a prevented planting payment is made to compensate for the producer’s pre-planting costs generally incurred in preparation for planting the crop.

The amount of prevented planting coverage is calculated as a percent of the insurance guarantee the insured would have had for a timely planted crop. For example, suppose a producer’s insurance guarantee is $100 an acre. If the producer insures a crop with a 60 percent prevented planting coverage factor, the prevented planting payment would be $60 (or 60% of the guarantee). The prevented planting factor varies by crop, based on an estimate of pre-planting costs.

Q: Is prevented planting coverage designed to cover the value of the crop or just inputs needed to produce a crop?

A: Prevented planting coverage factors are designed to provide protection based on pre-planting costs generally incurred up to the point of planting the crop. Fixed and variable costs, established from available national and state crop budgets, are compared to average insurance guarantees to establish prevented planting coverage factors.

These costs can include purchase of machinery, land rent, fertilizer, actions taken to ready the field, pesticide, labor, and repairs. The prevented planting factor is a percentage of the individual insurance guarantee and varies by crop, based on an estimate of pre-planting costs.

Q: What is changing for 2017?

A: Effective for the spring of 2017, RMA is revising the crop provisions to simplify the process for updating prevented planting coverage factors. This will allow RMA to make periodic updates to the factors to better reflect any changes in pre-planting costs.

The prevented planting coverage factors will be reviewed and updated for all crops with prevented planting coverage. The first crops reviewed are corn, soybeans, wheat, grain sorghum, rice, cotton, and barley — effective for spring 2017. Other crops will be reviewed in subsequent crop years.

These changes are part of an effort to ensure that prevented planting coverage factors most accurately reflect the pre-planting input costs of producers. Over time, prevented planting coverage factors may go up and may go down depending upon input costs.

Q: Which prevented planting coverage factors are changing for 2017?

Initially, RMA has reviewed the seven crops that account for the vast majority of prevented planting payments (corn, soybeans, wheat, grain sorghum, rice, cotton, and barley). Out of the seven crops, two changes are being made: a 5-point decrease for corn and a 10-point increase for rice. The factors are summarized in the table below. Additional crops will be reviewed over the next two years.

<table>
<thead>
<tr>
<th>Crop</th>
<th>Previous Factor</th>
<th>Factor for 2017</th>
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</thead>
<tbody>
<tr>
<td>Corn</td>
<td>60%</td>
<td>55%</td>
</tr>
<tr>
<td>Soybeans</td>
<td>60%</td>
<td>60%</td>
</tr>
<tr>
<td>Wheat</td>
<td>60%</td>
<td>60%</td>
</tr>
<tr>
<td>Cotton</td>
<td>60%</td>
<td>50%</td>
</tr>
<tr>
<td>Grain Sorghum</td>
<td>60%</td>
<td>60%</td>
</tr>
<tr>
<td>Barley</td>
<td>60%</td>
<td>60%</td>
</tr>
<tr>
<td>Rice</td>
<td>45%</td>
<td>55%</td>
</tr>
</tbody>
</table>

Q: How were the updated prevented planting coverage factors determined?

A: RMA commissioned a third party evaluation of prevented planting coverage, which provided recommendations for how to determine prevented planting coverage factors. The evaluation was completed in January of 2015 and is available on RMA’s website at http://www.rma.usda.gov/pubs/2015/ppevaluation.pdf.

RMA made the evaluation available for public comment, and received 27 comments from 16 commenters. The commenters identified questions about the time frame used in the evaluation, the method of how the deductible is accounted for, and the allocation total planting costs to the pre-planting stage.

After taking into consideration the insightful comments, RMA reconsidered the evaluation’s recommendations and determined appropriate revisions to the evaluations recommendations were necessary. Based on these revisions by RMA, the final prevented planting coverage factors were determined.
Additional detail on the revisions, and their impact on the prevented planting coverage factors is available on RMA’s website.

Contact Information
For more information, contact RMA Public Affairs.