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Crop Insurance Alternatives for Hay in South Dakota

Matthew A. Diersen, Extension risk and business management specialist

Crop insurance for hay has been available statewide in South Dakota since the 2001 crop year. Producers across the state use the insurance to different degrees. Typically, in the northwest counties, more than 50% of hay acres are insured; while in the eastern counties, less than 10% of hay acres are insured.

What follows is an overview of Forage Production insurance and a discussion of where it may be used and of coverage producers may select when using this risk management tool.

Hay and insurance categories

The National Agricultural Statistics Service (NASS) uses two hay categories, “alfalfa and alfalfa mixtures for hay” and “all other hay.” While alfalfa is the dominant hay produced in South Dakota, other hay accounts for substantial acres. According to NASS, in 2007 producers harvested 2.1 million acres of alfalfa hay and 1.5 million acres of other hay in South Dakota.

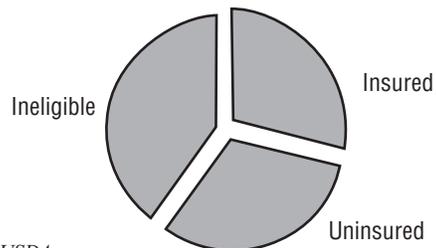
The distinction between hay types is important, as NASS also reports that the 2006 marketing year average price in South Dakota was \$82.00 per ton for alfalfa hay but only \$67.00 per ton for other hay.

The primary crop insurance offered in South Dakota centers on alfalfa. The Risk Management Agency (RMA) administers the federal insurance on Forage Production, which requires some alfalfa be present on the insured acres. Catastrophic coverage (CAT) and Multiple Peril Crop Insurance (MPCI) are both offered with a sign-up

deadline for coverage of September 30 to cover production the following year.

In 2007, South Dakota producers insured 1.07 million acres of alfalfa or 30% of all hay acres (Fig 1). Thus about 50% of the eligible acres were insured.

Fig 1. 2007 Forage Production coverage on 3.6 million hay acres in South Dakota.



Source: USDA

If a stand is ineligible for Forage Production insurance, then the Noninsured Crop Disaster Assistance Program (NAP) can be used. NAP is administered by the Farm Service Agency and provides coverage similar to CAT. NAP would be appropriate for other hay, which accounted for about 40% of hay acres in 2007 (Fig 1).

One other alternative is the pilot Pasture, Rangeland, Forage Vegetation Index insurance, which is available this fall for many counties in western South Dakota. It is a group risk product, and hayland would be insurable.

Coverage types and levels

The use of Forage Production insurance in South Dakota has grown in recent years. The liability reflects the maximum payout possible from the insurance providers. To

put the coverage in perspective, the \$61.9 million in coverage (liability) in 2007 was a fraction of the value of the alfalfa crop in South Dakota, which NASS reports as ranging from \$288 million to \$459 million in recent years.

Table 1. Recent Forage Production insurance in South Dakota.

Year	Total Acres	Liability (\$ million)	Premiums (\$ million)	Indemnity (\$ million)
2001	510,748	38.5	1.6	4.5
2002	520,181	34.2	1.5	20.7
2003	745,568	42.6	2.1	7.6
2004	1,229,086	65.1	3.2	20.8
2005	1,283,971	72.6	4.0	5.5
2006	1,160,938	65.3	4.0	32.0
2007 ^a	1,067,608	61.9	4.2	3.6

^a Indemnity total as of the report date.

Source: RMA's "Summary of Current Business, As Of: 09/10/2007"

CAT only pays 55% of the price on lost tons at the 50% yield level, albeit for a relatively low cost for coverage. Of the acres covered, only 5% were under CAT coverage in 2006, with MPCCI being the more commonly purchased product.

MPCI operates the same way on forage as on other major crops. Established yields can be insured at the 50–75% levels. Thus, with 75% coverage, yield losses of 25% would trigger indemnity payments. Producers have concentrated purchases of MPCCI at the 50% yield election level, meaning they are making a minimal additional purchase of insurance, compared to CAT.

MPCI premiums are subsidized for producers at the same levels for other crops, 55% or higher on the forage coverage. After the subsidy, the 2007 premiums paid in South Dakota for forage insurance amounted to \$4.2 million (Table 1). Typically, indemnities exceed premiums paid at the state level. Hence, from an actuarial perspective, producers would benefit from purchasing the insurance.

Three insurable types of forage are recognized in South Dakota: alfalfa, alfalfa grass mixture, and grass alfalfa

mixture. Each type is classified based on the age of stand, alfalfa plant counts, and production practices (irrigated or non-irrigated) as spelled out in county actuarial tables. Plant counts necessary to meet type specifications vary by region. The grass alfalfa mixture does not have an age limit to the stand, but a minimum alfalfa plant count is required. Thus, thin stands are the limiting factor that determines the coverage type.

In a loss setting each ton below the trigger yield level would be paid at \$71 per ton, the 2008 crop year price for alfalfa and alfalfa grass mixture coverage. Grass alfalfa mixture coverage only pays \$55 per ton on losses.

Yields are generally established by using sales records, bale counts and weights, and feeding records. Adverse years will affect established yields, but the use of transitional or "T" yields is in place similar to other crops.

Use of T yields means that a percent of a trend county yield can be substituted in place of actual yields when initially establishing yields or when actual yields fall below a given percent of the T yield. The T yields vary substantially across counties and over time. The T yields available are relatively high in southeastern counties and low in northeastern counties.

Shortcomings of the current coverage

Prices are set according to a standard quality level and may not be appropriate for high-quality alfalfa. This drawback may limit participation. Another price consideration is relevant during years of widespread disasters. In the short run, the demand for hay is inelastic, which means the price could increase with a production shortfall and limit the effectiveness of yield insurance.

Setting up units and proving losses are points of concern, as are some of the ways that units are determined. Record keeping can be burdensome compared to other crops.

Grazing is possible and allowed after winter dormancy or by following graze-out provisions.

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