

## Managing Risk

# AGR and AGR-LITE: Crop Insurance Products for Diversified Producers

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Adjusted Gross Revenue (a farm revenue protection package) has been available to New York producers since 2001. In 2004, a new product, AGR-Lite, was made available to New York producers. Features of AGR-Lite are the following:

- Streamlined revenue protection plan that can be used as stand-alone coverage or in addition to other individual crop insurance policies
- Most farm-raised crops, animals, and animal products are eligible for protection (including dairy)
- Coverage is based on the 5-yr average of selected revenue items reported on IRS or equivalent tax forms (revenue from post-production activities is excluded from coverage)
- Available in 52 counties in NYS (exceptions: Westchester and Nassau, and counties in NYC)

In order to be eligible for coverage, you must meet the following requirements:

- 1) Five consecutive years of tax records (Sch. F or other)
- 2) Annual adjusted gross revenue of \$2 million, or less
- 3) Not more than 50% of allowable income from commodities purchased for resale
- 4) Potato revenue not to exceed 83% of total revenue

The maximum liability coverage available under AGR-Lite is \$1 million (in effect for the 2006 year). Thus the policy is generally applicable to producers whose average revenue from the sale of agricultural commodities (not including value added activities or products bought for resale) is \$2.0 million or less. (If your average gross income is above this amount, you may be able to obtain revenue protection under regular Adjusted Gross Revenue (AGR)-please read the next section of this fact sheet.)

Insured causes of loss include loss of revenue due to any unavoidable natural disasters including, but not limited to, adverse weather, fire, insects, disease, wildlife, earthquakes, volcanic eruptions, or failure of irrigation water supply, that occur during the current or previous insurance years. Market fluctuations that cause a loss in revenue during the current insurance year are also covered. No payment will be made for losses due to negligence, mismanagement, or wrongdoing.

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The highest level of coverage available is 80 percent. In order to qualify for the highest level of coverage, producers must produce a minimum of three commodities, each contributing a certain percentage of the total revenue. Loss payments are triggered when the adjusted gross revenue for the insured year is less than the approved AGR level X the coverage level. For example, for a producer whose approved AGR level is \$347,000, a loss is triggered when the adjusted gross revenue in the insured year falls below \$277,600. Producers who specialize in one commodity may obtain maximum coverage levels of 65 or 75 percent. In this case, with \$347,000 adjusted gross revenue, a loss is triggered when the adjusted gross revenue falls below \$260,250 (for 75% coverage) or \$225,550 (for 65% coverage). Thus, more diversified producers are able to obtain higher coverage levels.

In certain cases where adjusted gross income for the five-year base period is increasing rapidly, producers are permitted to use a "trend adjustment factor" so that a higher (than the 5-yr. average AGR) can become the approved AGR.

The sales closing date for AGR-Lite is 15 March 2006 (for new enrollees only). Some other features are the following:

- A producer is obligated to notify the insurance company within 72 hours if an event occurs which could cause a claim
- Claims must be submitted within 60 days of the producer filing their federal income tax forms
- Claims settlement - Copies of the producer's tax records must be provided if a claim is filed
- Claims are settled on an accrual basis (thus inventories must be furnished up front)

Operations that may find AGR-Lite relevant to their risk management needs are the following:

- Farms with under \$2.0 million in revenue, excluding value added revenue that is generated by operations such as wineries or apple storage and packing houses.
- Operations with diversified cropping plans, especially where traditional crop insurance products are not available or do not work well in the eyes of producers (e. g. fruits and vegetables)
- Direct marketers (exception: when >50 % of sales are from crops or other commodities that are purchased for resale)

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- Commodity producers whose gross revenue varies widely due to a combination of low yields, variable quality, or low prices
- Dairy farms? Yes, if they have other enterprises with sales such that they can qualify at higher coverage levels.
- Organic producers.

### Adjusted Gross Revenue (AGR)

A producer whose revenue is too high to qualify for AGR-Lite, or those who have been insuring under AGR in the past, may consider regular AGR. (Now that the maximum policy liability for AGR-Lite has been raised to \$1.0 Million, the revenue constraint is not binding except for a few farms in New York state.) AGR coverage is available only in the following 16 counties in New York:

CAYUGA  
CHAUTAUQUA  
ERIE  
GENESEE  
MONROE  
NIAGARA  
ONONDAGA  
ONTARIO  
ORANGE  
ORLEANS  
OSWEGO  
SENECA  
SUFFOLK  
ULSTER  
WAYNE  
YATES

### Differences between AGR-Lite and AGR

- Copies of tax forms are not required at time of application for AGR-L (producer can gather numbers and certify to their accuracy).
- No limitation on the percentage amount of receipts from animals or animal products for AGR-L (maximum of 35% for AGR).
- The purchase of individual crop insurance is the producers' option for AGR-L (mandatory for AGR if they are expected to produce > 50% of revenue).
- Historical by commodity information 2 years for AGR-L (5 years for AGR)

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- Maximum policy liability is \$1.0 million (up to \$2.05 million of gross revenue @ 65/75% and \$1.389 million @ 80/90% coverage for AGR-L). Maximum policy liability is \$6.5 million for AGR.
- Commodities with small revenues can be grouped to determine diversification credits for AGR-L (not allowed for AGR).
- Additional clarification on organic farming practices for AGR-L (not clarified in AGR policy).
- Sales closing date is 15 March 2006 for AGR-Lite for new applications (January 31 continues to be the deadline for renewals of AGR-Lite). The closing date for AGR remains 31 January 2006.

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