

Written Testimony of

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Before the
U.S. Senate Committee on Agriculture, Nutrition and Forestry

Hearing on
Risk Management & Commodities in the 2012 Farm Bill

Washington, DC
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Introduction

Chairwoman Stabenow, Senator Roberts, and Members of the Committee, thank you for holding this hearing concerning risk management and commodities in the 2012 farm bill. I am grateful for the opportunity to present this testimony as a crop insurance agent – one of the 16,799 crop insurance agents who serviced a policy in 2011 – but especially on behalf of the farmers we serve.

I am Ruth Gerdes. And while I have been fortunate to gain the fancy title of President of The Auburn Agency Crop Insurance, Inc., I am first just a farm and ranch girl from Nebraska. Some 28 years ago, after nearly losing the land my husband and I were farming, I decided I wanted to help other farmers avoid the situation we had found ourselves in after a string of bad weather along with tough markets. I got into crop insurance, believing it could be a powerful tool for farmers. It is still that same belief and passion that drives me to work each day, and I am proud to say it remains challenging and fulfilling work as the risks farmers face, and that we as agents are charged to help them manage, are only growing and becoming more complex.

In addition to working for my farmer clients, I have served on a number of industry task forces and working groups through the years, both with grower associations like the National Corn Growers Association and in the crop insurance industry. In the late 1990s, I was fortunate to serve on what I think were two seminal committees: (1) a USDA Risk Management Agency (RMA) Task Force on Actual Production History (APH); and (2) an Advisory Committee for Senator Bob Kerrey that was instrumental in the development of the Agricultural Risk Protection Act of 2000 (ARPA) under the strong leadership of this Committee's Ranking Member, Senator Roberts, and Senator Kerrey.

I currently serve as Chair of the Regulatory Affairs Committee of the Crop Insurance Professionals Association (CIPA), a band of excellent and long-serving agents from across the nation founded by Ranking Member Roberts' constituent and friend, Mr. Bill Hanson of Manhattan, Kansas, for the purpose of strengthening Federal Crop Insurance to better serve the needs of U.S. producers. I am also a member of the American Association of Crop Insurers (AACI) Agent Division, the Independent Insurance Agents and Brokers of America (IIABA) and would align myself with any and all who would want to promote Federal Crop Insurance. I offer testimony today on behalf of these groups plus the Professional Insurance Agents of America and am proud to do so.

I volunteer and serve in these capacities because I care about the farmers I serve, and believe in the product I sell. From just a handful of farmer clients in 1984, Auburn Agency has grown to serve more than 1800 farmers in 8 states, with an average buy-up coverage level exceeding 80%. I am told this is one of the highest levels of average buy-up in the nation. I strongly believe the role farmers play in our society is a noble one. I understand that Federal Crop Insurance is about the farmer first, and I am honored to have been able to play a role in helping farmers learn how to use it to its maximum value. I hope my testimony today will provide some useful insight to guide as the Committee embarks upon its own great mission of directing our Nation's farm policy for the future.

Crop Insurance Enjoys Great Support for a Reason

In one sense, I have an easy job today as, based on the statements I have read anyway, Federal Crop Insurance enjoys very strong support in this room. Most producer groups have said that preserving crop insurance is their first priority, as have several members of this Committee. I want to say thank you for this leadership and support. It is gratifying, but it is also consistent with what I hear from my farmers. Crop insurance has become that powerful tool that I thought it could be when I first entered the business, and that Congress wanted it to be when you set it on a new path in the early 1980s. There is still much more that can be done, but I think its popularity fundamentally arises from the following facts:

1. It is real and **bankable protection** that is **tailored** by the farmer with their agent to the specific needs of the producer's operation. No farm bill policy is like this.
2. It is **well managed** – producers sign a business contract, and when disaster strikes an adjuster will be present and **claims are paid timely**. The competitive aspect of delivery ensures excellence.
3. It is **defendable** in that **farmers pay significant premiums** -- they have a lot of skin in the game -- for this coverage.
4. As a voluntary business decision, crop insurance comes **unencumbered with arbitrary regulatory dictates**.

But even though Crop Insurance enjoys this great popularity and is in fact working as planned and actually under budget right now, we realize this Committee is charged with some difficult issues in crafting the next Farm Bill, and we, therefore, want to confront these issues with our key principles and values in the pages that follow.

Reflections on Growth of Crop Insurance Industry

The growth of Federal Crop Insurance is an outstanding success story. From the time the modern public/private partnership was forged in 1980, Crop Insurance has grown from an insignificant footnote among policies helping producers, covering less than 12% of the nation's cropland and generally suffering adverse selection, to a robust policy covering 83% of all cropland acres and providing bankable protection to nearly all producers including America's best, most dynamic and most productive farm families.

In 2011, companies and agents sold policies costing a record \$4.5 billion in producer paid premium covering a record \$114 billion in production. This is especially astounding when you consider that just 10 years ago, in 2001 (the first year after passage of the 2000 Act), producers spent just \$1.2 billion on premium covering just \$37 billion in production.

We should not just gloss over this growth or these statistics as if they happened by accident, or just being in the right place at the right time. The fact is it has been the product of very substantial and very deliberative work by many – many of you around this dais, many CEOs and staff, lots of adjusters, and, yes, many, many agents and farm leaders in the field – and so I think it's worth taking some time to think about what has truly been the force behind this growth. We would list four key factors:

1. **Good lawmaking** – I want to pay homage to this Committee and those lawmakers who came before you who crafted: the 1980 Federal Crop Insurance Act, which began the movement of the delivery of Crop Insurance to the private sector; the 1994 Act which cast the vision that Federal Crop Insurance might one day eliminate the need for costly ad hoc disaster programs; and the 2000 ARPA which set the course and trajectory for what Federal Crop Insurance has become today.

As members of this Committee, I would hope you look at Federal Crop Insurance with a great deal of pride in ownership. You have created a policy to address a very real need: farmers as a fundamental element of society do, in fact, face greater risks (contending with weather and markets risks well beyond their control) than any other business, and they need access to affordable risk management tools. And, you established a successful public/private partnership that has uniquely met that need in a reliable and comprehensive and defensible way.

2. **Motivated participants** – The private sector leaders who jumped into Crop Insurance from the beginning believed in the need first, but saw sufficient potential reward to risk their capital to make it work. Still today, the 15 companies (AIPs) that remain are dynamic and competitive, and, therefore, constantly searching for ways to bring better value to the farmer customers as they compete for more business and greater market share.

The value of this framework may be hard to quantify exactly, but we can see from the numbers that crop insurance began a very different path in terms of both the quality and quantity of coverage beginning in the early 1980s. We also see evidence of this in innovation. Crop Revenue Coverage or CRC was created in the late 1990s and absolutely revolutionized risk management for producers of most major commodity crops by providing risk protection against both yield losses and price swings within the growing season.

3. **Quality products at affordable prices** – Good insurance policies that provide relevant protection tailored to the producer's needs and history at a reasonable value are key. As yields and prices for commodities have climbed, the business of farming has not gotten easier so much as it has become far higher stakes. For this reason, the premium assistance provided to the farmer is absolutely critical. Even the conservative American Enterprise Institute (AEI) has published papers stating that crop insurance simply would not be viable without federal backing and cost share. Any efforts to reduce premium assistance should be rejected outright.

The Actual Production History (APH) system for determining a farmer's insurable yield, based on the producer's real history, is also key. The APH rewards good behavior, and discourages bad behavior, and, thus, pushes the farmers to be the best they can be.

4. **Dedicated agent force** – While I might like to think my Agency is unique, the reality is that we are pretty typical. We all strive to provide a quality service. We all work to know the products and markets and are willing to be called upon at all hours, not just when natural disaster strikes but year-round to preempt risk management mistakes wherever we can. Why is this? Well the first and most obvious answer is, we do it because we take pride in our work and we want our customers to be happy with our products and our service. And, yes, a part of that is because we want that producer's business again next year.

In the past, the best agents could not only win business, but they could be rewarded for exceptional work by the Companies with compensation. This competitive business model is good for the farmer and good for the system, but it has been dramatically undermined by the recent Standard Reinsurance Agreement (SRA) which, in addition to capping A&O reimbursements to companies, took the unprecedented step of capping and standardizing agent commissions from the companies. I should note here that this egregious overreach by the RMA was done administratively, with no legal authority or directive from Congress.

While one might add to this list of reasons for the success of crop insurance, the result is the same: crop insurance is undeniably a growing and positive force in the agricultural economy. I noted earlier the fact that acres insured, value insured and the amount farmers are investing in crop insurance continue to grow and set new records. For a state such as Nebraska, that has big implications for the economy.

Stories behind the Numbers

At the end of this testimony, I have attached simple fact sheets for several states. What I want to point out is that there are faces, jobs, economic activity, and stories behind each of the numbers. In Nebraska in 2011:

- **2,275** is the number of licensed agents – small business owners like me providing farmers guidance and advice. Each agent is supported by company underwriters, adjusters, claims staff and computer programmers, and most employ office support staff. Collectively, these jobs, which are all supported by A&O and AIP resources, represent a significant number of good jobs in rural communities like mine.
- **15.587 million acres** of crop and pasture covered represents the livelihood of thousands of farm families in my state.
- **\$8.631 billion in liability** covered represents expected income for these farm families should weather and markets cooperate. Covering this risk through Crop Insurance allows farmers to use their capital elsewhere – better machinery, better seed, technology, irrigation, conservation practices, etc. The economic impact of offsetting this amount of risk in this way is tremendous.

- **\$309 million in premiums** is what farmers were willing to pay for this coverage in 2011 (roughly \$20/acre). While this is a lot, it has also helped a lot of farmers and their families sleep better at night and make more productive uses of their days.
- **\$254 million in claims paid** to date represents indemnities directed to those with covered losses – these are farm incomes saved, financial catastrophes avoided, and localized farm economies kept afloat.

Business Perspective vs. DC Perspective and the problem of CBO

While in business growth is a good thing, in DC it is not all positive. It often invites unfair scrutiny. In fact, spending on agricultural policies including Crop Insurance is way down. In the most recent five years, average funding for U.S. farm policy, including crop insurance, was \$12.9 billion per year, which is 28% less than the previous five-year average of \$17.9 billion and 31% less than the average of \$18.8 billion that incurred in the preceding five years.

But the avowed opponents of agriculture (EWG or AEI) have never let facts stand in their way. With higher commodity prices boosting the baseline for Crop Insurance, they have set their sights upon this vital risk management tool, never mind the fact that crop insurance was cut by more than \$6.4 billion in the 2008 farm bill, and by another at least \$8 billion administratively in the 2010 SRA.

Perhaps what is most disheartening from this standpoint is the fact that the Congressional Budget Office (CBO) seems to persistently overestimate the cost of crop insurance to the taxpayers, putting a bull’s eye on our back. The following table compares the CBO estimates for crop year expenditure (for 2006, from the 2006 baseline, etc.) to the actual crop year spending tallied after all is settled.

Year	2006	2007	2008	2009	2010	2011
<i>CBO estimate</i>	\$3.864	\$4.670	\$7.746	\$7.496	\$7.784	\$9.213
CBO actual	\$3.291	\$4.374	\$4.146	\$6.767	\$4.547	???
% difference	-14.8%	-6.34%	-46.5%	-9.73%	-41.5%	???

The point of this is simply to show that CBO (like its sister agency, OMB) does the Federal Crop Insurance system no favors. Right now, as of the January baseline update, they are showing budget authority for the 2011 crop year at \$9.213 billion and average spending over the next 10 years at another \$9B per year (a total of \$90 billion). But if history is any guide, the actual spending will be lower, and could be much lower.

For 2011, even though companies have paid out more than \$10.2 billion in claims (a record), the program is still at a loss ratio (indemnities/total premium) below 1.0 and, therefore, an underwriting gain will be made. Thus we can already deduce that the real cost will finally come in lower than the \$9.213 billion estimate, just as it has in the previous 5 years. Beyond this year, no one really knows, but CBO assumes high prices are here to stay. In reality, if prices were to retreat again, what is currently a \$90 billion baseline could easily shrink by \$20 to \$30 billion in a wink of an eye.

To conclude this section, let me just state that from my perspective, and I think the perspective of all of rural America, growth in Federal Crop Insurance is in fact a good thing. It was always the hope of your predecessors and many of you here today to establish a system that would be so comprehensive and robust in its coverage that it would eliminate the need for ad hoc disaster assistance. Well considering that we just came off a year that contained the worst heat and drought in the history of the Southwest United States, and epic flooding along the fertile plains of the Missouri River, and not a single call was heard for additional disaster assistance, I would say this Committee has achieved a grand success in Crop Insurance.

Reflections on Value of Crop Insurance to the Producers it Serves

While we have covered at length the value of crop insurance, generally, I have not touched on its most important quality from my perspective, and that is what it does for the individual farmers who use it well.

I am fortunate to be from an area with really incredible generational farmers who love the land and care for it well and raise crops with amazing consistency and productivity. From this perspective, I can attest to the fact that the value of crop insurance is far more than what they receive in indemnities over time. Many of my farmers have never made a claim on crop insurance, and hope they never will. And, yet, they assign it an indispensable value, particularly in the revenue products. Why is this?

First, Crop Insurance has become a **powerful tool for farmers in marketing their crops and managing input costs**. I have farmers who price their corn and beans two and three years in advance, knowing they will have crop insurance to back them up. This allows farmers to lock in prices on their commodity when they are best rather than when they have to. It also allows them to purchase inputs ahead if prices are attractive. Together, when used well, the Crop Insurance products, while having a significant cost upfront, can really improve the bottom line of farmers even when they don't have a loss.

Also, by taking certain risks off the table, farmers are able to focus their capital on other needs. Many of my farmers will tell you that the bankability of crop insurance has allowed them to purchase better equipment, like center pivot irrigation or a bigger planter or better combine. These investments also increase efficiency and hedge risks for the farm operation. So the value of crop insurance is magnified as it allows the farmer to focus resources on other needs.

Finally, although I do live in a very good farming area, that does not mean we are immune to disaster. And this leads me to the best thing about crop insurance – it is there when you need it. Perhaps the best, most recent example of this, for my agency, came last year in the wake of the Missouri River floods. The story of one of my farmer clients was told on The Hand That Feeds U.S. (HTFUS). See: http://www.thehandthatfeedsus.org/farmers_profile-Under-water-but-not-out-of-business.cfm. Mike Woltemath from Hamburg, Iowa lost more than 80% of his farm ground last year to flooding, partly in a successful effort to save the town of Hamburg. As the picture below indicates, there was absolutely nothing that could be done to hold back the waters.



A generation ago, this would have been an economic hit that would have destroyed farms families, or taken a lifetime to recover from. Thankfully, Mike was well insured, and has since been able to put his farm back into shape such that he is ready to plant again this year. His words for the HTFUS article are relevant to this hearing:

"Crop insurance needs to be protected. It provides us with a very good backstop, and if you take that away you leave an already high-risk industry with no protection, making it almost impossible to withstand this kind of catastrophic event. . . . It's not unheard of to have \$700 invested in one acre out here, much of which is borrowed from banks that would not likely approve the loan without the protection of crop insurance. No one realizes how much we invest in order to produce the food and fuel that we do. But when you don't have anything to sell, you can't invest, and when you can't invest, you can't produce—it's a downward spiral."

Mike was not alone. In fact there were many just like him. Walking though this type of disaster with farmers is difficult and even emotional. Without Crop Insurance, this would be an entire year's income lost on top of the loss of very costly assets. This is why we have crop insurance, and why it is so important that crop insurance remains a business proposition, unencumbered with arbitrary rules and regulations that are part of so many Farm Bill policies, so that it can provide just this type life and business-saving assistance exactly when it is needed.

To conclude, the true value of Crop Insurance has to be measured taking into account all of these factors together. Some ivory tower economists like to propound the view that the only true measure of insurance is what it pays back in relation to what the purchaser has paid in. No one in the real world views insurance that way. As agents, having walked the fields and sat at the kitchen table with the producers who are taking these huge risks, we know better.

Key Issues in the Farm Bill

Clearly, crop insurance has tremendous value both from a broad economic perspective and to the farmer. This is, no doubt, why it enjoys such broad support from producer organizations and Congress alike. But even with this support, the future of the industry seems more uncertain than ever.

It has been a difficult couple of years for crop insurance with respect to

government affairs, with stingy cuts made to both companies and agents in the 2010 SRA. Based on the Administration's recent FY 2013 budget blueprint, apparently OMB believes even more should be cut. Thankfully, those around this table have answered with a firm, no. But, another big issue for crop insurance, at least from my vantage point, lies in your hands, and has everything to do with the 2012 Farm Bill – how it is structured, and how it will interact with crop insurance.

There is an irony that virtually all the farm groups indicate that crop insurance being their top priority, but in many cases they are also advocating new Farm Bill policies that they believe can “supplement” or “compliment” crop insurance, but in most cases will mainly duplicate, compete with, or otherwise tarnish the reputation of that top priority, Crop Insurance.

Imitation is the highest form of flattery so, in one sense, we might be gratified that Farm Bill policy discussions are now using the language of revenue protection or risk management. But, I would urge caution not to create a weak duplicate that might undermine the real deal.

Rather than creating a less-tailored version of crop insurance with the hope it will succeed like crop insurance, we believe Congress should look for things that crop insurance does not do well, and fill those gaps. There are a couple of examples relevant to your work here that I would reflect upon:

- **Deductible-level losses** are, in fact, a legitimate problem for producers given the high stakes in agriculture today. But we do think care must be taken in how much revenue farm policy should guarantee. We believe this problem can best be addressed through crop insurance, where farmers have skin in the game. As agents, we are excited about 3 possibilities within crop insurance that are being put forward, and would urge the Committee to give these careful consideration.

1. **Trend Adjusted Yields.** For 2012 (the current sales season), RMA approved a trend adjustment for corn and soybeans in certain states, with plans to expand to cotton, rice, wheat and sorghum in 2013. Having been in one of the areas, and run thousands of quotes using the Trend Adjustment, I can say with confidence that in the counties where it truly reflects the technology advances, it is a powerful tool for the producer to cover more of their expected production. However, there is a problem in that it does not work well in all counties. CIPA has long advocated applying a national trend to T-yields which would give a more consistent and reliable benefit. CIPA has also advocated for T-yield plugs or other means of holding up APHs in multi-year loss scenarios. The bottom line

is that where the APH is made more truly reflective of what the farmer truly expects to produce, this goes a long way toward addressing the problems that are associated with the problem of high deductibles.

2. **Personal T-Yields (PTY).** What has been implemented as a pilot in North Dakota for the last few years seems ready for prime time. By allowing producers to set their own T based on their own experience, you further incentivize good record keeping and the best possible use of the crop insurance products. The PTY would streamline and improve the plug-yield system referenced above, and make the APH more truly reflective of what the farmer expects to produce.
3. **Supplemental Coverage Option (SCO).** Introduced by Congressman Randy Neugebauer of Texas, this concept would allow farmers to pay for and stack a supplemental area-based coverage on top of their individual coverage to address systemic county-wide losses. It is the functional equivalent of AARM (county-based, deductible level coverage), but it is designed to interact seamlessly with crop insurance, and is not free to the producer. He must pay for it. In that it complements Crop Insurance, works easily within the current framework, and provides a potentially valuable choice for producers, CIPA has embraced this plan.

- **Deep and long-term price declines** are a very real concern for most of the farmers I serve. Crop insurance is based on market prices in the current market, and there is no question that if price elections for corn and beans this year were \$3.50/bushel and \$7.00/bushel, respectively, as opposed to \$5.68 and \$12.55 (the price elections for 2012), my farmers and their lenders would be in serious trouble – indeed, many would not be in business. Under some plans, this is addressed by tying the price part of revenue to a 5-year rolling average. Others use minimum reference prices. Without speaking to the merits of either, let me just say that this is probably a risk that would best be addressed outside the scope of crop insurance.

Given the farm bill backdrop, rather than try to dictate what should be done or how, we would rather offer two simple requests on behalf of agents and the farmers we serve:

1. First, do no harm – be careful in crafting a farm bill policy to take aim at only those risks that are not well covered by crop insurance, structured in a way that will not duplicate what crop insurance is already doing well.

2. Second, trust that you can build upon Crop Insurance – this structure that was built by this Committee, your colleagues and predecessors has proved to be able and competitively motivated to serve the needs of farmers.

Reflections on Importance of Private Structure and Damage Caused by SRA

I want to end back where we began the section on the growth of Crop Insurance. That is complimenting this Committee on the creation of Crop Insurance and a delivery structure that has worked, and done a great thing for farmers and rural economies. I am very proud to be a part of that structure.

But it is disheartening when it seems, at every turn, that this structure is under attack. The recent SRA is good example. And the fact that OMB and Administration’s budget is calling for more cuts even before the deep SRA cuts have been fully realized just adds insult to a very real injury.

Nebraska agents and staff were hurt badly by the SRA, as compensation was capped at a full 22% below 2010 amounts in gross dollars (average commission rates were cut by more than 50%). But even worse off are areas like California, where gross A&O reimbursements dropped by 32% from 2010 to 2011, meaning gross commissions for agents dropped over 45% (the effect of the 80% cap on agent commissions).

The following table illustrates one of the more extreme and unintended consequences of RMA’s actions. Although it was asserted that fruit and vegetable producers would somehow be advantaged by the new SRA, actual experience has proved differently as A&O plummeted in those states.

State	Category	2008 (million)	2009 (million)	2010 (million)	2011 (million)	2011 After 80% cap	Change from 2010
California	TOTAL A&O	\$47.6	\$43.3	\$41.3	\$28.2	\$22.6	-45.4%
Florida	TOTAL A&O	\$29.4	\$20.2	\$17.5	\$12.6	\$10.1	-42.4%
Nebraska	TOTAL A&O	\$141.8	\$106.6	\$85.9	\$83.6	\$66.8	-22.1%

There is no doubt that OMB and GAO have a bias against crop insurance or any farm policy for that matter. But, I would like to have them along with certain academics out to walk the fields with me so that they might gain a better understanding of the true value of Crop Insurance to real people in real communities who too often in Washington are just numbers and statistics on a page. But, I know Congress and the Agriculture Committees have a better understanding of how business works. We would simply ask that you step in and say, enough is enough. You cannot make 50% cuts to the resources in offices and expect to have the same level of service.

The unprecedented and egregious overreach of regulating and bureaucratizing agent compensation should be reversed. This would be a no-cost item as it would not impact government A&O expenditures. In addition, the incredibly poor design of the cap on A&O expenditures which caused and will continue to effect disproportionate cuts to certain crops or areas of the country such as California and Florida in 2011 should be addressed. This outcome would have been avoided with a more transparent process, which should have included agents considering that agent compensation was to be regulated.

From my perspective, the substance behind calls for cuts to agents was not a credible accusation three years ago when gross compensation to agents was nearly twice what it was in 2011, and it is most certainly not a credible charge today. Appendix 2 to this testimony is a document that details the work my agency does on a month by month basis over the course of a year. This is the



process we go through for each and every client, taking special care to fully educate them on their risk management options available. Some say the process has only gotten easier over time, but the following picture shows the basic rules for Crop Insurance that we have to follow at the risk of losing our agency.

A comparison of paperwork in 2000 versus 2012.

As an agent, I consider it my duty to make the voyage through all the options and paperwork as easy, painless and efficient for the farmer as possible. But I am here to tell you the preparation for this is immense. I know that I am making judgment calls in my advice that, if wrong, could cost my producer customer his operation and livelihood.

Now NASCOE is calling on Congress to reverse course from the seminal decision it made in 1980 and hand the delivery of Crop Insurance back to the government. On behalf of agents, let me say we truly do appreciate the FSA and hope they have a significant role in delivering a quality Farm Bill. But the sentiment of agent groups and the farmers we serve is summed up very well in Ranking Member Roberts' comment on this prospect, "it is a loony idea." If we want to undo Crop Insurance, this is the way to do it.

Closing

We have covered a lot of ground in this testimony. But Federal Crop Insurance is a long and detailed and great story and I hope that my passion for the risk management tools that it provides and the delivery system has come through loud and clear.

In closing, let me say on behalf of agents that we stand ready to assist you in minimizing cuts to agriculture policies overall, and building upon the excellent crop insurance framework wherever possible. I hope this testimony offers insight and evidence that will serve you well in this tremendous responsibility you have, and we wish you the very best as you proceed to the next steps.

United States

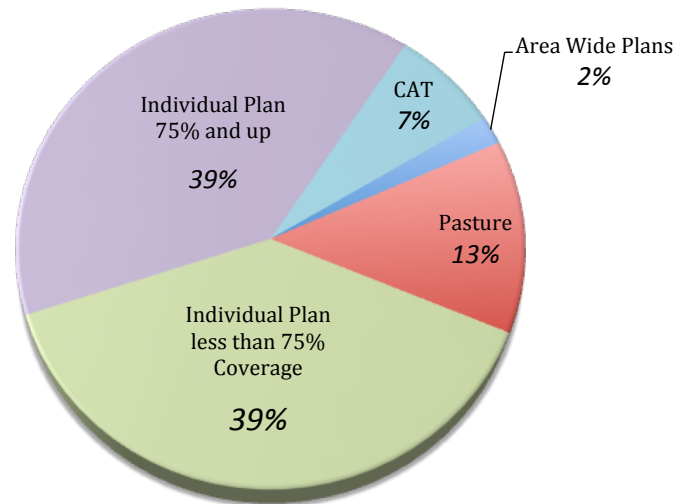


Crop Insurance

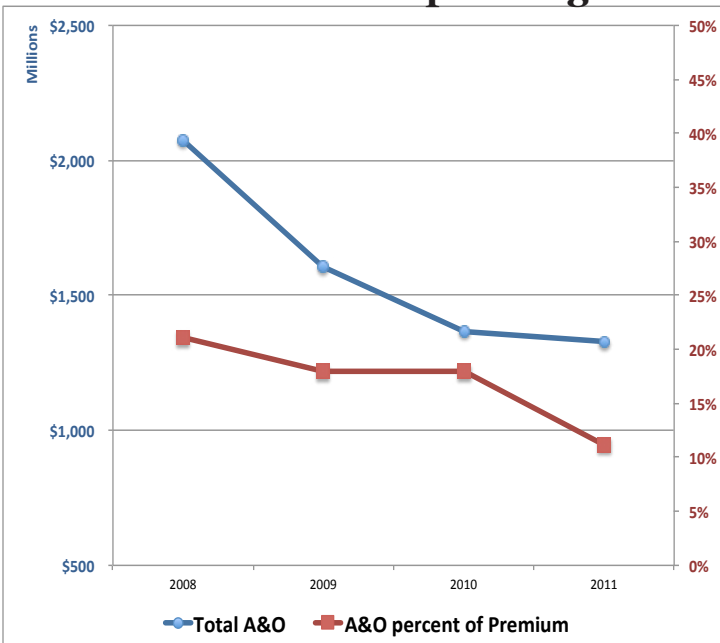
Year	Net Acres Insured	Producer Premiums	Liabilities	Indemnities	A&O Costs
2008	272 m	\$4.2 bn	\$89.9 bn	\$8.7 bn	\$2.1 bn
2009	265 m	\$3.5 bn	\$79.6 bn	\$5.2 bn	\$1.6 bn
2010	256 m	\$2.8 bn	\$78.1 bn	\$4.2 bn	\$1.4 bn
2011	265 m	\$4.5 bn	\$113.7 bn	\$10.2 bn	\$1.3 bn

Of the 319 million acres planted in 2011, 265 million or 83% were enrolled in crop insurance. Of the 265 million acres insured, 206 million were individual buy-up coverage, with 104 million (39% of acres; 54% of premiums) with a buy-up level of 75% or greater. Only 19 million (7%) were in CAT and only 5 million (2%) were in area plans like GRP or GRIP.

Insurance Policies by Net Acres Insured



Administrative and Operating Costs



The chart to the left highlights how the cost to the government to administer crop insurance has been drastically cut since 2008, even as total liability has increased (from \$78 billion in 2010 to \$113.7 billion in 2011).



Nebraska

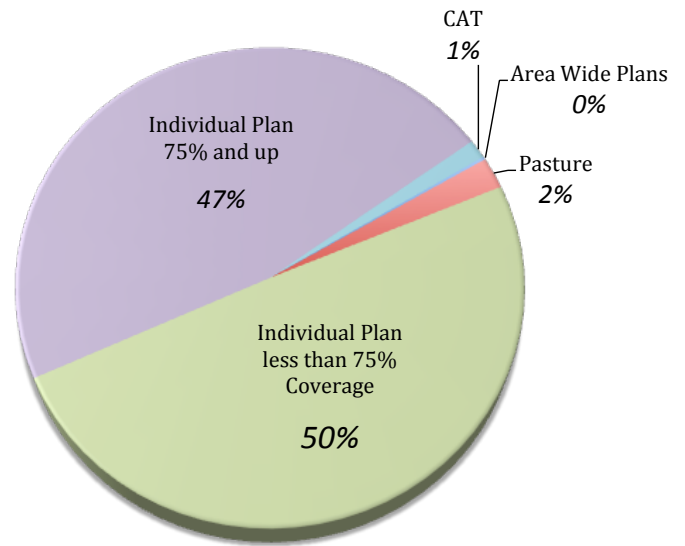
2,275 Agents

Crop Insurance

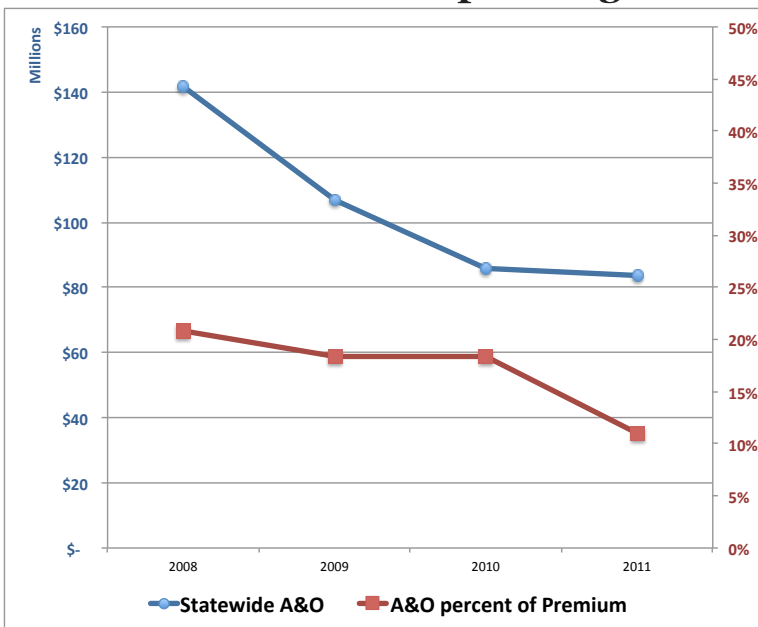
Year	Net Acres Insured	Producer Premiums	Liabilities	Indemnities	A&O Costs
2008	14.4 m	\$293 m	\$4.7 bn	\$414 m	\$142 m
2009	15.4 m	\$239 m	\$6.6 bn	\$165 m	\$107 m
2010	15.3 m	\$189 m	\$5.5 bn	\$157 m	\$86 m
2011	15.6 m	\$309 m	\$8.6 bn	\$254 m	\$84 m

Of the 19 million acres planted in Nebraska in 2011, 15.6 million or 82% were enrolled in crop insurance. Of the insured acreage, 15 million were individual buy-up coverage, with 7.3 million (47% of acres; 58% of premiums) with a buy-up level of 75% or greater. Only 202,000 (1%) were in CAT and only 30,000 (.19%) were in area plans like GRP or GRIP.

Insurance Policies by Net Acres Insured



Administrative and Operating Costs



The chart to the left highlights how the cost to the government to administer crop insurance in the state has been drastically cut since 2008, even as total liability within Nebraska has increased (from \$5.5 billion in 2010 to \$8.6 billion in 2011).



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Crop Insurance Agent Work By Month

January

We try to finalize as much as possible the farmers Actual Production History from the following year. This is difficult if the farmer has stored grain. We have however developed a system for tracking stored grain. If it has been measured by FSA we use those numbers, but then will have to update the APH when the grain is actually moved to market. It is important to get the APH's done even in an estimated format during this time frame because of all the things the farmers here use the APH for, both within crop insurance and outside of crop insurance. If the grain has gone to the elevator only then the APH is finalized. I think last year 84% of my clients had on farm storage of some type, so this stored grain is a huge issue.

Bankers are well into rewriting loans for farmers. I have become a resource for these farmers in using their crop insurance yields and an estimated price in order for them to do their cash flows for the coming year. Almost 90% of my clients spend an hour or two with me prior to finalizing their cash flow. Because of the quoting system I have I can give them an estimate based upon their own APH. We get estimated acres from the farmer and then are able to produce guaranteed bushels and an estimated whole farm revenue guarantee. We are always pretty conservative with our estimated prices for this portion of our service to farmers. Each separate bank that I have mutual clients with I meet with the bankers in early January to determine what we are all comfortable with for their clients. That means with the 17 different banks that we may have different estimated spring market prices for, so that takes time and meetings to sort out. To produce a full farm revenue quote we must enter the intended acre, by unit

into the quote system. Our average client has 12 units, so this means getting the correct acres into the correct unit. In our area there is a fairly significant variation of yield, so once either my staff or I have entered the acres, another person double checks that they are entered correctly. Because of bushel yield difference's between APH units, we cannot afford to get the acres in the wrong unit or we will under or over estimate greatly their revenue guarantee.

In January we also hold a risk management seminar for all of our clients. This means invitations, and tracking RSVP's, lining up speakers, the facility to hold the meeting, and co-coordinating all the myriad of details that go into putting on an extensive meeting. Typically we will have two outside informational speakers, as well as an hour on crop insurance changes and updates that the farmer needs to know about. This year our speakers were Elywnn Taylor of Iowa State on weather, and Mark Pearson on the markets. In addition I also do a power point presentation on crop insurance for education of our farmers. Any more I do not look at my job as a crop insurance sales person, but almost like a compliance person. There are so many rules that farmers must know about in order to be certain that their coverage is as they think it is. This meeting starts @ 1pm and goes all afternoon. This year the farmers asked to take only one break and go until 5:30 because the information from the 3 presentations generated so many questions.

After our meeting every client who was not able to attend the meeting is mailed a copy of the 20+ slide presentation on crop insurance, so that they all have a copy of any rule changes or highlights that they must know about for the coming year. Examples of things that are covered in this slide presentation are:

1. The rule that any farmer who has a loss above \$100,000 must provide hard copy records for the past 3 years before we can pay their claim. This rule is especially important this year with high starting spring market prices. It is not going to take many acres of loss if the markets go down or up significantly to generate this dollar amount. The farmer must understand that he has to have these records in the unit structure that he carries on his policy. If he doesn't his coverage will be greatly reduced, and then the claim will be paid. This education has to occur now, because once a claim is reported I as an agent cannot assist the farmer in any way. He needs to understand clearly what his responsibility will be up front.
2. The differences in the policies. This year the difference between the RA policy and the CRC policy may be significant. All we have to do is look at the wheat CRC Policy that caps the farmers ending price at \$2.00 and know that those who did not evaluate it carefully last fall are really in trouble, particularly if they used the policy as a backstop to marketing.

February

This month begins with the finishing of APH's, and updating any APH that has had stored grain that has been delivered. Many farmers are done with their loan re-writes, others are just getting started.

About 10 days into the month we start preparing estimated quotes for our farmers. These quotes get into great detail. I can break down each unit, and on one piece of paper illustrate by unit all the farmers options. I can compare two different policies side by side, so if a farmer would like to see more than two policies, which most do, that mean double work by unit. Once we have narrowed down the options to his preferred coverage we produce a full farm quote that give him all of his options by level of coverage. This means that I can calculate and print for the farmer every level from 50% to 85% by unit, and then in total. Once a farmer has this quote they start coming in so that we can play what if with my quote system. This system allows me to input the farmer's detailed cost of production, any marketing plan he chooses to look at, and then we start changing yields and harvest market prices. On the average farm it takes about 1 hour to input all the specific details he would like to see. Bigger farms obviously take longer, smaller shorter. Once this is all in the computer I can then electronically show the farmer what each level of coverage would do to his profitability, we also can do this for marketing, and input costs. With all the variability of input cost this year this was a very time consuming effort, as was the marketing plans. After several sessions the farmer decides what level of coverage to put with which policy.

Additionally this month a great deal of time and energy goes into newly added ground for our farmers. I don't think it is any big secret that there is tremendous contraction and expansion of farming operations. Added ground for crop insurance can be done in a number of different ways, so this takes some analysis on my part to determine which option is best for a farmer. Most times I have to run 3 different scenarios to determine which option is most optimal for the farmer.

Another area that we spent a great deal of time on in February this year was the difference in cash rental agreements to share rents. Many young farmers came to me this year with the question of how could crop insurance help them compete with the explosion in cash rent? What we did for these farmers was work with them, and then several came back in with landlords who had previously been cash renting their ground. We saw a big movement back to share rent this year due to the ability of crop insurance to guarantee the landlord more dollars of coverage than simply taking cash rent. I would like to point out here that this is ground we were already insuring and literally means double work for us. This means all the paperwork will now be generated twice. These are not new acres to us, just new policies.

March

March 1 starts with an extensive letter to all policyholders. This letter emphasizes to farmers that all policy changes must be done prior to March 15. It also gives the farmer the approved spring market price, as well as the volatility factor. We also let farmers know that if they would like a quote with the exact prices and volatility that we would provide that.

March is basically a marathon to get everyone taken care of. It means hours and hours of work. This year with the spike in the spring market price, and in many cases the doubling of a farmers premium, it meant making sure that everyone knew what that cost and coverage were. I have never seen a year where it took so many “what if” scenarios for a farmer to be comfortable with the coverage he is purchasing.

Once a change is made, all the paperwork needs to be filled out, and then must be entered into our computer system. The farmer then receives written confirmation the next day that gives him the opportunity to verify that his coverage is correct. Also prior to sales closing we must exclude any high-risk ground from coverage, and add a CAT Policy for the high-risk ground if that is what he chooses. That means two policies for one operation in a county, which means that we will have double the paperwork for that farmer. Because we live along the Missouri river, this issue is critical, and very time consuming.

Once March 15 comes, we have 15 days to finalize all the paperwork and begin preparing for acreage reporting. In addition we are now providing the farmer with maps specific to his operation. The farmer must get his land use layer from FSA and get it to us, and then we electronically move his information from the FSA structure to the crop insurance structure. This is done at no cost to the farmer, but is a benefit to him over just using FSA maps, because we can produce the maps in a booklet form, that correspond to his chosen unit structure, and coverage. In the event that he is spot checked randomly, or through a claims audit, he will have the information available based on the correct structure for crop insurance rather than by Farm Serial Number and Tract number. Also if we get into any soybean rust, gray leaf spot, or any other disease this provides a place for the farmer to document what he must in order to get paid by his policy.

April

April means the finalizing of APH records, and reviews of all policies to make certain that all the specifics for the policy are in place. In this area we have high risk ground, so we double check any policy that is close to the high risk ground area to make certain we have it in the correct rating category. This month may slow the workload some if we have a normal spring. However, if it is like this year, we are looking at the potential for planting delays due to cold and wet

conditions. This brings prevented planting into play, and farmers begin getting nervous that they can get their crop in. If the weather straightens out, it becomes a typical year. If it continues to be wet the phones start to ring with prevented planting questions.

May

Hopefully everyone is in the field, and things are quiet enough here that we print and mail all acreage report forms to our farmers. This mailing will include an extensive letter showing the farmer how to fill out the form correctly, and reminding them of the deadline for planting. In addition we cover replants and the responsibility that they have in regard to replanting. If the weather is good, this is a reasonably smooth month with papers flowing to and from the farmers. Because of our mapping system many of our clients come here to fill out their acreage reports, and then use that copy to report acres at FSA. Once a farmer has certified at FSA he brings his 578-acreage certification to us and we cross-reference it with what he has reported here. If there is any difference, we must verify what is correct. This means that each policy here is looked at after the acreage report is keyed into the computer. If we have replants this is usually when they occur. With bad weather we can have hundreds of replants, and they all take action.

June

We continue to receive and work acreage reports. Depending upon weather this can be a month where we wind up acreage reports, or simply get through it. June is also the month if we have flooding that the issues of first crop planted and flooded, and then does the farmer replant, or go to a second crop. This issue is very detailed, and can take hours just with one policyholder. The rules on first crop, second crop give the farmer great flexibility, but also come with stiff and punitive penalties if not done correctly. In this situation we will have an enormous workload to get the acreage report to reflect exactly what happened and at what time. I think often times that many believe we send the forms to farmers and they fill them out. In a normal year, that can happen. The problem is we have not seen a normal year here in a very long time. The attention to detail that must happen to keep a farmer in compliance with all the reporting rules is very great. For example if the farmer is past the initial plant date, his options can change dramatically. We have had situations in the past where agronomists have advised that it would be a poor farming practice to replant corn, and that the farmer is better served to instead plant soybeans. But then we have to advise him of all the rules that go along with that decision. If he destroys his corn and plants soybeans without an adjustor working the unit first, then his coverage is no longer valid. The coordination of what farmer needs an adjustor in which manner can be a daunting workload.

July

July brings to a close all the acreage reporting. To correctly input all farmers' information into the computer and meet all the RMA deadlines takes a significant amount of time and energy for our staff. With July also come wheat harvest, and the settlement of wheat claims. In this area wheat is not a major crop, but many farmers plant a little, so we have all the APH work and claims worked to contend with.

August

August brings to the forefront weather concerns. If it is dry farmers begin calling for direction if they have a claim. Also in August we will get a significant amount of requests for chopping corn for silage. This means that each unit that is going to be chopped must be opened up, and then we can send an adjustor to appraise any unit that will be chopped. In August all billing for the fall crops is started and double-checked. In addition we start the beginning of wheat sales season. If we are into a year of very dry weather then the fall claims start to roll in. Some years we deal with a large number of aflatoxin claims. This is almost an impossible situation, because the adjustor must take a sample, collect the money from the farmer for the aflatoxin test, and then send the test to an approved lab. Each unit that is suspect must have this test in order for us to adjust the farmer's claim based on aflatoxin.

September

September can be a quiet month if we have great weather. If we don't have great weather, claims will really roll in, and the process of getting everything coordinated can cause a huge workload. If it is good weather we are busy with wheat sales. The farmers receive a letter from us giving them their base price for wheat, along with any pertinent information they need to know to stay in compliance with the federal rules. The sales closing date for wheat is September 30, so it means making sure all policyholders have looked at their coverage and understand it. Wheat many times gets overlooked, and there is no better example of why the evaluation of their policy is important than this year. Wheat CRC started last fall with a price of \$5.88. Wheat CRC has a \$2.00 limit move in the policy. The agents and farmers who did not work this carefully last year and simply stayed on the CRC policy will find themselves being shorted many dollars in comparison with the RA Policy. In our office this means every single wheat policyholder will receive a quote comparing the two policies. In addition the bills for the spring planted crops must go out, and be tracked.

October

This month will either be an enormous workload, or reasonable, depending on the weather. All policy payments are due October 1 and delinquent November 1. We make sure that all of our farmers understand that if their premium is not paid by November 1, they will be paying interest. Towards the end of October we start taking the information for yields for the year. If it is a big claims year, the phones will be ringing off the hook with farmers needing information on how to keep track of production for a claim, needing an adjustor, or simply reviewing the coverage they have.

November

November will continue the tracking of all billings, and any claim that is in process. In addition on November 1 a letter will go to all policyholders giving them the harvest market price for soybeans on the CRC and RA Policy and for the corn CRC Policy. This price begins the process of determining if a farmer has a revenue loss, and not necessarily a yield loss. Each and every unit must be checked if it is close, and with what prices have done the last couple of years, that means almost every single unit needs to be looked at. Yes this is the farmer's responsibility, but almost all of our producers call us to go over the information. They look at it once a year, we look at it on a daily basis, so they are much more comfortable if we help them check things.

December

December is the finalization of harvest, and yields continue to roll in. December 1 means an additional letter to our farmers with the Harvest Market Price for corn. Because CRC and RA differ on the month they take the measurement, it means any corn policy will have to be checked. Also the final date for reporting claims falls in mid December, so the first 10 days of December are a mad rush to get this all finalized. Through the last three months as a claim check comes in, it is checked against our numbers to determine accuracy, and then sent on to the farmer. In December we start the process of beginning the New Year, and helping farmers access where they are at financially.