MYTH: The harvest price option eliminates all risk from farming and is unnecessary.

FACT: Even with the harvest price option, farmers must meet a deductible for loss and pay a premium for coverage. Risk still exists for these farmers. The harvest price option simply provides these farmers with the replacement value for their lost crop.

- The harvest price option (HPO) crop insurance policy provides protection on lost production at the higher of the price projected just before planting time or the price at harvest.
- A farmer has a choice to purchase HPO, but there is also a harvest price exclusion available to them. Farmers pay more in premium for the HPO, and currently about 70 percent of farmers elect HPO coverage.
- There are two very practical and common scenarios in agriculture that make HPO coverage a critical risk management tool.
  - HPO is critical to farmers who use forward contracting as another means of mitigating their risk. If there is a natural disaster that results in a large drop in production of a commodity, the price of that commodity is likely to increase sharply. Many farmers enter forward contracts before harvest to sell a portion of their production at a set price. Usually these contracts pay the farmer for the production they deliver after harvest based on harvest prices. If the farmer loses the crop, they are still obligated to deliver under the forward contract. But since the crop is lost, the farmer would have to buy the commodity on the open market at the harvest price or financially settle at the harvest price in order to meet the obligations of their contract. The purpose of the HPO is to provide the farmer with sufficient funds to settle the forward contract, because without HPO the farmer's loss would be indemnified at the lower price projected at the start of the season.
  - HPO is critical to livestock producers who grow their own feed. If a disaster wipes out the feed production of a dairy, cattle, hog, poultry or other livestock producer, that farmer will have to enter the market and purchase feed at the current price. If the farmer has to enter the market to purchase feed at the end of the year because they lost their crop, they will need to buy feed at the harvest price. HPO ensures these farmers will have funds to afford the higher feed costs when they need to purchase feed.
- Think of harvest price option like the replacement value for car insurance, as explained in a popular insurance commercial[1]:
  - "You totaled your brand new car. Nobody's hurt, but there will still be pain. It comes when your insurance company says they will only pay three-quarters of what it takes to replace it. What are you supposed to do? Drive three-quarters of a car? Now if you had…new car replacement, you'd get your whole car back. I guess they don't want you driving around on three wheels. Smart."

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[1] Liberty Mutual, 2016, https://www.youtube.com/watch?v=5twwX-zoOv4