CROP INSURANCE MYTH VS. FACT: MULTIPLE RISK MANAGEMENT STRATEGIES

MYTH: Crop insurance discourages farmers from using other risk management tools such as market hedging, cover crops and off-farm income. The use of these other risk management tools without crop insurance would be enough risk management for farmers.

FACT: Farming is risky, so farmers use a multitude of risk management strategies to manage the enormous hazards they face every year when they plant a crop. However, crop insurance is the only risk management tool that farmers can literally take to the bank to prove their ability to pay back annual operating loans required to keep the farm going.

Because each farm is unique, the types of risk management strategies used by each farm can vary, but crop insurance is a critical tool in a farmer's tool box. Here are a few examples of the other risk management tools utilized by farmers:

- The use of **market hedging** has increased significantly since 2000, and approximately one quarter of all corn, soybeans and wheat are hedged.[*] Additionally, farmers of other commodities often utilize **production or marketing contracts** to lock in prices for their goods. USDA estimates that more than one-third of the value of all agricultural production is grown under contract, with this risk management tool being most-utilized in livestock, dairy, sugar beets, fruit and processing tomatoes.

- Most farms in the United States already rely heavily on **off-farm income** to maintain their operations and carry the enormous risk that comes with farming. According to USDA, recent increases in total farm income "largely reflect greater income from off-farm sources, where the majority of farm households earn most, if not all, of their income."

- **Cover crops** were planted on more than 15.4 million acres of US farmland in 2017[†], a nearly 50 percent increase from 2012. The 2018 Farm Bill also clarified the ability to plant cover crops on acres that are insured through the Federal crop insurance program. Planting cover crops can help manage risk in a variety of ways, including the improvement of soil health and an increased ability of soil to hold moisture in dry regions.

- **Conservation tillage** practices are utilized on approximately 70 percent of soybean, 65 percent of corn, 67 percent of wheat and 40 percent of cotton acres in the United States. These practices help manage risk by reducing topsoil erosion and improving soil health.[‡]

- <u>Clearly the existence of crop insurance is not keeping farmers from utilizing other risk management strategies. However, cover crops and conservation tillage are not going to be enough for lenders who are looking to pencil out operating loans.</u>

[*] Economic Research Service, USDA
[†] 2017 Census of Agriculture, USDA
[‡] Economic Research Service, USDA