
CROP INSURANCE MYTH VS FACT: HARVEST PRICE

MYTH: Harvest price coverage eliminates all risk from farming and is unnecessary.

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

The harvest price coverage in crop insurance policies provides protection on lost production at the higher of the price projected just before planting time or the price at harvest.

- There are two very practical and common scenarios in agriculture that make harvest price coverage a critical risk management tool.
 - Harvest price coverage 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 the 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 to meet their contractual obligations. The purpose of harvest price coverage is to provide the farmer with sufficient funds to settle the forward contract. Without the harvest price coverage, the farmer's loss would be indemnified at the lower price projected at the start of the season.
 - Harvest price coverage is critical to livestock producers who grow their feed. Harvest price coverage ensures these farmers will have the funds to afford the higher feed costs when they need to purchase feed.
 - Caleb Ragland, a farmer from KY, said, "Harvest price coverage in crop insurance proved its importance during the 2012 drought on my farm. Having forward contracted much of my expected corn production, I was forced to buy back all my contracts, so I had enough corn to feed my hogs. Without the harvest price option, I would have faced a devastating choice between selling my hogs or paying the \$2 a bushel difference in my contracts and the current market price from my operation budget."
- Think of harvest price coverage like the replacement value for car insurance, as explained in a popular insurance commercial*:
 - "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."

* Liberty Mutual, 2016 <https://www.youtube.com/watch?v=5twvX-zoOv4>