



# BRIEFING

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## Procedures for a New Producer to Establish Actual Production History for Crop Insurance Coverage

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### Objective

### Analysis

### for Informed

### Decision Making

### Introduction

The USDA's Risk Management Agency has provisions for producers to establish an *actual production history* (APH) for each crop they insure. Producers who use multiple peril crop insurance in their ongoing operations generally have established APHs as determined and adjusted based on required crop production reports. These yields (actual production history) are essential in determining crop insurance coverage and premium rates.

There are specific procedures for a *new producer* to pursue in establishing an actual production history for a crop. This *Briefing* outlines basic procedures that are applicable to most annually-planted and forage crops of interest to Montana producers.

### A New Producer

The Risk Management Agency (RMA) defines a *new producer* as: "A person who has not been actively engaged in farming for a share of the production of the insured crop (producing the crop) in the county for more than two APH years" [2004 Crop Insurance Handbook (CIH), Risk management Agency, USDA].

Producers (insured) who have produced the subject crop for more than two years in other counties qualify as new producers of the insured crop if they have not produced the subject crop in the county of concern for more than

two years.

RMA further clarifies the new producer definition by providing the warning that formation or dissolution of an entity which includes individuals with more than two APH years of production history during the base period does not qualify the new entity as a *new producer* for APH yield determination purposes. A base period is considered to be the 10 consecutive APH crop years immediately preceding the current policy crop year for which the approved APH yield is being established. APH crop years don't include any year the crop was not planted. A minimum of four yields, actual or transitional, is required in each database used to calculate approved APH yields.

New producers will have less than four years of verifiable yields to include in their data base. This often will necessitate the use of a T-yield, a *transitional yield*. A transitional yield is an estimated yield included in the actuarial tables, which is used in calculating average/approved yields when less than four years of actual, temporary, and/or assigned yields are available on the crop in the county.

### Methods for APH Determination

For a producer to be insured as a *new producer* under the above definition, an APH for a crop in the subject county may be determined using one of two methods. The two methods may be referenced as: (1) no production records

required; and (2) production records required.

*No Production Records Required:* If a producer has not produced the subject crop in the county of concern, then production records are not available. The approved yield in the initial year is 100 percent of the “T”-yield, i.e., 100 percent of the applicable transitional yield.

*Production Records Required:* If a producer has produced the subject crop in the county of concern for one or two crop years, then production records are required. Production records must be provided for such crop years to qualify for applicable 100 percent T-yields. If provided, the approved yield for the initial crop year is calculated by dividing the sum of the actual yields and 100 percent of the T-yields by four.

**No Production Records Required**

Consider a situation where a producer (insured) started farming in the current crop year and records were not available from another producer on that land with whom the producer of concern is sharing production. A four year data table is established for the new producer. The APH yield for the initial year is 100 percent of the applicable T-yield (Table 1a).

For a new producer with no records, the initial APH yield is 100 percent of the T-yield for the crop in the county (or area).

To illustrate, a numerical example of an initial APH yield for a subject crop in a county of concern with a T-yield of

1,000 pounds per acre is presented (Table 1b).

As production is realized by a new producer during the first four years of production and production records are filed, actual yields replace 100 percent of the T-yields in the calculation of the approved APH yield. An approved yield is calculated by dividing actual yields and 100 percent of the T-yields by four. This procedure continues until four consecutive years of actual and/or assigned yields are provided, as illustrated (Table 2a). An assigned yield is that which is assigned for the most recent crop year in the database if production is not reported by the producer.

**Table 1a: New Producer without Production Records, Initial Year Approved Yield**

<b>Initial Year</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>
100 % T Yield			
100 % T Yield			
100 % T Yield			
100 % T Yield			
APH = 100 % T Yield			

**Table 1b: New Producer without Production Records, Numerical Example of Initial Year APH\***

<b>Initial Year</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>
1,000 pounds			
<b>APH Yield = 1,000 pounds</b>			

\* This illustration uses a T-yield of 1,000 pounds per acre.

**Table 2a : New Producer without Production Records, Approved Yields, Years 1-4**

Initial Year	Year 2	Year 3	Year 4
100 % T Yield	100 % T yield	100 % T Yield	100 % T Yield
100 % T Yield	100 % T Yield	100 % T Yield	Year 1 Actual Yield
100 % T Yield	100 % T Yield	Year 1 Actual Yield	Year 2 Actual Yield
100 % T Yield	Year 1 Actual Yield	Year 2 Actual Yield	Year 3 Actual Yield
APH = 100 % T Yield	APH = Average of the above yields	APH = Average of the above yields	APH = Average of the above yields

If a new producer insures a crop under an initial year yield that is 100 percent of the T-yield (as calculated in Table 2 a) and then fails to report production in subsequent years by the specified production reporting date, a yield will be assigned in accordance with RMA procedure for that year that in 75 percent of the previous years approved APH yield.

Consider a numerical example using a T-yield of 1,000 pounds per acre for the subject crop and actual production the first, second, and third years of 1,400 pounds, 1,300 pounds, and 1,260 pounds per acre, respectively (Table 2b).

In the example note that as actual yields are available, these gradually replace yields based on the T-yield. For instance, in year 2 the actual yield of 1,400 pounds per acre is recorded.

There are exceptions to the general procedure, as described and illustrated above, for a new producer who has not produced the crop in the county. If a producer is sharing in the insured crop for the current year with another person, i.e., with a landlord on a crop share lease, a new producer may file acceptable production records obtained from the other person by the production recording date. If a new producer pursues this alternative, standard APH rules apply. A new producer may choose to use this approach to obtain a higher approved yield.

**Production Records Required**

New producers who have produced an insured crop for one or two years are required to provide production reports for such crops on land contained in the current farming operation. When production records

are filed by a new producer, a combination of actual yields and 100 percent of an applicable T-yield is used to calculate an approved APH until four years of actual or assigned yields are available. Consider the basic framework for calculating approved yields using a case where a producer has one year of actual production records (Table 3a).

The numerical example for this procedure uses a T-yield of 1,000 pounds per acre for a subject crop, a yield for one year of historical production of 1,200 pounds per acre, and yields for the first three years under insurance coverage of 1,400 pounds, 1,300 pounds, and 1,260 pounds per acre, respectively (Table 3b).

**Table 2b: New Producer without Production Records, Numerical Example of Approved Yields, Years 1-4**

Initial Year	Year 2	Year 3	Year 4
1,000 pounds	1,000 pounds	1,000 pounds	1,000 pounds
1,000 pounds	1,000 pounds	1,000 pounds	1,400 pounds
1,000 pounds	1,000 pounds	1,400 pounds	1,300 pounds
1,000 pounds	1,400 pounds	1,300 pounds	1,260 pounds
<b>APH Yield = 1,000 pounds</b>	<b>APH Yield = 1,100 pounds</b>	<b>APH Yield = 1,175 pounds</b>	<b>APH Yield = 1,240 pounds</b>

**Table 3a: New Producer with Production Records, Approved Yields, Years 1-4**

Initial Year	Year 2	Year 3	Year 4
100 % T Yield	100 % T Yield	100 % T Yield	Actual Production
100 % T Yield	100 % T Yield	Actual Production	Year 1 Actual Yield
100 % T Yield	Actual Production	Year 1 Actual Yield	Year 2 Actual Yield
Actual Production	Year 1 Actual Yield	Year 2 Actual Yield	Year 3 Actual Yield
APH = Average of the above yields			

**Table 3b: New producer with Records, Numerical Example of Approved Yields, Years 1-4**

Initial year	Year 2	Year 3	Year 4
1,000 pounds	1,000 pounds	1,000 pounds	1,200 pounds
1,000 pounds	1,000 pounds	1,200 pounds	1,400 pounds
1,000 pounds	1,200 pounds	1,400 pounds	1,300 pounds
1,200 pounds	1,400 pounds	1,300 pounds	1,260 pounds
<b>APH Yield = 1,050 pounds</b>	<b>APH Yield = 1,150 pounds</b>	<b>APH Yield = 1,225 pounds</b>	<b>APH Yield = 1,290 pounds</b>

Note that use of the actual yield from the year before the producer (insured) requests insurance for a crop results in an initial APH that is higher than for the producer with no in-county history of producing a subject crop (Table 3b versus Table 2b).

If required production reports for APH purposes are not filed by a new producer in the initial year the APH yield is established, then an APH is calculated using one of the following procedures:

- (a) One actual yield and three 80 percent T- yields if only the most recent crop year's production

records are provided and a producer (insured) has produced the crop in the county for two years;

- (b) 65 percent of the T-yield if no production records were provided and the crop was produced in the county by a new producer (insured).

A producer (insured) may receive an initial yield, as described, and then does not report production for subsequent years. In such cases 75 percent of the previous year is approved APH yield will be assigned.

**Summary**

RMA employs a specific *new producer* definition . This status generally provides favorable calculation methods for determination of initial approved yields for crop insurance.

This *Briefing* outlines general procedures for new producers to follow to obtain approved yields. New producers are encouraged to initiate this process with their crop insurance agents.

