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Insurable Unit Structures in Crop Insurance

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Introduction

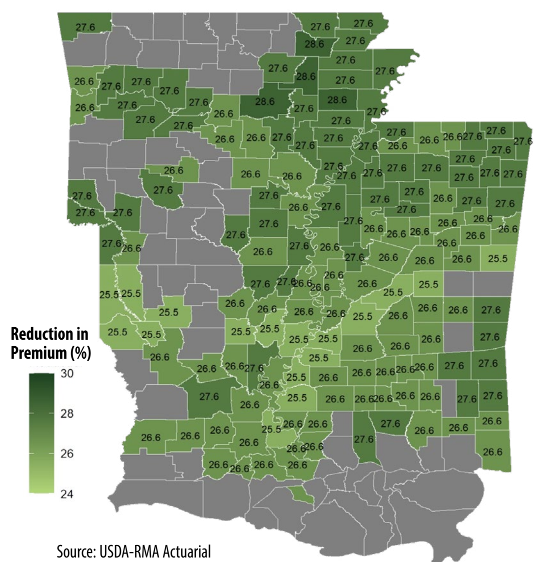
This fact sheet provides information on the types of insurable unit structures offered under individual[1] crop insurance programs administered by the USDA-Risk Management Agency and provides examples of how each unit structure functions.

Crops insured under individual insurances may be insured with optional, basic, enterprise or whole farm units. Basic and Optional Units allow a producer to insure at the lowest level of aggregation, while Enterprise Units provide coverage aggregated across all planted acreage under one farm business legal structure in each county. Whole Farm Units aggregate covered acres across all insurable crops in each county.

Basic Units

Basic Units allow acreage to be insured based on crop, land ownership, and rental agreements. All land under the same crop that is owned or cash rented can be considered as one Basic Unit. Insurable acreage under a crop share agreement is broken up into different Basic Units

Percentage Discount in Basic and Enterprise Units Compared to Optional Units
(Corn at 75% YP Coverage Level)



Source: USDA-RMA Actuarial Data Master (2023)

for each different landlord. A producer needs to keep production records for each Basic Unit. Basic Units may face close to a 30 percent premium discount but face the same premium subsidy rate as Optional Units (Figure 1). For more information on subsidy rates for each insurance unit type see Biram, 2023.

Optional Units

Optional Units are the most specific insurance option and

[1] See Biram and Connor (2023) for a discussion of individual versus area plans of insurance.

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allow a producer to divide their Basic Units into Optional Units given several factors. For example, if a Basic Unit has segments located in two separate legal sections it can be divided into two optional units. A Basic Unit can also be divided into optional units based on if segments are irrigated or not. If half of the acreage in a Basic Unit is irrigated and half is non-irrigated then it can be divided into two Optional Units. Producers need to have production records for each Optional Unit.

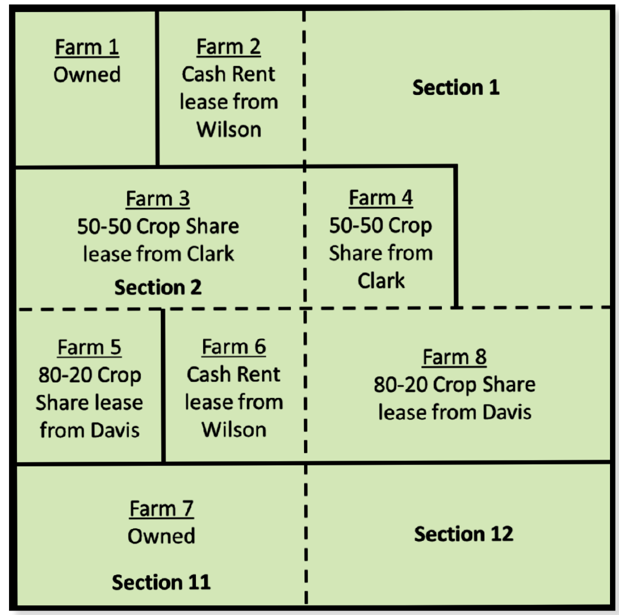
Enterprise Units

Enterprise Units aggregate acreage across land that is either owned, cash rented or leased with a crop share agreement for each crop in a county. Producers can also create separate Enterprise Units for irrigated and non-irrigated for a given crop. Enterprise Units, like Basic Units, face as much as a 25 percent premium discount and a higher premium subsidy rate relative to Optional and Basic Units mostly because risks are aggregated across plots of land in a county. While Enterprise Units face a higher subsidy rate and therefore face lower producer-paid premiums, the risk protection can be diminished if yields are not strongly correlated across insurable acreage in a county. If yields across multiple insurable plots of land are strongly correlated or tend to be the same no matter where a crop is planted in a county, then Enterprise Units could be a cost-effective way to manage risk relative to Optional or Basic Units.

Whole Farm Units

Whole Farm Units further aggregate the land by combining insurable units across crops. Whole Farm Units face a premium discount that depends on the number of crops insured under the unit and face a higher premium subsidy rate than Enterprise Units for farmers who choose to insure more than one crop under a Whole Farm Unit. The subsidy rate for Whole Farm Units is the same as that of Optional and Basic Units if there is only one commodity insured under the policy. The subsidy rate increases to 80 percent for the 50-75 percent coverage levels for farmers who insure two or more commodities. Farmers are eligible to enroll in 80 and 85 percent coverage levels if they plan to insure three or more commodities under one Whole Farm Unit.

One Crop Example



The above is an example of insurable units when there is one crop across multiple sections and rental agreements in a county. In this example there are six Optional units, three Basic units, one Enterprise unit, and one Whole Farm unit. Below is a breakdown of how the number of each type of unit is determined.

Optional Units: 6 units

1. Farm 1 (Owned) + Farm 2 (Cash Rent, Wilson)
2. Farm 3 (50-50 Crop Share, Clark, Section 2)
3. Farm 4 (50-50 Crop Share, Clark, Section 1)
4. Farm 5 (80-20 Crop Share, Davis, Section 11)
5. Farm 6 (Cash Rent, Wilson) + Farm 7 (Owned)
6. Farm 8 (80-20 Crop Share, Davis, Section 12)

Basic Units: 3 units

1. Farm 1 (Owned) + Farm 2 (Cash Rent, Wilson) + Farm 6 (Cash Rent, Wilson) + Farm 7 (Owned)
2. Farm 3 (50-50 Crop Share, Clark, Section 2) + Farm 4 (50-50 Crop Share, Clark, Section 1)
3. Farm 5 (80-20 Crop Share, Davis, Section 11) + Farm 8 (80-20 Crop Share, Davis, Section 12)

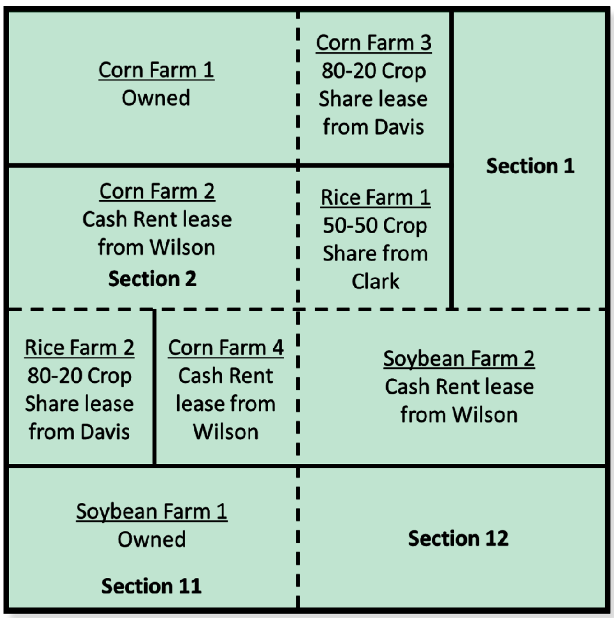
Enterprise Units: 1 unit

1. All eight farms

Whole Farm Units: 1 unit

1. All eight farms

Multiple Crops Example



Consider when a farmer wants to insure multiple crops under multiple ownership structures in a county. In this example, there seven Optional units, five Basic units, three Enterprise units, and one Whole Farm unit. Below is a breakdown of how the number of each type of unit is determined.

Optional Units: 7 units

1. Corn Farm 1 (Owned) + Corn Farm 2 (Cash Rent, Wilson)
2. Corn Farm 3 (80-20 Crop Share, Davis)
3. Corn Farm 4 (Cash Rent, Wilson)
4. Soybean Farm 1 (Owned)
5. Soybean Farm 2 (Cash Rent, Wilson)
6. Rice Farm 1 (50-50 Crop Share, Clark)
7. Rice Farm 2 (80-20 Crop Share, Davis)

Basic Units: 5 units

1. Corn Farm 1 (Owned) + Corn Farm 2 (Cash Rent, Wilson) + Corn Farm 4 (Cash Rent, Wilson)
2. Corn Farm 3 (80-20 Crop Share, Davis)
3. Soybean Farm 1 (Owned) + Soybean Farm 2 (Cash Rent, Wilson)
4. Rice Farm 1 (50-50 Crop Share, Clark)
5. Rice Farm 2 (80-20 Crop Share, Davis)

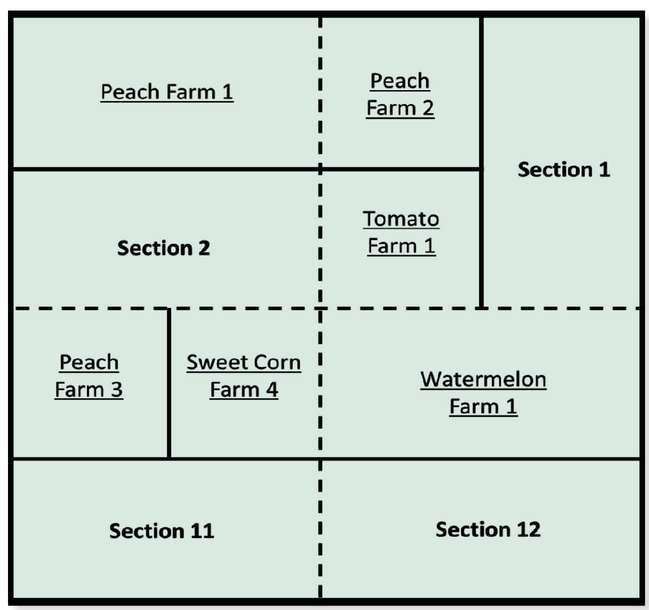
Enterprise Units: 3 units

1. Corn Farm 1 (Owned) + Corn Farm 2 (Cash Rent, Wilson) + Corn Farm 3 (80-20 Crop Share, Davis) + Corn Farm 4 (Cash Rent, Wilson)
2. Soybean Farm 1 (Owned) + Soybean Farm 2 (Cash Rent, Wilson)
3. Rice Farm 1 (50-50 Crop Share, Clark) + Rice Farm 2 (80-20 Crop Share, Davis)

Whole Farm Units: 1 unit

1. All eight farms

Specialty Crop Example



Consider the case when a farmer grows peaches, sweet corn, tomatoes and watermelon all under one farm. Since these crops are not eligible for individual insurance products that qualify for Optional, Basic and Enterprise units, these crops may be insured under a Whole Farm Revenue Protection Policy. A farmer would need to insure total revenue, summed across all crops, and would insure their revenue across the whole farm under one Whole Farm unit.

Considerations

We have described the similarities and differences between the insurable unit structures for all major types of individual insurance products (YP, RP, RP-HPE and WFRP). Each insurable unit structure faces both a different premium structure and a different premium subsidy rate structure. Generally, Optional units face the highest producer premium and the lowest premium subsidy rate but offer better risk protection since yield and revenue losses are not aggregated across units. Conversely, Enterprise units face the lowest producer premium and the highest premium subsidy rates but offer less effective risk protection since losses are aggregated across units.

Therefore, it is important to consider the diversity of your insurable land when choosing your insurance unit. If your insurable land includes several different crops, soil types, irrigation, etc., this will impact the variability in your yield/revenue. The more variability across insurable units, the more risk protection provided by Optional and Basic units and the lower the risk protection from Enterprise and Whole Farm units. Thus, producers who have more variability across their land could see high losses in both yield and revenue in a given year and still not receive an indemnity payment if they have Enterprise units and especially if they have Whole Farm. Understanding the differences in insurance units is important so that the risk to your farm is properly managed.

References

Biram, H.D. (2023). *Why does the federal government subsidize crop insurance?*. University of Arkansas System Division of Agriculture, Cooperative Extension Service Fact Sheet No. FSA74.

Biram, H.D., Connor, L. (2023). *Types of Federal Crop Insurance Products: Individual and Area Plans*. University of Arkansas System Division of Agriculture, Cooperative Extension Service Fact Sheet No. FSA75.

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