Risk Management Agency

Organic Crop Insurance Audit and Next Steps
Questions & Answers
February 27, 2013

Q. What is the outcome of the Office of the Inspector General's audit of the organic crop insurance program?

A. On Feb. 22, 2013, USDA's Office of Inspector General (OIG) issued an audit of the USDA Risk Management Agency (RMA) Federal crop insurance program for organic farming practices. OIG audit located at: http://www.usda.gov/oig/rptsauditsrma.htm found that Transitional Yields (T-yield), offered to organic growers generally exceeded what they had produced using organic farming practices for crop years 2008-2010.

Due to limited data in earlier years, RMA traditionally offered the same T-yield to organic growers as to conventional producers; the findings of the OIG Audit suggest that since average organic yields are lower than average conventional yields for many crops* the use of conventional T-yields in determining insurance coverage for some organic growers has resulted in excessive insurance coverage and higher indemnity (loss) payments to insured organic growers for 35 of 48 organic crop policies with losses. Because the coverage on certain policies it underwrote was excessive, RMA paid at least $952,000 of $2.56 million in additional indemnities to insured organic growers for these policies. Insured organic growers had a loss ratio (i.e., total claims paid out/premiums paid in) of 105 percent. In contrast, insured conventional producers had a loss ratio of only 67 percent over the same period.

*See the difference in yields between organic and conventional production for specific crops where warranted and observed in RMA's historical data, **Comparison of Organic and Conventional Yields,** Attachment 2.

Q. What is a T-Yield?

A. A T-yield is an average yield for a county, determined by RMA in the collection of data, which growers may use to substitute for low yields in their yield history (yield substitutions) or to ensure an overall minimum level of insurance coverage. The purpose of the T-Yield is to minimize the downward impact on insurance coverage that can occur after an unusually bad year, or series of years.

Current Status

Q. What is the current status of the Risk Management Agency's crop insurance program for organic crops?

A. Coverage for both certified organic and transitional to organic farming practices have been insurable through the RMA federally sponsored Federal crop insurance program since the 2001 crop year. All crops grown under the organic farming practice are eligible for Federal crop insurance provided they meet the standard terms and conditions for all producers and crops. Organic growers

obtain the same insurance coverage as conventional producers, except that the organic farming practice requires a 5% premium surcharge.

Despite this surcharge, loss ratios for organic crop production have generally been significantly higher than comparable conventional production (see Attachment 1, **RMA Loss Experience for Organic Crops)**. The higher rate of loss for organic crops is partially attributable to the use of conventional T-Yields.

Q. Why did the use of Conventional T-yields contribute to higher loss ratios for Organic growers?
A. Organic growers currently use the same county T-yield as conventional growers. For a number of crops, the average organic farming yield reported to RMA has been lower than the comparable average conventional farming yield (see attachment 2). To the extent that organic growers are using conventional-based T-yields in place of their own yields (or have less than 4 years of records) to establish their insurance guarantee, those guarantees can end up being inappropriately high. The inappropriately high insurance guarantees are contributing to the higher loss ratios for organic production.

Q. What did the OIG Report Recommend?
A. The OIG evaluated RMA's controls over Federal crop insurance coverage for organically produced crops and determined that T-yields offered to organic growers overstated actual production performance of farmers producing many crops using organic farming practices, resulting in excessive payments. OIG recommended that T-yields be adjusted downward by 35 percent, or by an appropriate percentage determined by RMA. The 35 percent figure was based on a broad estimate contained in the external study of organic premium rates mentioned above conducted with data generally available through crop year 2007.

Q. What is the first step RMA will take to comply with the OIG audit findings?
A. The first step RMA will take to comply with the audit findings is to **eliminate** the 5% surcharge for all other crops* insured under organic farming practices.

*In response to the 2008 Farm Bill, an external study on organic premium rates www.rma.usda.gov/pubs/2010/written-rating.pdf recommended that RMA: Lower T-yields, where warranted, for organic production, and; Eliminate the 5% premium surcharge. RMA eliminated the 5% surcharge in 2011 for 10 crop insurance programs: Figs; Florida Citrus Fruit; Florida Fruit Tree (Pilot); Macadamia Tree; Nursery; Pears; Peppers; Prunes; Texas Citrus Tree; and Texas Citrus Fruit.

Q. What are additional steps RMA will take to comply with the OIG audit Findings?
A. RMA will establish a differentiated insurance offer for organic production that, for organic prices, reflects the difference in prices between organic and conventional production where sufficient price data exists. Organic crops under current analysis showing potential for differentiated price election in crop year 2014 or 2015 include: almonds, apples, pears, additional stonefruits, blueberries, table grapes, wheat, barley and oats.

RMA currently offers Organic prices for corn, cotton, and soybeans, as well as processing tomatoes, avocadoes, and stonefruit crops: fresh freestone peaches, fresh nectarines and plums in California.

Q. Are there additional steps RMA will take to help collect necessary organic data?
A. RMA has actively worked with National Agricultural Statistics Service (NASS) and other USDA agencies, such as the Agricultural Marketing Service and Economic Research Service for several years on organic data issues, highlighted by the RMA-funded NASS 2011 Organic Production Survey http://www.rma.usda.gov/pubs/index.html#organics In addition, an organic add-on to the next NASS Census of Agriculture is planned as the next major data improvement on organics from public sources. RMA will continue to pursue private and proprietary data sources as available.

Q. Is RMA working with Organic Stakeholder Groups to help collect organic data?
A. Yes, RMA has actively worked with various organic stakeholder groups such as, The Organic Trade Association, Organic Farming Research Foundation, National Sustainable Agriculture Coalition and National Organic Coalition. RMA will continue to work with those groups and other grower groups for sources to provide organic pricing data.

Next Steps – 2014

Q. When will changes to the organic growers T-Yields Begin?
A. This will be phased in beginning with crop year 2014 T-yields.

- Historical T-yields prior to 2014 will not be changed and may continue to be used in established yield history.
- In general, T-yields are based on actual yields reported to RMA by growers via their own yield records, which contain up to ten years of historical yields.
- T-yields for organic growers will be crop-specific where sufficient data exists and will be based on lowest level of aggregation supported by the data. Initial adjustments for 2014 will be based on appropriate levels of aggregation (i.e. national, regional, state) with the expectation adjustments will become more refined (i.e. district, county) as organic participation increases.
- For crops with insufficient data, RMA will establish organic T-yields based on yields observed for related organic crops.
- Organic T-yields, as well as conventional T-yields will be updated on a periodic basis, generally every 3 years to account for changes that occur over time and increasing amounts of available data. As more data becomes available, RMA will refine and update its estimates of the relationship between organic/conventional yields to a more specific geographical level (i.e., national versus region, state, district or county).

Q. What will the changes to organic growers T-yields mean to my organic crop policy?

A. Those organic growers who have been as productive, or nearly as productive, as conventional growers, will enjoy the elimination of the 5% premium surcharge with generally no other effects on coverage. Those organic growers who have been less productive to the point that their insurance guarantees have relied more on the use of T-yields that reflected conventional yields which increased their insurance guarantees, will see those insurance guarantees fall more in line with what they have historically produced – but premiums will also decrease in proportion to the decrease in coverage - since the 5% surcharge is being dropped.

Chart 1: Heavy Reliance on T-Yields

(Iowa Organic Corn Grower, Yield in Bushels/Acre)

		Current: Same T-Yield for All Practices (incl. Organic)			Proposed: Separate Organic Practice (Separate T-Yields for Organic and Conventional Starting in 2014)		
Year	**Organic Grower Actual Yield**	**County T-Yield**	**Yield Plug (60% of T-yield)**	**Yield Applied**	**Organic County T-Yield**	**Organic Yield Plug (60% of T-Yield)**	**Yield Applied**
1992	101	109	65	101	109	65	101
2004	86	134	80	86	134	80	86
2006	31	134	80	80	134	80	80
2008	36	134	80	80	134	80	80
2010	107	134	80	107	134	80	107
2011	80	154	92	92	154	92	92
2013	65	163	98	98	163	98	98
2014		163			127		
Average	72			92			92
Yield Floor (80% of 2014 County T-Yield)				130	**Organic Yield Floor**		102
Grower's 2014 Actual Production History (APH)				130	**Grower's 2014 APH Yield**		102

Comparison of Current v. Proposed Organic Coverage and Premium for 2014

	APH Yield	**Organic Price**	**Coverage Level**	**Guarantee**	**Premium Rate**	**Premium Amount**
Current	130	$7.99	65%	$675.16	8.2%	$55.04
Proposed	102	$7.99	65%	$529.74	7.8%	$41.11
Percent Change	-22%			-22%	-5%	-25%

Notes:

- In this example, the grower's 2014 insurance guarantee ("2014 APH Yield") is determined by the county T-yield via the yield floor (minimum yield = 80% of county T-yield) because their average Yield Applied is lower than the 2014 Yield Floor.
- Currently, this provides an insurance guarantee well above the grower's historical average, resulting in a high rate of insured losses.
- In this example, RMA is proposing to reduce the organic T-yield by approximately 22% - the observed historical difference between organic and conventional yields - and drop the 5% organic surcharge.
    - This results in a significantly lower insurance guarantee (-22%), offset by a lower premium paid (-25%).

Chart 2: No Reliance on T-Yields

(Michigan Blueberries Grower, Yield in Pounds/Acre)

		Current: Same T-Yield for All Practices (incl. Organic)			Proposed: Separate Organic Practice (Separate T-Yields for Organic and Conventional Starting in 2014)		
Year	**Organic Grower Actual Yield**	**County T-Yield**	**Yield Plug (60% of T-yield)**	**Yield Applied**	**Organic County T-Yield**	**Organic Yield Plug (60% of T-Yield)**	**Yield Applied**
2010	3,666	4,308	2,585	3,666	4,308	2,585	3,666
2011	6,000	4,308	2,585	6,000	4,308	2,585	6,000
2012	12,500	4,308	2,585	12,500	4,308	2,585	12,500
2013	6,156	4,308	2,585	6,156	4,308	2,585	6,156
2014		4,308			3,403		
Average	7,081			7,081			7,081
Yield Floor (80% of 2014 County T-Yield)				3,446	**Organic Yield Floor**		2,722
Grower's 2014 Actual Production History (APH)				7,081	**Grower's 2014 APH Yield**		7,081

Comparison of Current v. Proposed Organic Coverage and Premium

	APH Yield	**Non-Organic Price**	**Coverage Level**	**Guarantee**	**Premium Rate**	**Premium Amount**
Current	7,081	$0.36	65%	$1,656.84	8.9%	$147.46
Proposed	7,081	$0.36	65%	$1,656.84	8.5%	$140.08
Percent Change	0%			0%	-5%	-5%

Notes:

- In this example, the grower's insurance guarantee is not affected by the county T-yield because their average yield is above the yield floor.
- In this example, RMA is proposing to reduce the organic T-yield by approximately 21% - the observed historical difference between organic and conventional yields - and drop the 5% organic surcharge.
    - The insurance guarantee is unaffected because the grower is not relying on T-yields.
    - The premium amount still decreases due to the removal of the organic surcharge.

Attachment 1

RMA's Loss Experience for Organic Crops

Organic Experience by Year (as of 03/28/2012)					
Year	**Acreage**	**Liability**	**Premium**	**Indemnity**	**Loss Ratio**
2004	210,393	$ 38,215,333	$ 5,021,914	$ 6,849,501	1.36
2005	280,939	$ 57,081,819	$ 6,799,909	$ 5,750,087	0.85
2006	368,906	$ 82,903,270	$ 9,494,181	$ 10,383,005	1.09
2007	439,740	$ 127,355,603	$ 14,559,143	$ 13,190,511	0.91
2008	487,179	$ 179,654,525	$ 22,714,003	$ 29,142,486	1.28
2009	576,309	$ 221,451,441	$ 27,722,830	$ 30,595,955	1.10
2010	550,283	$ 215,858,643	$ 22,459,428	$ 18,150,690	0.81
2011	637,159	$ 356,068,120	$ 40,060,243	$ 51,608,722	1.29
Total	3,550,908	$ 1,278,588,754	$ 148,831,651	$ 165,670,957	1.11

Conventional Experience by Year where Organic Insured* (as of 03/28/2012)					
Year	**Acreage**	**Liability**	**Premium**	**Indemnity**	**Loss Ratio**
2004	24,898,167	$ 5,447,490,188	$ 503,687,434	$ 398,531,289	0.79
2005	29,487,180	$ 6,552,350,434	$ 574,770,000	$ 265,324,970	0.46
2006	33,416,645	$ 8,310,575,713	$ 733,331,799	$ 421,995,239	0.58
2007	40,193,085	$ 13,413,636,066	$ 1,270,074,802	$ 591,156,156	0.47
2008	48,014,345	$ 21,607,424,367	$ 2,294,087,594	$ 2,116,223,592	0.92
2009	51,802,809	$ 21,031,845,484	$ 2,081,683,231	$ 969,141,421	0.47
2010	52,339,625	$ 21,331,553,419	$ 1,751,354,072	$ 716,522,022	0.41
2011	71,850,141	$ 38,526,186,588	$ 3,699,456,975	$ 2,583,066,231	0.70
Total	352,001,997	$ 136,221,062,259	$ 12,908,445,907	$ 8,061,960,920	0.62

*Includes only crop/counties where certified organic was insured under the same plan of insurance.

Attachment 2

RMA - Comparison of Organic and Conventional Yields*

Crop Name	Average Conventional Yield	Average Organic Yield	Organic/ Conventional
Almonds	1,974.8	1,210.2	0.61
Apples	881.5	786.1	0.89
Avocados	6,641.4	5,695.1	0.86
Barley	54.0	31.1	0.58
Blueberries	5,954.0	4,930.8	0.83
Buckwheat	24.3	15.5	0.64
Cabbage	452.0	266.8	0.59
Corn	149.7	112.0	0.75
Cotton	415.5	419.1	1.01
Dry Beans	1,736.8	1,313.9	0.76
Dry Peas	1,656.0	755.8	0.46
Figs	3,050.1	3,229.2	1.06
Flax	18.9	11.7	0.62
Forage Production	3.1	3.2	1.02
Fresh Apricots	543.2	427.2	0.79
Fresh Freestone Peaches	861.0	719.4	0.84
Fresh Nectarines	750.2	631.4	0.84
Grain Sorghum	60.9	41.2	0.68
Grapes	8.2	7.9	0.96
Green Peas	4,048.7	3,837.9	0.95
Lemons	557.6	439.5	0.79
Mandarins	557.1	353.4	0.63
Millet	26.5	19.0	0.72
Navel Oranges	658.9	428.8	0.65
Oats	58.0	50.9	0.88
Onions	399.5	331.2	0.83
Pears	16.5	14.4	0.87
Plums	506.3	408.5	0.81
Popcorn	4,567.0	2,729.5	0.60
Potatoes	381.3	305.0	0.80
Processing Apricots	9.9	7.1	0.72
Processing Cling Peaches	15.9	13.4	0.84
Prunes	1.9	1.6	0.83
Rice	7,448.1	5,179.6	0.70
Rye	39.3	33.6	0.85
Safflower	1,023.0	508.6	0.50
Soybeans	42.7	28.5	0.67
Sunflowers	1,396.7	1,058.7	0.76
Sugar Beets	23.6	18.6	0.79
Sweet Corn	8.2	5.8	0.71
Table Grapes	812.9	685.4	0.84
Tomatoes	35.1	36.0	1.02
Valencia Oranges	498.3	359.0	0.72
Walnuts	3,625.6	2,360.4	0.65
Wheat	38.2	23.5	0.62

* National average organic/conventional yield ratio based a comparison of crops grown within the same county, practice, and type.