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Whole-Farm Revenue Protection Myths and Misperceptions

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Producers of agricultural commodities are as varied in their approach to farming as baseball players are in their approach to hitting a baseball. In today's agriculture, much like baseball, there exists analytics for every facet of the game we call farming. However, all farms have common objectives; grow an exceptional product, stay in business, and do even better next year.

The Federal crop insurance program has many options for farmers to manage their risks and stay in business. The Whole-Farm Revenue Protection (WFRP) product is the single most flexible policy available to farmers that grow crops that don't have a traditional Federal crop insurance policy available. Many of the traditional products cover commodities that have established markets where the price guarantee is derived from commodity exchanges. Those products do not work very well for farmers that grow niche market commodities or sell directly to the public. WFRP was also designed to work for farmers producing a combination of commodities not covered by another Federal crop insurance product as well as those that are covered. Let's take a look at how the WFRP policy works.

To begin, an insurance guarantee needs to be established based on records provided by the farmer. As mentioned earlier, no two farming operations are the same with each having their own unique approach to producing commodities and organizational structure. Establishing the WFRP protection guarantee starts with building a revenue history. This information is gathered over a specified period of years from an individual's tax forms and other supporting records, primarily information entered on the IRS Schedule F. However, not all entity types are required to complete a Schedule F for tax reporting purposes. Without getting into too many details, these types of entities must complete and submit a substitute Schedule F for each year in the WFRP history period. As the name infers, WFRP covers the "whole" farming operation. It is very important that farmers provide their crop insurance agent with information about their organizational structure, including pass-through and other related entities.

Next the farmer submits a farm plan to his/her agent known as an "Intended Farm Operation Report." This plan will include many of the same details that a farmer might provide to their lender. Questions such as: which commodities he/she intends to produce in the coming year and number of acres of each; how many bushels/pounds/head, etc., per acre or total is expected; what price he/she can expect to receive; current inventory or storage data; accounts receivables and payables; and, the share of each of the commodities are just a few of the determinations a farmer must report. Later in the policy year, the farmer is afforded the opportunity to update the Farm Operation Report with actual plantings, purchases for resale, changes in intentions (subject to specified limitations), etc., that would affect the expected revenue of the operation.

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The amount of insurance coverage provided is a comparison of the result of the previous two paragraphs. The amount of revenue produced by the farming operation determined from the Whole-Farm history period is compared to the amount of revenue that the farming operation is expected to produce based on the farm plan. It is the lesser of these two amounts that form the basis of coverage. There are adjustments that can increase coverage when an operation is showing a trend of increasing revenues or

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expanding production capacity through adding land or facilities, but those details are best saved for another article.

Over time, lessons have been learned by farmers, agents, and insurance company personnel as they have become more educated and familiar with the concepts and requirements of WFRP. As the title of the article suggests, there have been some assumptions about WFRP that do not quite align with the fine print of the policy. Let's look at some of the most common myths about WFRP.

Myth: A Loss on the IRS Schedule F = Loss on WFRP.

The opening paragraph of the WFRP policy states: *"Whole-Farm Revenue Protection (WFRP) pilot provides protection against loss of revenue that you expect to earn or will obtain from commodities you produce or purchase for resale during the insurance period."*

- ***The Take Away:*** The IRS Schedule F may include revenue from previous years or may exclude revenue from commodities produced during the current policy year because they have yet to be sold. WFRP requires that accrual adjustments be made to allowable revenue used to determine the insurance guarantee and for claims. The IRS Schedule F is not a cash flow or profitability statement for the farming operation; rather, it is a measurement of the tax liability of the farming operation.

Myth: No Loss on the IRS Schedule F = No Loss on WFRP.

Under the heading of "Coverage," the policy states: *"This policy insures the approved revenue that you earn or expect to earn from all commodities that you produce or purchase for resale during the insurance period and in which you have an insurable interest."*

- ***The Take Away:*** The current year's IRS Schedule F may include revenue produced in prior years (e.g., the selling of stored grain from a previous year) that offsets revenue declines in the current year. The policy DOES NOT state that coverage is a measure of revenue fluctuations from one year to another based solely on the information provided on an IRS Schedule F.

Myth: The IRS Schedule F is the only source document needed to support the Whole-Farm History.

The word "supporting" or some version of it is used fifteen times in the WFRP policy. The policy has a provision that clearly spells out that providing just the IRS Schedule F is simply not enough: *"The allowable revenue and allowable expenses stated on the farm tax forms, including all forms **and records supporting these figures**, for the entire whole-farm history period..."*

- ***The Take Away:*** The procedures that are spelled out for approved insurance providers (AIPs) to follow require adjustments to allowable revenues and expenses for each year in the Whole-Farm history period. These adjustments simply cannot be made without supporting documentation of the numbers reported on the IRS Schedule F.

Myth: There is no need to support the amounts reported on the IRS Schedule F.

By now you should be picking up on the idea that the IRS Schedule F is only a starting point to determine the insurance guarantee for WFRP. A quick read of section 11 of the policy titled "Allowable Revenue" adds to the discussion. Simply providing an IRS Schedule F is not enough to create an accurate picture of the revenue generated from the production of insurable commodities. For example, WFRP does not provide coverage against the loss of revenue from commodities such as animals for show or sport, timber, and forest and forest products that may be included on the schedule F.

- ***The Take Away:*** In addition to the insured's duties, AIPs and agents are responsible for making correct determinations of allowable revenue and expenses for each year in the Whole-Farm history period using associated tax returns, applicable worksheets, and supporting documentation.

Myth: Only the revenue amounts (not expenses) on the IRS Schedule F need to be supported.

Expenses play a limited, though important, role in the coverage provided by WFRP and will only come into play at claim time if the determined allowable expenses for the policy year (expenses actually incurred) are less than 70 percent the approved expenses (allowable expenses determined at the beginning of the insurance period). If expenses for the policy year determined at claim time fall below 70 percent of the approved expenses, the approved revenue for measuring the current year's claim against will be reduced one percent (expense reduction factor) for each percent that expenses fall below 70 percent.

- ***The Take Away:*** WFRP does not provide protection against expenses not incurred. To ensure the benefits of the policy are accurately realized, supporting documentation of expenses must be provided to the AIP to make the proper accrual adjustments.

Myth: Expected value = the highest value ever received for the commodity on the farm.

Sure, the past can be an indication of the future, but only to a certain degree. According to the website macrotrends.net, consider that in 1974 the highest price received for a bushel of wheat was $6.34. The next year wheat was above $6.00 per bushel was in 2007 when it reached $9.79. Thirty-three years later! The price continued to go up until it began its decline from $12.83 in 2008 to a high of $6.75 in 2009. Wheat did not return to above $6.00 per bushel again until 2015. A current look at wheat prices shows it being traded at $4.96 per bushel on July 26, 2019.

- ***The Take Away:*** The policy states: *"Expected values must take into account current local markets, cycles, and trends…"* One can certainly see that wheat prices have experienced a great deal of cycles and trends over time. To expect $12.83 being realized in 2019 is not realistic, based on available information at sales closing time (March 15 in most areas). The policy provides a list of prioritized price sources that are utilized to assist the farmer in arriving at an appropriate expected value for the farm plan.

Myth: Expected yields = the highest yield ever experienced on the farm for the commodity.

The same logic, to a certain extent, applies to determining expected yields as it does to determining an expected value. Expectations are going to be exceeded in some years and others will leave a farmer disappointed. Several factors go into determining an expected yield for WFRP. For example, if an insurable commodity is also insured under another Federal crop insurance policy, the other policy's approved yield will be the expected yield for the WFRP policy. There are some allowances for deviations if the farmer can prove that changes to production practices that will be made during the insurance year will result in either a higher or lower expected yield. Again, supporting documentation will need to be provided. When a commodity is not insured under another Federal crop insurance policy, then the expected yield will be determined from the average yield produced on the farming operation during the Whole-Farm history period and the lag year. The policy goes on to explain the processes for determining yields for commodities produced for less than the number of years in the whole-farm history or if the farmer is growing a commodity for the first time.

- ***The Take Away:*** The policy states: "*The expected yield of the commodity is the yield that you can expect to produce on your farm operation under **normal** growing conditions, as demonstrated by your entire farm operation's production history or other data sources…*" It's normal to expect that some years the weather will not cooperate, and the result will be a catastrophic loss, but no one knows which year will be the "one." Likewise, it's normal to expect an exceptional year, but no one knows which year that will be either. The answer lies somewhere in the middle.

Myth: I experienced a loss on one of my commodities, I should be paid for that loss.

Let's go back to a statement in the opening paragraph of the policy: "*Whole-farm revenue consists of revenue from **all insured commodities** on the farm operation, including revenue from animals and animal products.*" The farm plan, or "Farm Operation Report," includes detailed information for each intended commodity the farmer plans to produce or purchase for resale on their farm operation during the insurance period.

- ***The Take Away:*** Depending on the makeup of the farming operation, a loss on one commodity could result in a payable loss under WFRP. On more highly diversified operations, however, revenue from other commodities produced will, in most cases, offset the loss on the one commodity. Farmers should work with their agent to understand how WFRP can be paired with other Federal crop insurance policies that cover a loss to a single commodity and the offset in premium liability to the WFRP policy they provide. Additionally, having a WFRP policy does not prevent a farmer from taking out a private Crop-Hail policy to cover losses to a single commodity from hail. Farmers should also ask their agent to explain how losses paid under the other policies interact with WFRP.

Myth: RMA will not provide an official interpretation of the WFRP policy.

- ***The Take Away:*** WFRP is a pilot program and, as such, a program participant may not obtain a Final Agency Determination (FAD) on questions regarding the meaning or application of policy language. But the federal regulations governing FADs now provide an avenue for an "FCIC Interpretation" that includes the WFRP policy and related procedural manuals. While this approach takes time (usually 90 days) and the request must be properly worded (e.g. no factual examples or hypotheticals), it does provide an avenue to obtain "bankable" answers to disputed terms.

Myth: There is an "Easy Button" for WFRP.

This article takes a very simplistic look at the WFRP program. The role of expenses, determinations of expected values, coverage for fiscal year filers, and the role accrual accounting plays are some of the more detailed aspects of WFRP that requires the help of a crop insurance agent. This will ensure that the requirements of the policy are met, and that coverage is tailored to the individual farming operation it is designed to protect. This article opened with detailing how every farm is different, and each has its own level of risk management needs. To ensure that WFRP is tailored to the farmer's operation, or any other type of insurance for that matter, a farmer needs to educate their insurance agent about their farming operation and provide the information required to get the best most accurate protection that crop insurance provides.

We began with a discussion of how baseball players and farmers both use analytics to be successful. So, let's look at how a hitting instructor uses analytics to help a player improve his approach to hitting. Is the player best suited to hit for average or home runs? Is their swing speed off the charts or could they benefit from a swing path that has the bat on a more level plane that stays in the hitting zone longer? Has the league employed a shift to one side of the field and the pitcher throws more breaking balls down and away so the player hits into the shift? Without this information, how much help is the hitting instructor to the player? A crop insurance agent, without adequate analytics of their insured's farming operation, will be challenged to tailor an individualized crop insurance risk management package specifically for them.

To quote President Dwight D. Eisenhower: "Farming looks mighty easy when your plow is a pencil and you're a thousand miles from the corn field." It's even harder if you don't have all the necessary information.