I.1 INSURANCE BASICS FOR FARMERS AND RANCHERS

PURPOSE OF THIS FACT SHEET

This fact sheet is to make you aware of the different types of insurance that may help to protect you and your family from losses associated with farming and ranching.

Health insurance and life insurance are not covered.

CONCEPTS

Premium, Liability and Payment: The amount you pay to purchase insurance is called the insurance premium. The total value of everything you protect is the insured liability. The payment you receive in the event of an insurable loss is called an indemnity. The indemnity is calculated by someone called a loss adjustor and is based on the percent of the actual loss and the percentage of coverage you purchase (usually 50-80% of the insured liability) less your deductible. The deductible is a stated dollar amount that is deducted from the calculated payment owed to you in the event of a loss.

Insurance Policy: is the name for the legal contract that describes exactly what sorts of problems (called "insured perils") are covered, and how the insurance company will calculate the amount of your indemnity. Calculating the indemnity is also called "adjusting the claim." The policy also states your obligations to the insurance company for reporting losses or likely losses as soon as they are known to you. The policy will have a section describing how disputes between the insurance company and the insured (policy holder) will be resolved. An insurance policy should not be dismissed as "fine print" even though it is in fine print. If you do not understand the exact terms of your insurance policy you may find that you are under insured (have not purchased an amount needed to reasonably protect you against the harms you anticipate) or over insured (you have paid for more insurance than is reasonably needed to protect you - this often means you have paid to insure the same thing more than once.) Also, if you do not understand the terms of your policy you might make a mistake in how and when you report a loss to the insurance company, and that mistake might prevent you from getting the payment you expect.

Insurance Agent and Insurance Company: Typically you purchase insurance from an independent insurance agent, a local business person who holds an insurance license issued by the state where they do business. The insurance agent has a contract to sell and service insurance policies for a particular insurance company. Your agent is your primary point of contact with the insurance company, but the insurance company is responsible for the terms of your policy, how your policy will be handled if you have a claim, and for actually compensating you per the terms of your policy. The insurance company is regulated by state law, and in the case of federal flood and crop insurance is also in a contractual relationship with a federal agency to sell and service specific policies.

Homeowner's Insurance: The primary purpose of homeowner's insurance is to compensate the homeowner for repair or replacement costs of the home building and personal property such as clothing, electronics, and furniture in the event of common hazards such as fire and theft. The policy may also cover out of pocket living costs if you are temporarily displaced from your home due to an insured cause. A lender will almost always require the borrower to have a homeowner's insurance policy as a condition of making a loan (mortgage). Often a homeowner's insurance policy will include property insurance and general liability insurance, both of these are discussed separately below. Depending on your location you may need to buy a special additional insurance policy to protect against damage due to earthquake or flood. The National Flood Insurance Program is a public-private partnership administered through the Federal Emergency Management Agency to make flood insurance policies available through private insurance companies in areas of high flood risk. A similar public-private partnership between the California Earthquake Authority and private insurance companies makes earthquake insurance available in California. If you operate a farm or ranch on a property where you also live you need to be careful to insure your farm or ranch operation separately because a homeowner's policy will probably not cover your business operation.

Property Insurance: The primary purpose of property insurance is to compensate the policy holder for repair or replacement costs to buildings and belongings due to common hazards such as accident, fire and theft. Depending on your location you may need to buy a special additional insurance policy to protect against damage due to earthquake or flood. If you operate a farm or ranch on a property where you also live you need to be careful to insure your farm or ranch operation separately as a homeowner's policy will probably not cover your business operation.

Automobile Insurance: is a special type of insurance to cover both property damage and personal injuries associated with operating an automobile. Every state requires drivers to carry at least a minimum amount of automobile insurance. Your personal automobile insurance policy will not necessarily cover you for accidents associated with your farm business including a worker driving a farm vehicle to town for supplies, or you making a special delivery to a customer. Be sure to talk with your insurance agent to get appropriate automobile insurance for your personal and business activities.

General Liability Insurance: protects the insured by covering costs associated with resolving lawsuits related to personal injury in the case of a homeowner's policy, or personal injury and common business-related issues in the case of a general liability policy for a business. Typically unprocessed farm products (fresh fruits, nuts, and vegetables) will be covered as part of a general liability policy for a farm, but products requiring additional processing (jams, sauces, baked goods) require a separate policy.

Product Liability Insurance: protects the insured by covering costs associated with resolving lawsuits related to problems caused by products the insured offers for sale. In the case of a farm or ranch making value added products, including packaged meats, a product liability policy would cover injuries associated with the processed product.

Business Interruption Insurance: covers the loss of income and additional out of pocket costs such as hiring a temporary manager, renting a temporary office, or taking other actions to meet contract obligations or maintain a customer base when business activities must cease or greatly scale back due to a covered cause such as a natural disaster or an injury to the primary business operator. This type of coverage is generally sold as a part of a full package of business insurance including property insurance and general liability insurance.

Disability Insurance: replaces earned income when the insured is unable to work due to injury or illness. The federal social security program includes a component designed to provide minimal income if a person is disabled prior to retirement. A few states, including California, also have minimal state-sponsored disability insurance programs funded through payroll taxes in a manner similar to the federal social security system. Private disability insurance is designed to offer higher levels of protection to ensure an individual or a family's continued well-being in the event of injury or illness. A typical policy will start to pay three to six months after the insured is unable to work and will pay 60% of what the insured would have earned. Disability insurance is often offered to employees as an optional employment benefit.

Workers Compensation Insurance: is paid by the employer but covers the employee in the event of a of a work-related injury. The employee does not need to sue the employer to receive the benefits; the policy automatically pays work-injury-related medical expenses and other benefits such as temporary and permanent disability or job re-training payments. An employer may still be liable for an employee's injury if the employer fails to take reasonable precautions to prevent conditions likely to cause serious injury, or if the employer caused or contributed to the injury. Most states require employers to carry workers' compensation insurance. Small business and agricultural exemptions vary by state.

Employers' Liability Insurance: is an additional policy paid by the employer to cover the employer for worker-related injuries beyond what is covered by workers compensation insurance.

Umbrella Insurance and Excess Liability Insurance: are additional insurance policies that cover costs beyond the limits of the basic insurance policies. An umbrella policy will typically cover excess liabilities for general liability, employer's liability, and commercial automobile policies. An excess liability policy is attached to one specific type of coverage and is sometimes called "buy-up" because you buy more coverage than the basic plan offers.

Crop Insurance: is specialized to the needs of farmers and ranchers. It includes specialized hail, fire and tree crop policies, which are developed and administered entirely by private insurance companies, and Multiple Peril Crop Insurance (MPCI) policies which are developed and administered through a public-private partnership between a number of private insurance companies and the Risk Management Agency of the USDA. MPCI policies may be purchased by a landowner, tenant or sharecropper as long as the policy holder shares in the risk of producing the crop and is entitled to an ownership share of the crop. Policies must be purchased prior to planting. Some policies can cover prevented planting due to weather-related events, some cover loss of price or price margin, and one product insures the average revenue of the whole farm operation. Limited coverage for certain types of livestock and for pasture, rangeland and forage are also available. Most MPCI policies are written for a single crop in a limited number of states and counties and cover loss of crop yields due to natural causes including drought, excessive moisture, freeze and disease. If an MPCI policy is not available in your county but is available in a nearby county you can request, and will usually receive, special permission to purchase the same coverage in your county. MPCI policies are complex and difficult to understand. If you purchase a policy you will be required to keep very specific records and to report specific data and make certain payments according to the terms and time line stated in the policy. If you fail to comply with the detailed terms of the policy you may not receive a payment even though you have paid your policy premium and suffered a loss due to an insurable cause. The calculation of the amount you will receive is also complex and based on detailed work performed by the insurance adjustor. MPCI policies are not designed to make you as well of as if the loss had not occurred, they are designed to pay between 50 and 80 percent of the value of the loss depending on how much coverage you buy.

Non-insured Crop Disaster Assistance Program: The USDA Farm Service Agency (FSA) administers an additional crop insurance program called NAP(short for non-insured assistance program). NAP is not part of a public-private partnership, it is administered directly by the FSA. To sign up for NAP you must go to your local FSA office. NAP is for producers who cannot purchase an MPCI policy because they grow crops that are not covered by MPCI or farm in an area where MPCI policies are not offered. NAP is further restricted to people who can calculate their annual income, using special FSA rules, at less than $900,000 a year. There are also special rules to limit the maximum total amount of NAP payments to $125,000 per individual or business entity per year. Although NAP is relatively inexpensive to purchase, and deeply discounted for beginning, limited resource, and historically underserved producers, it does require you to keep records you might not otherwise keep, and if you do not keep the required records you will not receive a payment, even though you paid the fee to sign up for NAP. NAP policies are not intended to fully compensate you for crop losses, they are intended to help mitigate the cost of disasters and to lessen the need for emergency legislation to assist when a farming community is hit hard by a natural disaster such as a wildfire or a tornado.

DISPUTES WITH YOUR INSURANCE COMPANY AND STATE REGULATION

Insurance isn't usually much of an issue until things go wrong, and during a difficult time it can be hard to make sense of the complexity of the process and find all the required records. It is important to understand that insurance companies must take reasonable measures to verify the validity of your claim in order to deter insurance fraud. If it was too easy to process an insurance claim it would create what insurance companies call "a moral hazard" or a great temptation for people to make false claims. On the other hand, it can be difficult to tell the difference between an insurance company avoiding insurance fraud and an insurance company making unreasonable delays in making a legitimate payment. This is part of why insurance companies are regulated. If you have a dispute with your insurance company look first to the dispute section of your policy. It may require mediation and arbitration as an alternative to a lawsuit. Also contact your state agency in charge of regulating insurance agencies to see what assistance they may offer.

WHERE TO GET HELP

A licensed attorney is someone who is licensed by the state where they practice law. The license authorizes the attorney to represent clients in a court of law, or in an administrative appeal with a state or federal agency, including a state taxing authority or the IRS. The requirement for licensing in most states is a four-year degree, an additional degree from an accredited law school, a passing score on a difficult multi-day examination, and a background check. Some attorneys specialize in personal injury, others in employment law, and some in general business issues including entity formation, contracts, including insurance, and taxation.

ADDITIONAL RESOURCES

Farm Commons
https://www.farmcommons.org/34-insurance-farm-policies-and-principles-efficiently-manage-risk

USDA Risk Management Agency Agent Locator

USDA Farm Service Agency Non Insured Assistance Program

FARM AND RANCH BUSINESS HEALTH ASSESSMENT
Author: Poppy Davis, October, 2017
This publication is a joint effort of California FarmLink and SAGE
(Sustainable Agriculture Education) funded by the United States Department of Agriculture Farm Service Agency.
We would like to thank additional partners: ALBA (Agricultural and Land Based Training Association)
for testing and Spanish language translation.
The Business Health Assessment and all related fact sheets are available on the Resources section of the
California FarmLink website www.CaliforniaFarmLink.org