

Nutrient BMP Endorsement Common Questions and Answers

1) Q: Why was the Nutrient BMP Endorsement developed?

A: The Nutrient BMP Endorsement reduces the financial risks corn farmers face when they follow state agency recommendations for nitrogen and phosphorus fertilizer application rates. By reducing rates to those recommended, farmers can save money and reduce pollution of ground and surface water. However, under some conditions, yields may suffer due to insufficient nutrients. The Endorsement will protect farmers from economic loss when those conditions occur, minus a 5 percent deductible.

2) Q: How does the endorsement work?

A: The farmer purchases the endorsement in the spring along with Multi-Peril Crop Insurance (MPCI) or Crop Revenue Coverage (CRC) crop insurance policies for corn. A certified crop consultant works with the farmer to determine the recommended rate for nitrogen and phosphorus fertilizer, and sets out comparison strips in the field. The farmer will fertilize one of those strips with whatever rate of fertilizer he or she feels is adequate to ensure a full yield. The remainder of the insured acreage is fertilized at the recommended, or BMP rate. At crop maturity, yield is compared between the strips. If the yield on the BMP-fertilized strips is less than the strip fertilized at the higher rate, the farmer is paid an indemnity minus a 5 percent deductible.

3) Q: What is a BMP?

A: A BMP, or Best Management Practice, is a technique developed through scientific research and designed to result in the best possible returns to the user. In this case, the BMP is using field history and soil test results to calculate the nitrogen and fertilizer application rates that will give the best dollar return to the farmer over time. In some years, following the BMP may reduce yields, but this loss in most cases will be made up by savings in fertilizer costs over the number of years the BMP is used. Many farmers prefer not to bear the cost of the occasional loss in the year it occurs. The Nutrient BMP Endorsement is a way to benefit from the fertilizer cost reduction every year, without risk of loss greater than 5 percent.

4) Q: When will the endorsement be available for sale?

A: The endorsement has been approved for the 2003 growing season. It will be available for sale in January 2003.

5) Q: How late in the season can the Endorsement be purchased?

A: The endorsement must be purchased by March 15 of the cropping year.

6) Q: Will all crop insurance companies be offering the endorsement?

A: The endorsement is a pilot program. Insurers participating in the Federal Crop Insurance program are not required to offer it.

7) Q: What corn crops currently qualify for the endorsement?

A: The corn crop must be intended for grain and located in Iowa, Minnesota, Pennsylvania or Wisconsin; eligible for and covered by an MPCI or CRC insurance policy; the acreage may not be irrigated; and a crop other than corn (e.g., soybeans, alfalfa) must have been planted in the field the previous year. More detailed requirements are included in the endorsement provisions.

8) Q: Can the Endorsement be added to acres insured under a Revenue Assurance (RA) policy?

A: No. Current terms limit the Endorsement to MPCl or CRC coverage only.

9) Q: Why is continuous corn not approved for coverage under the Endorsement?

A: Continuous corn faces a greater risk of nutrient insufficiency than rotated corn and would require a higher premium. Additional data and analysis are needed to determine risks and premium rates.

10) Q: Why is irrigated corn not approved for coverage under the Endorsement?

A: In some irrigation systems, water supplies could be easily manipulated to increase the likelihood of a claim. This risk was judged too great to include irrigated corn in this pilot.

11) Q: If corn is intended for grain and then cut for silage, how will coverage be handled?

A: If corn acres are intended for grain, insured under the endorsement and then cut for silage, the farmer must leave the check strip and adjacent strips unharvested or the endorsement coverage will be cancelled. Insurer permission must be obtained before harvesting any portion of the insured acres.

12) Q: Must the entire MPCl or CRC insurance unit be covered by the endorsement?

A: No. The farmer may add the endorsement to only a portion of the underlying MPCl or CRC unit.

13) Q: Is Endorsement coverage continuous or annual?

A: Endorsement coverage is continuous. To cancel in a subsequent crop year, the farmer must notify the insurer in writing.

14) Q: Can a farmer split or mix hybrids within an Endorsement management unit?

A: No. Current terms require that the same hybrid be planted across the entire endorsement management unit.

15) Q: Who sets price election for endorsement coverage?

A: The price election, or per bushel price used to compute indemnities, is set by the FCIC and is the same as that set for MPCl-APH coverage.

16) Q: How much does the endorsement cost?

A: The price of the endorsement varies by state and by service option. The full-service price range runs from \$7.65 per acre in Pennsylvania to \$9.13 in Wisconsin and \$9.39 in Minnesota and Iowa. At crop maturity, if the farmer determines that yield is satisfactory and does not call for an adjustment, a \$2 per acre adjustment credit will be applied, reducing costs to \$5.65, \$7.13 or \$7.39 per acre. The endorsement price also includes a \$1.25 per acre fee to have the insurer hire a certified crop consultant to set out the comparison, or check strips. The farmer may avoid this fee in whole or in part by making his or her own arrangements to have the strips set out, as long as this is done by a certified crop consultant approved by the insurer.

17) Q: Can commercial nitrogen fertilizer be applied in the fall?

A: Commercial nitrogen fertilizer must be applied after March 1 to be counted towards the nutrient requirement for the insured field. For example, if the farmer applies all commercial fertilizer in the fall, he or she would be required to apply the entire amount recommended by the nutrient management plan again after March 1, reducing or eliminating the benefit of the endorsement. If commercial nitrogen fertilizer is applied in the fall, there is a greater risk of nitrogen loss due to leaching, volatilization into the atmosphere and denitrification.

18) Q: Can manure be applied before March 1?

A: Manure can be applied at any time. Any manure applied after the previous harvest may be counted towards the nutrient credits recommended by the nutrient management plan.

19) Q: How is a claim adjusted?

A: If the farmer is satisfied with the yield and does not call for an adjustment, the farmer will receive a \$2 per acre credit towards the purchase of the endorsement. If the farmer suspects a yield loss greater than the 5 percent deductible on an insured field, he or she will call the insurer to arrange for an adjustment. An adjuster will visit the insured field, supervise farmer harvest of the strips, weigh the harvested production using a weigh wagon, local stationary scales or portable scales and compare the yield of the check strip to the yield of the adjacent strips.

20) Q: What is a check strip?

A: The check strip, or comparison strip, is an area of the insured field that is fertilized at a rate higher than the recommended BMP rate. The check strip must be between 40 and 60 feet wide and run the length of the field, excluding end rows. The farmer or custom applicator applies fertilizer on the check strip at a rate the farmer is sure will be adequate for a full yield.

21) Q: What is a BMP strip?

A: The BMP strip is a set of rows identical in size to the check strip and located immediately adjacent to the check strip on either side. Two BMP strips are located and marked for each check strip, one on either side of the check strip. To adjust a claim, yield will be compared between the check strip and one of the two adjacent BMP strips.

22) Q: How many check strips are required?

A: One check strip is required per management unit.

23) Q: Who can set out the check and BMP strips?

A: The location of the check and BMP strips within the field must be made by a certified crop advisor. He or she will make sure the strips are located in a uniform area of the management unit that is most representative of the productive potential of the remainder of the insured acreage.

24) Q: How should the check and BMP strips be marked?

A: The strips must be marked on a copy of an aerial photo and also marked with flags or other markers in the field. The exact location must be identified on the acreage report by GPS coordinates or measurement from the field boundary and/or landmark. A copy of an aerial photo with the check and BMP strips drawn in must accompany the acreage report.

25) Q: Must the farmer delay planting until the consultant sets out the check and BMP strips?

A: No. The farmer may plant at any time.

26) Q: How late in the season can the check and BMP strips be marked?

A: The strips can be set out until the acreage reporting date for MPC1 or CRC for corn, typically late June. The check strip must be identified and marked with sufficient time left to make all required fertilizer applications to the check strip and balance of the insured acreage.

27) Q: How will the check and BMP strips be placed in contour strips?

A: If the contour strip is not wide enough for a check strip and two adjacent BMP strips, the check strip may be placed in one contour plot and the BMP strips in adjacent contours. The Nutrient BMP Endorsement Underwriting Guide provides more detailed rules for placement of the comparison strips in contours and other settings.

28) Q: Can the farmer use variable rate technology to apply fertilizer to insured fields?

A: Variable rate technology, or applying varying amounts of fertilizer across the field according to site-specific soil tests, is not permitted under the endorsement. The entire field, except for the check strip, should have the same amount of fertilizer applied.

29) Q: Is a nutrient management plan required to purchase the endorsement?

A: Yes. A nutrient management plan, or Nutrient BMP plan, must be prepared by a certified crop advisor or state-certified nutrient planner. Summary information from the plan is required on the application, and the insured must make the entire plan available for insurer inspection on request.

30) Q: Who hires the crop consultant?

A: The farmer must make arrangements to have a certified individual prepare the nutrient management plan. Information from that plan is required on the application for the Endorsement. The farmer may also make arrangements for the certified individual to set out the check and BMP strips in insured fields, or the insurer will do that for the farmer for a \$1.25 per acre fee.

31) Q: Who is qualified to serve as a crop consultant for nutrient management planning and check strip placement?

A: To provide the nutrient management planning information and determine placement of the check strip, the consultant must be approved by the insurer and be currently certified by one of the following organizations: National Alliance of Independent Crop Consultants (NAICC), American Society of Agronomy (ASA, Certified Crop Advisor Program) or ARCPACS in a discipline applicable to the area of Crop Science, or certified by a government agency as eligible to complete nutrient management plans.

32) Is a drainage map required with the nutrient management plan?

A: No. The consultant will likely want to review any drainage maps when placing the check strip to avoid problem or non-uniform drainage locations within the management unit.

33) Must the farmer follow the phosphorus BMP?

A: No. The farmer can choose to insure nitrogen or phosphorus or both. If the farmer chooses nitrogen only, then the same rate of phosphorus must be applied to the check strip and the remainder of the field.

34) Must manure used as fertilizer on insured fields be tested for nutrient content?

A: No. Manure testing is not required.

35) How much of the check strip will be harvested during adjustment of a claim?

A: The adjuster will determine how much of the check strip will be harvested, but no more than 2/3 of the check strip will be used to adjust the claim. The remaining 1/3 may be used to audit the adjustment and may not be harvested until released by the insurer.

36) Is there a written adjustment manual?

A: Yes. A loss adjustment handbook prepared specifically for the endorsement is available from RMA.

37) When are endorsement premiums due?

A: Endorsement premiums are due when the payment for the underlying coverage is due.

38) What happens if drought causes a loss? Will the endorsement still pay an indemnity?

A: The Endorsement is adjusted separately from the underlying MPCl or CRC coverage. For example, consider a field insured at the 65% level under an MPCl policy with an Approved Production History (APH) of 100 bushels.

A drought occurs and the field yields only 50 bushels. The insured MPCl loss would be 65 minus 50 bushels, or 15 bushels. Now assume the check strip production was 60 bushels, and the adjacent BMP strip yield was 50 bushels. The difference is 10 bushels. Subtracting the farmer deductible of 3 bushels (5 percent of 60 bushels) from 10 bushels leaves a payment to the farmer of 7 bushels.

At a price election of \$2.20 per bushel, the total payment to the farmer would be 15 bushels times \$2.20 (= \$33.00) for the MPCl drought loss, plus 7 bushels times \$2.20 (= \$15.40) for the Nutrient BMP loss, or a total payment of \$48.40 per acre.