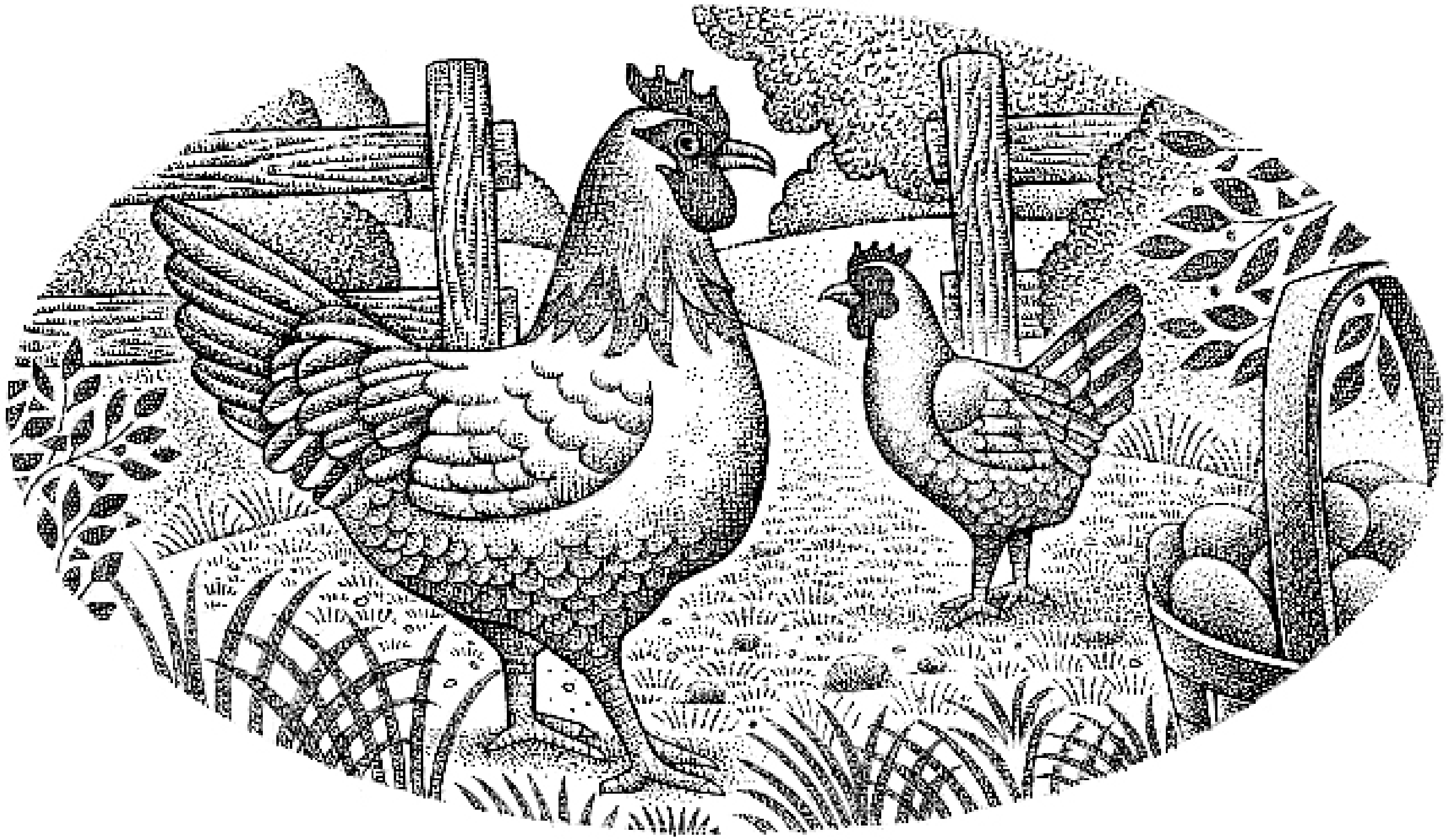

Farm Insurance

By Bob Parsons

Chapter VII

Farm Insurance

Farms encounter and create risks every day through activities such as owning and renting land, selling products, owning and operating equipment, and hiring employees. Additionally, the act of farming intrinsically holds risks. As a consequence of actuarial information, it is classified as one of the most dangerous occupations as far as work-related injuries and accidents go.

But farm owners and operators can take some actions to lower, avoid, reduce, accept, or transfer the risk to a third party—an insurance company. Nearly all businesses elect to transfer at least part of their risk to an insurance company. But there is always the caveat: the greater the risk, the greater the cost of the insurance. So while insurance can be an option, its cost may be considered as more risk for the business than the protection the coverage provides.

Insurance policies and coverage are confusing topics for most farm business operators. All insurance has one primary function. For a fee, the insurance company will shoulder the risk of an occurrence that could have major repercussions to the financial security of a business.

The major types of insurance include liability, fire, weather conditions, health, Workers' Compensation, life, product liability, and crop. The decision about how much insurance to carry depends on farmers' exposures to risk, their wealth, their willingness to assume risk, and the cost of the insurance. A well-established farmer is generally in a better position than a beginning farmer to withstand a financial loss and afford the insurance that protects against major losses.

Rather than asking about the types of insurance, the level of coverage, and the cost, it's wise to ask: What types of insurance can the farmer afford NOT to have. Could the farm operation continue if a disaster hit the farm? Could the farm withstand a liability claim, a fire, snow collapsing a barn roof, cattle getting killed by lightning, a crop disaster, or the death of a key owner or manager?

When taking out insurance coverage, be sure to ask questions about likely "what if" situations. As always, the devil is in the details—or the fine print. Press your insurance representative for details and clearly written statements. If you don't understand the fine print terms, ask for clear definitions. If your insurance representative cannot give you definitive answers, you may need a different insurance representative. Remember, you are paying the insurance bill. Make sure you have the coverage and protection you need and seek. Following is a discussion of different types of insurance.

Workers' Compensation

Workers' Compensation insurance relates to labor management and employer responsibilities. By law, all agricultural employers with an aggregate payroll of $10,000 per year are required to carry Workers' Compensation insurance to provide coverage for injuries and lost wages for all farm workers who are injured while working. Wages include room and board and other non-monetary benefits. Family members who reside in the employer's home may also be excluded. Part-time workers, interns, and apprentices must all be covered. Because farming is considered to be a high-risk occupation, insurance rates are relatively costly for farmers. But the risk of not carrying Workers' Compensation insurance can be greater than paying the insurance cost. Farm operators can be fined for not carrying Workers' Compensation and additionally, the farm owner will be responsible for any medical costs and lost wages if a farmer is injured on the job. For more on Workers Compensation, see "Workplace Injury – Workers Compensation" in Chapter V on page 106.

Another complication with Workers' Compensation is employing family members, particularly if they are minor children. Are family members considered to be employees and/or are they covered by a family health insurance policy? Some farms attempt to avoid paying Workers' Compensation insurance by forming a partnership, making each family member self-employed. However, if individuals in the partnership don't carry health insurance and become hurt or injured while doing farm work, who pays for their medical care and lost wages or takes care of them if they become disabled? Again, farmers should ask their insurance representative for coverage details as it relates to their personal situations.

Interns and Workers' Compensation

One complicating issue with Workers' Compensation is the use of interns on some farms. Is an intern an employee if he or she is not being paid? The short answer is that interns are considered employees and need to be covered by Workers' Compensation in case of an injury or accident. Farmers should contact their insurance representative for the coverage costs and the employer's responsibilities before entering into any intern/student relationship.

Health Insurance

Health insurance is one of the biggest costs for farm operators. In many cases, farmers have to buy individual coverage without the advantage of a large group that can obtain insurance at a discount. As self-employed individuals, they need coverage for accidents or injuries that can occur while on the job. And, given that farming is one of the most dangerous occupations, the cost of health insurance can be prohibitive for some farm families. But the alternative, facing the task of paying for health care, can be even more daunting.

There are few alternatives to health care. Some low-income families can qualify for state programs for their children or Medicaid for the entire family.

Disability

As mentioned above, farming is classified as one of the most dangerous occupations. As such, disability insurance presents a major problem for many farmers. In fact, farmers have a greater chance of becoming disabled than dying from a farm accident. Disability can hit the family with a double whammy, eliminating the labor and management skills of a key family member and placing a liability on the family to continue to provide care for the injured family member.

Back injuries; loss of fingers, arms, or legs; eye injuries; knee injuries—all these can leave the primary farm manager/laborer incapable of performing normal tasks. At that point, the farm may have to hire additional labor to compensate for the owner's labor. Many farmers have life insurance but no disability insurance. They generally forget about the disability insurance, but farmers should consider it a top priority.

Farmers should always keep disability coverage with their Social Security Tax. Social Security provides disability coverage for workers who have worked and earned self-employment income and paid self-employment taxes. To be eligible, workers must earn "credits" based on their earnings. The wages necessary to earn credits vary from year to year and the number of work credits required is a function of the worker's age. For more on this go to: http://www.ssa.gov/dibplan/dqualify2.htm. One common aspect of farming is that the generally low income it gives often eliminates the obligation to pay Social Security Tax. However, all self-employed taxpayers have the option of paying the minimum Social Security Tax. Not only does this increase the individual's ability to collect Social Security at retirement, but more importantly, it also qualifies the individual and his or her dependents as eligible for Social Security benefits in case of disability.

Life Insurance

The advertisement says it all: life insurance is for those left behind, not for the dead. Life insurance can provide necessary money for transferring the farm, covering tax obligations, or paying farm heirs.

Whole life and term insurance are the two general types of life insurance. Whole life insurance lasts a lifetime and can be used as a retirement program or a major source for inheritance. As such, it is more expensive than term insurance. Term insurance is purchased for a certain period of time and provides more coverage per dollar of cost than whole life. But term insurance becomes increasingly costly as the insured party ages.

The general advice about life insurance is that one should acquire insurance for the time period when it is most needed. For example, young people are likely to need considerable cash to cover family living expenses, the children's education, and outstanding mortgages if the primary provider unexpectedly dies. However, people in retirement who have no mortgage or children's education expenses need much less life insurance.

Life insurance can play a crucial part in preserving or transferring a farm business. For example, an insurance policy for key members of a family partnership can provide the cash to pay potential inheritance taxes, a cash inheritance to non-farm heirs, or buy out a business partner. Similarly, if on-farm heirs insure the life of their parents, this money can become an inheritance source for non-farm heirs. Life insurance has many roles, but it's wise to consider costs in order to get the best protection for matters that cannot be handled by other means.

Crop Insurance

Crop insurance is meant to reduce the farmer's risk from uncontrollable weather conditions that reduce the quality of the crop and/or market conditions that negatively affect the price at which they can sell their product.

Crop insurance is available for a number of crops commonly grown in Vermont. The USDA provides subsidies for companies that sell crop insurance policies to farmers. The subsidies reduce the real rates as much as 65 percent, making crop insurance affordable for farmers.

Crop insurance is designed to reduce production and marketing risks that farmers face as a consequence of natural forces such as drought, floods, hail, disease, and/or insects. Crop insurance programs also have an option for coverage for gross returns to protect the farmer from changes in market prices. These programs are primarily aimed at specific crops such as corn or apples. There is also a program designed for diversified farming operations that allows farmers to insure their gross farm incomes. This program is called "Adjusted Gross Revenue." Crop insurance is also becoming increasingly available for specialty vegetables and organic crops.

Crop insurance works much like car insurance. Farmers protect themselves in case of a wreck. Just as drivers don't carry 100 percent coverage on their auto or truck, farmers don't either. Instead, they choose an appropriate deductible that they will cover in the event of a disaster.

Farmers purchase crop insurance from a commercial insurance agent. As with car insurance, the higher the deductible, the lower the crop insurance rates. The farmer pays premiums that are much lower than they might otherwise be as a result of the USDA subsidy. Farmers take out a policy that provides coverage for a guaranteed yield or gross revenue. For example, a farmer might want to insure his corn silage yield. The farmer's historical five-year average yield is 18 tons per acre, and he wants coverage for a 75-percent yield—13.5 tons per acre. The other 25 percent, or 4.5 tons, is the farmer's deductible.

In the case of an auto wreck, drivers receive indemnity from the insurance company only for damages above the deductible. In the case of crop insurance, however, farmers must have a "wreck" or a crop loss greater than their "deductible." In the above example, the farmer must incur a loss greater than his 4.5-ton deductible. If the farmer's yield was only 12 tons, he would receive indemnity payments for his insured loss of 1.5 tons, which is the difference between the actual yield (12 tons) and the average yield (18 tons) less the "deductible" of 4.5 tons. The indemnity is based on the 1.5-ton insured loss.

Property Insurance

Most farmers carry some insurance for their buildings, equipment, feed stocks, and livestock to protect against loss from fire, theft, and/or other natural occurrences such as snow fall or flooding. Farmers must decide which items to insure and how much coverage to provide. Some items, such as buildings, are difficult to value because of age, condition, and obsolescence. Farmers also face the challenge of determining whether or not the building should be covered for replacement cost.

Leased land and buildings present additional complications. Landowners and tenants must determine the lines of responsibility. In many cases, the owner is responsible for the buildings, but the tenant is responsible for items in the building such as equipment, feed stocks, and equipment.

Farmers often lower their property insurance costs by limiting coverage on the value of property. In some cases, maintaining coverage on older obsolete buildings or equipment isn't worth the cost, either.

Remember that the farmer has the responsibility of informing the insurance company of any changes in property such as building additions, new equipment, and livestock.

Liability Insurance

Farmers face the risk of liability from several angles. A farmer is liable when his or her inaction or actions result in personal injury or damage to another person or another's property. Liability extends to injuries or damages that result from actions of the farmer's property or employees. Someone who owns land, land, equipment, animals, or who conducts business activities automatically assumes responsibility for any liabilities that occur as a result of any of this property or activity.

Liability as a result of owning land differs according to the status of the person who has come onto the land and is injured there. For example, landowners have minimal obligations to a trespasser, a person who has come on to the property without permission. They owe a greater obligation to someone who comes on to the property as an invited guest. Landowners have another set of obligations to a person who comes on to the property as a customer. For more on landowner liability, see "Landowner Liability Issues in Vermont," on page 78 in Chapter III, Land Tenure and Farm Leases.

Liability covers a range of topics, from damage to another individual's property, injuries to an individual, or actions that can limit another individual's use of property or freedom. The list can be quite lengthy. Liability insurance coverage is available for a price, but it's important to consider special circumstances that may need extra coverage or special consideration. If the farm business includes activities that are not ordinarily covered in a general farm policy, such as a corn maze open to the public or agri-tourism, a special policy rider may be necessary to ensure complete coverage.

Exclusions

The most important part of any insurance policy is the fine print that describes what is NOT covered by the policy. It's important to go over this important section with your agent. If you ask about a specific activity, which you should, don't accept an answer from your agent such as, "I think you are covered." If there is any question about coverage, request clarification in writing. Remember, what the large print giveth, the fine print taketh away.

Product Liability

Many farms are setting up farm stands. If you do so, you must have liability coverage for customers who come on to your property. As well, you will need to have product liability. This holds true whether you are selling from the farm, at a farmer's market, or to a retail store. If you are selling a food product or raw food, you must be covered against the possibility of food-borne pathogens as well as allergies. Value-added items such as cheese, yoghurt, or preserves must be processed according to accepted methods and meet all federal and state requirements. Selling products from outside suppliers raises additional liability. Consider all of the implications of assuming liability for products before embarking on this kind of marketing strategy.

Custom Farm Work

Doing custom farm work for other people adds additional risk to a farmer, and these activities may not be covered by your general liability policy. Doing custom work takes you, your equipment, and possibly your employees off your property and onto another farmer's property or the public highway.

Many farmers share work with a neighbor, which adds complicating factors to coverage for both of you. Discuss these activities in depth with your agent to understand the limits of your coverage and whatever liability issues are involved. You may need to consider how much you earn or save by doing this sort of work and balance that against the possible costs of having sufficient coverage for it.

Travel on Roads

Traveling on roads with farm equipment and unlicensed farm trucks to reach parts of your own or your rented property increases your risks. Farm equipment travels at a slow speed and can take up more than half of the road. Many drivers are not aware of the speed of farm equipment and try to make unsafe passes. Vermont's narrow and twisting country roads add to the problems. As well, an attached piece of equipment can take up the majority of a rural road and present a hazard to oncoming traffic on blind curves. Make sure you understand your coverage in these cases. If you rarely take your equipment onto public roads, also ask about a discount—you probably qualify for one.

Pollution

Few insurance companies provide coverage for polluting water or air. Farm garbage dumps and leaking fuel tanks are frequent causes of pollution, and if you look around, you'll see many more potential sources such as used motor oil and opened pesticide containers.

The unknown potential damage from pollution is so great that many insurance companies have backed away from providing this coverage. The risk is simply too great. In fact, many lenders now request an environmental assessment of farm property before they will provide a farm purchase loan. Expect questions such as: Where are the fuel tanks located? Are there any farm garbage dumps? Have any pesticide containers been dumped on the farm?

Additional activities that are unlikely to be covered include such things as damage to neighboring property from pesticide applications and manure odors. Farmers with manure pits should get clarification on coverage against accidental leakages or dumps.

Farm Recreation: Corn and Hay Mazes

The growing popularity of corn mazes give farmers an opportunity to bring in extra farm income. However, these activities also bring additional responsibilities to the public and expose the farmer to the risk of injuries to visitors. Make sure you have adequate coverage for these activities, but beyond that, take common-sense precautions. Make the area where visitors will be as safe as possible, define the parking areas, and limit the areas where the public can go.

Farm Tours

Many farmers invite school groups to tour their property and visit the animals. You must have strict safety provisions in place when dealing with children because they are attracted to animals, equipment, and interesting places on a farm and lack awareness about possible dangers. A cat scratch, a dog bite, or a pinched hand from a playful calf can all lead to real problems. Make certain your liability coverage is adequate, but again, create as safe a space as possible and limit the areas where the children can go.

Reducing Potential Liability

The best and least costly method of reducing exposure to liability is to engage in proactive safety programs with family members, employees, customers, suppliers, and guests. Some risks on the farm cannot be avoided, but others can be reduced if you take thoughtful action. For example, bulls are dangerous even under the best management. A good risk reduction strategy may be to get rid of the bull—think about it: can the farm get along without a bull? If not, you can make certain to secure the bull well, both inside the barn and in a pasture.

Consider all interactions with the public on your farm. Inspect for any potential hazards. Keep shields in place on equipment. Make safety a number one priority instead of just an afterthought. Obtain adequate liability insurance and be familiar with the policy. Know what is covered, what your liability is, and be pro-active about reducing your risk to liability, property damage, and other problems.