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Managing Risk with Insurance

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With all of the uncertainties we face in agriculture today, it is important to manage risk. We can't control the markets, the weather, or the dangers of working in agriculture, but there are tools that can help manage those risks. Insurance is one of the tools that can be used in various manners. Insurance can be used to protect the operation, supplement farm transition and estate issues, and aid in financial planning. With the various types of insurance, it is possible to protect the crops, buildings, vehicles, equipment, families, and employees. Insurance is a risk management tool to protect from the unknown.

Crop insurance is an option to manage risk on the operational side. Multi-peril crop insurance must be purchased prior to planting to guard against yield losses from natural disasters. There are also options to combine yield protection and price protection to guard against potential loss in revenue, whether due to low yields or changes in market price. Supplements such as wind/hail, price-flex, and revenue boost can also be purchased to add additional coverage. Depending on the type of ground, and the risk you are willing to take, premiums can range from as low as $10 an acre to over $30 per acre. Of course, farmers would rather have good weather and bountiful harvests, but crop insurance is a risk management tool to help offset part of a loss, if there is one. It is important to look at the options available and optimize coverage for your operation. It can be very beneficial to separate high-risk acreage into a different entity. It may be possible to self-insure if the ground is low risk and irrigation is available. If the land is owned (without debt), the producer may be willing to take the risk and self-insure. Crop insurance helps ensure that future yields stay in line with past yields by using Actual Production History (APH). Through the federal support of crop insurance, it remains an affordable option to farmers.

Umbrella insurance is a way to add another level of protection above the insurance on vehicles, buildings, equipment, and property. This provides high limits of liability to protect against a catastrophic liability loss. The umbrella policy provides coverage that stacks on top of the primary liability coverage provided by the farm owners and auto policies. This policy covers bodily injury, property damage, and personal injury. Umbrella insurance provides coverage when farm owners or auto policies reach their limit. In addition to paying for damages caused by an accident, an umbrella policy can help protect your assets and future earnings by providing additional liability coverage. Without umbrella coverage, farmers could have to pay out of pocket for costs that exceed the limits of the farm policies. It could be very beneficial to revisit the values on the equipment in the policy and examine how the buildings are valued on the policy (FMV vs replacement). A sufficient umbrella policy depends on the net worth and type of assets in the operation. It is important to look at your financials, your other insurance policies, and the risks you face to determine the appropriate amount of umbrella coverage to purchase.

One of a farm's most valuable assets can be its employees. It is difficult to attract and keep employees on the farm. Health insurance plans are one option to attract and keep employees. This would essentially be managing risk by keeping employees around. However, this is a costly option and one most farmers would rather not tackle.

Workers' compensation insurance, commonly known as workers' comp, is insurance that covers medical expenses and a portion of lost wages for employees who become injured or ill on the job. The employer pays for the cost of participating through the payment of insurance premiums. Coverage also includes employee rehab and death benefits. Workers' comp provides coverage regardless of fault. There is no need to prove liability if proven that they were injured in the course of their employment by the insured. In Kentucky, most farms are not required to have workers' comp insurance, but workers' comp can be provided on a voluntary basis.

It is important to understand the numbers, financial and tax, to help manage risk on the farm on the operator level. The self-employed farmer is actually an employee of the farm. Tax planning is important to make sure individuals are paying the minimal level of self-employment tax for disability purposes. It is apparent that health insurance, short-term disability, and long-term care may play just as important a role as life insurance. Farmers do not want to have to sell assets to fund long-term care.

In succession planning, life insurance plays an important role, but it is not the only answer. Life insurance can be expensive in some cases so other solutions may be an entity structure or gifting strategies for tax planning. It is prudent to provide for spouse and children because accidents can happen in farming. A life insurance policy for the child who is set to take over the farm would be a good option and should be affordable if bought early on. Buy/sell agreements are important to partnerships and life insurance may be part of that to fund the agreement. However, they should be reviewed annually, especially the values of the operation versus the value of the life insurance policies. It would be advised to get someone to review life insurance policies who doesn't sell life insurance so you can get a true unbiased opinion on your best options.

There are lots of angles to manage your risk. Insurance is just one tool that is an annual cost, but will provide if there is an accident. Keep understanding the numbers and be the progressive producer that empowers themselves with knowledge and keeps headed in the right direction. If you have questions or would like an unbiased opinion, the **Kentucky Farm Business Management** specialists would be happy to assist.

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