



## Weekly Farm Economics: Multi-County Enterprise Unit: A New Unit for Insuring Single Crops

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The Risk Management Agency (RMA) has announced the availability of a multi-county enterprise unit beginning with the 2019 cropping year. This unit allows farmers to combine land not eligible for an enterprise unit in one county with an enterprise unit in an adjacent county. In the past, farmers in this situation expressed desires for multi-county enterprise units. Introduction of multi-county units has been a priority of the Illinois Corn Growers Association. Use of multi-county enterprise units will reduce farmer-paid premiums, but also reduces the chance of insurance payments. Farmers who are cost-conscious and look at risk management from a whole farm basis will find multi-county enterprise units of benefit. Farmers should discuss multi-county enterprise unit choices with their crop insurance agents.

### Unit Background

The insurance unit determines the acres for which the crop insurance guarantee is calculated. Total production from a unit's acres then goes into the insurance payment calculations. Until 2019, farmers had three choices when insuring a single crop:

- Enterprise units are all of one crop in a county. If the county is eligible, a farmer can elect to have separate enterprise units for irrigated and non-irrigated practices. To be eligible for enterprise units, a farmer must have the crop in at least two township sections, with the lower of 20 acres or 20% of the total acres in at least two sections.
- Basic units divide farmland within the county into smaller areas based on ownership control. All owned and cash rented farmland will fall into one basic unit. There will be an additional basic unit for each share rent landowner. For example, a farmer has six basic units in a county if that farmer owns farmland and rents farmland from five different owners using share rent relationships. Another farmer who owns farmland and cash rent farmland from five owners has one basic unit.

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- Optional units divide basic units into smaller areas based on township sections. If a basic unit is in three sections, there are three optional units.

Many farmers have farmland in more than one county and one farmland in one county not eligible to be insured as an enterprise unit. In these cases, the farmer will have to insure farmland in the non-enterprise-eligible county using either basic or optional units. Due to enterprise discount factors and higher subsidy rates, farmer-paid premiums are higher for basic and optional units than they are for enterprise units.

In a 2017 survey conducted by the Illinois Corn Growers Association, 40% of farmers indicated that they grew corn in more than one county (*farmdoc daily*, October 24, 2017). Of the 40% farming in more than one county, 37% had an enterprise unit in at least one county and basic or optional units in at least one other county. Of these farms, 69% indicated that they would be willing to consolidate their basic or optional unit with another enterprise unit. This subset of farmers will find the multi-county enterprise unit of interest.

### **Eligibility**

To be eligible for a multi-county enterprise unit, a farmer must have:

1. An enterprise unit in one county. In Illinois, this means that there are acres must in more than one township section, with the lower of 20 acres or 20% of the total acres in at least two sections.
2. A basic or optional unit in a county contiguous to the county containing the enterprise unit. The acres in this county cannot be eligible for an enterprise unit. In Illinois, non-eligibility results because all land is in one township section.

Farmers must make the same selections in each county to be eligible for a multi-county enterprise unit:

1. Plan — either Revenue Protection (RP), Revenue Protection with harvest price exclusion (RP-HPE), or Yield Protection (YP).
2. Coverage level.
3. Practice choice — where allowed, acres can be divided into irrigated and non-irrigated practices.

All units in the multi-county enterprise unit must be covered by the same Approved Insurance Provider (AIP).

### **Decision Points**

Farmer must choose to use multi-county enterprise units by the sales closing date (March 15 for corn and soybeans in most Midwest states). Like many crop insurance decisions, the decision will carry forward into future years until farmers make a written change to their insurance policies.

Just choosing a multi-county enterprise unit does not make a farm eligible for a multi-county enterprise unit. A farmer must plant acres such that one county is eligible for an enterprise unit and an adjacent county is not eligible for an enterprise unit. If these conditions are not met, the acres will be insured using enterprise, basic, and optional units.

By the acreage reporting date (July 15 in Midwest States for corn and soybeans), the farmer must decide the primary and secondary counties. The primary county is the county with the enterprise unit and the secondary county is the non-enterprise unit. The primary and secondary counties must be adjacent to one another. The primary and secondary counties will be combined.

In some cases, there can be two or more counties that could serve as a primary county for a secondary county, meaning that there are at least two counties with enterprise units are adjacent to a secondary county that is not eligible for an enterprise unit. In these cases, the farmer must choose which county will serve as the primary county.

At the acreage reporting date, determinations will be made if the qualifications are met for the multi-county enterprise unit. Qualifications are: 1) the primary county is eligible for an enterprise unit, 2) the

adjacent secondary county is not eligible for an enterprise unit, and 3) the counties are adjacent to one another.

### **Reporting requirements**

Farmers should plan on maintaining yield information for each county. While the primary and secondary counties will be combined for determining insurance payments, separate production histories still will be maintained for each county.

### **Impacts of the Multi-County Enterprise Unit**

There will be two impacts of choosing a multi-county enterprise unit. First, the farmer-paid premium will be reduced, particularly for farmland in the non-enterprise county.

To illustrate premium reductions, farmers-paid premiums are calculated for corn using a Revenue Protection (RP) at an 85% coverage level. The two counties are:

- Enterprise unit in Champaign County, Illinois. This enterprise unit has 800 acres and a farmer-paid premium of \$12.25 per acre.
- Basic unit in Piatt County, Illinois. This basic unit has 200 acres in one township section and a farmer-paid premium of \$18.98 per acre.

The average farmer-paid premium across the 1,000 acres in the two units is \$13.59 per acre. If the Champaign and Piatt County farm are combined, the comparable premium for the multi-county unit is \$12.50 per acre, or about \$1.00 per acre less than the non-combined units.

The second impact will be to reduce the likelihood and size of crop insurance payments. In the above example, the enterprise and basic units will trigger payments easier than a combined multi-county enterprise unit. It is difficult to quantify these reductions without knowing more about the farmland being combined. If the two units are close to one another and farmland has the same productivity, the reduction in payments from combining two units will not be large. On the other hand, combining dissimilar farmland across a wider geographical area will result in a higher reduction.

### **The Choice of a Multi-County Enterprise Unit**

Farmers most likely to benefit from multi-county enterprise units are those who view risk from a whole farm basis, not concerned with a low yield from one field if higher yields in other fields compensate for the low yielding field. These farmers will benefit from the lower farmer-paid premiums from a multi-county enterprise unit. Most likely, these cost-conscious farmers have been choosing enterprise units in the past.

Farmers who evaluate risk on a parcel by parcel basis are less likely to have a desire for a multi-county enterprise unit. These farmers likely rely more heavily on basic and optional units than enterprise units.

Farmers likely will find multi-county enterprise units more beneficial when the productivity of combined farmland is about the same.

### **Summary**

Multi-county enterprise units provide another useful tool for farmers as they tailor their crop insurance and risk management programs to their particular needs. As with all insurance decisions, crop insurance agents will provide valuable guidance when making unit decisions.

A YouTube video describing multi-county enterprise units is available at: <https://youtu.be/4JOqZnsJu7o>

### **Reference**

Schnitkey, G. "[Farmers Desires for Enterprise Units Use across County Lines.](#)" *farmdoc daily* (7):195, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, October 24, 2017.