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2014 Farm Bill Interim Rule FAQs

June 30, 2014

Beginning Farmer and Rancher

Q: What is a beginning farmer or rancher (BFR)?
A: A BFR is an individual who has not actively operated and managed a farm or ranch with an insurable interest in a crop or livestock as an owner-operator, landlord, tenant or sharecropper for more than 5 years. This includes an insurable interest as an individual or as a substantial beneficial interest holder (10 percent or more) in another person who has an insurable interest in any crop or livestock. Crop years when the beginning farmer/rancher was under the age of 18, enrolled in post-secondary studies (not to exceed 5 crop years) or on active duty in the U.S. military may be excluded from consideration of the 5 crop years.

Q: What are the benefits of being a beginning farmer or rancher?
A:
- Exemption from paying the administrative fee for catastrophic (CAT) and additional coverage (buy up) level policies;
- Additional 10 percentage points of premium subsidy for additional coverage policies (buy-up) that have premium subsidy;
- Use of the production history of farming operations BFRs were previously involved in the decision making or physical activities; and
- An increase in the substituted yield for yield adjustment, which allows a replacement of a low yield due to an insured cause of loss, from 60 to 80 percent of the applicable transitional yield (T-Yield) for the crop in the county.

Q: When will the benefits for beginning farmer or rancher be available?
A: Beginning farmer/rancher provisions will be available for all plans of insurance for 2015, except insurance policies with contract change dates prior to June 30, 2014, which include: Nursery; Rainfall Index (RI) for Annual Forage; Livestock Gross Margin (LGM); Livestock Risk Protection (LRP); peppers; and strawberries. The incentives will not apply to these polices because the Interim Rule will be published after the contract change date for these policies, which is the date RMA must make all changes to a policy for the upcoming crop year. For these plans of insurance, beginning farmer/rancher benefits will be available starting with the 2016 crop year.

Q: What are the qualifications to be a beginning farmer or rancher?
A: An individual can be a BFR if all the qualifications are met. Business entities may receive BFR benefits only if all of the substantial beneficial interest holders of the business entity qualify as a BFR. For example, a son moves home to take over the family farm and incorporates with his spouse and neither have previous farming experience. Their corporation would qualify as a BFR. However, if a son moves home and forms a corporation with his father, who has had an insurable interest in crops or livestock for more than 5 crop years, the corporation cannot receive BFR benefits. Although the son qualifies as a BFR, the father does not, so as such the corporation cannot receive BFR benefits.

Q: What if I had beef cow-calf pairs as my 4-H project while in high school, is that considered an insurable interest in livestock and would it count towards the 5 crop years of insurable interest for BFR?
A: Owning cow-calf pairs would be considered an insurable interest in a crop or livestock. However, you may exclude any crop years of insurable interest in a crop or livestock from consideration for BFR eligibility purposes if the insurable interest was while you were under the age of 18 (including the crop year you turn 18).

Q: Why is the definition of beginning farmer or rancher for crop insurance different from other USDA agencies?
A: Section 11016 of the 2014 Farm Bill provided a definition, along with specific benefits, for BFR unique to the Federal crop insurance program. Therefore, other USDA agencies may have different qualifying criteria and benefits for their beginning farmer and rancher programs.

Q: How do I apply for beginning farmer or rancher benefits?
A: Contact your crop insurance agent. You will need to complete a BFR application and provide acceptable documentation for any crop years you wish to exclude from consideration of BFR status for when you were under the age of 18, enrolled in post-secondary studies (not to exceed 5 crop years) or on active duty in the U.S. military. You will be notified if you qualify.

Q: How long can I be a BFR and have BFR benefits?
A: Once you have 5 crop years of insurable interest in a crop or livestock, including having a substantial beneficial interest in another person who has an insurable interest in a crop or livestock, you are no longer entitled to BFR status. Once you elect and qualify for BFR status, it is continuous until the earlier of:

- You have had an insurable interest in a crop or livestock for more than five crop years;
- 5 crop years of BFR benefits are exhausted; or
- You cancel the BFR Application.

Q: If I change my crop insurance agent or approved insurance provider can I keep my BFR benefits? Do I have to complete a new BFR Application?
A: Yes, you can keep your BFR benefits as long as you remain eligible. Changing an insurance agent or approved insurance provider does not impact your BFR eligibility. When you change insurance agents or approved insurance providers you do not need to complete a new BFR application but you must provide your new insurance agent or insurance provider a copy of your previously completed BFR application and notice of approval.

Q: What if I change my farming operation? For example, if I form a corporation or other business entity, can I retain my beginning farmer or rancher status?
A: A business entities may receive BFR benefits if all of the substantial beneficial interest holders of the business entity qualify as a BFR. If you qualify as a BFR and you form a corporation in which you are the sole member, your corporation would be eligible for BFR benefits. For example, a husband and wife form a corporation, with neither spouse having previous farming experience or an insurable interest in a crop or livestock. The corporation would be eligible for BFR benefits. However, if a son moves home and forms a

corporation with his father, who has had an insurable interest in crops or livestock for more than 5 crop years, the corporation cannot receive BFR benefits. Although the son may qualify as a BFR, the father does not and as such the corporation cannot receive BFR benefits.

Q: I am in night college classes yet want BFR premium subsidy now, do I have to wait until I complete my degree to deduct those years from experience?
A: No, you can receive BFR benefits while attending college or a university. However, these years will count towards the maximum five years that a producer can qualify for BFR benefits.

Q: Why did my yield substitution go to 60 percent of the T-Yield when it was 80 percent of the T-Yield previously?
A: When you no longer qualify for BFR benefits, you will receive the same yield substitution as all other policyholders who are not BFRs. Additionally, you will no longer be exempted from paying the administrative fees for your policies and you will no longer receive an additional 10 percentage points of premium subsidy.

Conservation Compliance

Q: Do producers need to physically go into their local Farm Service Agency (FSA) or Natural Resources Conservation Service (NRCS) office to fill out the AD-1026, or can they do it online?
A: No, a PDF fillable form version of the AD-1026 and instructions are available online, but the form cannot be summited online. The form and instructions may be downloaded from http://forms.sc.egov.usda.gov/efcommon/eFileServices/eForms/AD1026.PDF. The completed and signed AD-1026 can be mailed or faxed to the applicable USDA office. However, it may be preferable for new producers to fill out the form at the applicable USDA office in case they have questions or additional information is needed.

Q: Why is conservation compliance included in the Interim Rule?
A: The Agriculture Act of 2014 (2014 Farm Bill) tied conservation compliance to crop insurance. Because crop insurance policies are legally binding contracts, changes were required to incorporate conservation compliance requirements into the policy terms and conditions. The requirement of certifying compliance needed to be incorporated into the crop insurance contract provisions by June 30, 2014, the legally binding contract change date for fall planted crops in order for the new requirements to take effect for the 2015 crop and reinsurance year. Under the Interim rule, no premium subsidy will be withheld until at least the 2016 reinsurance year.

Q: Why did RMA publish specific information related to conservation compliance now instead of including all requirements in the fall regulation?
A: In order to comply with the requirement of the 2014 Farm Bill that producers certify conservation compliance in the next reinsurance year following its passage, RMA needed to include language in the crop insurance contract to require producers to certify that they were in compliance. The regulation published in the fall will address all of the new exemptions and requirements rather than just the requirement to certify conservation compliance. Providing certification requirements in the Interim Rule puts farmers on notice of the requirements and provides nearly a year for farmers who have not previously certified compliance to do so.

Q: If I only grow perennial crops do I still need to certify an AD-1026? If so, why?
A: Yes, you will still need to certify by completing an AD-1026. The 2014 Farm Bill requires all producers that receive premium subsidy for Federal crop insurance to certify that they are complying with conservation compliance requirements.

Q: Will beginning farmers and ranchers have time to certify conservation compliance their first year buying crop insurance?
A: While beginning farmers and ranchers are encouraged to fill out an AD-1026 as soon as possible, allowances have been made for farmers and ranchers that begin farming after the June 1 deadline. These producers will need to have an AD-1026 filled out by June 1 of the next year.

For example, if a farmer/rancher begins farming in October of 2014 they are eligible for crop insurance premium subsidy through June 30, 2015, if they certify compliance by June 1, 2015.

Q: Why did RMA make June 1 the deadline date instead of having a rolling deadline?
A: The 2014 Farm Bill made the conservation compliance provisions related to crop insurance based on a reinsurance year (July 1- June 30), not a crop year as with other program requirements. June 1 was established as a reasonable date prior to the beginning of the reinsurance year (July 1) for producers to have adequate time to file an AD-1026 with FSA and that information be provided to RMA before any premium subsidy benefits are reduced. Producers only complete the AD-126 once, unless their operation changes. By July 1 of each calendar year, a producer will know whether he or she is eligible for crop insurance premium subsidies for the reinsurance year.

Adjustments to APH Adjustment

Q: Why will APH adjustment not be available for the 2015 crop year?
A: RMA will have the Supplemental Coverage Option (SCO), Stacked Income Protection (STAX), beginning farmer and rancher provisions, coverage level by practice, enterprise units by irrigation practice, conservation compliance, whole farm revenue insurance, and native sod provisions implemented for the 2015 crop year. APH adjustment will require significant modifications to RMA's business support systems and will require RMA staff to evaluate the impact this change will have on program actuarial soundness and the existing premium rating methodology. In sum, while RMA desires to have APH adjustment ready for the 2015 crop year, RMA is unable to implement this provision given the current time and resource constraints.

Q: What will RMA do if there is not adequate production information to make a separate determination by irrigated and non-irrigated practice of whether a county's yield is below 50 percent of the average of the previous ten years?
A: RMA will use all available data to determine which years may be excluded from a producer's APH. If there is not adequate data to make the determination by practice, RMA will consider other options such as pooling data across practices.

Q: Will past years of production experience be eligible for an APH adjustment? For example if the 2011 crop year county yields for a certain crop were below 50 percent of the 10 year average yield for the county will a farmer have the option to drop that yield?
A: Yes, the APH adjustment will apply to past years, provided the applicable criteria are met. The provision will be retroactive from the date of implementation.

Q: When will farmers be able to utilize this change?
A: RMA will have this change fully implemented by fall of 2015.

Enterprise Units By Practice

Q: What does this change let me do?
A: This allows producers to have two enterprise units for crop in county—one for irrigated production and one for non-irrigated production. Previously, only a single enterprise unit—covering all production of a crop in a county—was allowed.

Q: What if my irrigated acreage qualifies for an enterprise unit, but my non-irrigated acreage does not (or vice-versa)?
A: To qualify as an enterprise unit, you must have acreage planted in least two sections, with a minimum of 20 acres (or 20 percent of all acres) of the unit in each section. This is because the enterprise unit discount, and the higher premium subsidy that goes with it, is based on the risk-reducing effects of spreading production over a wider area. The larger the enterprise unit, the smaller the risk and the greater the enterprise unit discounts. To the extent smaller tracks of land may be considered as enterprise units, the average size of the discounts diminishes and the premium subsidy will be commensurately reduced. The enterprise unit qualification standards are intended to ensure that only those producers whose risks have truly been reduced receive the additional benefit of the enterprise unit discount and increased subsidy.

If both irrigated and non-irrigated acreage do not separately qualify as enterprise units, then they will be combined into a single enterprise unit.

If the combined acreage of both practices do not qualify as an enterprise unit, then they will be treated as a basic unit.

Q: Will I get the same enterprise unit subsidy rate as before?
A: Not necessarily, the higher enterprise unit subsidy rate is intended to equalize, to the extent practicable, the dollar amount of subsidy as compared with optional units. The greater the enterprise unit discount, the higher the premium subsidy rate that is needed to equalize the number of dollars of subsidy with comparable optional units.

However, as with all aspects of the program, premium rates and discounts must be actuarially sound and be based on the expected risks and losses. Dividing enterprise units by practice will result in generally smaller enterprise units. This, in turn, can lead to smaller reductions in the expected risks, which results in smaller enterprise unit discounts. The smaller discounts requires a smaller increase in the subsidy rate to equalize the number of dollars of subsidy with comparable optional units.

RMA will publish new subsidy rates for practice-specific enterprise units that will be generally lower than for the enterprise units that cover all production regardless of practice.

Native Sod Provisions

Q: How will agents know that a farmer is tilling native sod if the farmer doesn't tell them?
A: A producer who has tilled native sod for the first time will have to have a yield for the acreage to obtain crop insurance. Therefore, working with their crop insurance agent, the agent will request proof the acreage has been previously tilled or assign 65 percent of the transitional yield.

Q: When will reduced crop insurance benefits impact farmers who have tilled native sod?
A: Starting in the fall of 2014, producers that till native sod and plant to an annual crop after February 7, 2014, will see these reductions in their crop insurance benefits.

Q: How long will reduced crop insurance benefits impact farmers who have tilled native sod?
A: The reduced benefits only apply to acreage of an annual crop the first four crop years after the breaking of native sod in Iowa, Minnesota, Montana, Nebraska, North Dakota, and South Dakota: For example, a policyholder breaks native sod and plants alfalfa in years 1-3 and in year 4 plants an annual crop of corn. The corn crop would be subject to the provisions for native sod only for year 4 whereas, the alfalfa and any crops planted subsequent to year 4 would not. The reduced benefits will also apply to prevented planting acreage because the prevented planting payment is determined by multiplying the prevented planting coverage level by the production guarantee (per acre) for timely planted acreage of the insured crop (or type, if applicable) by your price election or your projected price, whichever is applicable. The production guarantee (per acre) for timely planted acreage for native sod in the first 4 years is based on 65 percent of T-Yield in the Actuarial Documents or the Personal T-Yield, if elected.

Correction of Errors

Q: What does this provision do?
A: This provision provides flexibility to farmers who need to correct minor errors related to acreage reports or applications. It allows incorrect information reported to the AIP to be corrected with information consistent with what was reported to other USDA programs as long as the correction does not allow the policyholder to avoid eligibility or obligations, increase the payout of a policy, or obtain a disproportionate benefit.

Correction of Errors – Late Payment of Debt

Q: What does this provision do?
A: It provides the Administrator limited authority to reinstate eligibility for a policyholder who was determined to be ineligible for insurance because of non-payment of debt. The cause for the debt must be due to an unforeseen or unavoidable event, or an extraordinary weather event, and the policyholder must make the payment that was due in order to continue their insurance coverage. The provision also allows the AIPs to reinstate eligibility in cases where payment was made timely; however, a small amount was omitted, the payment amount was clearly transposed, or the payment was postmarked within 7 calendar days after the termination date or other date due.

Q: Who can request consideration to the Administrator for late payment of debt?
A: A producer who has been determined to be ineligible for crop insurance due to untimely payment and who can demonstrate that they failed to pay an outstanding debt due to an unforeseen or avoidable event or an extraordinary weather event. An unforeseen or avoidable event could be an extraordinary weather event, like a tornado, earthquake, violent wind, or flood, or an unforeseen death or debilitating accident to the individual person or their immediate relative. In addition, a producer who is obligated to active duty U.S. military service may apply if the duty created the impossibility for the person to timely remit payment.

Q: Under what conditions will an AIP be authorized to reinstate an ineligible person's policy for late payment of debt?
A: The producer made timely payment but some small amount was omitted, such as interest or administrative fee, or the amount of the payment was clearly transposed from the amount that was otherwise due, or the full payment of the amount owed was sent but the payment was delayed and postmarked no more than 7 calendar days after the termination date or other date due.

Q: How do I request consideration for late payment of debt?
A: For cases involving an unforeseen or avoidable event or an extraordinary weather event, you must make a written request to the Administrator in accordance with procedures no later than 60 days after the termination date or other applicable due date. For cases that a small amount was omitted, or the payment amount was clearly transposed, or postmarked within 7 calendar days after the termination date or other date due, a written request to your AIP must be made no later than 30 days after the termination date or other applicable due date.

Q: When will the benefits for correction of errors and late payment of debt be available?
A: These provisions will be available for all plans of insurance for 2015 except insurance policies with contract change dates prior to June 30, 2014 which include: Nursery; Rainfall Index (RI) for Annual Forage;

Livestock Gross Margin (LGM); Livestock Risk Protection (LRP); peppers; and strawberries. The provisions will not apply to these polices because the interim rule will be published after the contract change date for these policies, which is the date RMA must make all changes to a policy for the upcoming crop year. For these plans, correction of errors will be available starting with the 2016 crop year.

Contact Information

For more information, contact **John Shea**.