MGR-21-001

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Date
April 22, 2021
To
All Approved Insurance Providers
All Risk Management Agency Field Offices
All Other Interested Parties
From
Richard Flournoy, Acting Administrator
Subject
Flue Cured Tobacco 2021 Clarifications

Background

On November 30, 2020, RMA issued modifications to the flue cured tobacco crop insurance program for the 2021 and succeeding crop years. The changes include a two-tier price election and quality adjustment eligibility for tobacco grown under a production agreement.

Since RMA issued these modifications, RMA has received questions from Approved Insurance Providers (AIP) and other external stakeholders regarding certain sections of the Special Provisions (SP). To ensure uniform administration of the 2021 flue cured crop insurance program, stakeholders have sought clarification on four issues:

1. Producer’s deadline for providing their production agreements to their AIP;
2. Yield for establishing weighted average price;
3. Price for quality adjustment; and
4. Spousal insurance policies and production agreements.

The first issue needing clarification is when production agreements must be submitted to qualify under the SPs. Although the pricing mechanism of the SP relies on AIPs receiving production agreements by the acreage reporting date, stakeholders have identified that the current SP language does not provide a specific deadline. The information provided at the time of acreage reporting is used to determine the producer’s insurance guarantee and premium due, which cannot be calculated without a production agreement.

The second issue is how to establish a weighted average price when a producer has both contracted and non-contracted flue cured production. The SP limits the amount of tobacco insurable at the contracted price election to the total number of pounds in the production agreement, and the weighted average price applies when the amount of expected production exceeds the contracted pounds. Specifically, stakeholders have asked whether the approved yield or production guarantee should be used when determining the ratio of contracted to non-contracted tobacco for the weighted average price calculation.

The third issue is which price is used when determining the calculated discount factor for quality adjustment purposes. The calculated discount factor measures the price received by the producer against the insured price to determine actual loss in value. Under the 2021 flue cured tobacco program, only contracted tobacco is eligible for quality adjustment, and contracted tobacco is insured at the contracted price election. The SP for quality adjustment refers to the “non-organic established price.” Since there are now two prices for non-organic tobacco—a contracted price (“maximum over established price”) and a non-contracted price (“established price”), stakeholders have requested clarification on which to use in the calculation.

The fourth issue is who can use a particular production agreement to access the maximum over established price for flue cured tobacco. The name on the insurance policy must match the name on the production agreement to ensure contracted insurance benefits are not abused. However, RMA has been asked about the specific case of a policy for a married individual, where a production agreement is in the name of the spouse of the named insured, e.g., the insurance policy is in the husband’s name and the production agreement is in the wife’s name. Married individual insureds are required to list their spouse as a substantial beneficial interest (SBI), and spouses are not allowed, in most cases, to have separate insurance policies. In those limited situations where both spouses can have separate policies, each spouse is still required to list the other spouse as a substantial beneficial holder. In this situation, insurance rules on spousal policies preclude an otherwise eligible party from receiving the contracted insurance benefits.

Action

For the 2021 crop year, RMA is issuing the following clarifications to the flue cured tobacco policy:

1. Production agreements are due to the AIP by the acreage reporting date. This is the same date contracts are due when a program requires a contract to establish insurability.
2. When determining a weighted average price election, the production guarantee is used to determine the ratio of contracted vs. non-contracted pounds of tobacco. The weighted average price calculation uses the term “production guarantee” and is the controlling provision for this calculation.
3. The “maximum over established price” is used when determining the calculated discount factor for quality adjustment. The calculated discount factor is a measure of loss based on the price insured by the tobacco program. The SP on quality adjustment erroneously refers to the “non-organic established price.” Since contracted tobacco is insured at the contracted price election, and only contracted tobacco is eligible for quality adjustment, the non-organic “maximum over established price” is the correct price to use in this calculation.
4. A production agreement issued in either spouse’s name will be considered sufficient for a married individual’s insurance policy. This will only apply to a policy that meets the definition of “Individual-Married” contained in RMA’s FCIC 18190 General Standards Handbook (GSH). For any policy that does not meet the definition of “Individual-Married,” the name on the production agreement must match the name of the insured entity.

DISPOSAL DATE:
December 31, 2021