



FARM COMMONS

Insurance Tipsheet

LAST UPDATED:
August 1, 2017

FIRST PUBLISHED:
August 1, 2017

DISCLAIMER: This guide does not provide legal advice or establish an attorney client relationship between the reader and author. Always consult an attorney regarding your specific situation.

What insurance should I purchase for my sustainable farm? How much insurance do I need?

The last thing you want is to be stuck with no insurance if a catastrophic incident occurs; even worse is to be stuck with no coverage despite having insurance! This tip sheet discusses risk and return when seeking insurance for your farm operation. Ultimately, only you can decide on the best approach for the present and future stability of your farm business.

First step: Prepare a risk assessment

Consider starting with a basic risk assessment. A risk assessment is simply a means of identifying the vision you've created for your farm and then identifying potential problems. This will assist in planning how you will handle them.

Start with a clear vision of your long-term goals for your operation. Here are some questions to get you started:

- Are there aspects of your business that you would like to grow down the road, such as value-added products or agritourism?
- Do you, or do you plan to, position yourself as a family-friendly farm where there are lots of on-farm sales, CSA pick-ups, events, activities, and so on?
- Is business concentrated in restaurants, grocery stores, and other retailers?
- Is your farm operation already at the scale, or do you plan to grow to, where you need to have workers—including employees, interns, or volunteers?

Considerations like these will help you make decisions about what to prioritize and maximize the time, effort, and money you put toward insurance and other risk management strategies.

Next, identify your existing and future risks. To do this, ask yourself the following question:

- What assets or aspects of my farm—now and in the future—are essential to the resilience and success of my business?

Is there a structure or piece of equipment that is fundamental to the success of your operation? In other words, ask yourself what would happen if significant items on your farm were damaged or stolen. This could include crops and livestock, as well as seeds and animal feed.

What about farm guests? Are they essential to your operation? If so, what would happen if someone got injured and your farm business was on the hook for their medical bills? What about workers? Worker injuries pose a significant liability risk to farms as no matter how many precautions are taken, worker injuries can and do happen. If you have or plan to have workers, how will you manage this risk? Ask similar questions for each aspect of your farm operation.

This process is kind of like taking an inventory of your farm operation. By identifying the essential assets and aspects of your business you can strategically decide which risks to prioritize.

Second step: Decide what to insure

The next step is to decide among common insurance strategies for addressing the farm's risks. Common insurance strategies fall into these categories: crop and livestock damage, property damage, guest and customer injuries, worker injuries, and retail and wholesale sales liability.

Crop and livestock damage

Crop and livestock insurance covers the farm from significant loss caused by a natural disaster. Diversified farms traditionally have had limited options, but the Whole Farm Revenue Protection (WFRP) policy, now provides revenue coverage for diverse crop and livestock production. The WFRP policy covers a wide variety of naturally caused losses such as hail, disease, or flooding. Multi-Peril Crop Insurance (MPCI) policies are available for selected commodities and regions, and provide coverage on an average market price basis. The Noninsured Crop Disaster Assistance Program (NAP) provides limited coverage for crops not otherwise insured through the Farm Service Agency (FSA).

Action Step: Contact a local insurance agent who sells crop insurance. A list is available at the USDA Risk Management Agency website. NAP policies are available by contacting FSA. RMA also has several fact sheets on crop and livestock insurance available on its website, which can be found through an online search: "RMA fact sheets."

Property damage

Property insurance generally covers damage to property from weather events, theft, or vandalism. Property insurance policies can also cover losses from equipment breakdown or loss of electrical power. The property covered can include buildings, tools, equipment, machinery, seed stock, animal feed, and so on.

Action Step: Relying on your risk assessment, identify the property for which you would like coverage. What do you estimate is the replacement value of these items?

Contact your insurance agent to explore your options for getting these items covered. Be sure to update your insurance agent if any improvements are made or the value of these items increases.

Guest and customer injuries

Whether the farm hosts guests and customers, agritourism events, u-picks, farm stand sales, CSA pick-ups, or just a party, if someone were to get injured the farm could be on the hook. The farm could also be on the hook for injuries at off-site locations, such as a CSA drop site. Insurance coverage is a crucial risk management strategy for injuries. No matter how safe a farm is, any farm can be called into court to defend themselves. Insurance policies generally provide an attorney to defend the farm's safety and compensate the injured person for his or her injury. Standard farm property and liability policies provide coverage for injuries to farm guests and customers. However, any off-farm or special activities such as events, processing, u-pick, and CSA drop sites, among others, may need individual endorsements, event riders, or separate policy lines.

☐ **Action Step:** Discuss with your insurance agent every aspect of your farm operation including any off-farm activities and all diverse ventures on the farm. Your agent should recommend a policy plus endorsements or commercial lines of coverage to address each of them.

Worker injuries

Farming is dangerous and worker injuries can and do happen no matter what precautions are taken. The most risk adverse approach is to carry workers' compensation or other insurance to cover injuries for ALL of the farm's workers—including employees, interns, and volunteers- whether required by law or not. If a farm does not carry workers' compensation, the farm should explore other options as injured workers (or their health insurance companies) may sue the farm. A commercial policy may offer coverage for part-time and seasonal workers. For year-round employees, finding coverage other than workers' compensation may be very difficult.

Workers' Compensation in Minnesota

Under Minnesota law, if a farm paid \$8,000 or more in wages to farm workers in the previous year, the farm business must carry workers' compensation in the current year. However, the farm does not have to carry workers' compensation if it: 1) paid less than the statewide average annual wage as determined by the Department of Employment and Economic Development for each year; 2) carries a liability insurance policy with at least \$5,000 in medical payments and \$300,000 in total liability; and 3) carries a policy that covers injuries to farm laborers.

Workers' Compensation in Wisconsin

Under Wisconsin law, if a farm employs six or more farm laborers on 20 calendar days in a year, the farm must buy workers' compensation within 10 days.

☐ **Action Step:** Contact your insurance agent to purchase workers' compensation or discuss liability coverage options for workers.

For more information on workers' compensation in Minnesota and Wisconsin please view Farm Commons' free webinars *Make Employment Law Work for Your Farm* for each state

Retail and wholesale sales

Farms selling to grocery stores and wholesale distributors may wish (or be required by the buyer) to carry a commercial general liability insurance policy. Commercial insurance extends the farm's liability coverage to a broader set of circumstances including off-farm sales and coverage for things like indemnification and recall costs, to name a few possibilities. Some commercial policies provide some product liability coverage so any farmer with significant sales may want to explore this option.

☐ **Action Step:** Contact your insurance agent to discuss whether you are covered for legal liability issues that may arise from wholesale sales—including liability minimums and indemnification clauses—or whether a commercial policy is more cost effective for your situation. To learn more about this issue, review pages 19-20 in our resource *Solidifying Wholesale Sales with Written Agreements*.

Third step: Decide how much

Insurance policies have monetary limits; rare is the policy that will cover the full extent of the damage, no matter how great. These limits come in different forms. Specific covered items such as equipment and buildings may have limits on their replacement value. Liability coverage for injuries and such will have total liability limits. Umbrella policies might be available to raise or distribute policy limits, but a limit remains. Generally, the more coverage the more expensive the premiums. Unfortunately, there's no cut and dry equation for determining exactly how much insurance to get. A good starting point is to ask yourself the following questions:

- If a particular item was damaged, how what repair or replacement value would the farm business need to stay afloat?
- How high is the risk that such an incident or damage will occur?
- How devastating might a particular risk be if it materialized?
- Are buyers, partners, or other entities expecting a specific level of coverage?
- How much can the farm reasonably afford for insurance risk protection?

Consider more coverage for those items or aspects of your farm business where your discomfort with the risk is highest. The goal is to strike the right balance of not paying too much in premiums but paying enough to be sure that adequate coverage is available if and when you need to file a claim.

General Tips

Given a wide variety of insurance products are out there, it can be challenging to determine which is best. An insurance package might be assembled from among several options including a farm liability policy, endorsements, or a commercial line of insurance. Different insurance companies offer different options so it's impossible to prescribe a perfect solution to meet everyone's unique needs.

Finding an insurance agent who you can trust is vital for getting an insurance package that adequately addresses the farm's needs. Not only are you relying on the agent's expertise, you're also benefitting from her experience with the farming scene in your area and knowledge of which policies have worked in situations similar as yours. It's best to look for an agent who you can communicate with effectively and trust for recommendations. Begin by asking other farmers for references to helpful, communicative, and trustworthy insurance agents. Don't hesitate to shop around either if an agent or company isn't meeting your needs.

For more details on insurance, including tips for finding and talking with an insurance agent, check out Farm Commons' guide *Managing the Sustainable Farm's Risks with Insurance: Navigating Common Options*.