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Two-Tiered Crop Insurance for Flue-Cured Tobacco: Insured Prices

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Crop insurance for tobacco is changing to a two-tiered system. Flue-cured tobacco for which a farmer has a qualified contract will be insurable at \$1.80 per pound. Tobacco for which a farmer does not have a contract will be insurable at \$0.90. Producers with a qualified contract who plant more tobacco than they have a contract for will receive a blended price. The pounds of production used in the determination will be the planted acres multiplied by the farmer’s Actual Production History (APH) yield.

For example, suppose a farmer has an APH yield of 2,000 pounds per acre and that he has qualified contracts for 200,000 pounds. If he plants 100 acres of tobacco, his expected production for insurance purposes is 200,000 pounds and all of his production can be insured for \$1.80 per pound. But if wants to plant additional acres of tobacco to make sure he has enough pounds to fill his contract (just in case bad weather lowers his yield) the farmer’s insurance price will be lowered.

If the farmer plants an additional 5 acres the farmer’s expected production is 210,000 pounds. In this case 95.2 % of his crop (200,000lbs of contracted tobacco divided by 210,000lbs of tobacco planted = 0.952 or 95.2%) is valued at \$1.80 with the remaining 10,000lbs (4.8%) valued at \$0.90. The weighted average insurance price is \$1.76 per pound across all his planted acres ($\$1.80 \times 0.952 + \$0.90 \times 0.048 = \$1.76$).

Table 1 shows the weighted average insured price across all planted acres of flue-cured tobacco when various percentages of the planted acres are covered by a marketing contract.

Table 1. Weighted Average Insurable Price for Various Percentages of a Flue-Cured Crop Covered by Qualified Contracts

% of Production Covered by Contracts	100%	95%	85%	75%	65%	55%	45%	35%	25%	15%	0%
Average Insurable Price for All Planted Acres	\$ 1.80	\$ 1.76	\$ 1.67	\$ 1.58	\$ 1.49	\$ 1.40	\$ 1.31	\$ 1.22	\$ 1.13	\$ 1.04	\$ 0.90