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Higher guarantees available for crop insurance in 2004
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The biggest news in crop insurance for 2004 is that higher dollar values can be guaranteed. The indemnity prices for corn and soybeans for APH insurance have been announced at $2.45 and $5.60 per bushel, respectively. This is the rate at which any losses suffered under traditional yield insurance will be paid. Last year’s APH indemnity prices were $2.20 for corn and $5.15 for soybeans.

The prices that will be used to calculate the guarantees for the revenue insurance products, such as Revenue Assurance and Crop Revenue Coverage, will not be announced until the end of February. However, current futures market prices are well above the averages of $2.42 for corn and $5.26 for soybeans that were recorded for 2003.

Higher proven yields
This is the year that we finally get to throw yields from 1993 out of the 10-year moving average that is used to calculate most people’s APH yields. The average Iowa corn yield in 1993 was 80 bushels per acre. Many farms harvested much less than that, due to prolonged floods and wet weather. The average yield for the state in 2003 is currently estimated at 157 bushels per acre. Thus, it won’t be uncommon to see proven yields for corn jump as much as 5 to 10 bushels per acre this year.

Soybeans are a different story. The average Iowa soybean yield was 31 bushels per acre in 1993, but is estimated at only one bushel above that for 2003. Of course individual farms may still have had substantially higher yields last year than a decade ago.

Let’s look at an example of a farm that had an APH yield of 135 bushels per acre last year, and insured with revenue...continued on page 2
insurance at the 75 percent guarantee level. The revenue guarantee was equal to 135 bu. x $2.42 x 75 percent, or $245. If the proven yield increases to 143 bushels this year, and the December futures price during the month of February averages $2.80, a 75 percent guarantee will be worth $300 per acre in 2004.

Of course, higher guarantees will also mean higher premiums, in many cases. Because insurance companies have more dollars at risk, they must collect more in premium payments. Higher APH yields may modify those increases somewhat.

**Coverage choices**

Producers will have a choice whether to purchase the same percent guarantee as last year, with a higher dollar value and possibly a higher premium, or to buy the same dollar guarantee as last year at a lower percent coverage. Farm- ers and landowners who have a fixed budget for crop insurance may opt for a lower percent coverage.

In recent years, Iowa producers have been shifting away from yield insurance toward more use of the revenue insurance products, especially for soybeans (see chart). A few years ago the insurance indemnity prices for soybeans were below the county loan rate for most producers. This meant that price risk was essentially neutralized already, and many farmers chose to insure yields, only.

Since then, however, the loan rate has been lowered (for soybeans) and prices have in- creased dramatically. Today the risk of prices dropping substantially from February to harvest is much higher, making it more important to insure revenue. Moreover, the APH indemnity prices look to be somewhat lower than those that will be used for revenue insurance this year.

**Standard or Harvest Price Option?**

Producers who buy revenue assurance have a choice of buying the standard version with a fixed guarantee, or the harvest price option that increases the guarantee if prices rise from February to harvest. In 2003, the RA price for soybeans rose from $5.26 to $7.32 by October. Producers who had significant yield losses and the harvest price option were likely to collect indemnity payments. Those who had the standard policy probably did not, because the rise in price offset the lower than expected yields. Both yield and revenue insurance paid substantial indemnities for soybeans in Iowa last year, though (see soybean acres chart).

This scenario is not likely to be repeated in 2004. Given the level of current soybean futures prices, the probability of seeing higher prices in October is much less than a year ago. Thus, producers may choose to purchase the standard RA policy, at a lower premium. However, the difference in premiums for the standard and harvest price options may also be less this year.