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What’s new with crop insurance in 2008
by William Edwards, extension economist, 515-294-6161, wedwards@iastate.edu

Corn and soybean producers in the Midwest need to make decisions about crop insurance by March 15 each year. If they don’t advise their agent to make any changes, coverage will be the same as last year. However, changing market conditions make it advisable to review policy specifications each year.

What’s new
Last year indemnity prices, available guarantees and premiums were all much higher than in 2006. That is not surprising, since all of these are based on expectations for harvest time prices as measured prior to March each year. Current corn and soybean market conditions make it likely that even higher levels will be reached in 2008.

Another new feature is a premium discount that is available to corn producers who plant a certain type of genetics, based on an expected decrease in yield risk.

Indemnity prices
Even if producers don’t alter their percent protection level from year to year, the dollar value of their guarantee will change according to market prices. The price used to calculate the guarantee and determine the payment in case of a loss is called the “indemnity price.” Where the indemnity price is set each year depends on market projections and the type of policy purchased.

Last year’s revenue insurance (RA, CRC, GRIP) indemnity prices of $4.06 per bushel for corn and $8.09 per bushel for soybeans allowed many producers to lock in very attractive guarantees. Indemnity prices for 2008 will not be announced until March 1, but will likely be even higher than last year, especially for soybeans. Maximum indemnity prices for yield insurance (APH) have already been announced at $4.75 for corn and $11.50 for soybeans, an increase from the 2007 rates of $3.50 and $7.00, respectively.

The down side, of course, is that higher indemnity prices mean higher premiums. The average farmer premium for all corn policies in Iowa last year was $17.05 per acre, compared to just $9.62 per acre in 2006. The average soybean premium jumped from $7.03 to $8.27. And, despite the high value guarantees that were purchased in 2007, payouts for losses in Iowa were equal to only about 4 percent of the premiums that farmers paid in.

Handbook updates
For those of you subscribing to the handbook, the following updates are included.

Cash Corn and Soybean Prices – A2-11 (4 pages)
Livestock Planning Prices – B1-10 (1 page)

Please add these files to your handbook and remove the out-of-date material.

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Estimated crop insurance premiums for different counties can be found on the University of Illinois Farmdoc Web site, at: www.farmdoc.uiuc.edu/cropins/, under Premium Calculator.

Type of policy
Iowa farmers have gradually been shifting their crop insurance away from yield insurance and toward revenue insurance over the last decade. Only about 15 percent of the insured acres in Iowa last year were covered with yield-based policies (APH and GRP). When indemnity prices are high by historical standards, revenue insurance makes even more sense, because the risk of declining prices is greater relative to the risk of low yields. This also makes group risk insurance protection (GRIP) somewhat more attractive than in low price years, since it offers exactly the same price risk protection as individual revenue insurance policies. GRIP’s yield risk protection, however, is based on county level rather than farm level yields.

Producers who like to forward price much of their production prior to harvest can use CRC, or RA insurance with the “harvest price option,” to protect themselves against harvesting fewer bushels than they contract. As long as they don’t commit more bushels than they have insured, they can rely on the insurance indemnity payment to cover the cost of any shortfall. This year they need to consider carefully the odds that prices at harvest will be higher than in February. If there is only a small chance that the market will be higher in October or November, it may not be necessary to spend the extra premium to buy CRC or RA with the harvest price option instead of basic RA.

Guarantees
Producers need to carefully consider how many dollars of guarantee they need to purchase in 2008. Crop input prices are up sharply, as are cash rents. However, higher indemnity prices and proven yields may allow purchasing an adequate guarantee at a lower percent of coverage than in the past. For example, if a farmer had a proven yield of 151 bushels per acre and wanted to purchase a guarantee of $460 last year, a 75 percent coverage level was in order (151 bu. x $4.06 x 75% = $460). Suppose the same farmer needs a guarantee of $520 to cover costs of production this year, but the proven yield has been adjusted upward to 153 bushels per acre and the February futures price averages $4.86. A coverage level of only 70 percent is adequate now (153 bu. x $4.86 x 70% = $520).

Producers should carefully calculate their own coverage needs before meeting with their crop insurance agent this year. Note that insurance guarantees are based on futures prices. Only lost bushels are paid at that rate, though, while bushels actually produced are sold at the local cash price. A conservative approach is to recalculate the insurance revenue guarantee using the February futures price minus the expected basis for October. This gives a more realistic estimate of the minimum gross revenue available.

With sharply higher guarantees available, some producers look at revenue insurance policies as another marketing tool rather than a risk protection tool. Locking in a high guarantee can be somewhat like purchasing a “revenue put option.” The cost of this guarantee needs to be compared to other marketing options, though, such as forward contracts, hedges and normal put options.

Biotech yield endorsement
The newest innovation in crop insurance is a premium discount for planting certain biotech corn hybrids. The Biotech Yield Endorsement (BYE) is available to corn growers in Iowa, Illinois, Indiana and Minnesota. To be eligible for a discount, farmers must plant at least 75 percent of the corn acres in an insurance unit to hybrids that contain the YieldGuard VT Triple or YieldGuard Plus with Roundup Ready Corn 2 technologies. These hybrids can be purchased from more than 250 companies that license the technology. Discounts are expected to average about 13 percent overall, but will be higher on APH policies than on RA or CRC policies. The discounts are not available on the group risk insurance policies, GRP and GRIP.

In 2007 the average farmer premium for corn in Iowa was about $17 per acre, so the average BYE discount expected would be a little over $2 per acre. This saving should be weighed against the added cost of the eligible hybrids and the value of any yield increases or other possible advantages. Potential benefits depend on whether or not the types of insect or weed pressure that these hybrids are resistant to pose a significant risk.

Indemnity Prices for Crop Insurance

<table>
<thead>
<tr>
<th>Type of Policy</th>
<th>Corn</th>
<th>Soybeans</th>
</tr>
</thead>
<tbody>
<tr>
<td>APH</td>
<td>$4.75</td>
<td>$3.50</td>
</tr>
<tr>
<td>RA, CRC, GRIP1</td>
<td>--</td>
<td>$4.06</td>
</tr>
</tbody>
</table>

Equal to the average of the February CBOT price for November soybeans and December corn.

1 Announced March 1