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Crop insurance decisions for 2010

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Crop insurance decisions for 2010

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There are a few important changes for multiple peril crop insurance this year. In addition, some features that were introduced last year will be continued.

Indemnity prices

The Risk Management Agency (RMA) has announced indemnity prices of $3.90 per bushel for corn and $9.15 per bushel for soybeans for APH (yield) insurance guarantees for 2009, both slightly lower than last year. Prices for revenue insurance policies will not be known until the end of February. December corn futures contracts currently are trading at about the same level as in February 2009, while November soybean contract prices are slightly higher than a year ago.

Premiums

Last year 74 percent of the insured acres in Iowa were protected by Crop Revenue Coverage (CRC), only 12 percent were covered by Revenue Assurance (RA). This was a complete reversal from 2008, and can be attributed almost totally to lower premiums offered for CRC in 2009. Since RA and CRC provide essentially the same coverage, producers should compare premiums carefully each year. The two products use different approaches for calculating premiums, and it is difficult to predict which one will be cheaper in a given year.

Biotech endorsement (BE)

The premium discount for planting certain biotech corn hybrids has been expanded to all the major Corn Belt states. Hybrids containing YieldGuard, Herculex or Agrisure genetics may be eligible. Farmers must plant at least 75 percent of the corn acres in an insurance unit to an approved hybrid. Discounts averaged about 13 percent last year, or a little over $3 per acre. The discounts are not available for

continued on page 2

Handbook updates

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

Buying Used Machinery – A3-22 (2 pages)

Lean Hog Basis – B2-41 (1 page)

Live Cattle Basis – B2-42 (1 page)

Feeder Cattle Basis – B2-43 (1 page)

Please add these files to your handbook and remove the out-of-date material.

continued on page 6

Inside . . .

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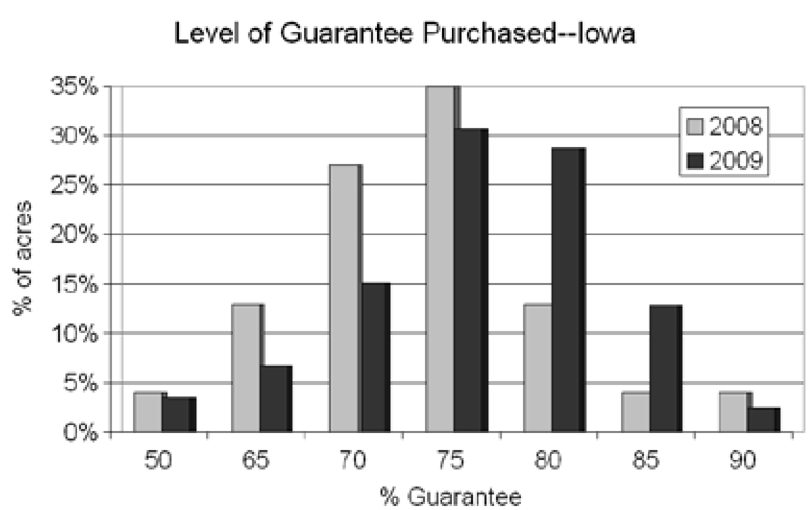
Crop insurance decisions for 2010, continued from page 1

the group risk insurance policies, GRP and GRIP, however. Producers should carefully weigh the potential savings on insurance premiums against the cost of planting a BE eligible hybrid and the need for protection against the targeted pests.

Enterprise and whole farm units

Last year RMA increased the subsidy rates for policies in which insured acres are grouped into enterprise or whole farm units. Enterprise units combine all acres of a crop grown in the same county by one producer on a single policy. Whole farm units combine corn and soybeans into a single policy. At the 75 percent coverage level, for example, basic units receive a 55 percent premium subsidy while enterprise units will receive a 77 percent subsidy and whole farm units will receive an 80 percent subsidy (see table).

Producers with multiple farming units can apply for enterprise or whole farm units, and either keep the same coverage and spend less on crop insurance, or spend the same dollars as before but raise their guarantee to a higher level. Many producers chose to do the latter last year. As the chart below shows, the proportion of acres insured at a 75 percent or lower guarantee decreased from 2008 to 2009, while the acres insured at 80 percent or 85 percent of expected revenue increased.



Combining several optional or basic units into an enterprise unit means less chance of receiving an indemnity payment for an isolated crop loss. Carrying companion hail insurance can help offset this. On the other hand, increasing the level of coverage with an enterprise unit provides added protection against widespread production problems or a drop in prices. Once the crops are harvested the grain and ultimately the dollars are commingled anyway, so it makes good financial sense to protect against risk at the whole farm level.

Rates at which premiums are subsidized, by type of insurance unit.

Coverage Level	Basic Units	Enterprise Units	Whole Farm Units
60%	64%	80%	not available
65%	59%	80%	80%
70%	59%	80%	80%
75%	55%	77%	80%
80%	48%	68%	71%
85%	38%	53%	56%

Specialty soybeans

Certain types of specialty soybeans can now be insured separately from conventional soybeans. These include food grade, low linolenic, low saturated fat, and high protein varieties. Organically grown or non-GMO soybeans do not qualify as specialty soybeans. Because specialty soybeans typically have lower yields than conventional soybeans, insuring them separately will help increase the proven yield for the conventional crop. Producers can submit past yield records to create an APH yield for each type of specialty soybeans. The indemnity price can be the higher of the RMA price ($9.15 for 2010) or the actual contract price for the crop. However, the contract price used for the policy cannot be more than 15 to 50 percent (depending on the type of beans) higher than the indemnity price for standard soybeans. If a contract price is used to calculate the coverage level, the crop must be insured with an APH (yield) policy, not a revenue policy. If a CRC or RA policy is used, the standard indemnity price of $9.23 will be in effect.