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Choosing crop insurance units in 2011

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Crop producers have several choices for combining different tracts of land when purchasing crop insurance. Each combination of tracts that is insured independently of other combinations is called a unit. One particular farming operation may have one unit or multiple units. Units can be designated as optional, basic, enterprise or whole farm. The choice will affect the premiums paid each year, as well as the size and likelihood of any indemnity payments received.

Optional units

Farms that are owned or cash rented by the operator, and are located in different township sections, can be insured individually in optional units. The guarantees, premiums, production and potential indemnity payments are calculated separately for each optional unit. Likewise, a separate production history is needed to establish the actual production history (APH) yield. Optional units give the most protection against isolated weather losses such

as hail or wind, but also have the highest premiums. Optional units can also be created when the same crop is being grown under distinctly different farming practices, such as irrigated and dryland corn.

Basic units

Producers can combine all the land they own or cash in rent in different sections in the same crop into one basic insurance unit. All the acres of each crop are considered together when establishing guarantees and payments. Farms rented under a crop share lease, however, must each be in a separate basic unit. The crop share landowner can also insure his or her interest in the crop as a separate basic unit. Basic units receive a premium discount compared to optional units.

Enterprise units

An enterprise unit combines all acres of a single crop within a county in which a policyholder has an interest into a single unit, regardless of whether they are owned or rented, or how many landlords are involved. The insured crop must

be grown in two or more township sections within the county. Under the new common crop insurance policy rules, at least two of the sections must contain 20 acres or more

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Handbook updates

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

Managing Risk with Crop Insurance – A1-48 (4 pages)

Important Crop Insurance Dates – A1-50 (2 pages)

Yield Protection Crop Insurance – A1-52 (2 pages)

Revenue Protection Crop Insurance – A1-54 (4 pages)

Proven Yields and Insurance Units for Crop Insurance – A1-55 (4 pages)

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of the crop. Or, if the unit contains less than 100 total acres, then at least two sections must contain 20 percent or more of the total acres. For example, a farmer who insured 40 acres in one section would have to combine them with at least 10 acres in another section in the same county to qualify for an enterprise unit.

Whole farm units

Growers who are willing to combine all their insured crops into a single insurance unit can gain additional premium discounts. This is called a whole farm unit. The amount of the discount will depend on the proportion of the total acres planted to each crop. Whole farm units are available for Revenue Protection insurance, but not for Yield Protection policies.

In general, the more tracts of land that are combined into a single insurance unit, the less likely it is that a yield loss on just one tract will trigger an indemnity payment. This is particularly true if the tracts are dispersed throughout the county. One tract may get hailed out, but that production loss can be offset by average or better yields on another tract. For that reason, producers who purchase enterprise or whole farm units should consider also purchasing add-on insurance for isolated losses from hail, wind and/or fire.

On the other hand, if a producer is primarily concerned about declining market prices, any unit structure under a Revenue Protection policy gives the same price risk protection. This is because the same prices used to set the level of guarantee and the actual revenue each year are applied to all insured acres, regardless of the size, number or location of the units. Thus, aggregating land into larger insurance units does not diminish price risk protection. Given the current high levels of futures prices for corn and soybeans, the chances of lower prices occurring by harvest may be greater than usual in 2011.

Premiums lower

Perhaps most important, aggregating acres into larger units will result in lower overall insurance premiums. Table 1 shows an example of typical farmer premiums for corn, for land in Story County, Iowa, under different unit structures. The discount for enterprise units arises because the overall production risk is reduced by including more acres in a policy, and because the percent premium subsidy from the Risk Management Agency is higher. Many producers who have moved from basic to enterprise units have opted to increase their coverage levels, which provides a higher overall revenue guarantee for the same or less cost.

Enterprise units will probably result in less frequent, but larger, indemnity payments compared to basic units. Once the crop is harvested, however, the bushels are generally commingled before they are marketed, and the dollars received from the sale of the crop will go into the same bank account. Thus, guaranteeing a minimum revenue for all the combined farm acres is consistent with the overall financial management of the business.

More information on crop insurance is available on the AgDM website under Crops - Cost & Return.

Table 1. Typical premiums, Story County per ac.*

| Coverage Level | Corn, Basic Units | Corn, Enterprise Units |
|----------------|-------------------|------------------------|
| 60% | \$5.84 | \$2.52 |
| 65% | \$10.30 | \$3.20 |
| 70% | \$15.36 | \$4.72 |
| 75% | \$23.77 | \$7.28 |
| 80% | \$37.20 | \$12.90 |
| 85% | \$57.49 | \$24.91 |

*Example only. Actual premiums will differ.