Suggestions for the COMBO Product

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Like in previous years, Illinois farmers have till March 15th to change their crop insurance coverage for corn and soybeans. Unlike previous years, farmers will not have Crop Revenue Coverage (CRC), Revenue Assurance (RA), Income Protection (IP), and Actual Production History (APH) policies to choose from. These farm-level products have been replaced by the COMBO product.

The COMBO product combines all farm-level products into one and gives three options: Revenue Protection (RP), Revenue Protection with the harvest price exclusion (RPwExcl), and Yield Protection (YP). RP is similar to CRC and RA with the harvest price option. RP’s guarantee increases if the harvest price is above the projected price. RPwExcl also is a revenue product. However, its guarantee cannot increase. YP is a yield product much like the old APH product.

In previous years, most Illinois farmers purchased a revenue product. Continuing to do so will be a good choice. Farmers face both price and yield risk and a revenue product provides protection against both price and yield shortfalls.

In previous years, most Illinois farmers purchased CRC or RA with the harvest price option, revenue products that allow the guarantee to increase. Choosing the RP product, which has the guaranteed increase provision, will continue to be a good choice. Even though RP’s premiums are higher than RPwExcl, RP may be preferred as the guarantee increase provision provides useful protection for years in which yields are below trend, leading to increasing prices. This year, a supply shortfall could lead to much higher prices, suggesting that RP should be selected over RPwExcl. If a farmer chooses RPwExcl to take advantage of the lower premium, pre-harvest marketing should be limited.

Enterprise units continue to be more heavily subsidized than basic and optional units. An enterprise unit includes all farmland in one crop in a county. Basic and optional units divide farmland into smaller units. Because of the smaller number of acres, basic and optional units have a higher chance of generating insurance payments than enterprise units. While payments are larger, enterprise units have premiums that often are more than 50 percent lower than basic units. Due to its lower premiums, many Illinois farmers who do not farm land that has high risk of yield losses will find enterprise units advantageous.

If enterprise units are used, coverage levels of 80 and 85 percent become affordable. In McLean County, an 80% RP policy using enterprise units will cost around $13 per acre. Choosing a high coverage level
will provide high revenue guarantees because of this year’s high projected prices. Projected prices are set based on futures settlement prices during the month of February. Settlement prices during the first two weeks of February would have resulted in a $6.05 per bushel projected price for corn and $13.76 price for soybeans. On most farms, these prices result in guarantees at 80% or higher coverage levels that assure profits no matter the harvest price or actual yield levels.

For 2011, RP products look like an attractive alternative. Use of enterprise levels on farms with high productivity farmland will result in good revenue protection at relatively low cost. High coverage levels will assure profits on most farms.