



Weekly Farm Economics: Crop Insurance in 2011

Gary Schnitkey

Department of Agricultural and Consumer Economics
University of Illinois

March 11, 2011

farmdoc daily (1):17

Recommended citation format: Schnitkey, G. "Crop Insurance in 2011." *farmdoc daily* (1):17, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, March 11, 2011.

Permalink: <http://farmdocdaily.illinois.edu/2011/03/crop-insurance-in-2011-1.html>

http://farmdoc.illinois.edu/podcasts/fefo/FEFO_11_04.mp3

The following points address questions that have arisen during the 2011 crop insurance decision season:

Projected prices are \$6.01 per bushel for corn and \$13.49 per bushel for soybeans. Projected prices are based on settlement prices of Chicago Mercantile Exchange (CME) futures contracts during the month of February. The December contract is used for corn and the November contract is used for soybeans.

The 2011 projected prices are at all-time highs. The next highest set of prices occurred in 2008 when projected prices were \$5.40 for corn and \$13.36 for soybeans.

The COMBO product was released this year. This product replaced all farm-level projects. The COMBO project has three options that provide revenue and yield protection:

Revenue Projection (RP) is a revenue product that allows its guarantee to increase if the harvest price is above the projected price. It replaces Crop Revenue Coverage (CRC) and Revenue Assurance with the harvest price option (RA-HP).

Revenue Protection with the harvest price exclusion (RPwExl) is a revenue product that does not have the guarantee increase provision. RPwExl replaces Income Protection (IP) and Revenue Assurance with the base price option (RA-BP)

Yield Protection (YP) is a yield product that replaces Actual Production History (APH).

Protection offered by the COMBO product is described in the following paper:

(<http://www.farmdoc.illinois.edu/cropins/combo.html>).

A webinar on farmdoc details the COMBO product:

http://www.farmdoc.illinois.edu/webinars/cropins_webinars_2011/COMBO_product/player.html.

The county level products did not change. Group Risk Income Plan (GRIP) is county level revenue insurance and Group Risk Plan (GRP) is county level yield insurance. GRIP with the harvest revenue option (GRIP-HR) allows the guarantee to increase while GRIP without the harvest revenue option (GRIP-

We request all readers, electronic media and others follow our citation guidelines when re-posting articles from farmdoc daily. Guidelines are available [here](#). The farmdoc daily website falls under University of Illinois copyright and intellectual property rights. For a detailed statement, please see the University of Illinois Copyright Information and Policies [here](#).

NoHR) does not have the guarantee increases option.

The following webinar describes GRIP-HR:

http://www.farmdoc.illinois.edu/webinars/cropins_webinars_2011/GRIP/player.html.

Using history as a guide, most farmers will choose either:

RP – the COMBO product providing revenue protection using farm yields to determine payments.

GRIP-HR – a county level revenue product that allows the guarantee to increase.

Risk management suggestions are outlined in the following webinar:

http://www.farmdoc.illinois.edu/webinars/cropins_webinars_2011/Crop_Insurance_and_Risk_Management_Strategies_for

Why not use RPwExl or GRIP-NoHR? Both of these products have revenue guarantees that will not increase if harvest price is above the projected price. These products that will have lower premiums than RP or GRIP-HR. Several itmes to keep in mind if choosing RPwExl of GRIP-NoHR:

The guarantee increase is useful for protecting individuals who pre-harvest hedge. The guarantee increase can make payments when yields fall and prices rise, years in which pre-harvest hedging typically locks in prices lower than exist at harvest. Using RPwExl and GRIP-NoHR suggests not doing much pre-harvest hedging.

Research shows the higher harvest prices can occur with equal likelihood no matter the level of projected prices. This suggests that harvest prices could be above projected prices this year even though the projected price is at an all-time high.

Current limited levels of grain inventories suggest that harvest prices could be above projected prices if we have any supply disruptions this year. This is particularly true for corn.

Either RP or GRIP-HR will be good choices for the upcoming year. RP will provide better yield projection than will GRIP-HR because farm yields are used in RP's revenue calculations. GRIP-HR will provide better price protection because of the higher coverage level and because the expected yield used by GRIP does not lag expected yields as much as does the APH yield used by RP.

If taking RP, some suggestions are:

Take RP at a fairly high coverage level. Taking a high coverage level will guarantee a profit this year no matter the price or yield level. In addition, SURE payments are maximized if an 80% or higher coverage level is selected.

Consider taking an enterprise or whole-farm unit level. An enterprise unit is all of one crop in a county. Whole-farm combines all corn and soybeans in one insurable unit. The guarantee will be based on corn and soybeans and revenue will count both corn and soybeans. Enterprise and whole-farm units will have lower costs than basic and optional units.

If taking GRIP-HR, some suggestions are:

Take GRIP-HR at the highest coverage level of 90%

Lower the projection level to lower premiums. Lowering the protecitn elvel will also lower payments when they occur.

Who should not use enterprise unit? Enterprise units will have lower payments than either basic or optional units because smaller acres are in the enterprise unit. Smaller units are usually beneficial for farms with land that has relatively high yield variability. Hence, farms with higher risk farmland may find basic and optional unit advantageous.

Is this a good year to not take crop insurance? Given higher premiums, a number of farmers are asking whether or not this is a good year to not take insurance. These farmers often are in strong financial position and could weather one year of adverse outcomes. Whether or not risks of lower revenues this year are different is an open question. Options markets indicate that there is more volatility this year than in recent years, suggesting that low prices are possible. Individuals who are considering self-insuring may wish to consider the whole-farm enterprise unit. This product will have low premiums while maintaining a minimum revenue level.

Premiums on alternative crops are available on-line in the crop insurance section of farmdoc. They are also available from the 2011 Crop Insurance Decision Tool, a downloadable Excel spreadsheet. These tools are available from the crop insurance section of farmdoc (<http://www.farmdoc.illinois.edu/cropins/index.asp>).