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2011 IFES: Crop Insurance – New Features, Programs & Performance

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This is a presentation summary from the 2011 Illinois Farm Economics Summit (IFES) which occured December 12-16, 2011 at locations across Illinois. Summaries and MP3 podcasts of all presentations will be republished on farmdoc daily. The 'Presentations' section of the farmdoc site has PDF presentation slides and MP3 podcasts from all presenters here.

http://farmdoc.illinois.edu/IFES/2011/IFES-2011-BruceSherrick.mp3

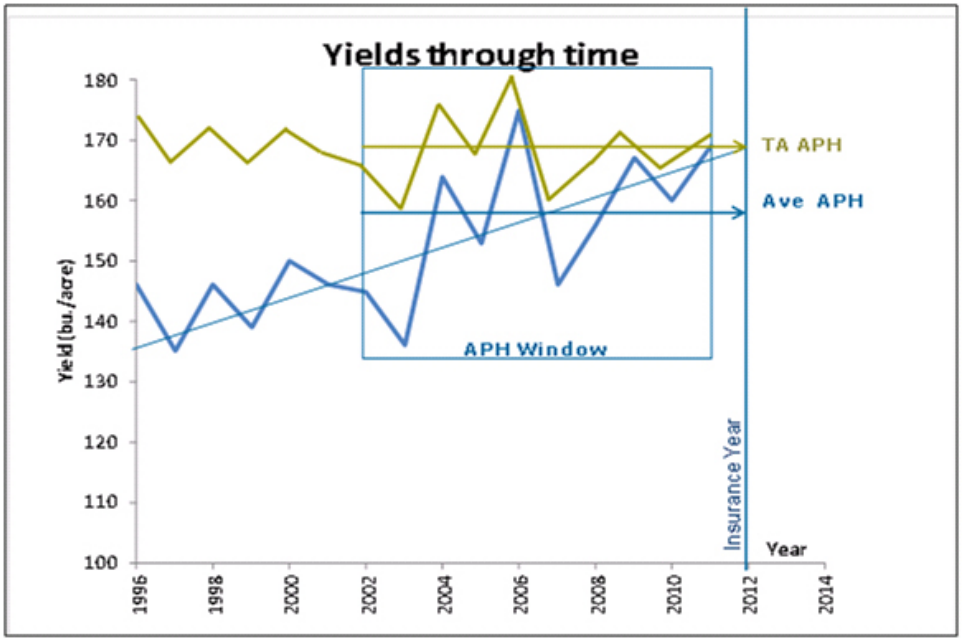
The Risk Management Agency has announced several important changes to available crop insurance programs for the 2012 crop year. Among the most important changes are the approval of the Trend Adjusted APH Yield Endorsement, major base rate revisions, and updates to several technical components in the rating system. Additionally, there are a number of important new private market "Add-on" products, while other features including the BE endorsement and Monsanto's BYA program have been retired. This session is intended to improve your understanding of new programs and features, and help develop an accurate understanding crop insurance alternatives to best manage relevant risks. Additionally, tools available at the farmdoc website that are available to better evaluate your crop insurance options are introduced and demonstrated in this session.

Trend Adjusted APH Yield

Beginning in 2012, the Trend Adjusted APH Yield endorsement will be available for all APH-based yield and revenue crop insurance products in the Combo policy, for all election levels, applied at a county/crop basis. The intent of the Policy Endorsement is to improve the accuracy of the estimate of future insured yields, and to allow more accurate coverage elections to be made against expected production. In simplest form, a producer's APH is the simple average of at least four and up to ten actual historic yields. The APH then serves as an estimate of future yields and the producer elects a fractional coverage of the expected yield to indemnify either expected yields or expected revenue. However, yields have increased systematically through time, and the average of the past does not generally result in an accurate estimate of the future.

The figure below shows the yields through time for corn in a county in Illinois along with a yield trend line and a time window over which the average is used to calculate an APH. The upper jagged line in the figure shows the same yields, but adjusted for the impact of trend through time. Much as a CPI inflation adjustment can be made to historic prices, historic yields can be restated in terms of their current

equivalent values. The upper boxed area shows the general idea of the Trend Adjusted APH — to average the yields that would be expected to occur given current technologies and practices as an estimate of the production potential during the insured period.



Example Application

Certain eligibility requirements exist, and the trends differ by location, so you will need to discuss this with your agent to finalize all values, but an example should help understand the general effects of the Endorsement.

Assuming complete records and producer eligibility, the Endorsement adjusts each actual yield used in the calculation of the APH for the amount of time that has passed since its observation to better reflect the yield it would represent in the insured period. The example below considers a producer is in a county with a 2.0 bushel per year trend rate, 7 records in the associated APH database with a current APH average of 170 bu./acre, and complete eligibility for the TA Endorsement.

Table 1. Trend Adjustments and impacts

Insurance Year	2012
Trend Rate (bu./yr)	2

	Historic APH Database		
Year	Actual Yield	Yield Adjustmen	TA Yield
2005	144	14	158
2006	158	12	170
2007	168	10	178
2008	183	8	191
2009	164	6	170
2010	190	4	194
2011	183	2	185
Average	**170**		**178**

	- - - Insurance Impacts - - -	
Coverage	Bushels	TA Bushels
85%	144.5	151.3
80%	136	142.4
75%	127.5	133.5
70%	119	124.6

As shown, the effect of the endorsement is to add 2 bushels to the yield from 2011, 4 bushels to the yield from 2010, and so on to each of the records used in the calculation of the average. The Trend Adjusted APH is then calculated as the average of the adjusted yields, in this case resulting in an eight bushel increase to 178 bu./acre. Under this endorsement, a coverage election of 80% results in an increase in bushels covered from 136 to 142.4 or a 6.24 increase in effective bushels covered.

Premium impacts depend on the projected price and volatility factors that occur next Spring, but importantly, base rates per bushel will not be affected by the trend endorsement.

The farmdoc crop insurance section contains premium calculators, payment evaluators, and other tools to help farmers evaluate their crop insurance alternatives.

Additional Resources

The slides for this presentation can be found at:
http://www.farmdoc.uiuc.edu/presentations/IFES_2011
Risk Management Agency website
http://www.rma.usda.gov/
farmdoc Crop Insurance Section
http://www.farmdoc.illinois.edu/cropins/index.asp