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Weekly Farm Economics: Wheat Crop Insurance in 2013

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Changes in wheat insurance in 2013 are as follows: 1) the Trend Adjustment (TA) yield endorsement will be available for wheat in some counties in 2013, 2) projected prices are higher in 2013 compared to 2012, 3) volatilities are lower in 2013 compared to 2012, and 4) wheat premiums differ in 2013 as compared to 2012. After discussing these changes, suggestions for 2013 are given.

Change in 2013 Wheat Crop Insurance

The TA yield endorsement will allow farmers to increased yields used in calculating crop insurance guarantees (see here). Each county for which the TA yield endorsement is available has a county trend adjustment. This county trend adjustment will be used to adjust each yield in a unit's yield history. The county yield adjustment in Washington County, Illinois is .57 bushels per acre. Given a consecutive ten-year history, the TA yield will be 3.8 bushels higher than the Actual Production History (APH) yield in Washington County. Virtually all producers will find the TA yield endorsement advantageous. Use of the TA endorsement does not increase the insurance premium given the same per acre guarantee level. Often use of the TA yield endorsement lowers premium for the same guarantee level per acre.

The projected price for wheat in 2013 is $8.57 per bushel. The $8.57 price is $.37 per bushel higher than the 2012 price of $8.20 per bushel. For the same coverage level, a higher projected price will increase per acre guarantees. Take an approved yield of 59 bushels per acre and a 75 percent coverage level. The guarantee in 2013 is $379 per acre ($379 = 59 bushel approved yield x $8.57 projected price x 75 percent coverage level) compared to a 2012 guarantee of $363 per acre ($363 = 59 bushel approved yield x $8.20 projected price x 75 percent coverage level). The higher projected price also will increase insurance premium.

The volatility in 2013 is .25 compared to .27 in 2012. The lower volatility in 2013 will lower premiums in 2013; however, the higher projected price and changes in underlying rates can offset premium reductions from a lower volatility.

Farmer-paid premium changes between 2012 and 2013 are mixed. Table 1 shows premiums in 2012 and 2013 for Washington County, Illinois. For the same coverage level, Revenue Protection (RP) premiums in 2013 are higher than in 2012. However the guarantees implied by each coverage level are higher in 2013 due to a higher projected price. Even given the same projected price and volatility, Washington County

RP premiums would be higher in 2013 due to changes in insurance rates. Group Risk Income Plan with the harvest price option (GRIP-HR) has lower premiums in 2013 as compared to 2012.

Table 1. Farmer-Paid Wheat Crop Insurance Premium in Washington County, Illinois, Comparison of 2012 to 2013.

	Revenue Protection [1]				GRIP-HR [2]	
	Basic		Enterprise			
	2012	2013	2012	2013	2012	2013
	$ per acre		$ per acre			
50%	5.25	6.15	3.18	3.73		
55%	7.43	8.54	4.13	4.75		
60%	9.32	10.59	5.18	5.88		
65%	13.03	15.42	6.36	7.41	$ per acre	
70%	16.18	19.00	7.76	8.97	17.20	18.04
75%	21.82	24.93	10.78	12.30	27.36	25.65
80%					38.01	33.22
85%					50.76	45.02
90%					64.85	58.98

[1] RP premium for a 59 bushel APH yield in 2012 and 59 bushel TA-Yield in 2013. Quotes are for a 100 acre unit.

[2] Group Risk Income Plan with the harvest price option premiums are for a 100% protection level.

Suggestions for 2013

Even given the above changes, general guidance for crop insurance choices does not differ from previous years. If RP or another plan within the COMBO product is selected, use of the TA yield endorsement is warranted. Use of a crop insurance product with the harvest price option seems prudent, meaning that many producers will choose RP or GRIP-HR. The choice between RP and GRIP-HR may come down to one of preferences: individuals more concerned about yield losses likely will find RP better while producers concerned with price declines likely with find GRIP-HR more appropriate. Weighing the higher premiums associated with GRIP-HR likely will also enter into the choice between RP and GRIP-HR. High coverage levels may be advisable, given the possibility that prices could fall.