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Weekly Farm Economics: Crop Insurance in 2013

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The 2012 drought raises question about crop insurance coverage in 2013. Specific questions that have been asked are: 1) how much will the Actual Production History (APH) yields decline in 2013 as a result of poor yields in 2012, and 2) will 2013 crop insurance premiums increase as a result of the 2012 drought?

2012 APH Yield Declines

Low yields in 2012 will reduce 2013 APH yields on many farms. However, there are two factors that could potentially reduce the size of the APH yield declines.

The first is that that a producer can request to have any yield in the yield history replaced by 60% of the T yield. The T yield is specific to a crop in a county. Table 1 shows 2012 corn and soybean T yields for Illinois counties. In 2012, some farms will have yields below 60% of the T yield. These farmers should request to have their actual yield replaced by 60% of the T yield.

Table 1. 2012 Crop Insurance Transition Yields.

County	Corn	Beans	County	Corn	Beans	County	Corn	Beans
	Bushels per acre			Bushels per acre			Bushels per acre	
Adams	151	43	Hardin	108	33	Morgan	170	49
Alexander	136	36	Henderson	127	36.5	Moultrie	167	49
Bond	124	35	Henry	162	48	Ogle	162	46
Boone	149	43	Iroquois	163	47	Peoria	167	47
Brown	147	43	Jackson	125	36	Perry	101	32
Bureau	168	48	Jasper	135	41	Piatt	171	51
Calhoun	139	41	Jefferson	110	32	Pike	153	43
Carroll	170	53	Jersey	147	43	Pope	112	29
Cass	168	46	Jo Daviess	151	50	Pulaski	133	37
Champaign	167	50	Johnson	120	37	Putnam	167	48
Christian	174	49	Kane	156	45	Randolph	114	34
Clark	148	44	Kankakee	154	44	Richland	119	36
Clay	121	35	Kendall	152	45	Rock Island	164	47
Clinton	127	37	Knox	168	49	St. Clair	134	38
Coles	162	48	Lake	113	32	Saline	125	37
Cook	125	38	LaSalle	161	46	Sangamon	173	50
Crawford	136	41	Lawrence	131	40	Schuyler	157	43
Cumberland	145	43	Lee	164	46	Scott	155	44
DeKalb	164	48	Livingston	160	46	Shelby	152	43
De Witt	168	50	Logan	169	49	Stark	169	50
Douglas	160	49	McDonough	175	48	Stephenson	155	47
DuPage	134	39	McHenry	140	40	Tazewell	170	50
Edgar	161	48	McLean	170	50	Union	128	36
Edwards	122	37	Macon	174	50	Vermilion	161	48
Effingham	135	40	Macoupin	154	44	Wabash	131	38
Fayette	128	37	Madison	137	39	Warren	175	50
Ford	161	46	Marion	123	36	Washington	118	33
Franklin	109	33	Marshall	165	47	Wayne	123	35
Fulton	162	45	Mason	154	43	White	132	36
Gallatin	139	37	Massac	124	32	Whiteside	158	48
Greene	148	45	Menard	170	47	Will	146	43
Grundy	156	45	Mercer	168	49	Williamson	109	33
Hamilton	122	35	Monroe	131	36	Winnebago	143	42
Hancock	161	45	Montgomery	154	43	Woodford	172	49

To illustrate, take a farm in Macon County where the T yield is 174 bushels per acre (see Table 1). If the farm has a yield below 104.4 bushels (174 bushel T yield x 60%), that farm could ask to have its actual yield replaced by 104.4 bushels per acre. This substitution will limit yield declines.

Take a McLean County farm with a 10-year yield history where the historic yields exactly equal the county averages in each year. This farm would have a 2012 APH yield of 175 bushels per acre. If this farm has a yield below 104.4 bushel yield in 2012, a 104.4 bushels yield could be used in the APH yield calculation, resulting in an a 2013 APH yield of 169 bushels per acre. This farm's APH will decline by 6 bushels between 2012 and 2013. Using a lower actual yield than 60% of the t yield would result in more an APH yield decrease.

The second factor limiting APH yield declines is that there is 10% limit on a decline in the APH yield from one year to the next. Take the McLean County farm with a 2012 APH yield of 175 bushels per acre. The 2013 cannot be below 157.5 bushels per acre (175 APH yield x 90%).

While APH yields will decline, the Trend-Adjustment Endorsement will be available in 2013. This endorsement will act to increase yields used in guarantee calculations in the recognition that average corn and soybeans yields have increased over time.

2013 Premiums

Crop insurance premiums in 2013 are not likely to be impacted by poor 2012 yields. Rates for 2013 are set before complete 2012 yield and loss information is known. Even in 2014, when 2012 losses will

impact premiums, premium increases may not be large because a weather indexing process is used in setting premium. Because 2012 is an unusual year, 2012 losses will not receive as much weight as more typical years in setting crop insurance premiums.

Summary

APH yields on many farms will decrease as a result of the 2012 drought. However, there are limits on the decrease that can occur because of potential yield substitutions and APH yield decline limits. Still, the low yields in 2012 will serve to drag down APH yields for the coming 10 years on most farms. Premiums in 2013 likely will not increase because of the 2012 drought.