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Coverage Level Choice on Farm-Level Revenue Insurance by Illinois Farmers

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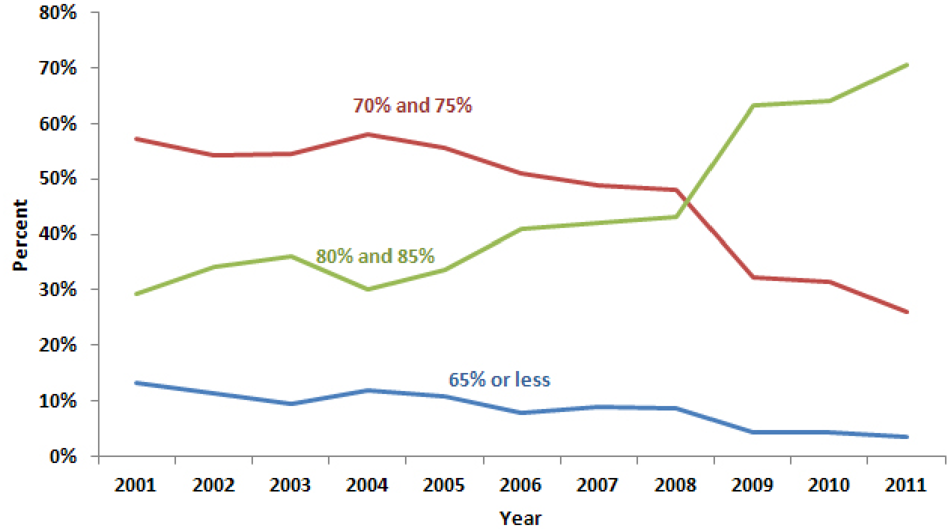
When farm-level revenue crop insurance policies are used, most Illinois farmers now purchase 80 and 85 percent coverage levels. In 2011, 71 percent of the corn acres and 60 percent of the soybean acres were insured at 80 and 85 percent coverage levels. Use of 80 and 85 percent coverage levels have increased in recent years, with a large increase occurring in 2009.

Figure 1 shows percent of corn acres insured by coverage levels for farm-level revenue crop insurance products. From 2001 through 2010, farm level revenue products included Crop Revenue Coverage (CRC), Income Protection (IP), and Revenue Assurance (RA). Farm-level products in 2011 were Revenue Protection (RP) and Revenue Protection with Exclusion (RPwExl).

Figure 1. Percent of Acres by Coverage Level for Farm-Level Revenue Insurance Products, Corn, Illinois, 2001 - 2011.



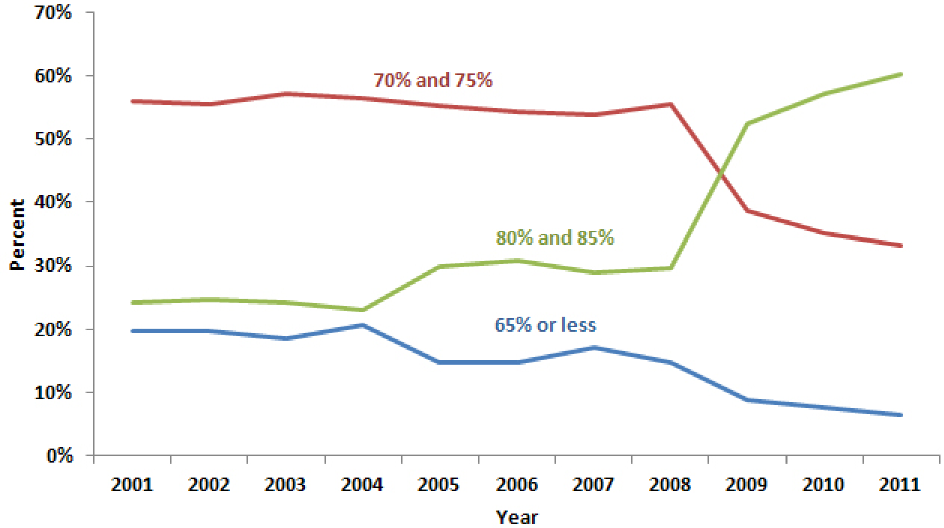
Source: Summary of Business, Risk Management Agency

In 2001, 80 and 85 percent coverage levels were used on 29 percent of the acres. Between 2001 and 2008, use of the 80 and 85 percent coverage levels gradually increased to 43 percent in 2008. In 2009, use of 80 and 85 percent coverage levels jumped to 63 percent, an increase of 20 percentage points over 2008 levels. Since 2009, use of 80 and 85 percent coverage levels continued to increase, reaching 71 percent in 2011.

The large increase between 2008 and 2009 can be attributed to the 2009 introduction of higher subsidy levels for enterprise units. The 2008 Farm Bill raised subsidy levels for enterprise units, leaving subsidy levels for basic and optional units at lower levels. An enterprise unit includes farmland of all of one crop in a county as the insured unit. Basic and optional units divide farmland into smaller units. Higher subsidies dramatically lowered enterprise unit costs relative to basic and optional units. As a result many Illinois farmers switched to enterprise units, lowering farmer-paid premiums. With the savings from the switch to enterprise units, many farmers increased coverage levels.

Similar trends to corn exist for soybeans (see Figure 2). Use of 80 and 85 percent coverage levels increased from 24 percent in 2001 up to 30 percent in 2008. Then in 2009 use of 80 and 85 percent coverage levels increased by 22 percentage points to 52 percent. In 2011, 60 percent of the acres were insured at 80 and 85 percent coverage levels.

Figure 2. Percent of Acres by Coverage Level for Farm-Level Revenue Insurance Products, Soybeans, Illinois, 2001 - 2011.



Source: Summary of Business, Risk Management Agency

Illinois farmer have chosen to use higher coverage levels when insuring corn and soybeans. This suggests that Illinois farmers desire increased risk protection in recent years. The introduction of enterprise units had a large impact on crop insurance use due to lower premium costs. Higher subsidy levels will end if not re-authorized in the next farm bill. Judging by use, Illinois farmers find enterprise units advantageous. Elimination of enterprise unit subsidies likely would lead to lower coverage levels, resulting in higher levels of risk on farms.