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Weekly Farm Economics: Evaluating Taking Prevented Planting Payments for Corn

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Due to continuing wet weather, some farmers will not have planted all their corn by the final planting dates contained in their crop insurance policies. Once the final planting date has been reached, a farmer that has purchased the COMBO product (RP, RP with exclusion, or YP) will have the option of taking a prevented planting payment. In many cases, taking the prevented planting payment will be an economically attractive alternative.

Need to Contact Crop Insurance Agent

The following material lays out alternatives when faced with late planting and illustrates a spreadsheet for comparing alternatives. As will become apparent, prevented planting is complex. Farmers need to contact their crop insurance agent when considering taking prevented planting payments.

Of specific concern are rules that dictate the number of acres available for prevented planting. As a general guideline, the maximum acres eligible for prevented planting payments on corn equal the maximum acres of corn planted in the last four years, adjusted for acreage increases between 2012 and 2013, less corn acres planted in 2013. Each situation is specific and there are variations from the above guideline. Crop insurance agents can make sure farmers are eligible for prevented planting payments.

Final Planting Dates

A key date relative to prevented planting is the final planting date. In Illinois, the final date is May 31st for extreme southern counties and June 5th for all other counties.

Once the final planting date has been reached, farmers have three options:

1. Take a prevented planting payment. Prevented planting payments are available to holders of Revenue Protection (RP), RP with the harvest price exclusion, and Yield Protection (YP). Prevented planting is not available for Group Risk Plan or Group Risk Income Plan polices. To take a prevented planting payment, plantings have to be prevented for insurable causes.
2. Plant corn after the final planting date.

3. Plant soybeans after the final planting date.

Each of these three alternatives is discussed in the following sections.

Take a Prevented Planting Payment

Unless a 65% or 70% buy up option has been selected at crop insurance signup, prevented planting payments equal 60% of the spring-time guarantee. As an example, take an RP policy with an 80% coverage level having a 180 bushel per acre guarantee yield. The 2013 projected price $5.65. This policy has a guarantee of $814 per acre (80% coverage level x 180 bushel guarantee yield x $5.65 projected price). In this case, the prevented planting payment is $488 per acre ($814 x .60). The 65% and 70% buy up options would replace the 60% factor in the payment calculation with 65% and 70%, respectively, resulting in higher payments.

Even though RP's guarantee equals the higher of the projected or harvest price, the prevented planting payment is based only on the projected price.

If a prevented planting payment is taken, a farmer cannot plant another crop during the late planting period consisting of 25 following the final planting date. Planting another crop during this 25 day period will eliminate the prevented planting payment.

After 25 days, another crop can be planted, usually resulting in a reduction in prevented plating payments to 35% of the original amount. In double-crop situations, obtaining the entire prevented planting payments while planting soybeans may be possible.

Planting Corn after the Final Planting Date

Famers can still plant corn after the final planting date. If they do, they will not receive a prevented planting payment. Also, the guarantee will be reduced by 1% per day for each day after the final planting date up to 25 days after the final planting date. After 25 days, the guarantee will be 60% of the original guarantee.

To illustrate, take a farmer having an RP policy with a minimum guarantee of $814 per acre from the above example. Note that this is a minimum guarantee, as the guarantee can increase if the harvest price is above the projected price. If the harvest price is above the projected price, the higher harvest price is used in calculating guarantees. Assume this farmer is in a county with a final planting date of June 5th. If corn is planted on or before June 5th, the minimum guarantee is $814 per acre. A 1% reduction occurs if planting takes place on June 6th and the guarantee is $807 ($814 x (1-.01)). Planting on June 7th results in a 2% reduction, or $799 ($814 x (1-.02)). After 25 days, the guarantee is 60 percent of the original, or $488 per acre ($814 x .60).

Plant Soybeans after the Corn Final Planting Date

Soybeans can be planted on acres intended to be planted to corn. In this case, there will not be a prevented planting payment for corn. The soybeans will be insured if the farmer has elected to insure soybeans. This will be a "normal" soybean policy, unless soybeans are planted after the final planting date for soybeans (in mid-June). In this case, the guarantee is reduced, similar to that in the above example for corn.

Economics of Prevented Planting

The *Prevented Planting Module* will aid farmers in making the choices by calculating expected returns for the alternatives. The *Prevented Planting Module* is a part of the *Planting Decision Model*, a Microsoft Excel spreadsheet that is part of the *FAST* series available for download from the farmdoc website (here). The specific spreadsheet is available (here).

In the *Prevented Planting Module*, users can enter details on their county location (brings up final planting dates), crop insurance policies, expectations of commodity prices, and crop costs. Resulting comparisons are shown in Table 1 for Adams County, Illinois. In the example, the farmer has an RP policy with an 80% coverage level and a 180 bushel APH yield. Planting will take place on June 6 and corn is expected to have a 151 bushel yield and soybeans a 55 bushel yield. These yields are estimated based on yield loss

functions contained in the module. Obviously, yield expectations from planting have large impacts on net returns. Costs come from 2013 Illinois Crop Budgets.

Table 1. Comparison of Net Returns of Prevented Planting, Planting Corn, and Planting Soybeans from the Prevented Planting Model.

Prevented Planting Comparison Tool

State: Illinois
County: Adams

Net returns from prevented planting	Corn	Soybeans
COMBO plan	RP	RP
Coverage level	80%	80%
APH yield (bu. per acre)	180	50
Projected price ($ per bu.)	$5.65	$12.87
Prevented planting factor	60%	60%
Final planting date	6/5	6/20
Prevented planting payment	$488	$309
Weed control costs	15	15
Crop insurance premium	28	20
Net returns ($ per acre)	**$445**	**$274**

Net returns on plant corn or soybeans	Corn	Soybeans
Planting date	6/6	6/6
Insurance guarantee	805	515
Maximum yield (bu. / acre)	210	55
Percent of max	72%	90%
Expected yield	151	49
Expected harvest price	$5.50	$12.80
Basis	$0.00	$0.00
Expected cash price ($ /bu.)	$5.50	$12.80
Crop revenue	$829	$632
Crop insurance payment	0	0
Revenue ($ per acre)	**$829**	**$632**
Direct costs ($ per acre)		
Fertilizers	155	53
Pesticides	52	33
Seed	100	65
Drying	19	0
Storage	8	5
Crop insurance	28	20
Power costs ($ per acre)		
Machine hire	8	9
Field cultivate	9	9
Plant	12	12
Spray	3	3
Combine	35	30
Trucking	12	6
Costs yet to be incurred	**$441**	**$245**
Expected net returns ($ per acre)	**$388**	**$387**

In the above example, net returns are estimated at:

1. $445 per acre for taking a prevented planting payment for corn. This includes the $488 prevented planting payment minus $15 of weed control costs and $28 of crop insurance premium.
2. $388 per acre net return for planting corn. This is based on a 151 bushel per acre yield a cash price of $5.50 per bushel. Costs total $441 per acre
3. $387 per acre of net return for planting soybeans. This is based on a 49 bushel per acre yield and a cash price of $12.80 per bushel. Costs yet to be incurred are $245 per acre.

In the above example, taking the prevented planting payment has the highest expected net return. In many scenarios, prevented planting has the highest net returns. Prevented planting is more attractive when:

- Crop insurance is taken a high coverage level such as 80% and 85%. These policies have higher prevented planting payments.
- Production costs have not been incurred. If nitrogen or pesticides have been applied, those costs are fixed. As such, these costs should not be included in the comparisons.

Prevented Planting and Units

Prevented planting does not have to be taken on all acres in an insurable unit. However, there is a minimum number of acres on which prevented planting can be received: the lower of 20 acres or 20 percent of the acres in the unit.

Take as an example a unit with 400 acres. This unit has 250 acres of corn planted and 150 acres on which nothing is planted. Once the final planting date has been reached, prevented planting can be taken on 150 acres. The remaining 250 planted acres will have the corn policy in place. Potential insurance payments on the 250 planted acres will be influenced by production from those 250 acres. There will be a guarantee based on 250 planted acres. The prevented planting payment on the other 150 acres will not impact the payment on the 250 planted acres.

Enterprise Unit Premiums and Planting

Enterprise units have significantly lower premiums than basic or optional units. To be eligible for an enterprise unit, a farmer must plant the lower of 20 acres or 20 percent of insured acres in at least two sections. If no planting occurs, the farm will receive prevented planting payments, but will not be eligible for enterprise unit premiums, instead paying the higher basic or optional unit premiums.

If a farm planted acres meeting the acreage requirement (lower of 20 acres or 20 percent of insured acres in at least two section), the farmer will be eligible for an enterprise unit premium. Enterprise unit premiums are based on planted acres, with more planted acres yielding lower premiums. Only planted acres will be used in determining the enterprise unit premium. For example, take an enterprise unit with 100 planted acres and 400 prevented planted acres. The enterprise unit's premium will be based on 100 acres and not the 500 acres of insured production.

APH Yields and Prevented Planting

Generally, prevented planting will not impact the APH yield in future years, unless a second crop is planted on prevented planting acres.

Take as an example an insurable unit that has 500 acres and 400 acres are planted to corn. Prevented planting payments are taken on 100 acres and a second crop is not planted on those 100 acres. In this case, the yield used in calculating the APH will be based on production from the 400 planted acres divided by 400 planted acres.

If, on the other hand, the 100 acres were planted to a second crop (e.g., soybeans) after 25 days from the final planting date, the 100 prevented planted acres will be assigned a per acre yield of 60 percent of the APH yield for the unit. The 60 percent of the APH for the prevented planted acres will be added to the production from the 400 acres to give production for the unit. Production for the unit then will be divided

by 500 acres to arrive at the yield for the year.

Sometimes a unit will have all acres in that unit prevented planted. Again there will be a difference in treatment depending on whether a second crop is planted. If a crop is not planted, zero planted acres will be assigned to the unit and a yield for that crop will not enter into the APH yield calculation. If a second crop is planted, the yield is 60 percent of the APH yield.

Summary

Upon reaching the final planting date, farmers should consider the prevented planting alternative, as it could be an economically attractive alternative.