

Crop Insurance Decisions 2014

Gary Schnitkey
University of Illinois

Presentation Materials

Visit the 'Downloads' page at farmdoc.illinois.edu/webinars

PDF of slides available now

Video available tomorrow

Questions

Please submit questions during the presentation

Sponsors

**Center for Agricultural and Natural Resource Policy,
University of Maryland (CANRP)**

University of Maryland Extension (UME)

Risk Management Agency (RMA)

Maryland Department of Agriculture (MDA)

Topic

- 1. Impacts of 2014 Farm Bill**
- 2. Performance in 2014**
- 3. Product recommendations**

2014 Farm Bill and Crop Insurance

No changes in 2014 crop year for crop insurance

In future years:

- **2014 Farm Bill does not change COMBO products**
- **2014 Farm Bill does not change subsidy rates**

2014 Farm Bill and Crop Insurance

In 2015:

- **Introduces conservation compliance for highly erodible farmland**
- **Introduces Supplemental Coverage Option (SCO)**
 - County product from 86% coverage level to coverage level of COMBO product
 - Farmdoc webinar on March 12 dealing with SCO

Products

**RP – Revenue Protection, Farm, Revenue
with guarantee increase**

**RPwHPE – Revenue Protection with harvest
price exclusion, Farm, Revenue with no
guarantee increase**

YP – Yield Protection, Farm, Yield

Percent Acres Insured, Maryland, Corn, 2013

Coverage Level	RP	RPwHPE	YP
50	0%	0%	6%
55	0%	0%	0%
60	1%	0%	1%
65	3%	0%	2%
70	18%	0%	2%
75	24%	0%	2%
80	11%	0%	0%
85	3%	0%	0%
90			
Total	60%	0%	13%

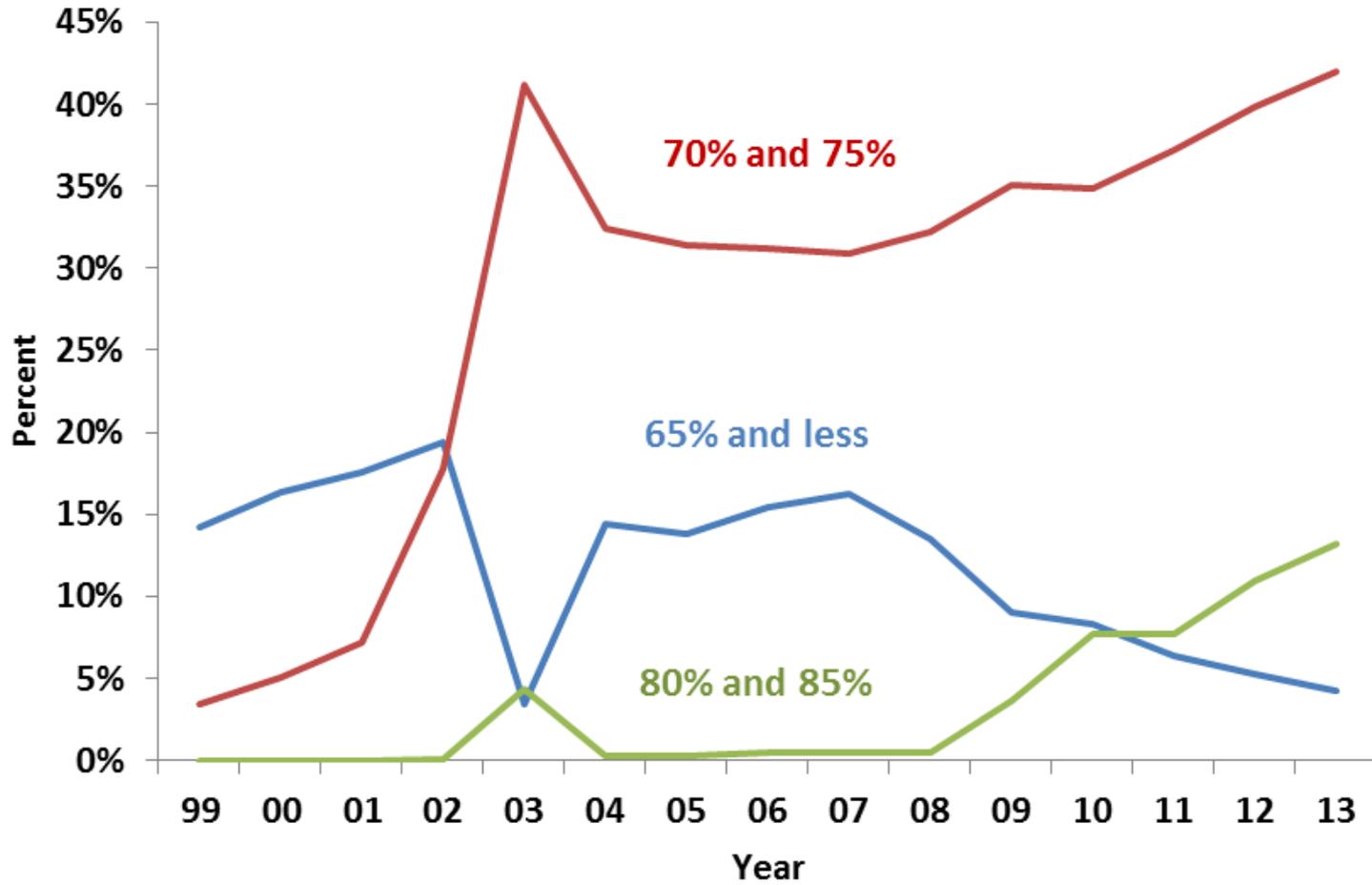
73% of planted corn acres were insured

Percent Acres Insured, Maryland, Soybeans, 2013

Coverage Level	RP	RPwHPE	YP
50	1%	0%	9%
55	0%	0%	0%
60	2%	0%	1%
65	6%	0%	2%
70	22%	0%	2%
75	20%	0%	2%
80	11%	0%	0%
85	2%	0%	0%
Total	64%	9%	16%

89% of planted soybean acres were insured

RP, Corn, Maryland by Coverage Level



Performance, Maryland, RP, 2013

Corn, \$ per acre

Coverage Level	Farmer – Paid Premium	Indemnity Payment	Payment Minus Premium	Policies Earning Premium
50%	7.27	0.00	-7.27	0%
55%	10.82	7.08	-3.74	11%
60%	12.88	2.49	-10.39	10%
65%	17.34	19.92	2.58	11%
70%	19.35	13.19	-6.16	16%
75%	23.55	16.38	-7.17	17%
80%	21.33	13.90	-7.43	18%
85%	34.16	10.06	-24.10	33%

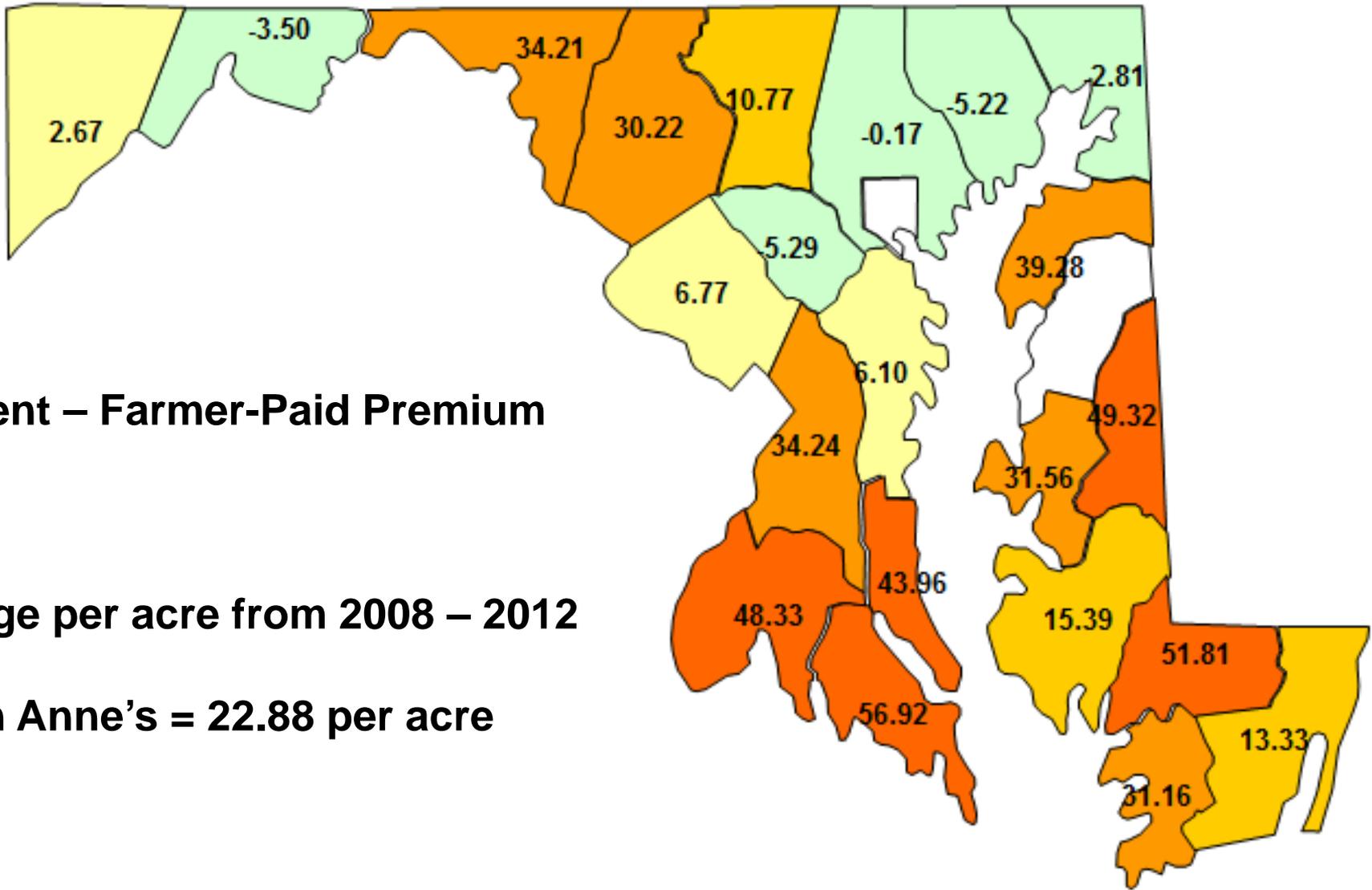
Summary of Business as of 2/26/2014,
may increase

Performance, Maryland, RP, 2013

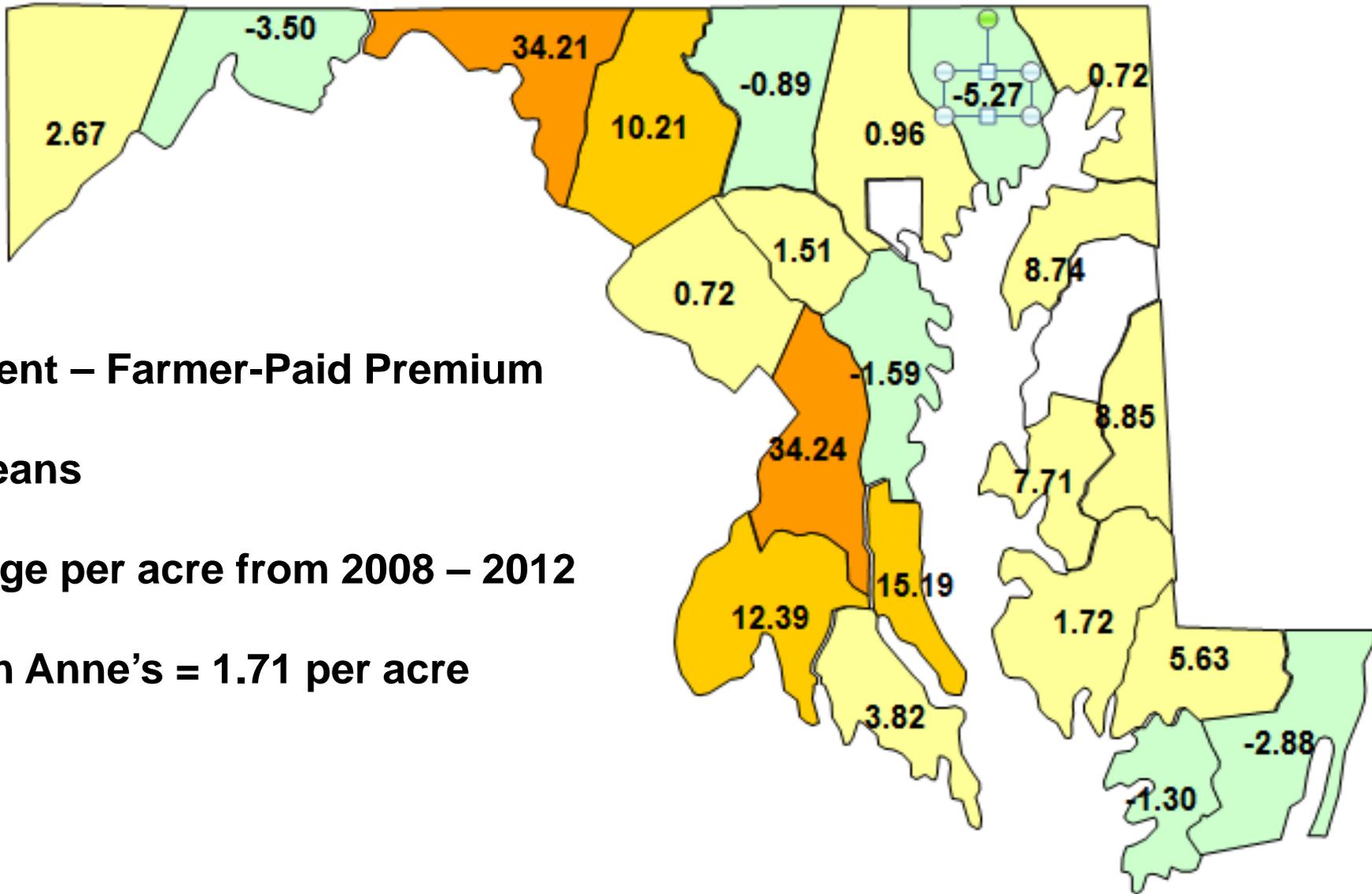
Soybeans, \$ per acre

Coverage Level	Farmer – Paid Premium	Indemnity Payment	Payment Minus Premium	Policies Earning Premium
50%	5.67	1.10	-4.57	5%
55%	7.67	11.69	4.02	20%
60%	10.99	5.90	-5.09	14%
65%	13.90	12.87	-1.03	17%
70%	16.65	12.14	-4.51	19%
75%	20.25	13.79	-6.46	18%
80%	19.03	10.24	-8.79	19%
85%	31.54	9.57	-21.97	31%

Summary of Business as of 2/26/2014,
may increase



Payment – Farmer-Paid Premium
Corn
Average per acre from 2008 – 2012
Queen Anne’s = 22.88 per acre



Payment – Farmer-Paid Premium
Soybeans
Average per acre from 2008 – 2012
Queen Anne's = 1.71 per acre

Changes

**Projected prices much lower in 2014
than 2013**

Projected and Harvest Prices

	2009	2010	2011	2012	2013	2014
Corn						
Projected Price	4.04	3.99	6.01	5.68	5.65	4.62
Harvest Price	3.72	5.46	6.32	7.50	4.39	

- **Projected price – average of Dec. (corn) CME futures contract in February, used to set insurance guarantees.**
- **Harvest price – average of Dec. (corn) CME futures contract in October, used to calculate insurance revenue.**

Insurance Premiums and Guarantees

Coverage Level	Premiums		Per Acre Guarantees	
	2013	2014P	2013	2014P
60%	3.88	2.76	485	396
65%	5.08	3.65	525	429
70%	6.68	4.84	566	462
75%	10.03	7.31	606	495
80%	18.76	13.75	646	529
85%	34.76	25.53	687	562

Revenue Protection premium in Queen Anne's County, enterprise units
 Based on a \$4.61 projected price and .19 volatility for 2014, 143 TA-APH yield

Prices Before Payments

Corn (\$4.60 Projected Price)

Coverage Level	Price Before Payments
60%	\$2.76
65%	\$2.99
70%	\$3.22
75%	\$3.45
80%	\$3.68
85%	\$3.91

Soybeans (\$11.41 Project Price)

Coverage Level	Price Before Payments
60%	6.85
65%	7.42
70%	7.99
75%	8.56
80%	9.13
85%	9.70

Assumes actual yield equals TA-APH yield

Basic Insurance Product

- Revenue Protection
- 75%, 80% and 85%
- Enterprise Units
- With Trend Adjustment Actual Production History (TA-APH)
Yield Endorsement

USE THIS: Unless have some characteristics of products listed below

Do not lower coverage level from last year

RP Premium Costs

Coverage Level	Revenue Protection			Minimum Revenue
	Enterprise	Basic	Optional	Guarantee
	\$ per Acre			\$/acre
50%	2.18	4.19	6.00	404
55%	2.88	6.11	8.28	444
60%	3.88	8.39	10.76	485
65%	5.08	12.84	15.72	525
70%	6.68	17.33	20.37	566
75%	10.03	25.27	28.58	606
80%	18.76	39.39	42.77	646
85%	34.76	57.83	60.88	687

From *2014 Crop Insurance Decision Tool* available on Farmdoc website in FAST or crop insurance sections

For a 143 TA-APH and a 178 APH yield, 100 acres, Queen Anne's County

Units

- **Enterprise – all of one crop in a county (need to meet eligibility requirements)**
- **Basic – division of one crop by ownership split (all owned and cash rent land is a basic unit, all share rent landlords are individual basic unit)**
- **Optional – division of basic units by township section**

Use enterprise units
unless much variability in farmland

RP Guarantee Example

	Corn	Soybeans
TA-APH yield	143	34
Projected price	4.62	11.41
Harvest price (avg during Oct)	< 4.60	< 11.00
RP uses higher of projected or harvest price in guarantee		
Coverage level	80%	80%
Guarantee (Corn 143 x 4.62 x .80)	\$529	\$310

Harvest price will not be known till end of October

RP Guarantee Example

	Corn	Soybeans
TA-APH yield	143	34
Projected price	4.62	11.41
Harvest price (avg during Oct)	6.00	13.00
RP uses higher of projected or harvest price in guarantee		
Coverage level	80%	80%
Guarantee (Corn 143 x 6.00 x .80)	\$686	\$353
Yield below which payments occur	114	47

Harvest price will not be known till end of October

RP Per Acre Payments

(143 Bu TA-APH Yield, 80% Coverage Level)

	----- Harvest Price -----			
Yield	\$3.50	\$4.00	\$4.50	\$5.00
60	320	290	260	272
80	250	210	170	172
100	180	130	80	72
130	110	50	0	0
140	40	0	0	0

Who Should Use RPwHPE

- One who does not pre-harvest hedge
- One who is cost conscious
- **Willing to take the drought year risk of getting no or low payments**

Corn, Maryland, 2012

	Acre Insured	Farmer-Paid Premium	Payment
		\$/acre	\$/acre
RP	277,061	\$23	\$77
RPwHPE	7,406	\$10	\$27
YP	76,263	\$12	\$33



RP Premium Costs

Coverage Level	Revenue Protection			Minimum Revenue Guarantee	Revenue Protection with Harvest Price Exclusion			Revenue Guarantee
	Enterprise	Basic	Optional		Enterprise	Basic	Optional	
	\$ per Acre			\$/acre	\$ per Acre			\$/acre
50%	1.51	2.78	4.09	330	1.13	2.15	3.15	330
55%	2.04	4.16	5.73	363	1.43	3.05	4.26	363
60%	2.76	5.84	7.60	396	1.81	4.12	5.45	396
65%	3.65	8.91	11.02	429	2.32	6.17	7.84	429
70%	4.84	11.94	14.17	462	3.11	8.40	10.26	462
75%	7.31	17.43	19.88	495	4.85	12.61	14.66	495
80%	13.75	27.18	29.72	529	9.48	20.23	22.33	529
85%	25.53	40.04	42.41	562	17.98	30.08	32.04	562

From Crop Insurance Decision Tool available on Farmdoc website in FAST or crop insurance sections

For a 143 TA-APH yield, 134 APH yield,

RPwHPE Guarantee Example

	Corn	Soybeans
TA-APH yield	143	34
Projected price	4.62	11.41
Coverage level	80%	85%
Guarantee (Corn 143 x 4.62 x .85)	\$743	\$514

Projected price will not be known till end of October

RPwHPE Per Acre Payments

(143 Bu TA-APH Yield, 80% Coverage Level)

	----- Harvest Price -----			
Yield	3.50	4.00	4.50	5.00
60	320	290	260	230 (272)
80	250	210	170	130 (172)
100	180	130	80	30 (72)
120	110	50	0	0
140	40	0	0	0



RP payment in parenthesis

Who Should Use YP?

- Someone not concerned with price risk?

Coverage Level	Revenue Protection				Revenue Protection with Harvest Price Exclusion				Yield Protection			
	Enterprise	Basic	Optional	Minimum Revenue Guarantee	Enterprise	Basic	Optional	Revenue Guarantee	Enterprise	Basic	Optional	Yield Guarantee
	\$ per Acre			\$/acre	\$ per Acre			\$/acre	\$ per Acre			Bu./acre
50%	1.51	2.78	4.09	330	1.13	2.15	3.15	330	1.40	2.30	3.40	71.5
55%	2.04	4.16	5.73	363	1.43	3.05	4.26	363	1.81	3.27	4.59	78.7
60%	2.76	5.84	7.60	396	1.81	4.12	5.45	396	2.44	4.40	5.85	85.8
65%	3.65	8.91	11.02	429	2.32	6.17	7.84	429	3.13	6.43	8.18	93.0
70%	4.84	11.94	14.17	462	3.11	8.40	10.26	462	4.00	8.33	10.17	100.1
75%	7.31	17.43	19.88	495	4.85	12.61	14.66	495	5.87	11.90	13.95	107.3
80%	13.75	27.18	29.72	529	9.48	20.23	22.33	529	10.65	18.32	20.51	114.4
85%	25.53	40.04	42.41	562	17.98	30.08	32.04	562	19.14	26.83	28.96	121.6

Enterprise 80% premiums

RP: 13.75

RPwHPE: 9.48

YP: 10.65

YP Guarantee Example

	Corn	Soybeans
TA-APH yield	143	34
Coverage level	80%	80%
Guarantee (Corn 190 x .80)	114	27

Harvest price will not be known till end of October

YP Per Acre Payments

(143 Bu TA-APH Yield, 80% Coverage Level)

	----- Harvest Price -----			
Yield	\$3.50	\$4.00	\$4.50	\$5.00
60	251	251	251	251
80	159	159	159	159
100	66	66	66	66
120	0	0	0	0
140	0	0	0	0

Summary

Most will find RP (high coverage level, enterprise units, TA-APH yield). Other alternatives include:

- 1. RPwHPE**
- 2. YP in limited cases**

Questions?

Please continue to submit questions during this part of the webinar

Visit 'Downloads' page at farmdoc.illinois.edu/webinars