

Crop Insurance Decisions 2014

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Topic

- 1. Impacts of 2014 Farm Bill**
- 2. Performance in 2014**
- 3. Changes from 2013 to 2014**
- 4. 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 or ARPI 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



Percent Acres Insured, Illinois, Corn, 2013

Coverage Level	RP	RPwHPE	YP	GRIP-HR	GRIP	GRP
50	0.2%	0.1%	1.2%			
55	0.1%	0.0%	0.0%			
60	0.3%	0.0%	0.1%			
65	0.6%	0.1%	0.3%			0.0%
70	3.3%	0.1%	0.3%	0.0%	0.0%	0.0%
75	10.4%	0.3%	0.6%	0.0%	0.0%	0.0%
80	25.1%	0.6%	0.5%	0.0%	0.0%	0.0%
85	34.3%	1.0%	0.4%	0.1%	0.0%	0.0%
90				6.6%	0.2%	0.2%
Total	74.3%	2.2%	3.4%	6.8%	0.2%	0.3%

87% of planted corn acres were insured



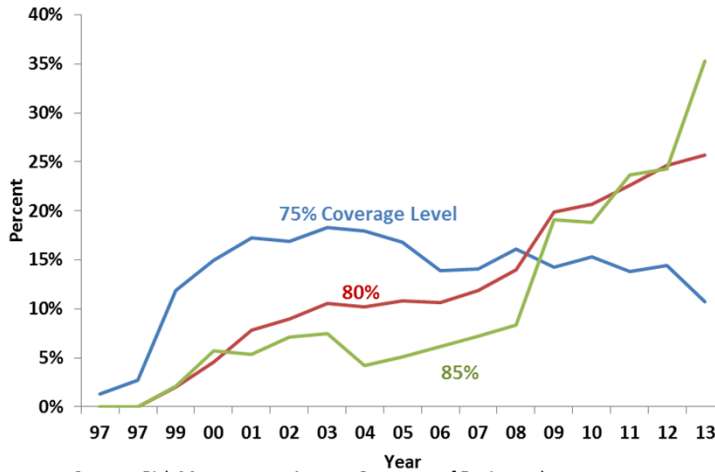
Percent Acres Insured, Illinois, Soybeans, 2013

Coverage Level	RP	RPwHPE	YP	GRIP-HR	GRIP	GRP
50	0.9%	0.2%	2.3%			
55	0.2%	0.0%	0.1%			
60	0.5%	0.1%	0.2%			
65	1.3%	0.1%	0.5%			0.0%
70	5.7%	0.3%	0.5%	0.0%	0.0%	0.0%
75	14.5%	0.5%	0.9%	0.0%	0.0%	0.0%
80	24.7%	0.8%	0.6%	0.0%	0.0%	0.0%
85	22.5%	0.8%	0.4%	0.1%	0.0%	0.0%
90				3.2%	0.0%	1.1%
Total	70.3%	2.5%	5.3%	3.3%	0.1%	1.2%

83% of planted soybean acres were insured



RP, Corn, Illinois at 75%, 80%, and 85% Coverage Levels



Source: Risk Management Agency, Summary of Business data



Performance, Illinois, RP, 2013 Corn (\$5.65 Projected Price to \$4.39 Harvest Price) \$ per acre

Coverage Level	Farmer – Paid Premium	Indemnity Payment	Payment Minus Premium	Policies Earning Premium
50%	9.53	40.87	31.34	27%
55%	19.87	48.49	28.62	22%
60%	24.67	66.51	41.84	32%
65%	15.20	36.63	21.43	22%
70%	18.99	38.41	19.42	24%
75%	15.83	25.91	10.08	27%
80%	18.17	30.38	12.21	36%
85%	26.16	46.92	20.76	50%

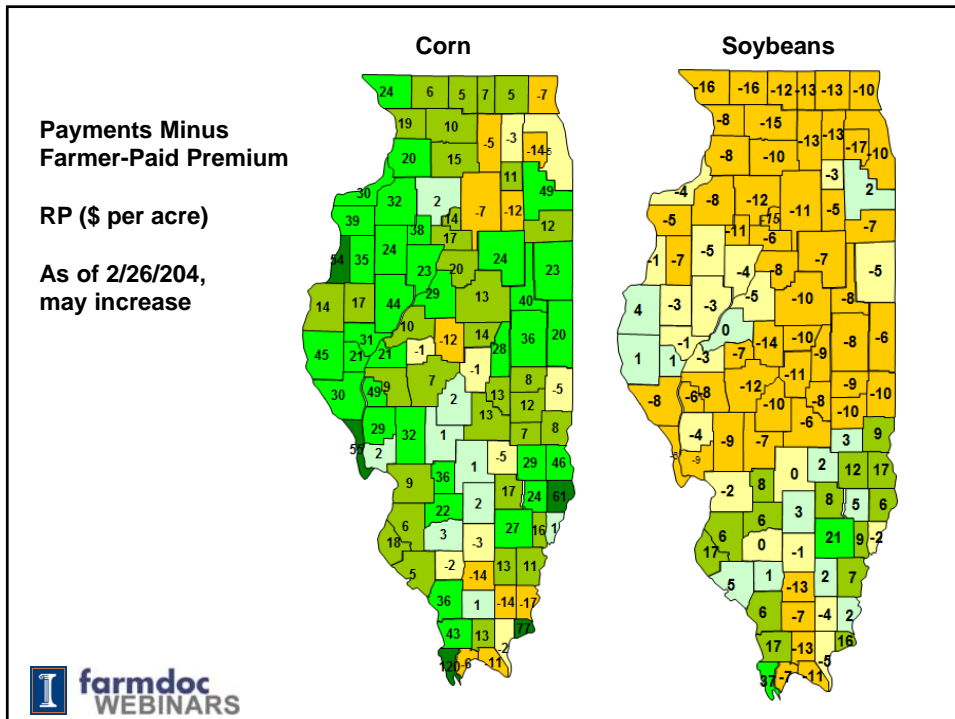
Summary of Business as of 2/26/2014,
may increase



**Performance, Illinois, RP, 2013
Soybeans (\$12.87 Projected and Harvest Price)
\$ per acre**

Coverage Level	Farmer – Paid Premium	Indemnity Payment	Payment Minus Premium	Policies Earning Premium
50%	3.13	9.78	6.65	27%
55%	4.90	14.95	10.05	37%
60%	11.06	25.17	14.11	30%
65%	7.26	15.93	8.67	24%
70%	9.66	15.97	6.31	25%
75%	9.93	11.23	1.30	23%
80%	11.69	8.22	-3.47	20%
85%	18.03	6.68	-11.35	18%

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



GRIP-HR

**Soybean payments
(\$ per acre):**

Jo Daviess: \$5

Monroe: \$67

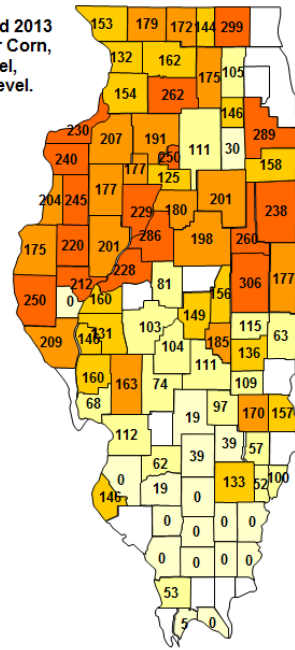
Rock Island: \$36

Washington: \$12



Figure 1. Estimated 2013 GRIP Payments for Corn, 90% Coverage Level, 100% Protection Level.

Preliminary estimates based on release of NASS yields



Changes

- 1. Projected prices much lower in 2014 than 2013**
- 2. Group products combined into Area Risk Protection Insurance (ARPI) policy**



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	
Soybeans						
Projected Price	8.80	9.23	13.49	12.55	12.87	11.35
Harvest Price	9.66	11.63	12.14	15.39	12.87	

- Projected price – average of Dec. (corn) of Nov. (beans) CME futures contract in February, used to set insurance guarantees.
- Harvest price – average of Dec. (corn) Nov. (beans) 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%	1.66	1.52	631	514
65%	2.46	2.20	683	557
70%	3.63	3.19	736	600
75%	6.18	5.34	788	643
80%	12.82	10.86	841	686
85%	25.49	21.35	893	729

Revenue Protection premium in Sangamon County, enterprise units
Based on a \$4.61 projected price and .19 volatility for 2014, 186 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 (\$11.35 Project Price)

Coverage Level	Price Before Payments
60%	6.81
65%	7.38
70%	7.95
75%	8.51
80%	9.08
85%	9.65

Assumes actual yield equals TA-APH yield



Last Year's 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

GRP – Group Risk Plan, County, Yield

GRIP – Group Risk Income Plan, County, Revenue no guarantee increase

GRIP-HR – Group Risk Income Plan with Harvest Revenue Option, County, Revenue with guarantee increase



Area Risk Protection Insurance

- Replaces Group products
- New plans

ARPI Plan	Replaces	Type
Area Revenue Protection (ARP)	GRIP-HR	Revenue
ARP with harvest price Exclusion (ARPWPE)	GRIP	Revenue, no harvest price increase
Area Yield Plan (AYP)	GRP	Yield



ARP offers similar coverage to GRIP-HR, but with following differences

1. ARP coverage begins when planted, must be planted by final plant date (late June for corn, mid July for soybeans)
2. Producers must complete production reports
3. Choose a protection factor (.8 to 1.2) rather than a protection level (60% to 100%)
4. Payments of ARP are lower than GRIP-HR at very low revenues which are not likely to happen

See January 7, 2014 farmdocDaily post



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%	0.42	0.87	1.24	438
55%	0.65	1.60	2.18	482
60%	0.94	2.35	3.00	526
65%	1.34	3.86	4.70	569
70%	2.10	5.62	6.50	613
75%	3.70	8.93	9.92	657
80%	7.53	14.70	15.71	701
85%	16.25	25.16	25.94	745

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

For a 190 TA-APH and a 178 APH yield, 125 acres, Macon 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	190	55
Projected price	4.60	11.00
Harvest price (avg during Oct)	< 4.60	< 11.00
RP uses higher of projected or harvest price in guarantee		
Coverage level	85%	85%
Guarantee (Corn 190 x 4.60 x .85)	\$743	\$514

Harvest price will not be known till end of October



RP Guarantee Example

	Corn	Soybeans
TA-APH yield	190	55
Projected price	4.60	11.00
Harvest price (avg during Oct)	6.00	13.00
RP uses higher of projected or harvest price in guarantee		
Coverage level	85%	85%
Guarantee (Corn 190 x 6.00 x .85)	\$969	\$607
Yield below which payments occur	161	47

Harvest price will not be known till end of October



RP Per Acre Payments (190 Bu TA-APH Yield, 85% Coverage Level)

Yield	----- Harvest Price -----			
	\$3.50	\$4.00	\$4.50	\$5.00
60	533	503	473	508
80	463	423	383	408
100	393	343	293	308
120	323	263	203	208
140	253	183	113	108
160	183	103	23	8
180	113	23	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, Illinois, 2012, 85% Coverage Level

	Acre Insured	Farmer-Paid Premium	Payment
		\$/acre	\$/acre
RP	2,708,000	\$29	\$326
RPwHPE	315,000	\$15	\$128



RP Premium Costs

Coverage Level	Revenue Protection			Minimum Revenue	Revenue Protection with Harvest Price Exclusion			Revenue
	Enterprise	Basic	Optional	Guarantee	Enterprise	Basic	Optional	Guarantee
	\$ per Acre			\$/acre	\$ per Acre			\$/acre
50%	0.42	0.87	1.24	438	0.31	0.70	0.97	438
55%	0.65	1.60	2.18	482	0.38	1.13	1.48	482
60%	0.94	2.35	3.00	526	0.42	1.40	1.75	526
65%	1.34	3.86	4.70	569	0.46	2.06	2.58	569
70%	2.10	5.62	6.50	613	0.68	2.72	3.14	613
75%	3.70	8.93	9.92	657	1.19	4.03	4.41	657
80%	7.53	14.70	15.71	701	2.56	6.62	6.95	701
85%	16.25	25.16	25.94	745	5.96	11.59	11.69	745

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

For a 190 TA-APH yield, 178 APH yield,



RPwHPE Guarantee Example

	Corn	Soybeans
TA-APH yield	190	55
Projected price	4.60	11.00
Coverage level	85%	85%
Guarantee (Corn 190 x 4.60 x .85)	\$743	\$514

Projected price will not be known till end of October



RPwHPE Per Acre Payments (190 Bu TA-APH Yield, 85% Coverage Level)

Yield	----- Harvest Price -----			
	3.50	4.00	4.50	5.00
60	533	503	473	443 (508)
80	463	423	383	343 (408)
100	393	343	293	242 (308)
120	323	263	203	143 (208)
140	253	183	113	43 (108)
160	183	103	23	0
180	113	23	0	0

RP premium in parenthesis



Who Should Take ARP?

- 90% coverage level
- Vary protection factor (80% to 120%)

Characteristics

- More concerned about price risk protection
- Can only take basic units
- APH yield lower than expected yield



ARP Premium Costs

Coverage Level	Area Revenue Protection			Minimum Revenue
	120%	90%	80% Guarantee	
	\$ per Acre			\$/acre
70%	4.65	3.49	3.10	590
75%	7.24	5.43	4.83	632
80%	12.51	9.38	8.34	674
85%	23.73	17.80	15.82	716
90%	43.04	32.28	28.69	758

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

Macon County in 2014



Macon County, Corn, Example

Guarantee

Expected yield (1)	182.8 bu.
x Higher of projected or harvest price (2)	\$4.60
x Coverage level (3)	90%
Guarantee	\$757

(1) Set by RMA for each year

(2) ARP with harvest price exclusion does not have the higher of provision

(3) Coverage level ranges from 70 to 90% in 5% increments



Macon County, Corn, Example

Policy Protection

Expected yield	182.8 bu.
x Higher of projected or harvest price (1)	\$4.60
x Farmer choice of protection factor (2)	1.2
Protection level	\$1,009

(1) ARP with harvest price exclusion does not have higher of provision

(2) Ranges from .8 to 1.2, under GRIP was the Protection Level



Macon County, Corn, Example

Shortfall

	High Yield Low Price	Avg Yield Avg Price	Drought
County yield	200	190	110
x Harvest price	\$3.50	\$4.30	\$6.00
Harvest revenue	\$700	\$817	\$660
Guarantee	\$757	\$757	\$987
Shortfall (1)	.094	.000	.414

(1) Shortfall = (guarantee – harvest revenue)
/ (guarantee - .18 x projected price x exp yield)
when harvest revenue < guarantee



Macon County, Corn, Example

Payment

	High Yield Low Price	Avg Yield Avg Price	Drought
Protection level	1,009	1,009	1,316
x Shortfall	.094	.000	.414
Payment	\$95	\$0	\$545



Summary

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

1. ARP
2. RPwHPE