

Crop Insurance Overview

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Farm & Industry Short Course
 Decision Making in a Market Economy
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Goal Today

- Quick overview of current crop insurance programs for corn, soybeans and wheat in Wisconsin
- Recommendations for farmer use

Types of Policies

- Yield Insurance vs Revenue Insurance
 - What triggers a payment?
 - Yield or Revenue below the guarantee?
- Individual vs. Area-Wide Coverage
 - Whose yield/revenue triggers payment?
 - Your own or your county's?

Types of Policies

- APH (MPCI): Actual Production History
 - Individual Yield Insurance
- CRC: Crop Revenue Coverage
 - Individual Revenue Insurance
- GRP: Group Risk Plan
 - Area-wide (County) Yield Insurance
- GRIP: Group Risk Income Protection
 - Area-wide (County) Revenue Insurance

Four Main Types of Policies

	Individual	Area-Wide (County)
Yield	APH Actual Production History	GRP Group Risk Plan
Revenue	CRC Crop Revenue Coverage	GRIP Group Risk Income Protection

APH: Actual Production History

- If your Harvested Yield is less than your Yield Guarantee, receive an indemnity
- APH Yield: average of your actual harvested yields for last 4-10 years
- Coverage Level!: Choose percentage of your average yield as your guarantee, from 50% to 85% by 5% intervals
- Price Election: Choose price paid for each bushel below your guarantee, from 100% to 55% of established APH price

APH Indemnity

- If Harvested Yield < Yield Guarantee
- Indemnity = $P_{\text{APH}} \times (Y_{\text{guarantee}} - Y_{\text{harvested}})$
- APH price: Average of CBOT closing prices of harvest futures contracts in key months
 - 2009: Corn = \$4.00, Soybeans = \$9.90
- Coverage level determines your trigger, pay more for higher coverage
- Price election determines how much paid when have a loss, pay more for higher price election

Unit Structure

- Each unit
 - Planted to same crop during insurance period
 - Cannot cut across a county line
 - Separate production records for each unit
- Three unit types (smallest to largest)
 - Optional Unit, Basic Unit, Enterprise Unit
- Lots of rules on units, know them. Your crop insurance agent should be able to help

CRC Crop Revenue Coverage

- Combines APH with price protection based on CBOT futures prices
- Your APH yield history and CBOT prices set your preliminary revenue guarantee
- Same coverage level options, same unit structures
- Your revenue at harvest is your yield x CBOT prices (e.g., Nov average of Dec corn)
- If your harvest revenue is below your guarantee, triggers an indemnity payment

CRC protects against price increases and decreases

- If price falls or have low yield, know will have grain or money to buy grain to fulfill contracts
- If price increases by harvest, revenue guarantee increases too, so again know will have grain or money to buy grain to fulfill contracts
- Still have to market your grain
 - Can now market more aggressively since you will have grain or indemnities to buy grain at the existing market prices if you have a yield loss

GRP Group Risk Plan GRIP Group Risk Income Protection

- GRP = APH, except uses NASS county average yield
- GRIP with Harvest Revenue Option = CRC, except uses NASS county average yield
- Large farms use as price insurance or umbrella policy
- Payments not made until Mar/Apr when NASS yields come out: cash flow issues

FarmDOC Crop Insurance Tool

- FarmDOC: U of IL web farm mngmt page
<http://www.farmdoc.illinois.edu/>
- Includes Crop Insurance comparison tool
<http://www.farmdoc.illinois.edu/cropins/index.asp>
- Choose your county, enter your APH Yield
- Gives you yield guarantees and premiums for different coverage levels for all policies

Lots of Crop Insurance Rules

- Lots rules: Planting dates, Late and prevented planting, Double cropping, Alternative crop uses, Corn maturity, Yield guarantees, Unit structures, Breaking new ground (CRP vs pasture)
 - Know what causes of loss you can be paid for
 - Can forfeit your coverage if break a rule
- Are ways to get the most out of your policy
 - Use the rules to your advantage
- Insurance agents don't always know all the rules
- UW Extension and others can help with info
<http://www.aae.wisc.edu/mitchell/extension.htm>

Subsidies and Crop Insurance

- Premiums are subsidized so farmers pay less than the actuarially fair premium
- Private companies sell policy, but govt. subsidizes their administrative costs
- Implication: on average, farmers should make money from crop insurance
- Without subsidies, no privately provided crop insurance policies would exist
- Meant to replace ad hoc disaster programs

Crop Insurance for Other Crops

- Can insure lots of crops other than corn, soybeans, and wheat
- Forage production and/or seeding, silage
- Small grains, Processing vegetables
 - oats, rye, barley
 - sweet corn, snap beans, green peas, potatoes
- Miscellaneous crops, livestock
 - mint, hybrid seed corn, apples, cranberries
 - Prices for feeder and fed beef, hogs, dairy
- AGR-Lite: Schedule F income

Questions?

Contact me or your local county UWEX county ag agent for questions about crop insurance

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Wisconsin farmers and crop insurance

- Relative to neighboring states, WI a low participation state in crop insurance
- CRC the most popular coverage, then APH, then GRIP, then GRP
- APH CAT policies used (50% coverage level with 55% price election), very cheap to buy \$300/crop/county

WI vs. neighboring states % planted acres insured in 2008

State	Corn	Soybeans	Wheat
IA	88%	89%	19%
IL	78%	72%	56%
MN	91%	94%	89%
MI	69%	68%	48%
WI	66%	72%	45%

WI in 2004: 54% corn, 63% Soybeans, 33% Wheat
 WI in 2007: 64% corn, 70% Soybeans, 41% Wheat

WI corn policies in 2007

	% planted acres	% insured acres	% policies sold	Avg. Units/Policy
APH CAT	5.7%	8.9%	9.2%	1.03
APH BuyUp	11.1%	17.3%	28.1%	2.30
CRC BuyUp	38.6%	60.0%	53.7%	3.42
GRIP BuyUp	7.7%	12.0%	6.5%	1.09
GRP CAT	0.1%	0.2%	0.1%	1.00
GRP BuyUp	1.0%	1.5%	2.4%	1.01
All Total	64.3%			2.68

WI soybean policies in 2007

	% planted acres	% insured acres	% policies sold	Avg. Units/Policy
APH CAT	4.4%	6.4%	6.4%	1.04
APH BuyUp	9.0%	12.9%	20.7%	1.86
CRC BuyUp	49.0%	70.5%	66.5%	2.59
GRIP BuyUp	5.6%	8.0%	4.8%	1.06
GRP CAT	0.1%	0.1%	0.0%	1.00
GRP BuyUp	1.4%	2.1%	1.6%	1.04
All Total	69.5%			2.24

WI wheat policies in 2007

	% planted acres	% insured acres	% policies sold	Avg. Units/Policy
APH CAT	4.3%	10.4%	6.5%	1.03
APH BuyUp	10.0%	24.4%	29.7%	1.74
CRC BuyUp	26.8%	65.2%	63.7%	2.07
All Total	41.1%			1.90

WI farmer practices

- Lots of WI grain acres could be insured
- CRC most popular among those buying insurance
 - Slightly larger than average sized farms buy it
 - Use more than average number of units
- APH with buy-up popular among smaller than average sized farms
 - Use fewer than average number of units
- GRIP (and GRP) popular among very largest farms

Loss Ratios

- Loss Ratio measures insurance performance
- Loss Ratio = Indemnities/Premiums
 - Loss Ratio of 1.5 means for every \$1.00 in premiums collected, policy pays out \$1.50
- Crop insurance: Subsidized premiums, farmers and government each pay part
 - Program loss ratio = Indemnity/(Govt. + Farmer Premium)
 - Farmer loss ratio = Indemnity/Farmer Premium

WI Crop Insurance for Corn in 2007

	total prem. /A	farmer prem. /A	indem./A	program loss ratio	farmer loss ratio
APH CAT	7.48	--	1.97	0.26	--
APH BuyUp	28.30	11.48	29.64	1.05	2.58
CRC BuyUp	53.03	23.16	42.75	0.81	1.85
GRIP BuyUp	65.90	29.52	1.60*	0.04*	0.09*
GRP CAT	2.20	--	0.00*	0*	--
GRP BuyUp	11.20	4.84	2.09*	0.27*	0.63*
All Total	45.48	19.50	30.97	0.68	1.59

-- Farmers pay no per acre premiums, so no loss ratio.

* Policy does not pay indemnities until March/April 2008, these for 2006.

WI Crop Insurance for Soybeans in 2007

	total prem. /A	farmer prem. /A	indem./A	program loss ratio	farmer loss ratio
APH CAT	2.86	--	0.64	0.22	--
APH BuyUp	12.77	5.28	10.48	0.82	1.99
CRC BuyUp	26.36	11.87	23.74	0.90	2.00
GRIP BuyUp	35.30	15.82	0.16*	0.01*	0.01*
GRP CAT	0.98	--	0.00*	0*	--
GRP BuyUp	9.25	4.11	0.00*	0*	0.00*
All Total	23.44	10.40	18.12	0.77	1.74

-- Farmers pay no per acre premiums, so no loss ratio.

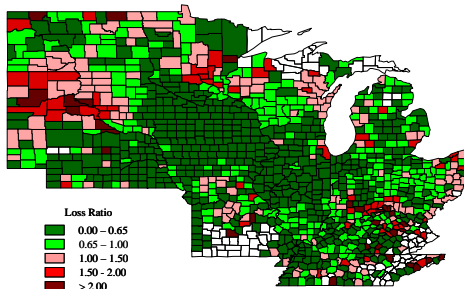
* Policy does not pay indemnities until March/April 2008, these for 2006.

WI Crop Insurance for Wheat in 2007

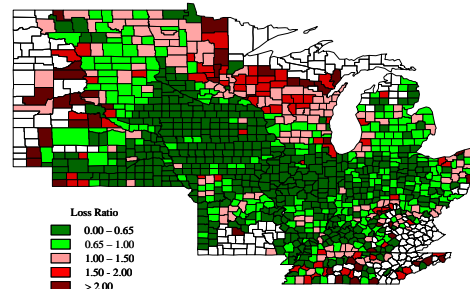
	total prem. /A	farmer prem. /A	indem./A	program loss ratio	farmer loss ratio
APH CAT	3.43	0.00	1.18	0.34	--
APH BuyUp	12.80	5.18	1.88	0.15	0.36
CRC BuyUp	22.62	9.53	13.34	0.59	1.40
All Total	18.22	7.47	9.28	0.51	1.24

-- Farmers pay no per acre premiums, so no loss ratio.

APH+CRC+RA Average County (Program) Loss Ratios for Corn 1995-2007



APH+CRC+RA Average County (Program) Loss Ratios for Soybeans 1995-2007



Main Point

- Farmers, on average over the whole state, generally win on crop insurance policies
 - Especially in the north
 - Especially for soybeans
- Main corn/soybean counties "carry" the crop insurance program for the remaining counties
 - NE, IA, IL, MN

Hints for Using Crop Insurance

- Bulletin I distribute via UWEX channels:
 - Presentations, my web page, etc.
- As a farmer, you will want to be able to read and understand material like this
 - Most farmers are buying crop insurance and participate in federal commodity programs
 - Crop insurance and federal risk management programs are changing all the time

New in 2009

- Farm Bill
 - ACRE: Average Crop Revenue Election
 - SURE: Supplemental Revenue Assistance Payments
- Crop insurance change for CRC corn
 - BE: Biotech Endorsement
 - Enterprise Unit discounts

ACRE: Average Crop Revenue Election

- New Farm Bill alternative like "free GRIP"
 - Creates state level revenue guarantee (NASS state yields and USDA prices)
 - If actual state revenue less than guarantee, triggers ACRE payments
 - Farmer "premium" = Give up 20% of direct payments, all counter-cyclical payments and 30% of loan deficiency payments
 - Means may need less CRC/GRIP coverage

SURE: Supplemental Revenue Assistance Payments

- New Farm Bill disaster program
- Add up crop insurance guarantees for all crops
- Increase this total by 15% to be your farm revenue guarantee
- If actual revenue (actual yields, USDA prices, ACRE payments, crop insurance indemnities, ...), then triggers SURE payment
 - Cap is 90% of expected revenue, so with SURE, less need for 80% or 85% CRC coverage
- Must insure all crops on farm (hay/forage, pasture, etc.)

BE: Biotech Endorsement

- RMA approved for WI starting in 2009
- For corn CRC or APH only
 - If plant 75% of unit in triple stack Bt corn (RR, Bt-CB and Bt-RW), then lower premium
 - Must still plant refuge (20% acres as non-Bt)
 - Refuge can be a different insured unit

ACRE and SURE and etc.

- These and other programs are available to help farmers, but you need to ask for info
 - Majority of farmers use these programs
- Contact your local USDA Farm Service Agency (FSA) office or UW Extension office for information or questions
- See my web page for more info
<http://www.aae.wisc.edu/mitchell/extension.htm>

Summary

- Four basic types of policies
 - Yield vs. Revenue; Individual vs. Area-wide
 - APH, CRC, GRP, GRIP
 - CRC most popular for corn and soybeans
- Lots of crops have policies available
- Premiums subsidized
 - Means farmers generally win with insurance
- Basic rules apply for how to use crop insurance
 - ACRE, SURE and BYE are new for 2009