An Update on Federal Crop Insurance Now and in the Future

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Presentation Overview

- Quickly review Wisconsin crop insurance participation and experience data
- Examine impact of recent changes
  - Combo Policy, GRIP/GRP subsidies, Trend-Adjusted APH, Enterprise unit discounts, Biotech Endorsement
- Drought Relief
  - Cover crop rules
  - Forage Insurance
- Farm Bill
  - Supplemental Coverage Option
  - Conservation compliance for crop insurance

WI Crop Insurance Policies: Corn & Soybeans

	Individual (Farm)	Area-Wide (County)
Yield	YP Yield Protection	GRP Group Risk Plan
Revenue	RP Revenue Protection	GRIP-HR Group Risk Income Protection With Harvest Revenue Option
	RP-HPE: Harvest Price Exclusion	GRIP: without Harvest Revenue Option

- **Catastrophic coverage (CAT): For** YP, GRP, GRIP
- **AGR-Lite**: Insure Schedule F income

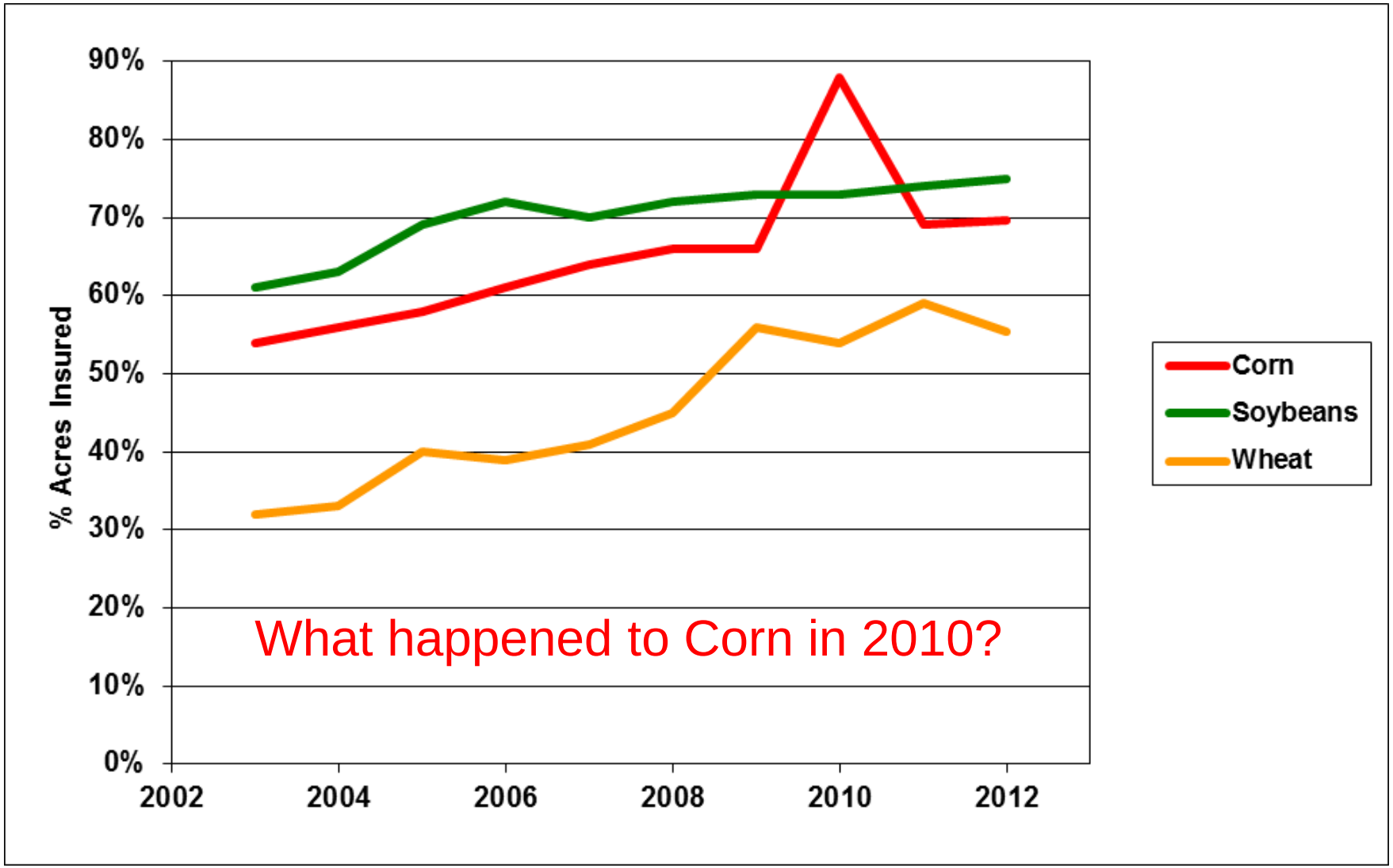
WI vs. neighboring states

% Planted Acres Insured in **2011**

State	Corn	Soybeans	Wheat
IA	90%	91%	34%
IL	81%	78%	62%
MN	94%	94%	94%
MI	72%	71%	63%
WI	69%	74%	59%

Historically WI has had a low participation rate

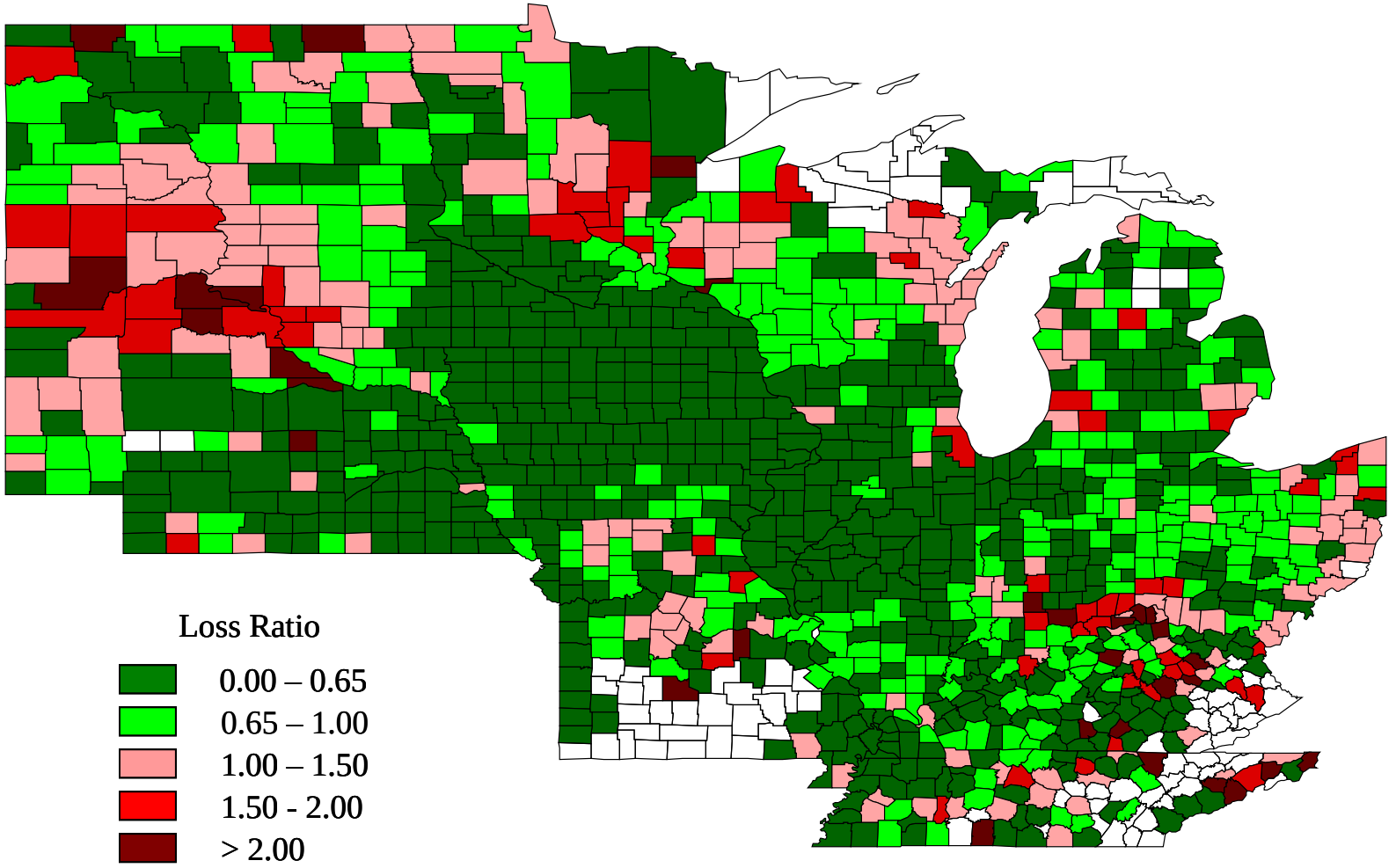
Trends in WI Crop Insurance Participation



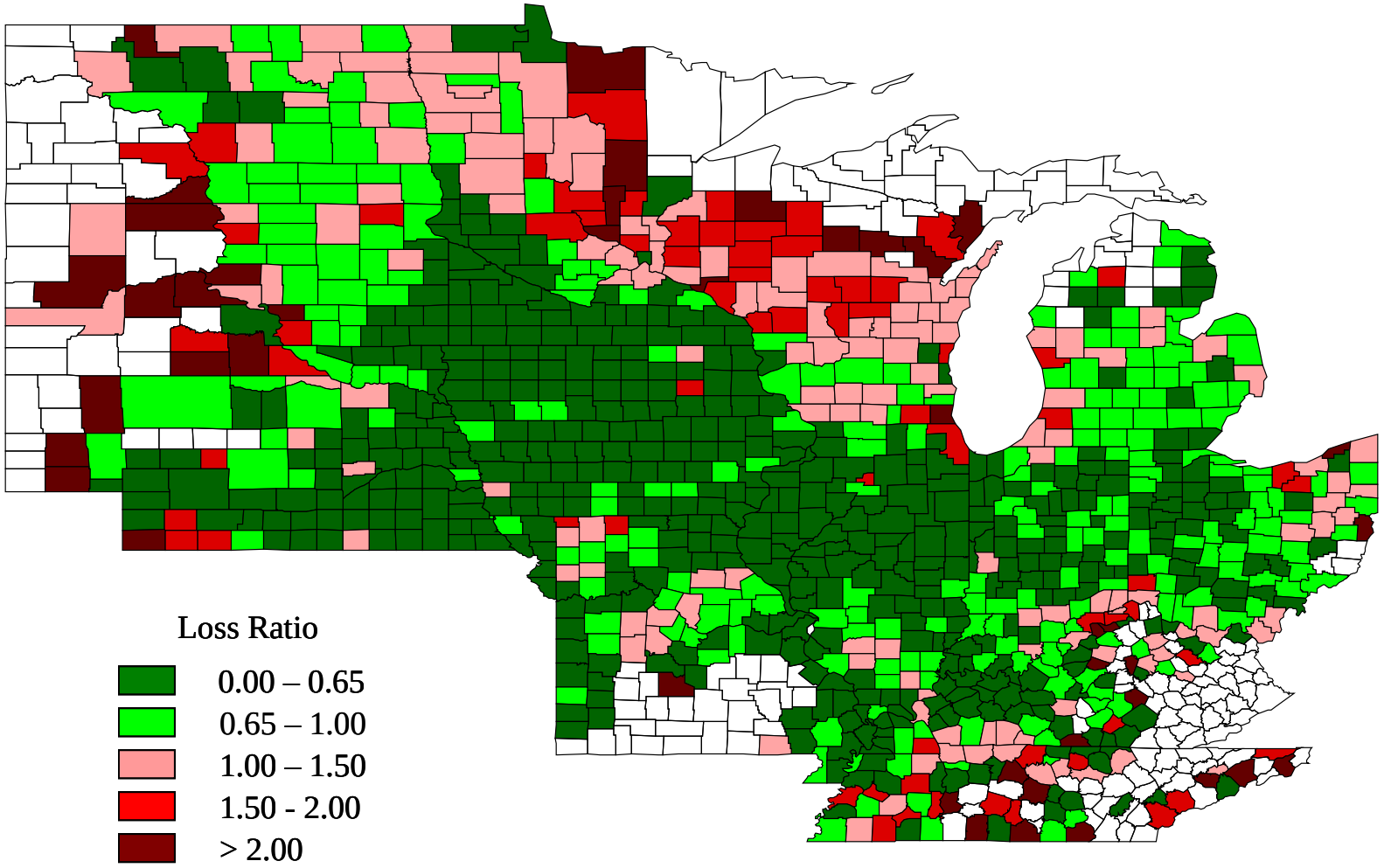
Experience with Crop Insurance

- Loss Ratio measures insurance performance
- Loss Ratio = Indemnities/Premiums
  - Loss Ratio of 1.5 means, on average, $1.50 in indemnities paid for every $1.00 of premiums
- Crop insurance: Subsidized premiums, farmers and government each pay part
  - **Program** loss ratio = Indemnity/(Total Premium)
    = Indemnity/(Govt. + Farmer Premium)

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



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



Implications

- Low program loss ratios in Corn and Soybean belts
- Means these farmers are subsidizing crop insurance for everyone else
- RMA has been receiving pressure to improve rates to improve loss ratios in these areas
- Refined premium rating methods with Combo policy, trend adjusted APH, etc.

Several Recent Changes

- Combo policy rolled out in 2011
  - Rating adjustments, plus brought HPE to WI
  - Did WI farmers change policies or adjust coverage?
- GRIP/GRP: Premium subsidies decreased and rating methods changed
  - Did GRIP popularity change?
- Trend-Adjusted APH: new for 2012
  - Did farmers reduce coverage levels?
- Enterprise unit subsidies increased in 2009
  - Did WI farmers move to fewer units?
- Biotech Endorsement (pilot program) ended in 2011
  - How much premium savings were “lost”

Combo Policy

Combo Product	Policy Replaced
Yield Protection	APH Yield Insurance
Revenue Protection	CRC Revenue Insurance Revenue Assurance with Harvest Price Option (RA-HP)
Revenue Protection with Harvest Price Exclusion	RA with Base Price Option (RA-BP) Income Protection (IP)

Policies in RED were not previously available in Wisconsin

Have WI Farmers shifted policies with Combo changes?

Have WI farmers shifted policies used in recent years

CORN: % insured corn acres under each policy

Year	RP/CRC	YP/APH	All GR
2009	69%	22%	9%
2010	71%	21%	8%
2011	76%	16%	7%
2012	81%	14%	4%

Farmers moving towards RP from YP and GRIP/GRP

Have WI farmers shifted policies used in recent years

SOYBEAN: % insured corn acres under each policy

Year	RP/CRC	YP/APH	All GR
2009	77%	16%	8%
2010	82%	13%	5%
2011	84%	11%	4%
2012	88%	10%	1%

Farmers moving towards RP from YP and GRIP/GRP

Revenue Protection vs. Revenue Protection with Harvest Price Exclusion

- RMA announces Base Price before March 15 based Feb Average of Dec futures prices
- Revenue Guarantee: APH Yield x Base Price
- RMA announces Harvest Price in Oct/Nov based on Dec futures prices in Oct/Nov
- **If Harvest Price higher than Base Price**
  - **RP Revenue Guarantee increases**
  - **RP-HPE: no change in Revenue Guarantee**
- RP-HPE does not increase revenue guarantee if price increases between planting and harvest,
- RP-HPE has lower premiums
- Compare RP, RP-HPE and YP

RP vs. RP-HPE vs. YP
(150 bu/ac APH and 70% coverage level)

Policy	Base Price $/bu	Gtee $/ac bu/ac	Harvest Price $/bu	Gtee $/ac bu/ac	Actual Yield bu/ac	Actual Rev $/ac	Indemnity $/ac
RP	$5.00	$525	$6.00	**$630**	75	$450	630 – 450 = **$180**
RP-HPE	$5.00	$525	$6.00	**$525**	75	$450	525 – 450 = **$75**
YP	$5.00	105 bu/ac	$6.00	105 bu/ac	75	$450	5 x (105 - 75) = **$150**
RP	$5.00	$525	$4.00	**$525**	75	$300	525 – 300 = **$225**
RP-HPE	$5.00	$525	$4.00	**$525**	75	$300	525 – 300 = **$225**
YP	$5.00	105 bu/ac	$4.00	105 bu/ac	75	$300	5 x (105 - 75) = **$150**

RP vs. RP-HPE vs. YP

- If harvest price > base price and low yield, larger indemnity for RP than for RP-HPE
- If harvest price < base price, no difference for RP vs RP-HPE
- Notice: RP-HPE: can do worse than YP if high prices and low yields
  - RP-HPE uses actual higher harvest price to calculate actual revenue, while YP uses actual yield loss at lower base price
- RP-HPE: worst if low yields and high prices, best if low yields and low prices

How popular is RP-Harvest Price Exclusion & GRIP without the Harvest Revenue Option?

Crop	Year	%RP Acres as RP-HPE	%GRIP Acres w/out HRO
Corn	2011	2.3%	7.4%
	2012	2.8%	7.4%
Soybeans	2011	1.1%	13.3%
	2012	1.1%	9.6%

- Few WI farmers use RP-HPE
- GRIP without HRO (equivalent to RP-HPE) relatively more popular than RP-HPE, especially for soybeans

Have WI farmers shifted policies used in recent years?

- Trend was towards increasing acres under RP, but trend accelerated in recent years
  - 10 % points more insured acres under RP in 2 years
  - 6 % points fewer insured acres under YP in 2 years
  - Proportion of insured acres under GRP/GRIP cut in half in 2 years, with bigger drop for soybeans: GRIP not used much anymore
- Few WI farmers use RP-HPE
- GRIP without HRO (equivalent to RP-HPE) has about 10% of GRIP insured acres, but GRIP acres declining

GRIP/GRP “Little” Changes

- Reduced premium subsidies: farmers got better subsidy rates for individual policies (RP/YP)
  - 75% RP (most popular): 55% premium subsidy
  - 90% GRIP (most popular): 43% premium subsidy
- Premium rating methods for GRIP/GRP changed, so premium, costs increased as well
- Enterprise and whole farm unit discounts
- Proposing to have GRIP/GRP farmers file APH yield reports: no longer paperless as before
- Recent article in DTN calling these the GRIP Killers

Trend-Adjusted APH new for 2012

- Problem: If yield trending upward, using average of up to 10 years under estimates expected yield
- Implication: APH yields too low, so farmers have to buy higher coverage to get adequate yield guarantee, which means higher premiums due to lower subsidies
- Solution: Trend-Adjusted APH increases APH, so get higher yield guarantee at lower cost
- Farmers can cut coverage level and get same guarantee as with old APH, but at lower cost, or keep same coverage level and enjoy higher effective coverage
- Did WI farmers reduce coverage levels in 2012?

Have WI farmers adjusted coverage in recent years

% Corn RP/CRC Acres by Coverage Level

Coverage Level	2010	2011	2012
50%	1%	1%	1%
55%	0%	0%	0%
60%	3%	2%	2%
65%	6%	5%	5%
70%	28%	26%	25%
75%	38%	40%	42%
80%	20%	20%	20%
85%	4%	4%	5%

Even more farmers moving towards 75% coverage level

Have WI farmers adjusted coverage in recent years

% Soy RP/CRC Acres by Coverage Level

Coverage Level	2010	2011	2012
50%	1%	1%	1%
55%	0%	0%	0%
60%	2%	1%	2%
65%	5%	5%	5%
70%	25%	24%	24%
75%	38%	40%	43%
80%	23%	23%	21%
85%	7%	5%	4%

Even more farmers moving towards 75% coverage level

Have WI farmers adjusted coverage in recent years

% Corn YP/APH Acres by Coverage Level

Coverage Level	2010	2011	2012
CAT	38%	44%	43%
50%	6%	7%	7%
55%	1%	1%	1%
60%	6%	5%	6%
65%	15%	15%	15%
70%	21%	20%	22%
75%	11%	7%	6%
80%	2%	1%	1%
85%	0%	0%	0%

CAT policy has gotten more popular

Have WI farmers adjusted coverage in recent years

% Soy YP/APH Acres by Coverage Level

Coverage Level	2010	2011	2012
CAT	36%	41%	40%
50%	8%	7%	7%
55%	1%	2%	2%
60%	6%	4%	6%
65%	15%	15%	15%
70%	23%	20%	21%
75%	10%	10%	8%
80%	2%	1%	2%
85%	0%	0%	0%

CAT policy has gotten more popular

How have WI farmers changed coverage levels in recent years?

- For farmers using RP: More have moved to 75% coverage level from 70% and 80% coverage levels
  - Increased by 4-5 percentage points
- For farmers using YP: CAT has gotten more popular, moving from 70% and 75% coverage levels
  - Increased by 4-5 percentage points
- My interpretation
- RP users have found the 75% “sweet spot” of high premium subsidies with good return on investment
  - Crop insurance provides a useful benefit, want to get good ROI
- YP users have gotten more cost conscious
  - Crop insurance a necessary evil, minimize the cost

Unit Structure

- Optional Unit < Basic Unit < Enterprise Unit < Whole Farm Unit
- Larger Units: Less likely to trigger indemnities because averaging over more acres, but smaller premiums

- 2008 Farm Bill created Enterprise Units with larger premium subsidies: enterprise unit discounts
- Implemented in 2009 crop year
- Increased premium subsidies to encourage farmers to use enterprise units: 1 unit for all insured crop in county
- Whole farm unit: combine all crops into one unit

Enterprise Unit Discounts

Premium subsidy rates by level of coverage and units.

Coverage level	Basic and Optional Units	Enterprise Units	Whole Farm Units
50%	67%	80%	80%
55%	64%	80%	80%
60%	64%	80%	80%
65%	59%	80%	80%
70%	59%	80%	80%
75%	55%	77%	80%
80%	48%	68%	71%
85%	38%	53%	56%

Have WI farmers responded?
Average Units per Policy in WI

Year	CORN RP Units/Policy	CORN YP Units/Policy	SOY RP Units/Policy	SOY YP Units/Policy
2009	2.32	2.11	2.04	1.84
2010	2.13	2.08	1.89	1.71
2011	3.51	2.14	2.80	1.77
2012	3.52	2.22	2.81	1.86

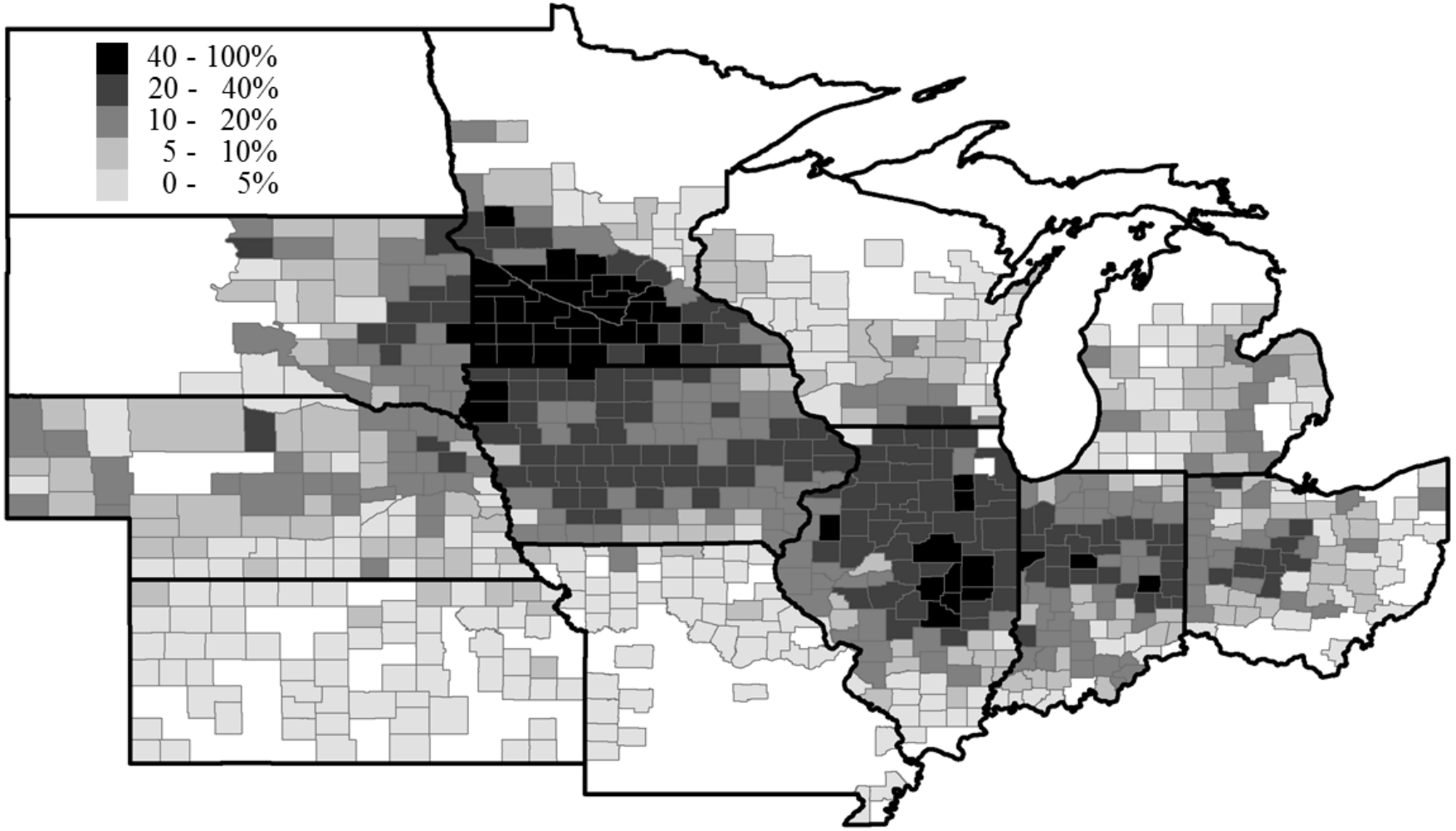
- Big jump in average units per policy in 2011 for both corn and soybeans RP, but YP stayed constant
- WI farmers using RP not using Enterprise and Whole Farm units, but using more units per policy: Optional units
- WI farmers using YP: no unit changes

Biotech Endorsement

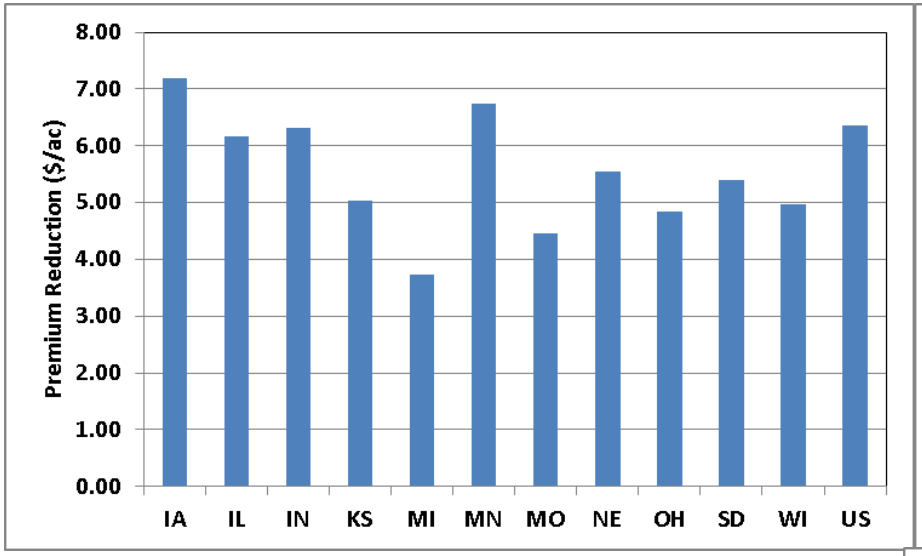
- In 2008, 4 state (IA, IL, MN, IN) pilot program that reduced premiums for farmers planting approved triple stack (RR, CB-Bt, RW-Bt) corn
- Expanded to WI and other states in 2009
- Pilot program ended so not available in 2012

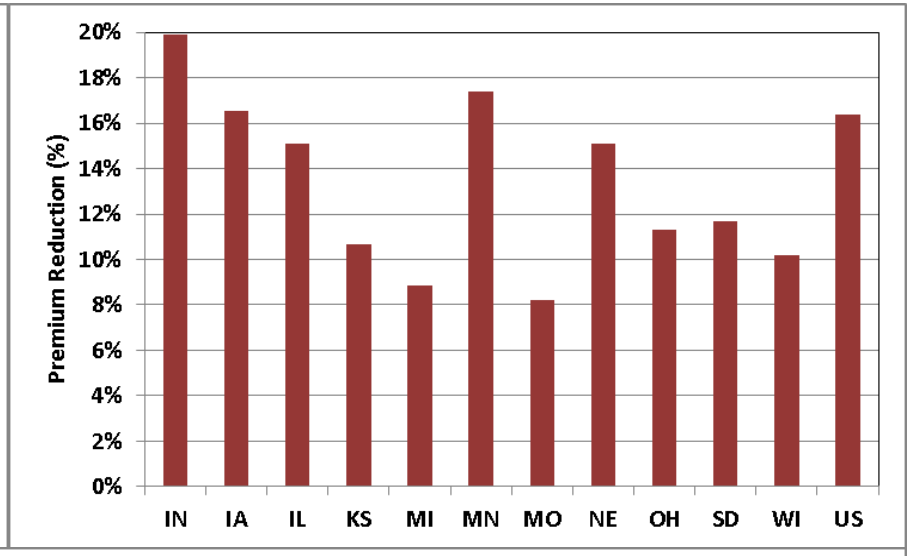
- How much premium discount was “lost” by WI growers planting triple stack Bt crops when pilot was discontinued?

% Corn Planted Acres in BE in 2010

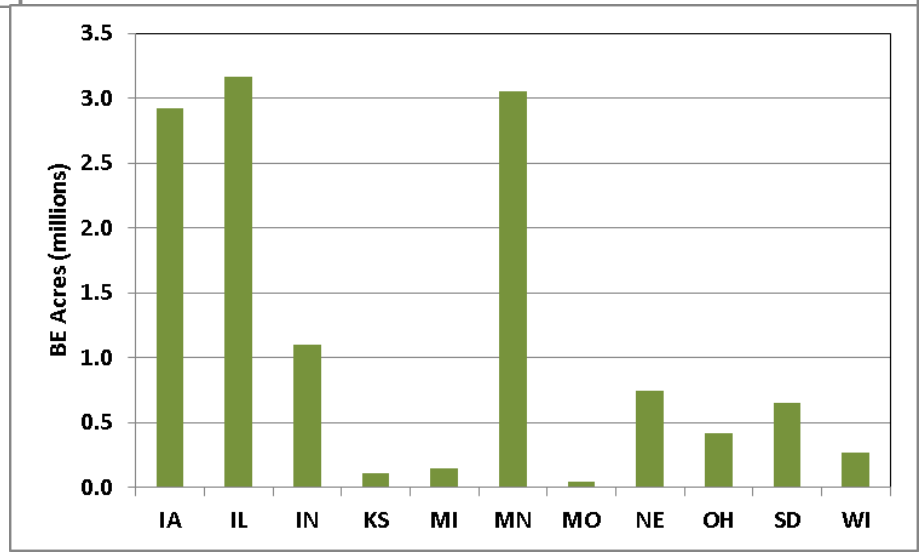


Average BE Impact on Premiums





- BE saved WI growers about $5/ac (~10%) on premiums in 2010
- WI had 267,500 BE acres, so BE saved WI farmers $1.33 million



Several Recent Changes

- Combo policy rolled out in 2011
  - Did WI farmers change policies or adjust coverage? YES, RP became even more popular
- GRIP/GRP: Premium subsidies decreased and rating methods changed
  - Did GRIP popularity change? YES, became less popular
- Trend-Adjusted APH: new for 2012
  - Did farmers reduce RP or YP coverage levels? NO, little change
- Enterprise unit subsidies increased in 2009
  - Did WI farmers move to fewer units? NO, more units per policy
- Biotech Endorsement (pilot program) ended in 2011
  - How much premium savings were “lost”? About $1.33 million

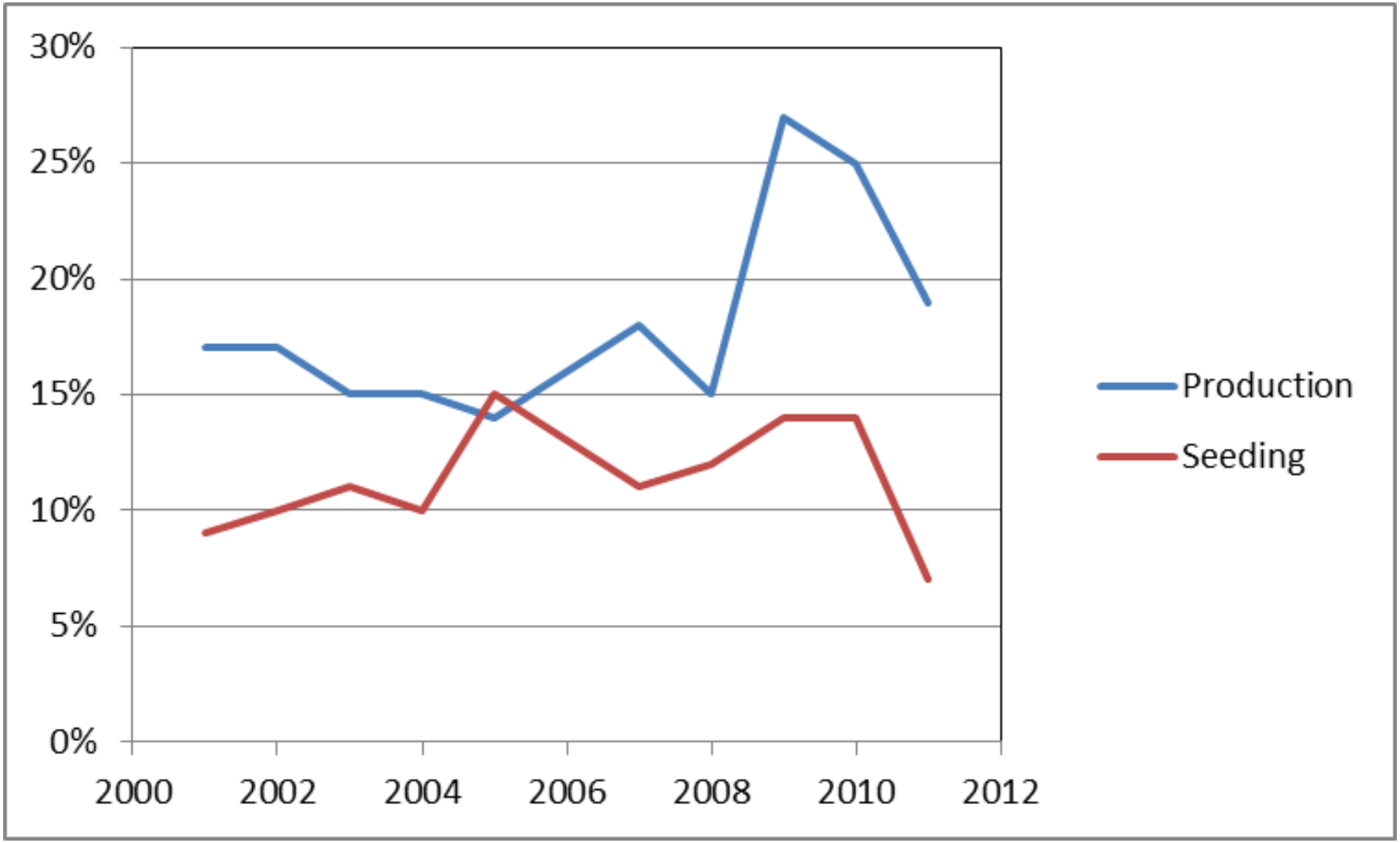
Forage Rule Changes

- Cover crops: RMA rules do not allow insuring a crop planted after harvesting an early season cover crop
  - Rye or oats/pea followed by corn: can’ t insure the corn
  - Early cut alfalfa followed by corn: can’ t insure the corn
  - Worried about adequate moisture for the follow crop
- RMA drought response: Emergency Forage: For 2013 only, can insure a crop following a harvested cover crop
  - Likely: harvest by early May, then terminate cover crop
  - Insuring crop planted after early cut alfalfa likely not allowed: annual, not perennial, cover crops
  - Final details announced November 30, 2012

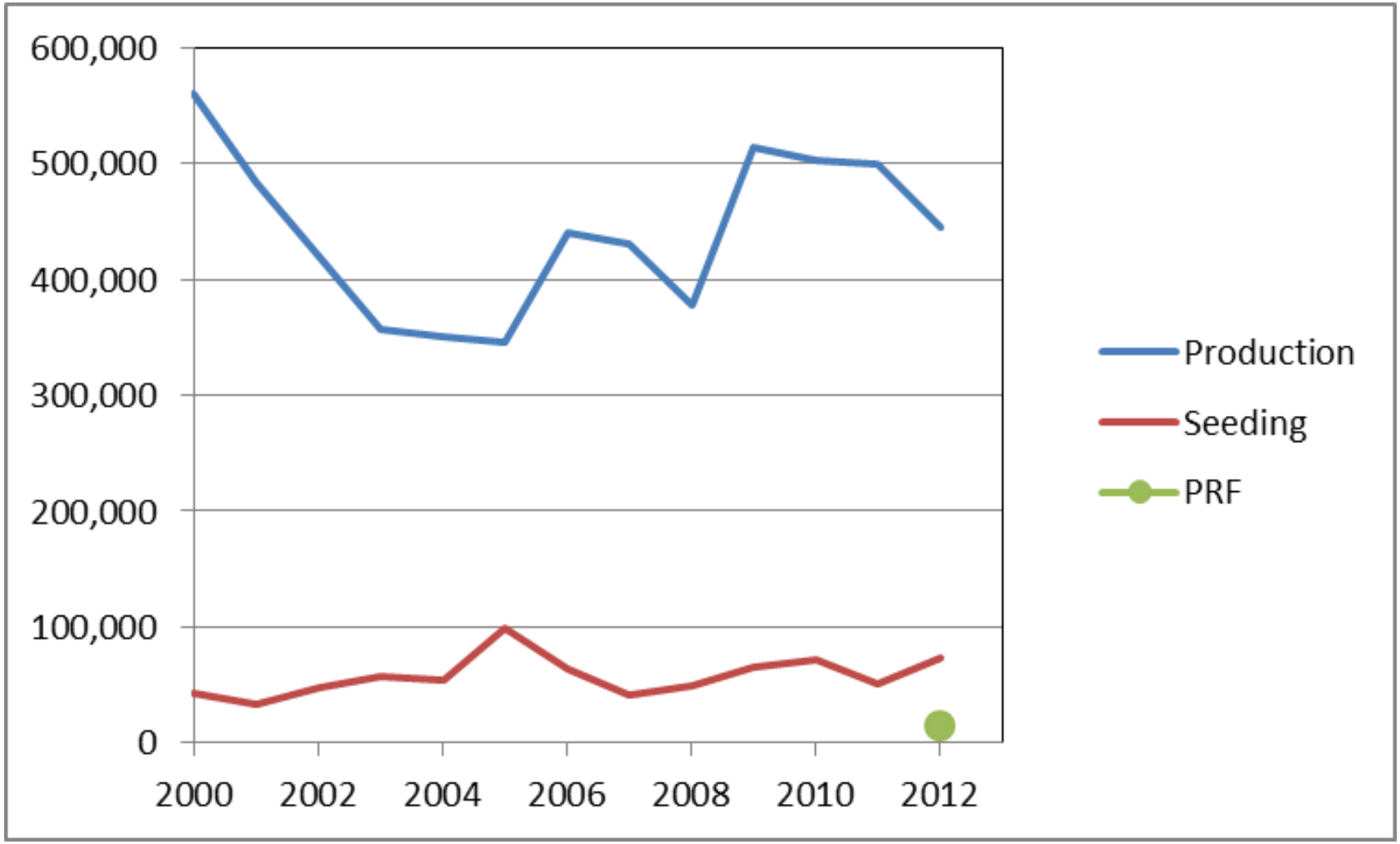
Forage Insurance

- Forage insurance policies sold in WI
- Forage Production: like YP for forage
- Forage Seeding: insures stand establishment
- Pasture Rangeland Forage (PRF): Rainfall Index insurance – indemnities based on rainfall over an area, not actual forage production
  - New in several states, including WI, in 2012
  - Sales closing date for 2013 was September 30, 2012
  - WI: 138 policies sold, 15,400 acres insured, in 2012
- With the drought, will there be a surge in Forage insurance and PRF?

% Forage Acres Insured



Total Forage Acres Insured



2012 Farm Bill?

- Senate passed Farm Bill on June 21
  - Agriculture Reform, Food & Jobs Act (S. 3240)
- House Ag Committee passed Farm Bill July 1
  - Federal Agriculture & Risk Management Act (H.R. 6083)
- 2008 Farm Bill expired on September 30, 2012
- Eventually Congress will pass a Farm Bill: what will it look like in terms of crop insurance?
  - Supplemental Coverage Option
  - Conservation Compliance

Supplemental Coverage Option (SCO)

- Senate and House Ag both create Supplemental Coverage Option (SCO)
- Farmer can buy GRIP policy to cover part of RP crop insurance deductible
- Suppose farmer has 70% RP: means a 30% deductible
- Can buy 90% GRIP coverage as SCO for losses above 10% and less than 30% (when crop insurance kicks in)
- GRIP premium for use as SCO is subsidized at 70%
  - GRIP with 90% coverage level has 55% subsidy
- Both have new revenue support programs (ARC or RLC) and SCO is layered with these

Effect of Revenue Protection Coverage Level on Losses Covered by SCO with ARC

RP Coverage	Deductible	Farmer	ARC	SCO
85%	15%	11%	10%	0%
80%	20%	11%	10%	0%
75%	25%	11%	10%	4%
70%	30%	11%	10%	9%
65%	35%	11%	10%	14%
60%	40%	11%	10%	19%
55%	45%	11%	10%	24%
50%	50%	11%	10%	29%

Effect of Revenue Protection Coverage Level on Losses Covered by SCO with RLC

RP Coverage	Deductible	Farmer	RLC	SCO
85%	15%	15%	10%	0%
80%	20%	15%	10%	0%
75%	25%	15%	10%	0%
70%	30%	15%	10%	5%
65%	35%	15%	10%	10%
60%	40%	15%	10%	15%
55%	45%	15%	10%	20%
50%	50%	15%	10%	25%

SCO Main Idea

- SCO layers GRIP with RP and ARC/RLC
- **Farmers can reduce RP coverage and use SCO with "free" ARC/RLC coverage**
- GRIP premium for use as SCO is subsidized at 70%
  - GRIP with 90% coverage level has 55% subsidy
- Problem: "basis risk" for GRIP coverage of RP deductible
  - How often will GRIP pay when farmer has actual loss?
- How will the ARC/RLC payments factor in???

Conservation Policies

- Many worry that with cuts to CRP and other conservation programs and ending of DCP, government will have not policy tools to get conservation practices adopted
- Crop insurance premium subsidies are subsidies, so add strings to them
- Sod Saver: reduced premium subsidies 50% points for 4 years if break native sod for crop production
  - Senate whole US, House Ag if in Prairie Pothole region
- Senate only: Requires Conservation Compliance within 5 years and Wetland Compliance immediately to receive premium subsidies

Quick Summary

- Reviewed WI crop insurance data
- Examine impact of recent changes
  - Combo Policy, GRIP/GRP subsidies, Trend-Adjusted APH, Enterprise unit discounts, Biotech Endorsement
- Drought Relief
  - Cover crop rules
  - Forage Insurance
- Farm Bill
  - Supplemental Coverage Option
  - Conservation compliance for crop insurance

Thanks for Your Attention!

Questions?

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