

Insuring Forage Crops for SURE Eligibility and for Winter Cover

Paul D. Mitchell

Agricultural and Applied Economics
University of Wisconsin-Madison
(608) 265-6514 pdmitchell@wisc.edu

Insuring Iowa's Agriculture

Ames, IA

November 9, 2010

Overview of Presentation

- Insuring Forage for SURE
 - Overview Forage Insurance in WI and IA
 - Farmer Practices
 - Policy Performance
- Cover Crops and Forage Insurance
 - Quickly review options for insuring a crop following a cover crop, even if harvest cover crop for early season forage

Why the sudden interest in Forage Insurance? To qualify for SURE

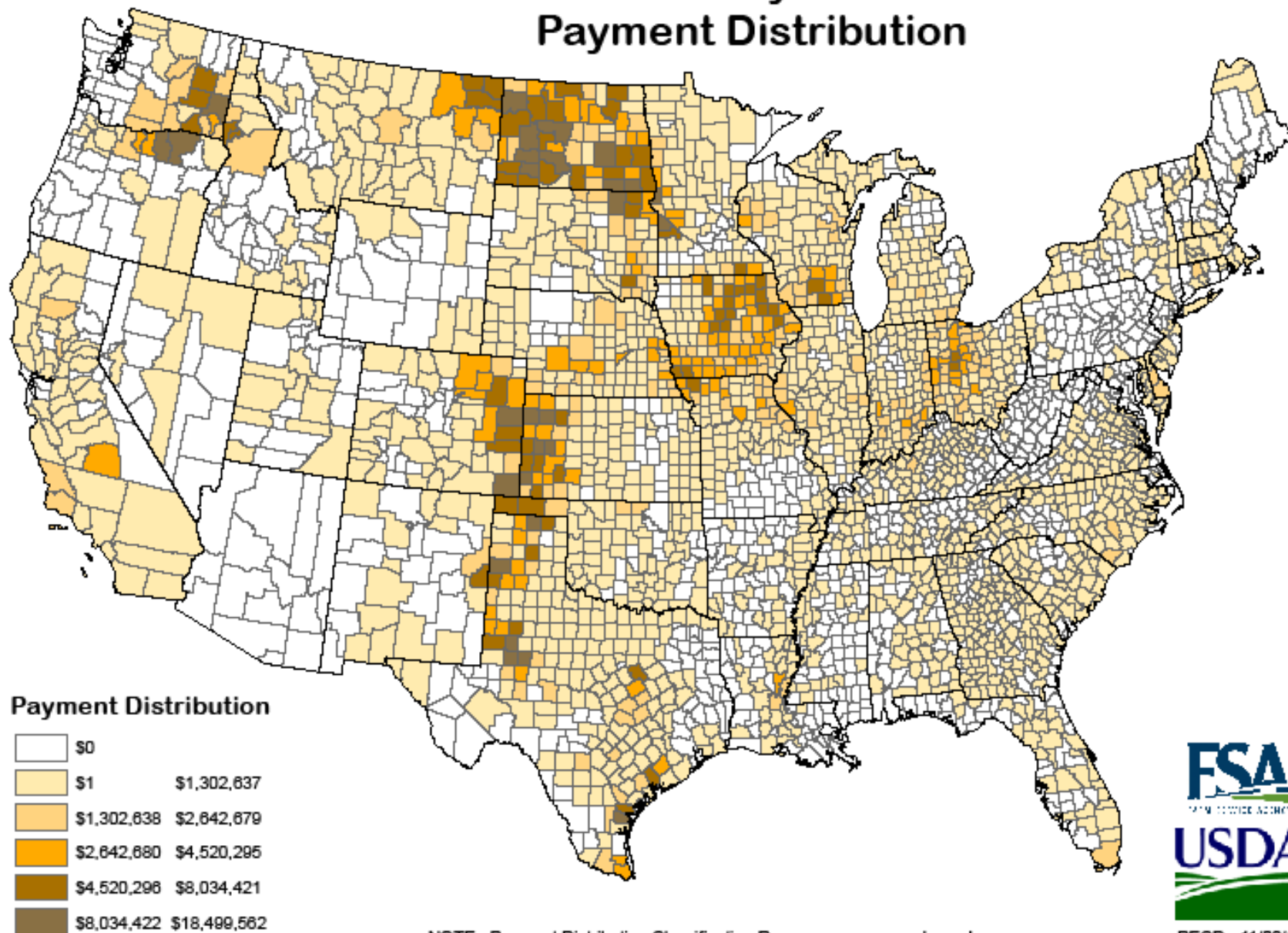
- SURE: new USDA permanent disaster program passed with the 2008 Farm Bill
- Increases farm level insurance guarantee by 15% for FREE
- Catch: have to have crop insurance for all crops “of economic importance”
 - Any crop generating 5% of farm expected revenue (value of production, not sales)
 - Forage seeding does not have SURE coverage
- Farmers looking for ways to insure forage crops at lowest cost to qualify for SURE

Rank	State	SURE Payments
1	ND	\$277,630,880
2	IA	\$254,515,782
3	TX	\$225,747,411
4	KS	\$137,903,223
5	OH	\$111,387,607
6	SD	\$81,287,245
7	MN	\$77,481,770
8	MO	\$76,425,393
9	NE	\$73,637,371
10	CO	\$69,968,967
11	WI	\$68,738,349
12	IN	\$65,201,754
13	WA	\$52,913,924
14	MT	\$39,405,613
15	IL	\$37,853,723

SURE: A Big Deal!

- SURE payments to US farmers for crop losses occurring 2008 were almost \$1.9 billion
- IA ranked 2nd with almost \$255 million
- WI Ranked 11th with almost \$69 million

2008 SURE Recovery Act & Trust Fund Payment Distribution



NOTE: Payment Distribution Classification Ranges may vary each week.



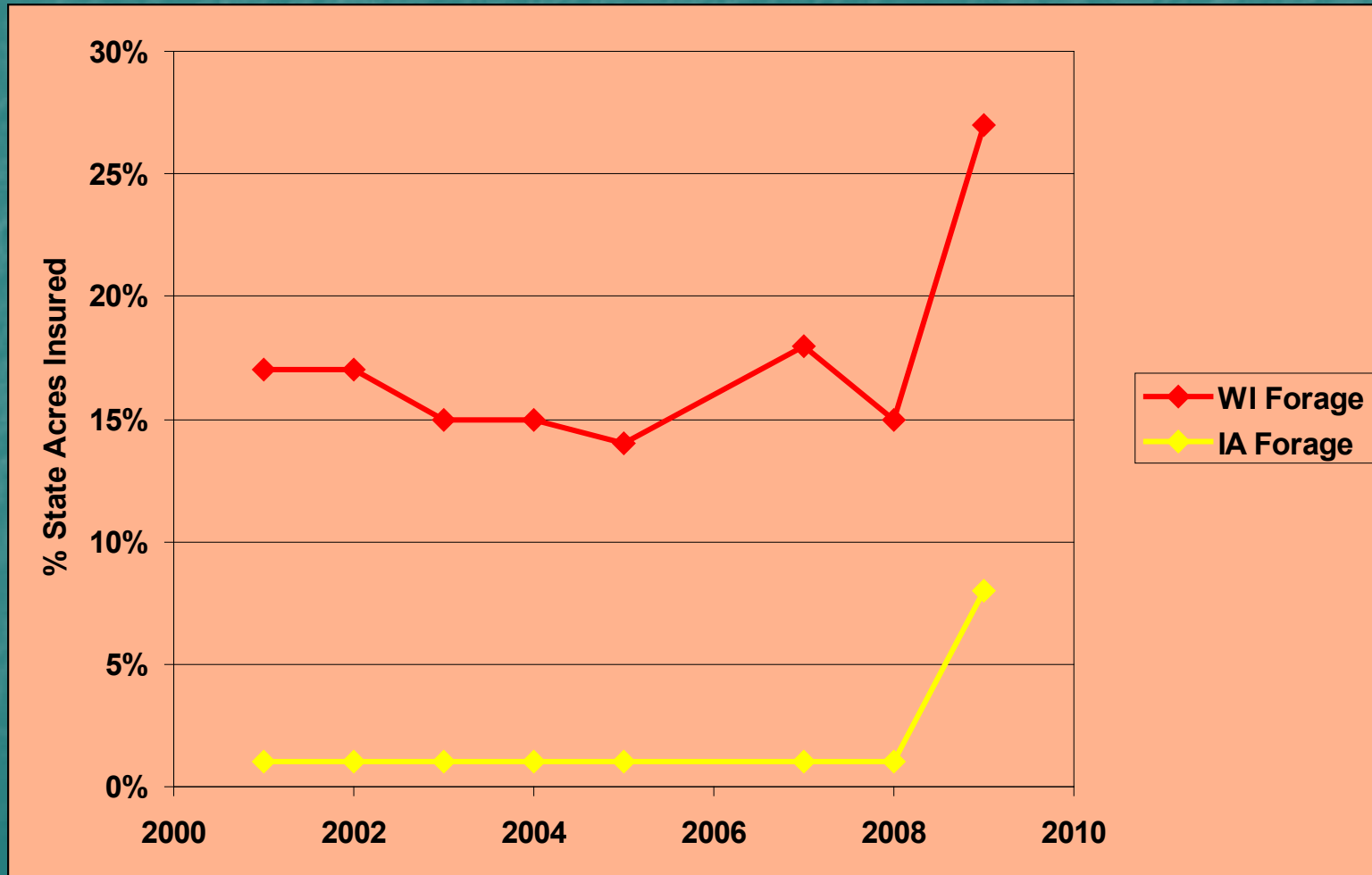
PECD - 11/02/10

Forage Insurance Options

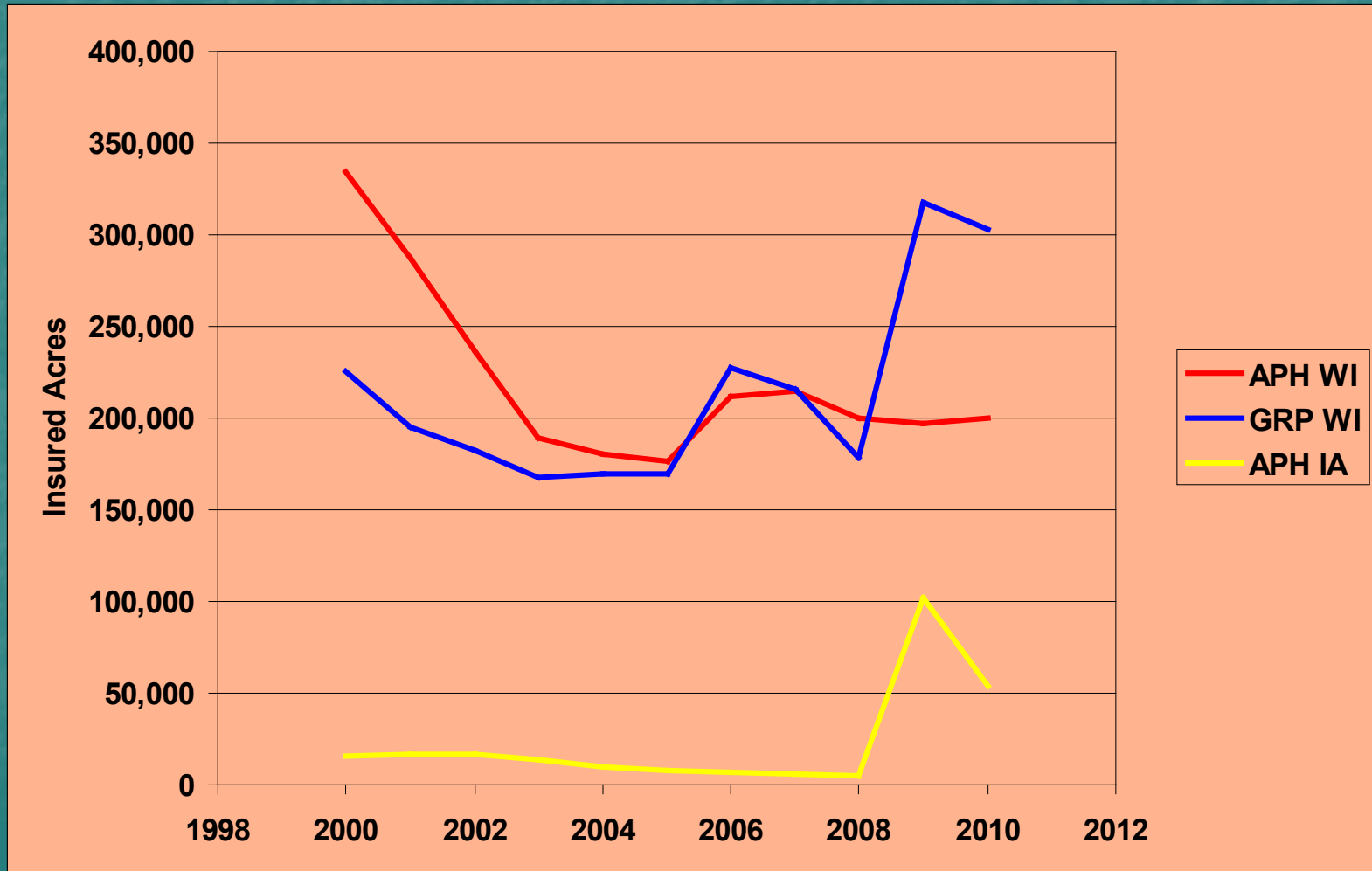
Current WI and IA policies

- Forage Production
 - WI: APH and GRP
 - IA: APH only
- Forage Seeding
 - WI and IA: both have a Dollar Plan
- AGR-Lite: insures Schedule F income
 - WI option, not in IA (yet??)
- Pasture, Rangeland Forage Insurance Rainfall Index: coming to WI in 2012, to IA when???

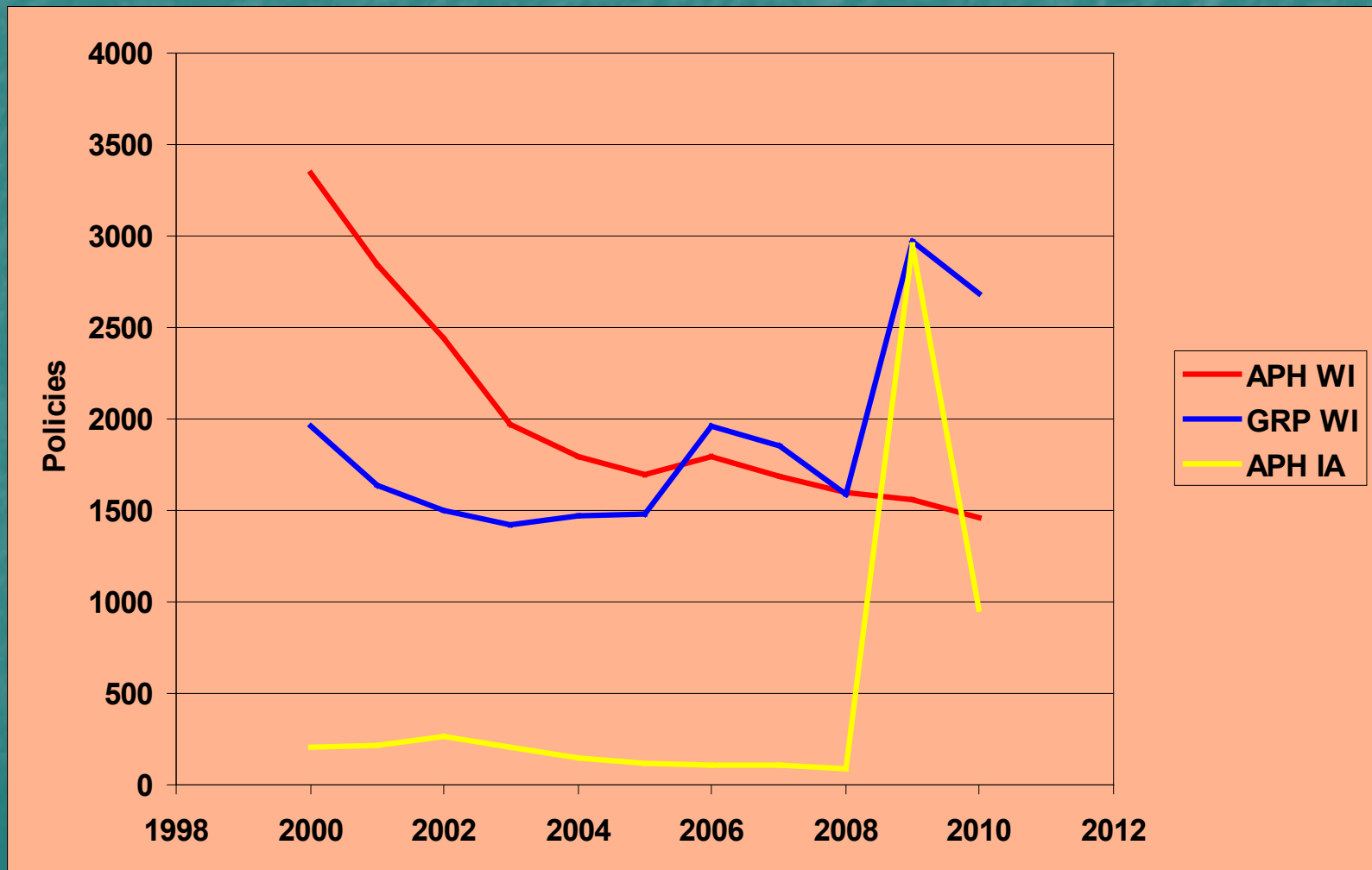
Farmer Practices for Forage Production Insurance: Participation Rate (% Acres)



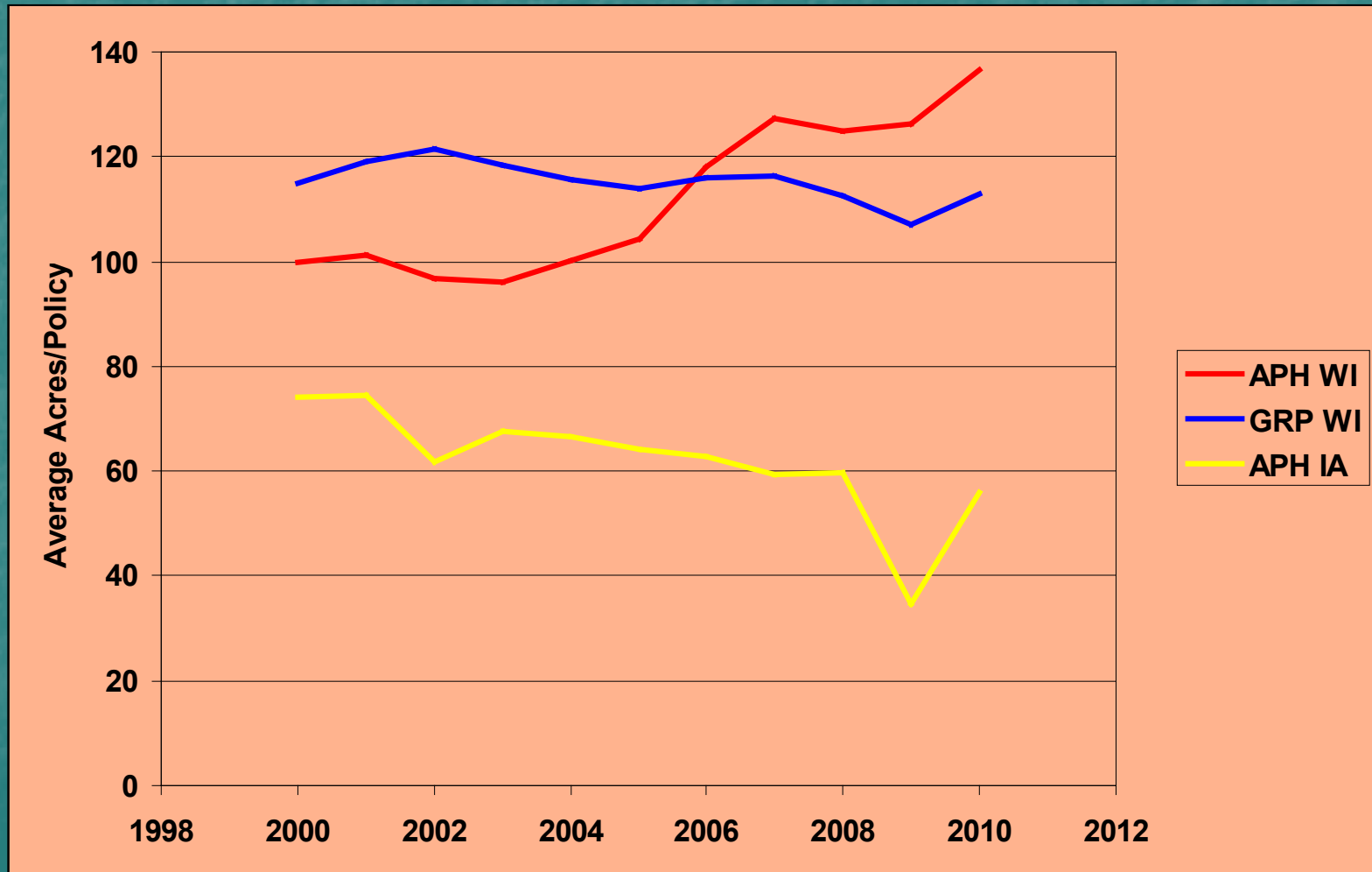
Farmer Practices for Forage Production Insurance: Total Acres Insured



Farmer Practices for Forage Production Insurance: Total Number of Policies



Farmer Practices for Forage Production Insurance: Average Acres Per Policy



Farmer Practices for Forage Production Insurance

- Percent of acres insured has remained flat
 - Around 14% to 17% in WI
 - Around 1% in IA
 - Lots of room for growth in both states
- Jump in 2009 to 27% in WI and 8% in IA
 - SURE effect: farmers wanted to qualify

Farmer Practices for Forage Production Insurance

- WI total acres insured trended downward, then leveled off at around 400,000 acres
 - Given the fairly flat participation rate, acreage trends are due to overall reductions in acreage
 - Evenly split between APH and GRP
- WI used GRP (not APH) in 2009 to qualify for SURE and stayed with GRP in 2010
 - Suddenly jumped into GRP for SURE

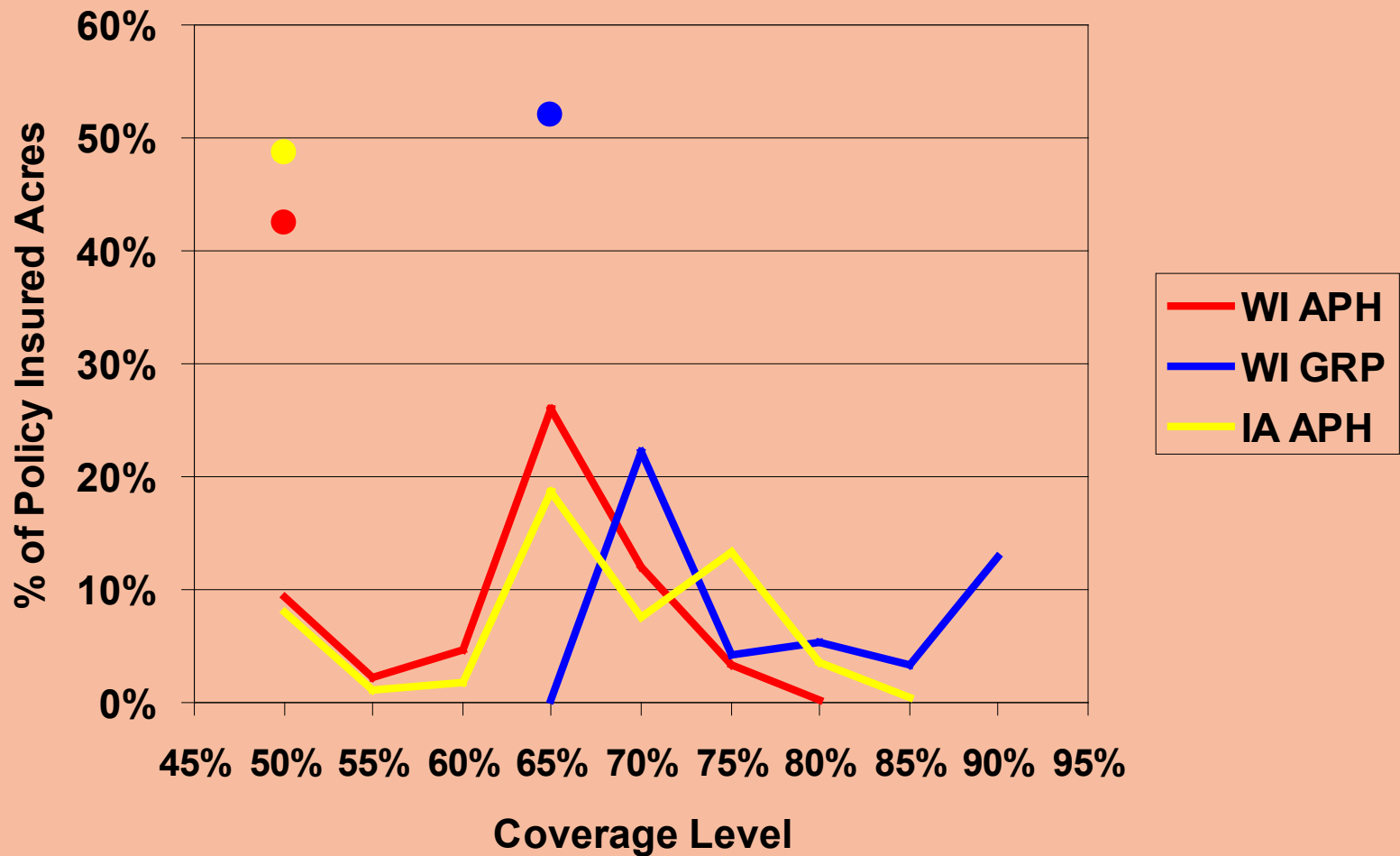
Farmer Practices for Forage Production Insurance

- IA total acres insured trended downward, from 15,000-16,000 to 5,000-6,000 acres
 - Sudden jump to over 100,000 ac in 2009, fell to about 54,000 ac in 2010
- IA farmers have not really settled on how to insure forage to qualify for SURE
 - Did they drop forage acres in 2010 so they were below 5% expected revenue cutoff?

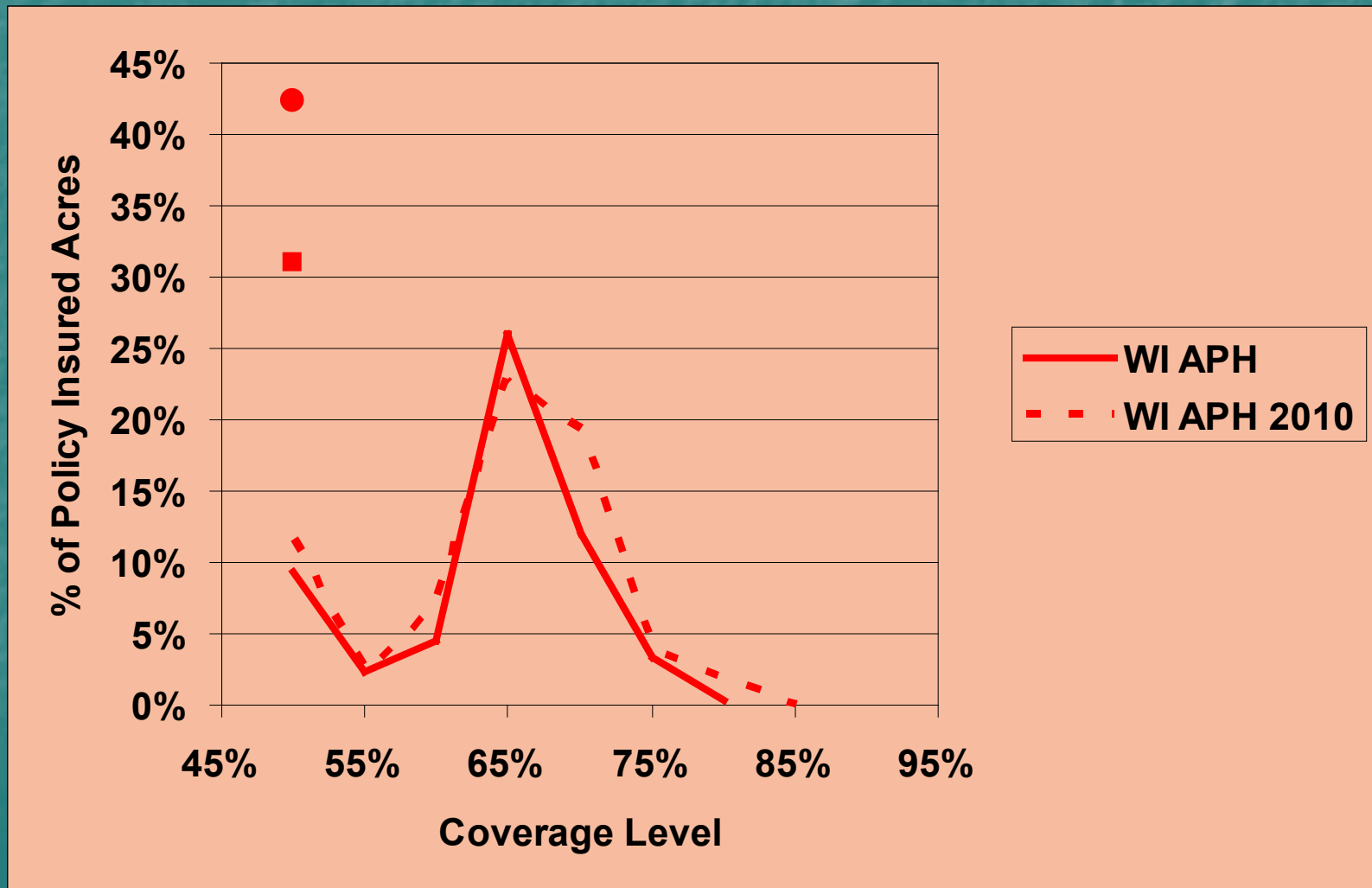
Farmer Practices for Forage Production Insurance

- Number of policies closely tracks acres
 - IA jump to 3,000 in 2009 = same number as WI GRP = WI total policies in 2008
- Acres per policy larger in WI than IA
 - WI flat for GRP, a little above 100 ac, even with the 2009 jump
 - WI APH upward trend, almost 140 ac in 2010
 - IA APH downward trend, about 60 ac in 2010
 - 2009 lots of small farms bought APH, then back on trend in 2010

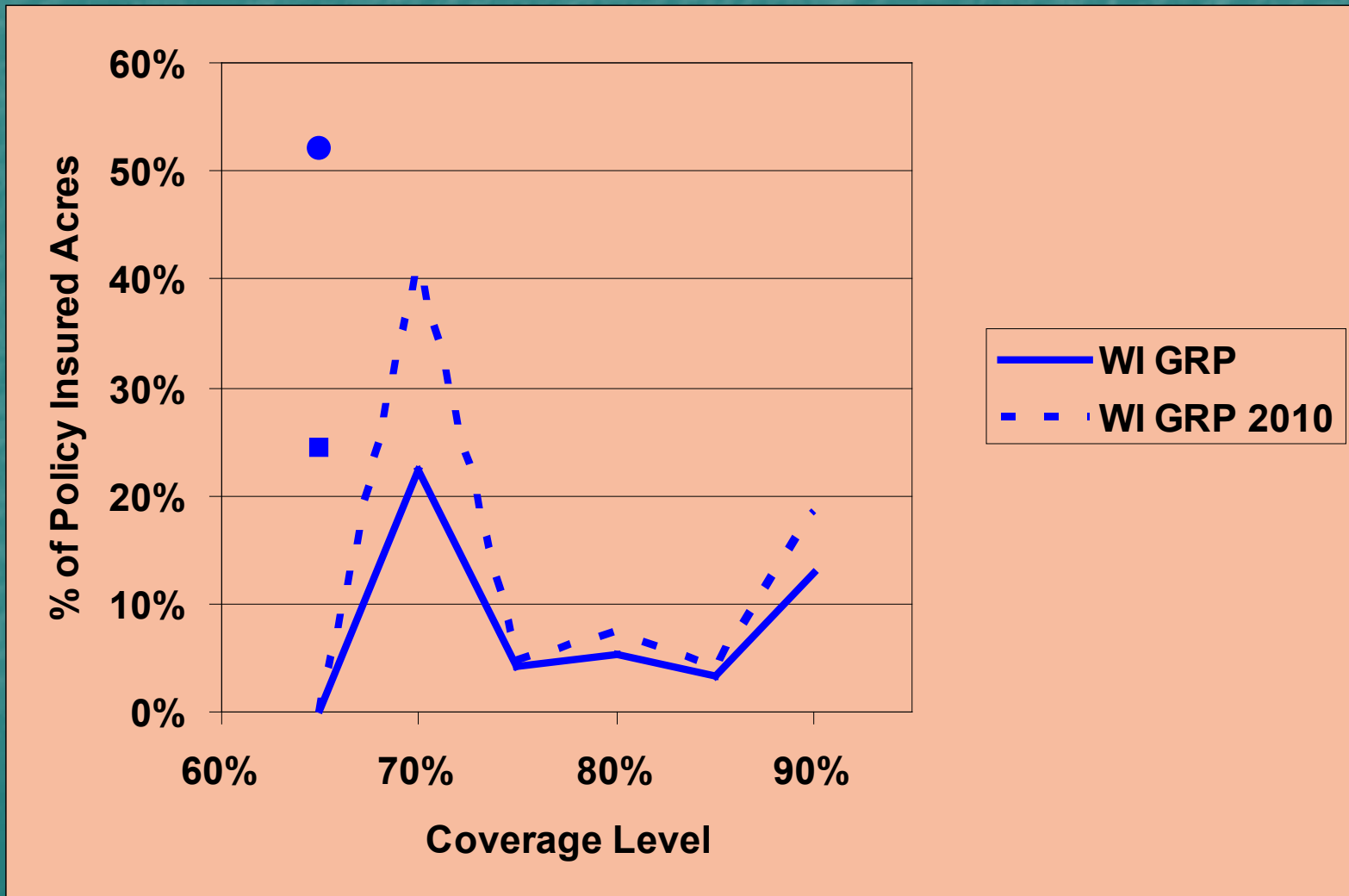
Farmer Practices for Forage Production Insurance: Coverage Level % acres 10-year avg



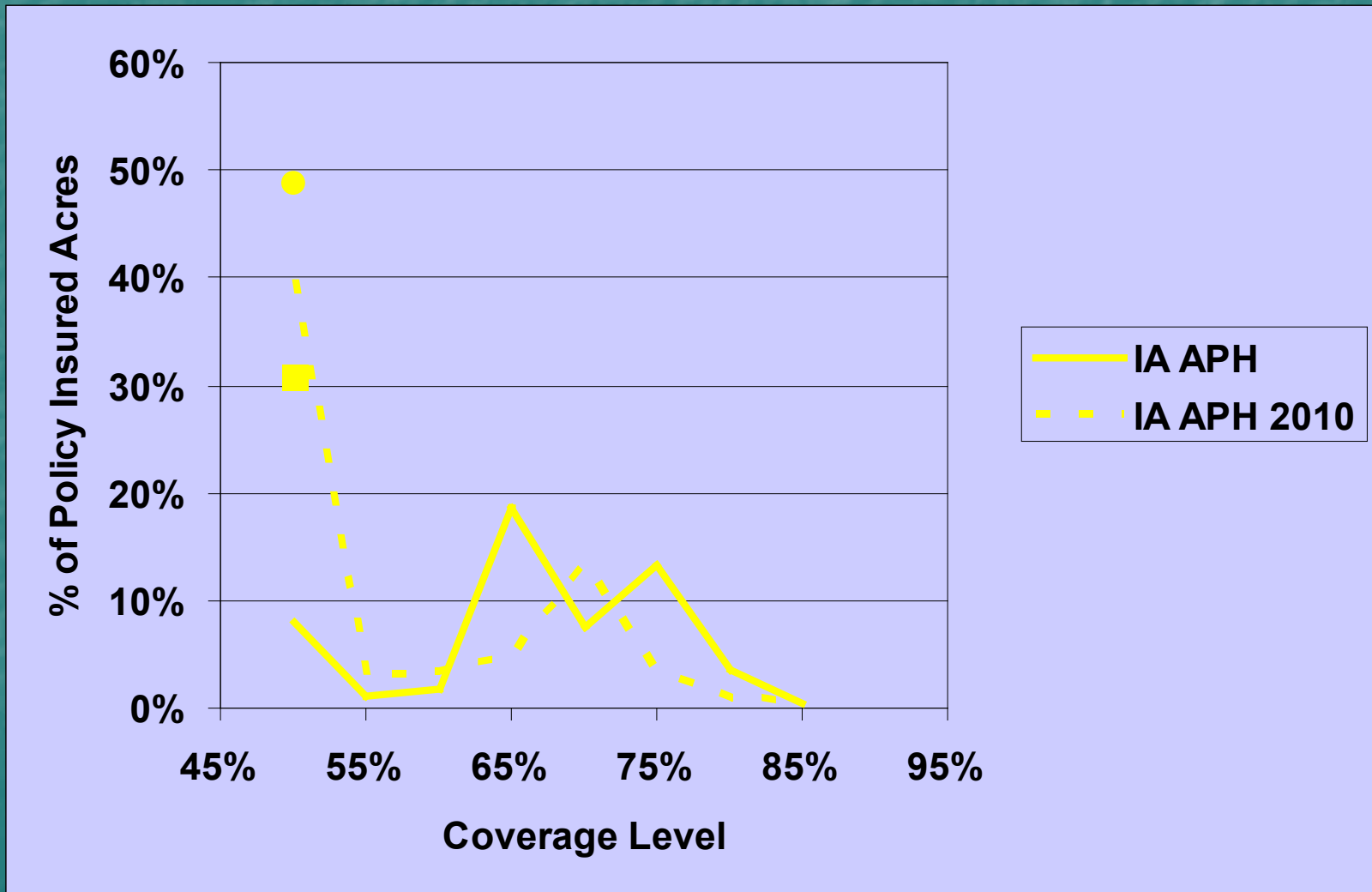
Farmer Practices for Forage Production Insurance: Coverage Level 2010 vs 10-year avg



Farmer Practices for Forage Production Insurance: Coverage Level 2010 vs 10-year avg



Farmer Practices for Forage Production Insurance: Coverage Level 2010 vs 10-year avg



Farmer Practices for Forage Production Insurance

- Coverage Level: CAT policies are by far most popular: 40-50% of acres by policy
- APH: next most popular is 65%: 20-25% of acres by policy
- GRP: next most popular are 70% and 90%: 15-20% of acres by policy
- 2010: CAT still popular, but decreasing: 10-20 percentage points lower than 10-year average
- More acres moving to higher coverage levels

Policy Performance

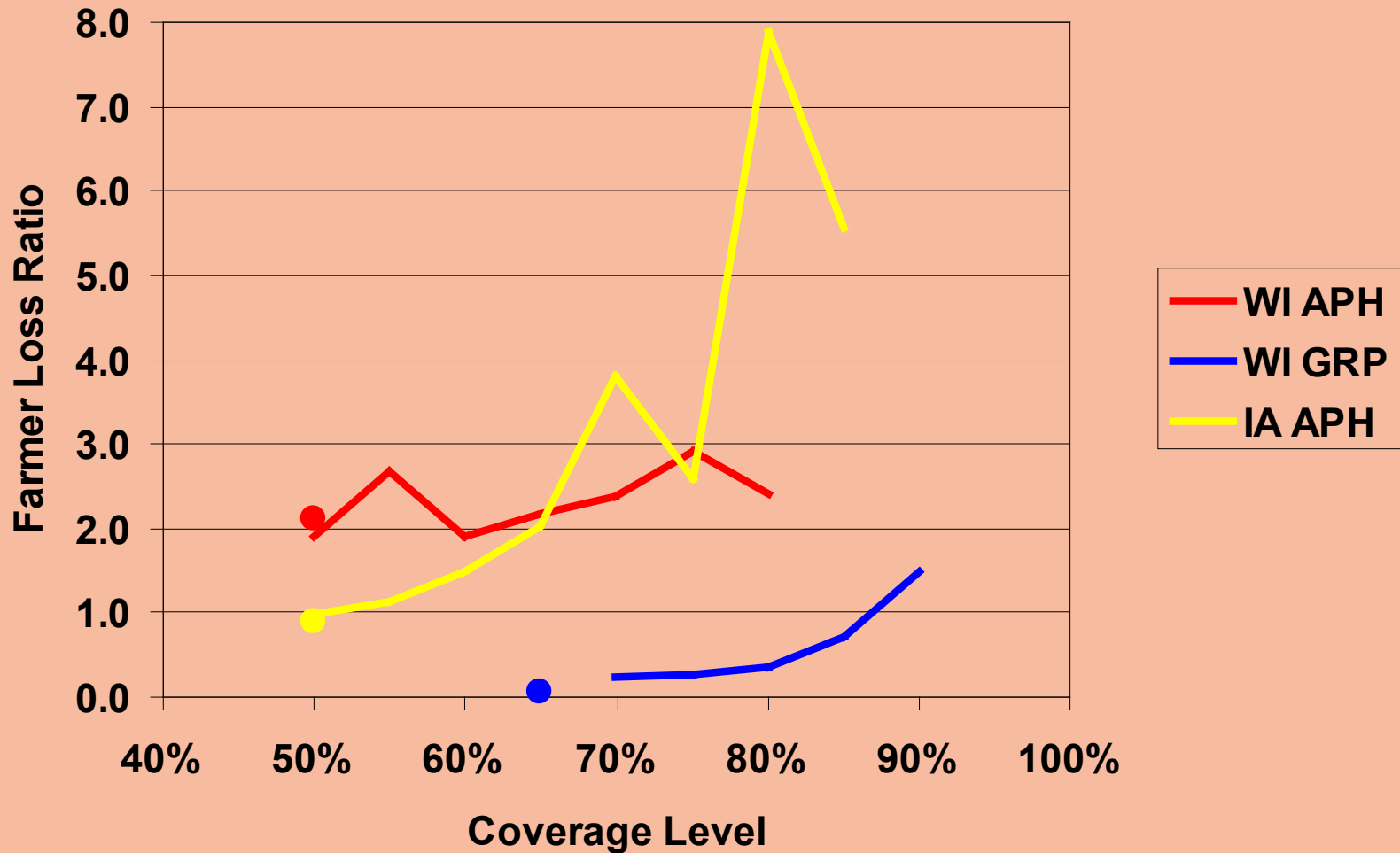
- Measure using the Farmer Loss Ratio
 - $\text{Loss Ratio} = \text{Indemnity} / \text{Farmer Paid Premium}$
 - Average over farmers and across years
 - 1.5 means, on average, paid \$1.50 in indemnities for each \$1 paid in premium
- Program Loss Ratio: government concern
 - $\text{Loss Ratio} = \text{Indemnity} / \text{Total Premium Paid}$
 - Includes both farmer portion and subsidy

10 year state average loss ratios

Farmers doing well with APH, not GRP



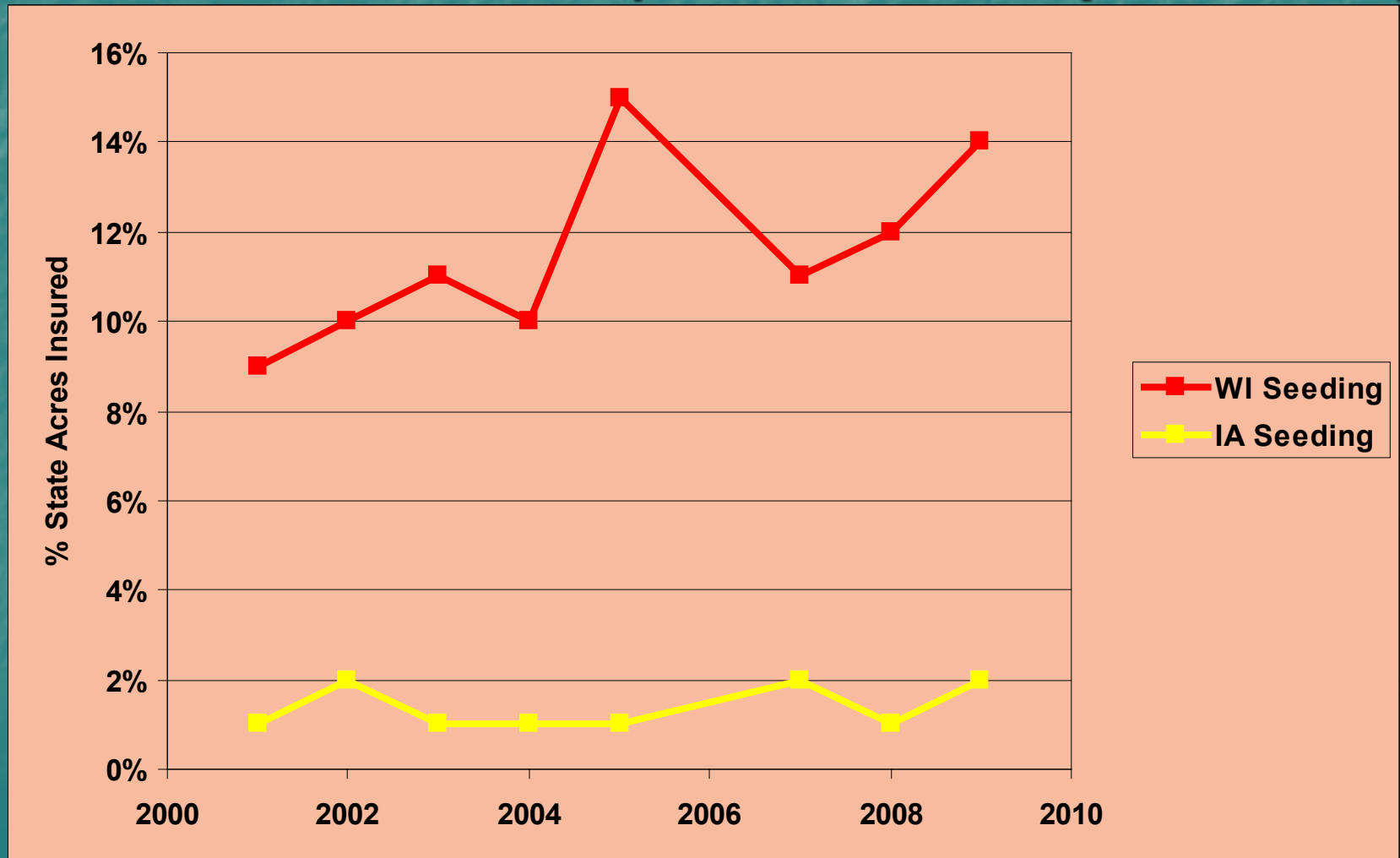
Farmer Loss Ratios by Coverage Level



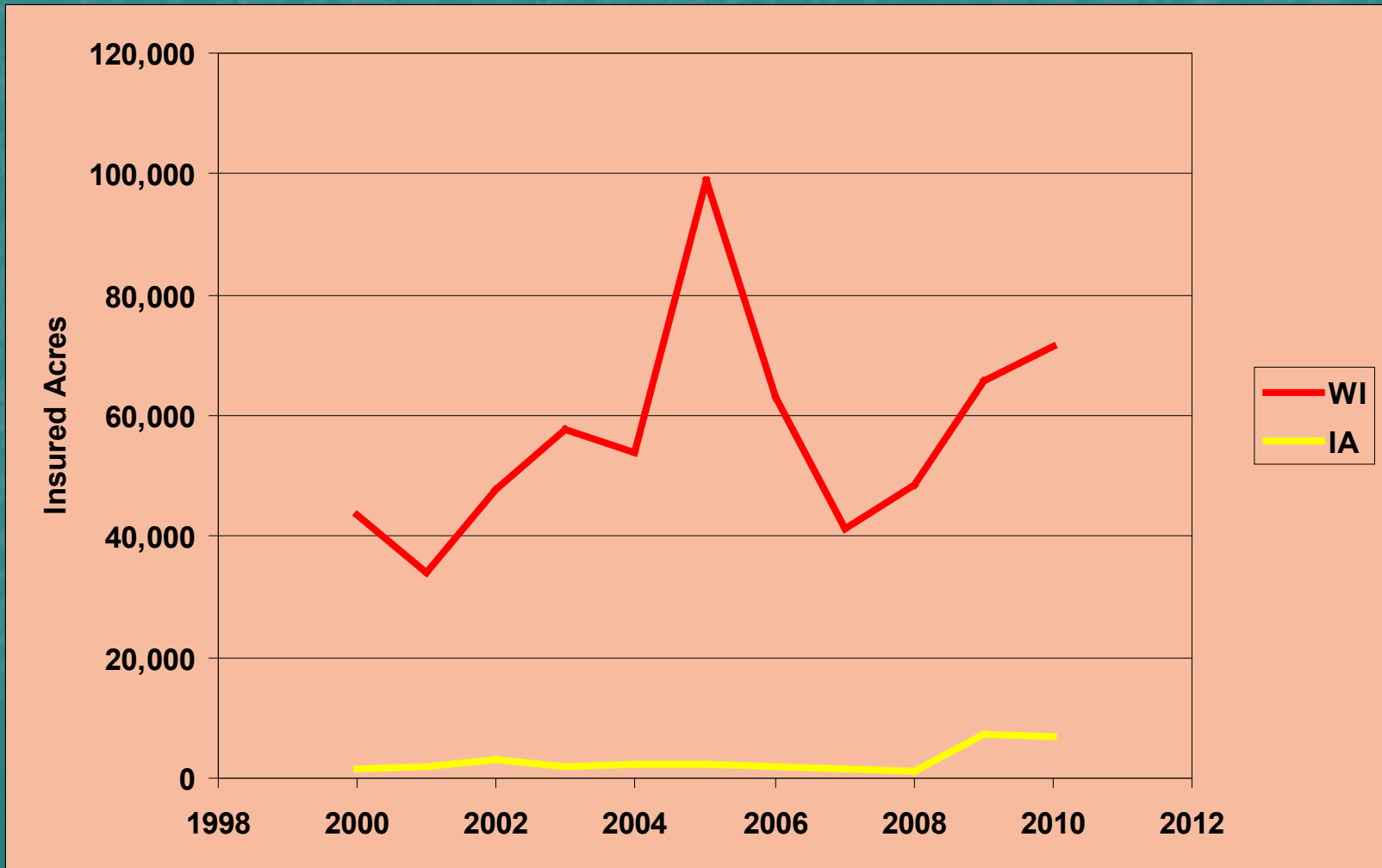
Farmer Loss Ratios

- On average, across IA and WI, over all farmers, farmers have been doing well with APH, but not GRP
 - GRP only starts being a good deal if buy 90% coverage level, lose on average with others
- Higher coverage levels have higher farmer loss ratios, especially in IA
 - Commonly occurs: more “marginal” areas often have higher loss ratios

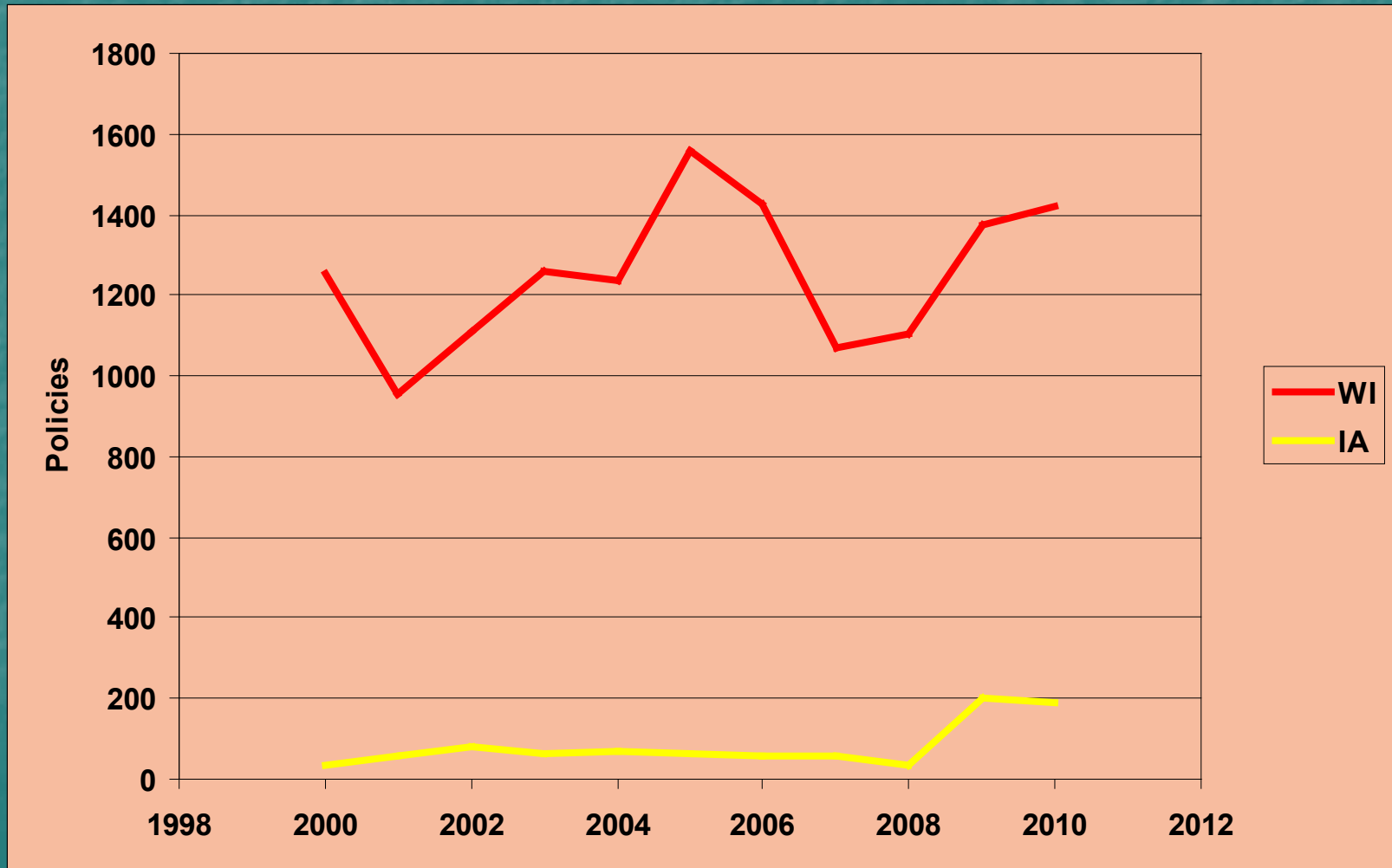
Farmer Practices for Forage Seeding Insurance: Participation Rate (% Acres)



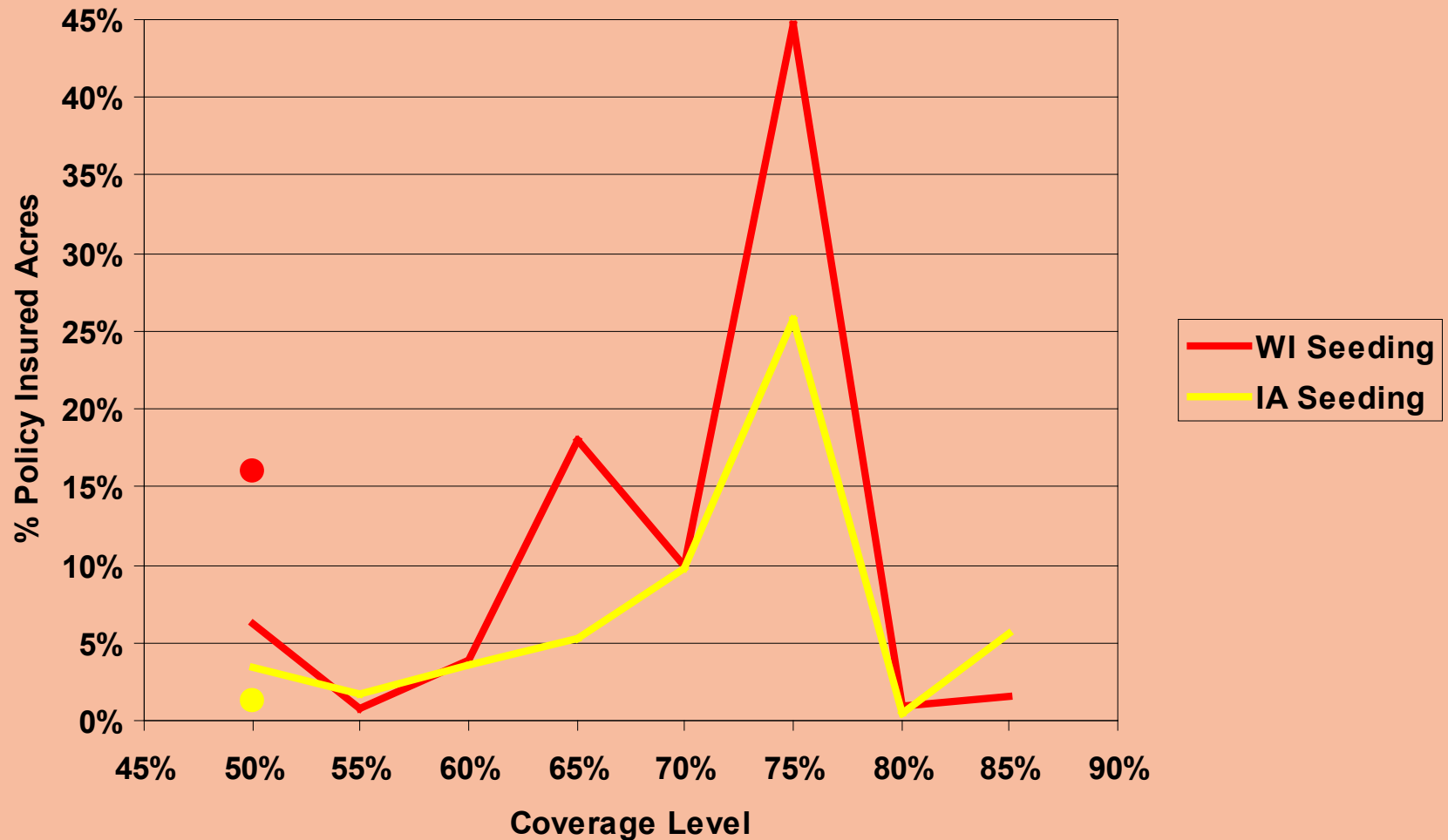
Farmer Practices for Forage Seeding Insurance: Insured Acres



Farmer Practices for Forage Seeding Insurance: Number of Policies



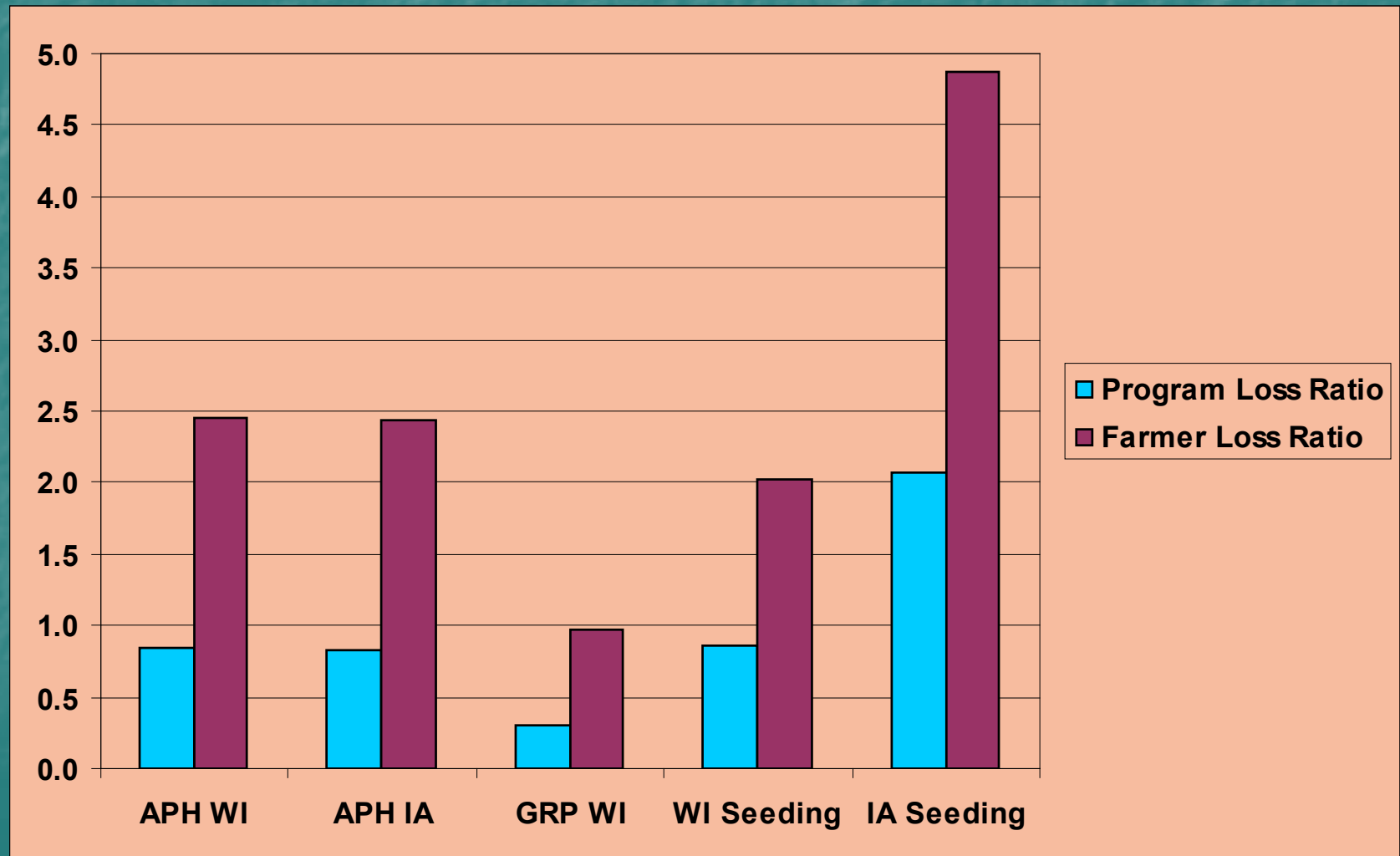
Farmer Practices for Forage Production Insurance: Coverage Level % acres 10-year avg



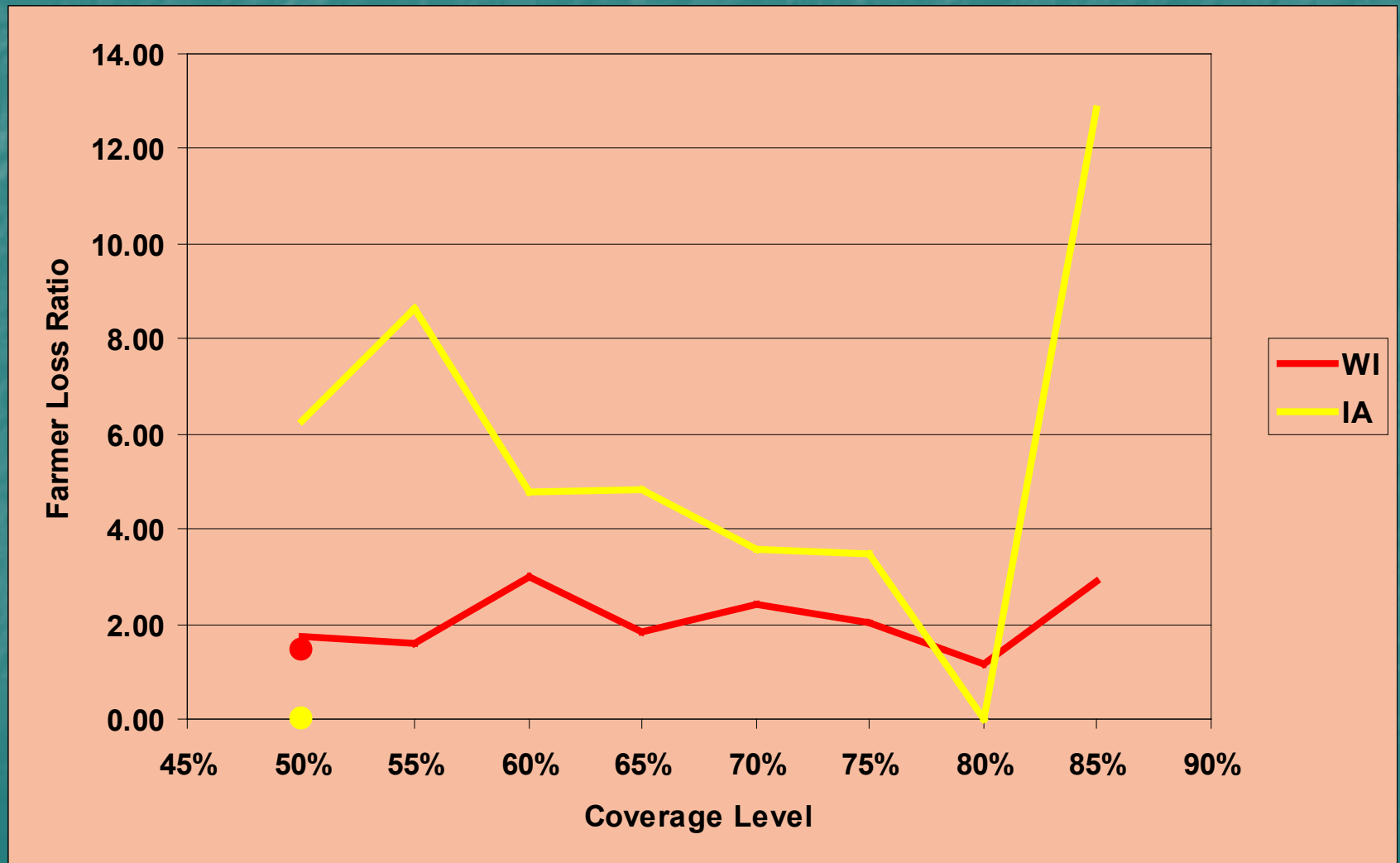
Farmer Practices for Forage Seeding Insurance

- Low participation rates: 10%-15% in WI, only 1%-2% in IA
 - Lots room for growth in sales
- No SURE jump in participation because does not require coverage for seeding
- WI acres and policies lots of year-to-year change
- IA acres and policies not change much (stay low)
 - SURE effect on policies/acres???, why stay in 2009?
- 75% coverage most popular, not CAT and not change in 2010 vs 10 year average

10 year state average loss ratios



Farmer Loss Ratios by Coverage Level



Farmer Loss Ratios

- WI farmers doing fine with seeding policy:
 - Loss ratio flat with coverage level
 - Coverage level does not matter, all about 2.0
- IA farmers doing well with seeding policy
 - “marginal” areas often have higher loss ratios
 - Lower coverage levels do better than higher, but not CAT
 - 80% and 85% is only 2-year average

Summary of Forage Insurance Policy Practices and Performance

- SURE has increased WI and IA farmer participation in forage production policy
 - WI farmers bought GRP, though does not pay as well
 - No production records needed, cheap
 - IA farmers bought APH in 2009, dropped lots in 2010
 - Dropped forage acres so below 5% expected revenue cutoff?
- CAT policies by far most popular, but higher coverage becoming more popular

Summary of Forage Insurance Policy Practices and Performance

- Forage production APH policies perform well
 - Loss ratios exceed 2.0, IA for higher coverage
- GRP not a good deal in WI
 - Loss ratio for whole policy not even 1.0
 - Only exceeds 1.0 for 90% coverage levels
 - WI farmers should switch to APH/CAT ASAP
- No SURE jump for forage **seeding**
 - 75% coverage most popular, not CAT
 - Loss ratio about 2.0 in WI, higher in IA

Questions?

Paul D. Mitchell

UW-Madison Ag & Applied Economics

Office: (608) 265-6514

Cell: (608) 320-1162

Email: pdmitchell@wisc.edu

Extension Web Page:

www.aae.wisc.edu/mitchell/extension.htm

Cover Crops and Crop Insurance

- Cover crops becoming more popular in WI
 - To reduce soil erosion and nutrient runoff and leaching and build soil
 - Sometimes cover crop used for forage
- Frost seeding red clover into winter wheat
- Drill winter rye after corn silage harvest
- Creates crop insurance issues

Frost seeding red clover into winter wheat

- Inter-planting rules do not allow grain drilling of cover crop seed into insured winter cereal crop
- Broadcast frost seeding acceptable, as it is not tillage-based planting
- Tire tracks will not count as insured cause of loss, so will reduce indemnities
- Farmer and agent should communicate to know what exactly is being proposed and clarify exactly what is acceptable under RMA rules

Drilling winter rye after corn silage harvest

- Rye as a cover crop on the bare soil, may have manure applied before planting
 - Chemically or mechanically killing rye and planting a crop not an insurance problem
- Harvest rye as early season forage and insure the following crop
 - Double crop rules mean **cannot** insure corn, soybeans, etc. following this harvest of rye
 - WI exceptions exist: processing green beans, peas
 - **Forage Seeding** is insurable after this harvest of rye

Insurance Alternatives after Early Season Forage Harvest

- Farmers want to harvest alfalfa or cover crop as early season forage, then have insurance coverage for following crop
- Double cropping rules prevent most cases
- Alternatives: GRP and AGR-Lite
 - No double cropping rules apply, so farmers can plant corn and insure with GRP
 - Note: all corn crop must be insured with GRP

Questions?

Paul D. Mitchell

UW-Madison Ag & Applied Economics

Office: (608) 265-6514

Cell: (608) 320-1162

Email: pdmitchell@wisc.edu

Extension Web Page:

www.aae.wisc.edu/mitchell/extension.htm