Hints for Using Crop Insurance in 2008

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Many Wisconsin corn growers are wondering how to best take advantage of the current high corn prices while dealing with high input costs. Not only does price uncertainty continue to be on farmers' minds, but also the increasing amount of money invested to plant crops, especially for fertilizer, seeds, and land. Yield uncertainty from weather is always a concern, considering that last summer was quite dry in some parts, while floods hit parts of the state as well.

Crop insurance is among the tools that farmers can use to manage yield and price risk and to protect their in-field investments. This year, with higher input costs and high crop prices, some farmers may consider changing crop insurance plans or coverage levels, or even consider buying it for the first time. This fact sheet offers some helpful hints for using crop insurance that will generally apply to most Wisconsin farmers. In addition, the fact sheet offers places to obtain more specific information for making crop insurance decisions. The discussion here assumes familiarity with current crop insurance programs. A good start for those unfamiliar with crop insurance or those seeking to enhance their knowledge is "An Overview of Federal Crop Insurance in Wisconsin" or any of the other resources listed in the Additional Resources below.

This is a Year to Consider Revenue Insurance

Yield uncertainty is not substantially different than it has been in past years. However, whether current crop prices will fall, persist, or go even higher depends on crop acreage decisions made nationally and globally. Also, higher inputs costs mean farmers have more money tied up in planting a crop, so better protecting the investment may make sense. Locking in a per acre revenue guarantee via crop revenue insurance seems more important this year. This can be achieved by using standard crop yield insurance (APH, also called multi-peril) combined with futures and/or hedging, or more directly by using crop revenue insurance (CRC).

CRC determines the per acre revenue guarantee based on an insured unit's yield history (just like APH) and the CRC base price. For corn, the CRC base price is the average closing price of the Chicago Board of Trade (CBOT) December 2008 corn futures contract during February. CRC also protects against the price of corn increasing before harvest. The CRC final price is the maximum of the CRC base price and the CRC harvest price (the average closing price of the CBOT December 2008 corn futures contract during November). CRC for soybeans and wheat is structured similarly. Thus, CRC protects against both price increases and decreases, as well as yield losses. Given current market conditions and price uncertainty, CRC will be an especially attractive risk management tool for many Wisconsin corn farmers this year.

CRC does not eliminate the need for good grain marketing. Whether or not you receive an indemnity, harvested grain must still be marketed. The main benefit of CRC (or APH) is that it allows more aggressive forward contracting of your crop, since an insured farmer will have a guaranteed minimum number of bushels or an indemnity to buy these bushels at market prices. This is especially the case for CRC, since it gives the farmer the higher of base price or the harvest price when determining per acre revenue guarantees.

Other Crop Insurance Hints

Other hints for using crop insurance apply to most Wisconsin farmers, but, as with all rules of thumb, not to all farmers. Each farmer will have to judge what is best for their farm.

- **Coverage Level:** The 70-75% coverage level is generally the best choice for APH or CRC, though sometimes 65% or 80% is just as good or even slightly better. Price all coverage level/guarantee options to see what makes the most sense for you.
- **Price Election:** The maximum price election is generally the best choice and what most farmers choose. If you have a loss, you want to be paid as much as possible.
- **Unit Structure:** Use as many optional units as possible—if you have a loss, you are more likely to trigger an indemnity with optional units than with basic or enterprise units.
- **Livestock/Dairy Farmers:** Even if you market your grain or silage through livestock or dairy, you can use crop insurance indemnities to offset the cost of buying grain or forage if you have a yield loss, and important consideration in this time of high prices.
- **Irrigated Crops:** Yield risk is much lower with irrigation, reducing the need for yield insurance. Consider buying GRIP with the harvest revenue option to get price risk protection, possibly combining it with crop hail insurance. (See GRP/GRIP bullet below)
- **GRP/GRIP:** The 90% coverage level is generally the best, as it maximizes expected returns to the policy. For corn, whether to use the planted or harvested acres option depends on your county. See "Is GRP a Good Deal for My Corn and Soybeans?" below.
- **Low Average Yield:** If insurance provides you little coverage, consider buying GRP or GRIP with the harvest revenue option, possibly combining it with crop hail insurance.
- **Short (or No) Yield History:** Consider GRP or GRIP with the harvest revenue option, possibly combining it with crop hail insurance, while you establish a longer yield history.
- **Know the Rules:** Rules apply on planting dates, double cropping (you can't take an early alfalfa cutting and plant corn) and corn maturity. Have your agent explains these.
- **New Wheat Growers:** In some counties, new or recent wheat growers cannot get high yield guarantees for APH or CRC, nor are GRP and GRIP available for wheat here.

Additional Resources

Your Crop Insurance Agent: Your agent should be able to answer your questions and a good agent can help you understand your options and the benefits and weakness of each.

Paul D. Mitchell's Extension Page (http://www.aae.wisc.edu/mitchell/extension.htm)

- An Overview of Federal Crop Insurance in Wisconsin: A detailed explanation of crop insurance programs and the various policies available in Wisconsin
- Short Bulletins: Is GRP a Good Deal for My Corn and Soybeans?, Late and Prevented Planting, Drought and Alternative Uses of Insured Crops, Livestock Risk Protection

FarmDOC Crop Insurance Page (http://www.farmdoc.uiuc.edu/cropins/index.asp)

- Premium Calculator (unofficial): compares premiums for all available policies and coverage levels for any crop in any Wisconsin county
- What If (Scenario) Analyzer that compares crop insurance premiums indemnities for all available policies in any Wisconsin county based on user entered yields and prices

Gary A. Hachfeld, R. Craven, and M. Schull. 2005. Utilizing Federal Crop Insurance: Coverage Alternatives & Pre-Harvest Grain Marketing Strategies. University of Minnesota Extension. (http://www.cffm.umn.edu/Publications/pubs/FarmMgtTopics/UtilizingFedCropIns2006.pdf)