Learning for life

Hints for Using Crop Insurance in 2011

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With the current futures prices for new crop corn and soybeans, many farms are looking at 2011 as a year to make good returns on crops. Crop insurance is a powerful and commonly used tool to help protect these high prices from weather disasters. Furthermore, the SURE federal disaster aid program requires crop insurance for eligibility, so participation in crop insurance has increased. For example, 88% of Wisconsin corn acres were insured in 2010, but only 66% were insured in 2008. A significant change this year is the roll out of the Combo Policy which replaces the traditional APH yield insurance and CRC revenue insurance that have been the main stay crop insurance policies for many famers. Given these high crop prices, the new Combo Policy, and the SURE program, 2011 is a good year for farmers to evaluate their crop insurance needs and potentially update their coverage. This fact sheet offers some basic hints for using crop insurance that generally apply to most Wisconsin farmers, plus it provides sources for more information for making crop insurance and risk management decisions.

Combo Policy: Changes in Farm-Level Coverage for 2011

The new Combo Policy replaces APH yield insurance and CRC revenue insurance. The purpose of the program is to eliminate redundancies, as some states had three different revenue policies available. The table on the next page summarizes the new policies. The Harvest Price Exclusion is a new option for Revenue Protection that was not previously available in Wisconsin. The base price was set at planting under CRC to calculate revenue guarantees, and then at harvest, if the crop price increased above this base price, the price and revenue guarantee were increased. The Harvest Price Exclusion does not include this update of the price guarantee to the new harvest price—the price signed up for in March is the price at harvest. The Harvest Price Exclusion is cheaper but a risky way to cut premium costs. If harvest prices are high and farm yields are low, this option will pay the smallest indemnity among Revenue Protection and Yield Protection because the guarantee remains the same, but it uses the actual price to calculate actual revenue.

Old Policy	New Combo Policy
APH Yield Insurance	Yield Protection
CRC Revenue Insurance Revenue Assurance (RA)*	Revenue Protection
Revenue Assurance with Base-Price Option* Income Protection*	Revenue Protection with Harvest Price Exclusion

*Previously not available in Wisconsin.

Note that farmers who purchased crop insurance in the previous year will automatically have their policy converted over to either Yield Protection or Revenue Protection as indicated in the table above. However, GRP and GRIP crop insurance policies have not changed, so farmers buying these policies will see no changes, expect for premiums based on current crop prices.

Integrating Crop Insurance with Overall Risk Management

ACRE and SURE provide extra revenue insurance to qualifying farmers. ACRE gives coverage similar to GRIP, but uses state yields and prices, and farmers give up 20% of direct payments, all counter-cyclical payments, and 30% of loan deficiency payments. Analysis shows that ACRE is a lot like the counter-cyclical payments program that it replaces – it is not really worth greatly changing production and insurance plans as a result of participation in ACRE. If crop prices fall and/or state yields are low, Wisconsin farmers will receive ACRE payments, but because the triggers are state yields and USDA marketing year average prices, ACRE is generally not a good substitute for crop insurance.

SURE adds up all crop insurance guarantees, then increases it by 15% for a whole-farm revenue guarantee as a free disaster program – it's as though the farm receives a higher coverage level for free, but at the whole-farm level. As a result, reducing crop insurance coverage to save premium costs may make sense for some farmers participating in SURE, as program payments are triggered by farm level revenue losses. However, the "free coverage" is at the whole-farm level, not the crop level, so some farmers may want to keep higher coverage for specific crops (e.g., corn). Note that because crop prices are higher, premiums will also be higher. For farmers who are more price sensitive when it comes to crop insurance, cutting the coverage level and letting SURE pick up the slack may make sense. But farmers wanting to lock in current high revenues for crops such as corn or soybeans may still want a high coverage level for these crops.

Ways to Reduce Premium Costs

Premiums will be higher this year because crop prices are higher – farmers are insuring greater value per acre, so the premiums increase. Also, when crop prices are higher, price volatilities tend to be higher, which further increases prices for revenue policies. To reduce premium costs, farmers may want to examine moving from crop and field specific coverage to whole-farm coverage, to protecting revenue at the crop or farm level, rather than at the level of specific units. Two ways to reduce premiums based on this method are

- Signup for SURE and reduce coverage levels—let free SURE substitute for paid insurance.
- Switch from optional units to whole-farm or enterprise or basic units.

SURE coverage creates a revenue guarantee at the whole-farm level 15% greater than the sum of all insurance guarantees. If farm revenues are below this guarantee after insurance indemnities are paid, the farm receives SURE payments. The additional guarantee is at the whole farm level, not the crop or unit level, so farmers lose some of the crop and unit specific coverage by using SURE and reducing coverage levels, but for many farms, whole-farm coverage is what matters. By switching to whole-farm or enterprise units, farmers can make the same switch themselves and pay lower premiums.

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) Several short bulletins: Cover Crops and Crop Insurance, Is GRP a Good Deal for My Corn?, Late and Prevented Planting, ACRE Program, SURE and New Disaster Assistance Programs

FarmDOC Crop Insurance Page (http://www.farmdoc.uiuc.edu/cropins/index.asp) Audio Podcasts and On-Demand Webinars on Crop Insurance Risk Management Strategies for 2011 and the Combo Policy, as well as several tools: Premium Calculator (unofficial), What-If Scenario Analyzer, and Payment Simulator.