Hints for Using Crop Insurance in 2012

Learning for life

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Many farms are looking at 2012 as another year to make good returns on crops and crop insurance is a powerful and commonly used tool to help protect current high prices from weather disasters. Furthermore, the SURE federal disaster aid program requires crop insurance for eligibility, so participation in crop insurance can make sense. Crop insurance changes this year include a new APH trend yield adjustment, plus changes in premium calculations. As a result, it makes sense this year to spend a little time evaluating your crop insurance needs and costs and potentially update your coverage. This fact sheet offers some basic hints for using crop insurance that will generally apply to most Wisconsin farmers.

Trend-Adjusted APH Yields

All the Combo Yield Protection and Revenue Protection policies use a unit's yield history (called the actual production history or APH) to determine the yield or revenue guarantee for a unit. The traditional procedure used up to 10 years of yield history for a unit to calculate the simple average yield. However, some crops have strong yield trends due to new genetics, new technologies and continually improving management, so that the yield average increases fairly regularly each year. In areas with rapidly increasing yields, the APH yield as a simple average of yield 10 or more years ago are noticeably below a unit's expected yield. Because of this problem, the USDA Risk Management Agency has developed a new pilot program, "Trend-Adjusted APH". Growers in Wisconsin can elect this procedure, or stay with the traditional procedure. The alternative procedure is rather detailed and will not be explained here (e.g., see http://www.admcrs.com/Images/11-046b.pdf).

From a practical perspective, farmers should ask their crop insurance agents to run the traditional and Trend-Adjusted APH procedure for their key units to see if it helps them. Potentially, a grower can elect the new procedure and reduce their coverage level by 5%, thus reducing premiums, and still maintain about the same yield/revenue guarantee as with the traditional method. The trend-adjusted APH election is only available for corn and soybeans and will have the largest effect for corn and in southern and southwestern Wisconsin, where yield trends are strongest. Note, the trend-adjusted APH election is not available for corn insured as silage, which will limit its use for some growers. A good crop insurance agent can determine if your farm is eligible and run both options to help you decide which is better for your operation.

New Premium Procedures

Because of demonstrated low crop insurance losses for corn and soybeans in the Midwest, premium rates have been re-evaluated and adjusted for many corn-soybean counties, including several in Wisconsin. These new, lower, premium rates will be phased in over 3 years, beginning in 2012, so growers should see effects this year. Overall, premium rates in southern Wisconsin will drop as much 10% for corn and 5% for soybeans. Note that these are reduction in the premium rates (premiums as a percentage of crop value). If crop prices increase, the crop value increases and thus premiums too. Furthermore, premium rates for Revenue Protection and GRIP also depend on the price volatility, which varies from year to year. Interestingly, the new premium procedures implemented for GRIP, the county-level revenue policy, actually imply higher premiums. As a result, growers who have relied on GRIP may want to examine Revenue Protection with the Enterprise Unit Discount – the coverage may be similar and the premiums lower than for GRIP, especially for those with lots of acres. A good crop insurance agent can price both options for your specific situation and explain the difference in the coverage provided.

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.

Premiums will still be high this year because crop prices are higher – farmers are insuring greater value per acre. 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 1) Signup for SURE and reduce coverage levels—let free SURE substitute for paid insurance, and 2) Switch to whole-farm or enterprise 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.