



Learning for life

Hints for Using Crop Insurance in 2009

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As Wisconsin farmers plan for the 2009, market uncertainty is tremendous. Record stock market gyrations, unprecedented government bailouts, and official declarations of recession have occurred. Grain prices are less than half their summer peaks and prices for fertilizers, pesticides, and diesel for 2009 all began falling from recent record highs. On top of this market uncertainty, the floods and excessive rain in 2008 (and 2007) reminded us all of the yield uncertainty farmers face each year. Also, the new Farm Bill created new commodity and disaster programs and a new crop insurance endorsement was approved, giving farmers a new set of risk management tools, and acronyms, to learn (ACRE, SURE, BYE). 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.

Integrating Crop Insurance with Overall Risk Management

Crop insurance is not a stand-alone decision, but integrated with an overall risk management program. Locking in inputs soon seems a wise risk management strategy, even in the face of falling input prices, because of the need to manage availability risk—wait too long and, though costs are lower, you face greater risk of input shortages at key times. Once input costs are locked in, determine your cost of production to make more informed marketing plans and insurance decisions to manage your margin risk. Can you afford crop insurance guarantees to cover all your input costs? How much more aggressively can you market based on these guarantees? Should you maintain larger cash reserves for margin calls and cash flow fluctuations?

New this year, 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. SURE adds all crop insurance guarantees, then increases it by 15% for a whole-farm revenue guarantee as a free disaster program. Reducing crop insurance coverage likely makes sense for farmers participating in ACRE and SURE. Also new this year is the Biotech Yield Endorsement (BYE), which can reduce corn CRC premiums by 25% or more for those planting triple stack Bt corn for at least 75% of their corn. Growers then must ask—Are the premium reduction and extra risk benefit worth the added seed cost? Finally, flexible cash leases are becoming more popular. As a way to share risk with landlords, renters pay cash rent that varies based on realized yields and prices, which also can reduce crop insurance needs.

Farmers have many risk management options and should integrate their crop insurance decisions with them. If you do not know how to integrate across these options, given current high crop costs and revenues, it may make sense to pursue additional educational opportunities and/or to hire a grain marketing service that offers such integration as a way to learn the basic principles.

Revenue Insurance Will Continue to be Popular

As in previous years, CRC will continue to be the most popular crop insurance policy for corn, soybeans and wheat in Wisconsin. CRC protects against both price increases and decreases, as well as yield losses, and allows farmers to lock in a per acre revenue guarantee to cover all or most of their production costs, then market accordingly. APH will also be popular because it is

cheaper and farmers can still manage price risk via forward or futures contracts. GRIP and GRP will be popular among larger growers who have high quality land spread throughout a county.

Crop insurance does not eliminate the need for good marketing. Whether or not you receive an indemnity, harvested grain must still be marketed. The main benefit of CRC/APH is that they allow more aggressive forward contracting, since insured farmers 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. If you are unsure how to integrate CRC/APH with your grain marketing, it may make sense to hire a grain marketing expert and/or pursue additional education to learn how. Marketing will be an important part of profitability in 2009.

Other Crop Insurance Hints

These hints apply to most, but not all, Wisconsin farmers. Please contact me for an explanation of the logic behind these.

- **Coverage Level:** A 65%-75% coverage level is generally best for CRC/APH. If you sign up for SURE, you should probably avoid the 80%-85% coverage levels.
- **Price Election:** The maximum price election generally makes the most sense.
- **Unit Structure:** Use as many optional units as possible.
- **GRP/GRIP:** A 90% coverage level is generally best, but with ACRE and SURE, less may make more sense. Consider adding private crop hail or replant insurance. See “Is GRP a Good Deal for My Corn?” for help choosing the harvested or planted acres option.
- **BYE for CRC:** If you plan to plant lots of Bt corn and buy CRC, consider the BYE.
- **Livestock/Dairy Farmers:** Use crop insurance to offset the cost of buying grain or forage if you have a yield loss, an important consideration in this time of volatile prices.
- **Irrigated Crops:** GRIP with the harvest revenue option offers price risk protection. Also, in dry years, GRP/GRIP can offset higher pumping costs.
- **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 explain these.

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
- Several Short Bulletins: Is GRP a Good Deal for My Corn?, Late and Prevented Planting, ACRE Program, SURE and New Disaster Assistance Programs

Iowa State University: ACRE Calculators (http://www.card.iastate.edu/ag_risk_tools/acre/).

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

- Premium Calculator (unofficial), What-If Scenario Analyzer, Payment Simulator.
- 2009 Rental Decisions Given Volatile Commodity Prices and Higher Input Costs. (http://www.farmdoc.uiuc.edu/manage/newsletters/fefo08_17/fefo08_17.html).

University of Minnesota Extension. G. Hachfeld, R. Craven, and M. Schull. 2006. Utilizing Federal Crop Insurance: Coverage Alternatives & Pre-Harvest Grain Marketing Strategies. (<http://www.cffm.umn.edu/Publications/pubs/FarmMgtTopics/UtilizingFedCropIns2006.pdf>)