Crop Insurance Updates for 2013

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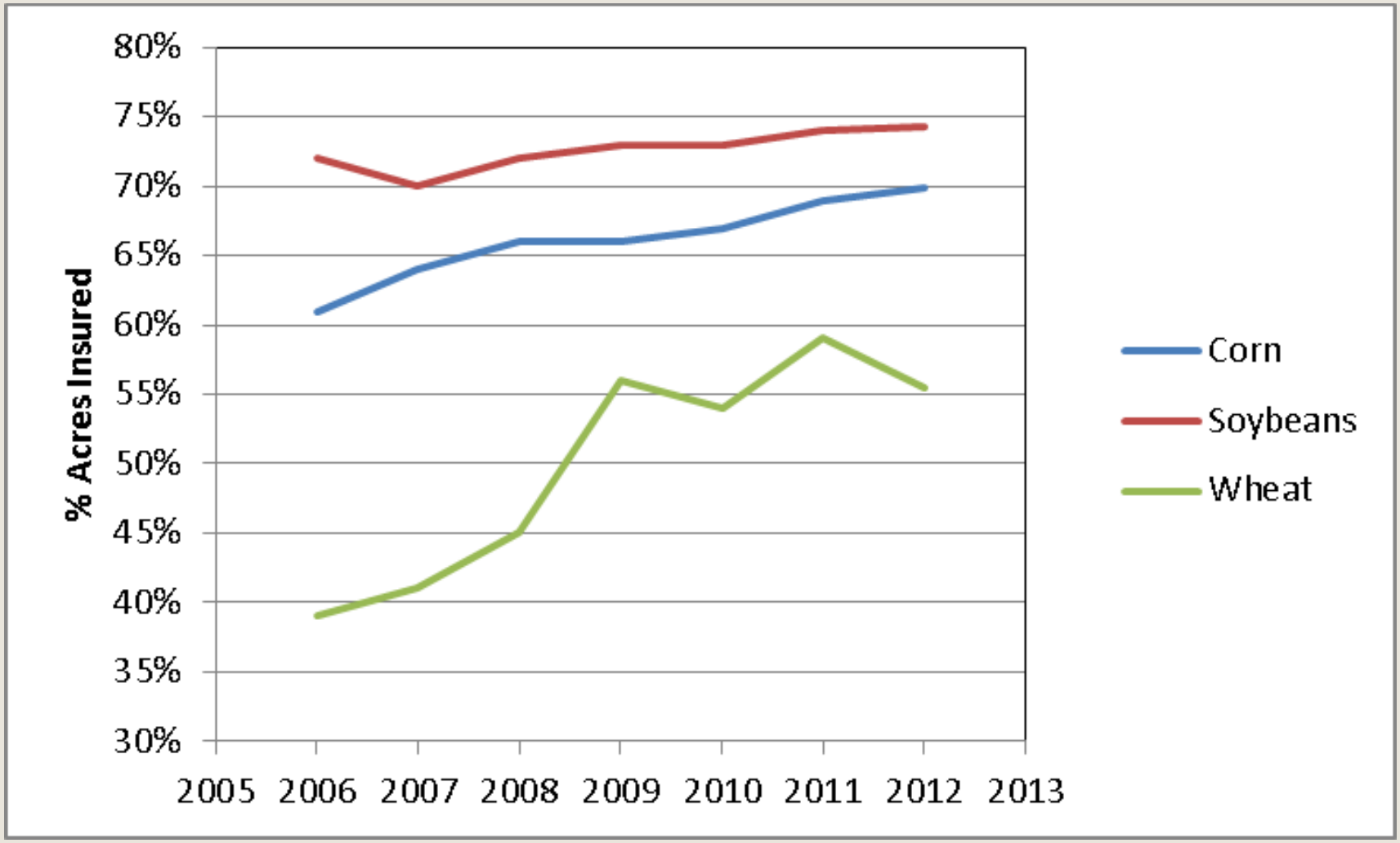
Why Farmers are Thinking About Crop Insurance

- Drought of 2012 – Will it continue into 2013?
- More invested/borrowed to put a crop in the ground
  - Roughly doubled cost of production in last 10 years
- Crop is 3-4 times more valuable than in previous years
- Crop prices are more volatile than they used to be
- Federal programs connecting commodity support and crop insurance: SURE, ACRE, new Farm Bill proposals

- Wisconsin % Planted Acres Insured in 2012
  - Corn 70%, Soybeans 75%, Wheat 55%, Forage < 20%

Trends in WI Crop Insurance Participation



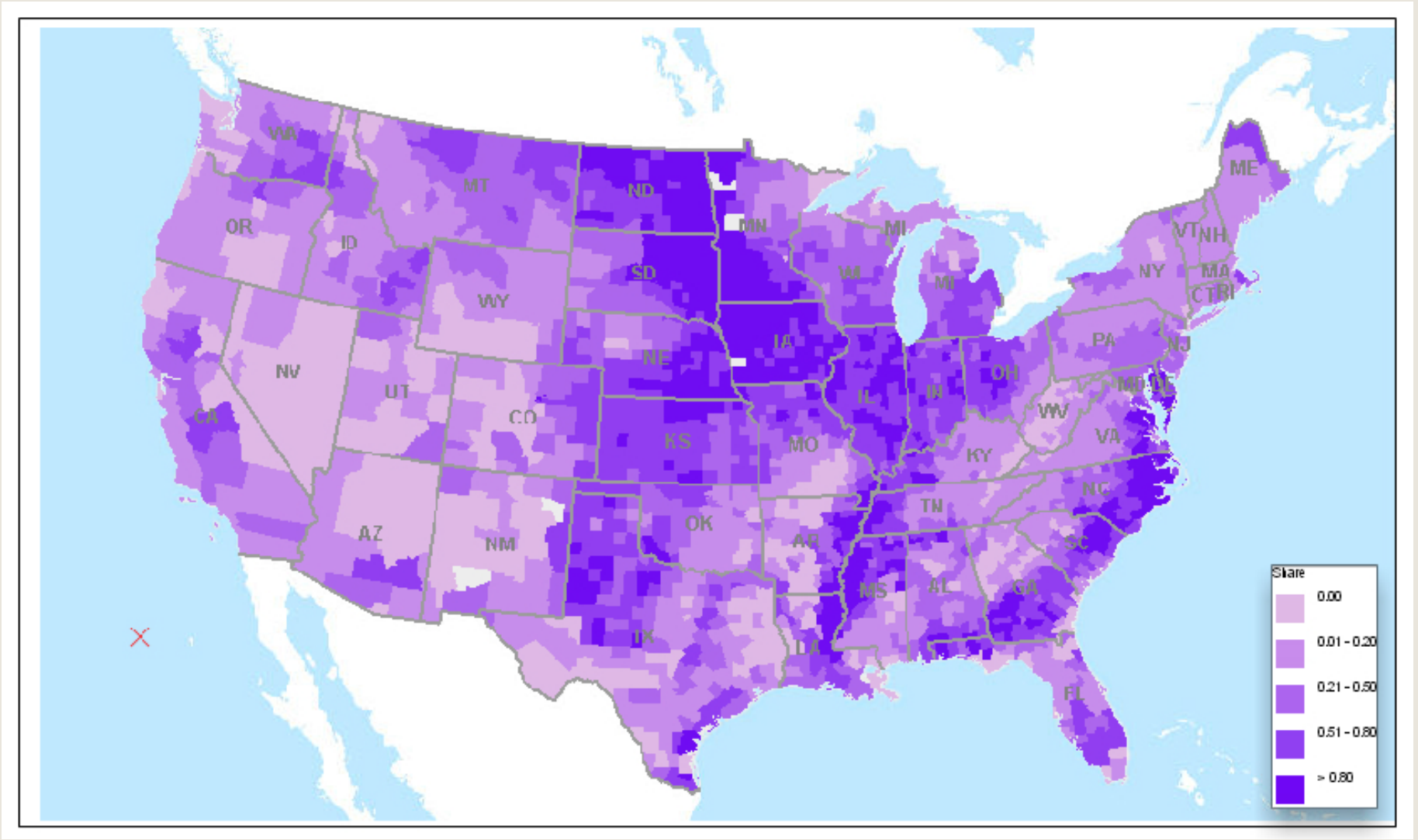
WI vs. neighboring states

% Planted Acres Insured in **2011**

State	Corn	Soybeans	Wheat
IA	90%	91%	34%
IL	81%	78%	62%
MN	94%	94%	94%
MI	72%	71%	63%
WI	69%	74%	59%

Historically WI has had a low participation rate

2009 Insured Acres as Share of Cropland Acres



Crop Insurance Update

- Suppose I'm interested: Where do I start? Contact a crop insurance agent!
  - They all sell exactly the same polices for exactly the same prices, you are buying service – Find someone you like to work with
- For corn and soybeans: Choices you make
  1. What policy to buy?
  2. What coverage level to chose?
  3. What unit structure to use?

WI Crop Insurance Policies: Corn & Soybeans

So Many Options!!	Individual (Farm)	Area-Wide (County)
Yield	YP Yield Protection	GRP Group Risk Plan
Revenue	RP Revenue Protection	GRIP-HR Group Risk Income Protection With Harvest Revenue Option
	RP-HPE: Harvest Price Exclusion	GRIP: without Harvest Revenue Option

- **Catastrophic coverage (CAT):** For YP, GRP, GRIP
- **AGR-Lite**: Insure Schedule F income

WI Crop Insurance Policies: Corn & Soybeans

Where to Focus	Individual (Farm)	Area-Wide (County)
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Policy Options

- **Yield Protection**: Guaranteed Yield from insured acres
  - **CAT**: super cheap, bare bones version of YP
- **Revenue Protection**: Guaranteed Revenue (Price x Yield) from insured acres
- CAT: minimalist policy: if have a total crop loss, indemnities equal about 25% of expected crop value
  - You should at last buy a CAT policy: $300/crop
- YP: cheaper policy used by cost conscious farmers, can insure most of your yield potential
- RP: pay more for it, but insures against yield and price risk, not just yield risk

What policies do WI farmers buy?

CORN: % insured acres under each policy

Year	RP	YP	Other
2009	69%	22%	9%
2010	71%	21%	8%
2011	76%	16%	7%
2012	81%	14%	4%

SOYBEAN: % insured acres under each policy

Year	RP	YP	Other
2009	77%	16%	8%
2010	82%	13%	5%
2011	84%	11%	4%
2012	88%	10%	1%

Coverage Level Choices

- Calculate the average yield for an insured unit based on its yield history (your yield records)
- Farmer chooses % of this average for a guarantee
  - Available options: 50% to 85% by 5% intervals
- Another way to think of it: Choosing your deductible: What % of losses below your average will you pay first before indemnities kick in?

Coverage Levels used by WI farmers for RP and YP in 2012 for Corn and Soybeans

Coverage Level	Corn RP	Soy RP	Corn YP	Soy YP
CAT	---	---	**43%**	**40%**
50%	1%	1%	7%	7%
55%	0%	0%	1%	2%
60%	3%	2%	6%	6%
65%	6%	5%	15%	15%
70%	28%	24%	**22%**	**21%**
75%	**38%**	**43%**	6%	8%
80%	20%	21%	1%	2%
85%	4%	4%	0%	0%

Coverage Levels used by WI farmers for RP and YP in 2012 for Corn and Soybeans

Coverage Level	Corn RP	Soy RP	Corn YP	Soy YP
CAT	---	---	43%	40%
50%	1%	1%		
55%	0%	0%		
60%	3%	2%		
65%	6%	5%		
70%	**28%**	**24%**	22%	21%
75%	**38%**	**43%**	6%	8%
80%	**20%**	**21%**	1%	2%
85%	4%	4%	0%	0%

60%-65% of all WI corn and soybean acres have RP with a 70% to 80% coverage level

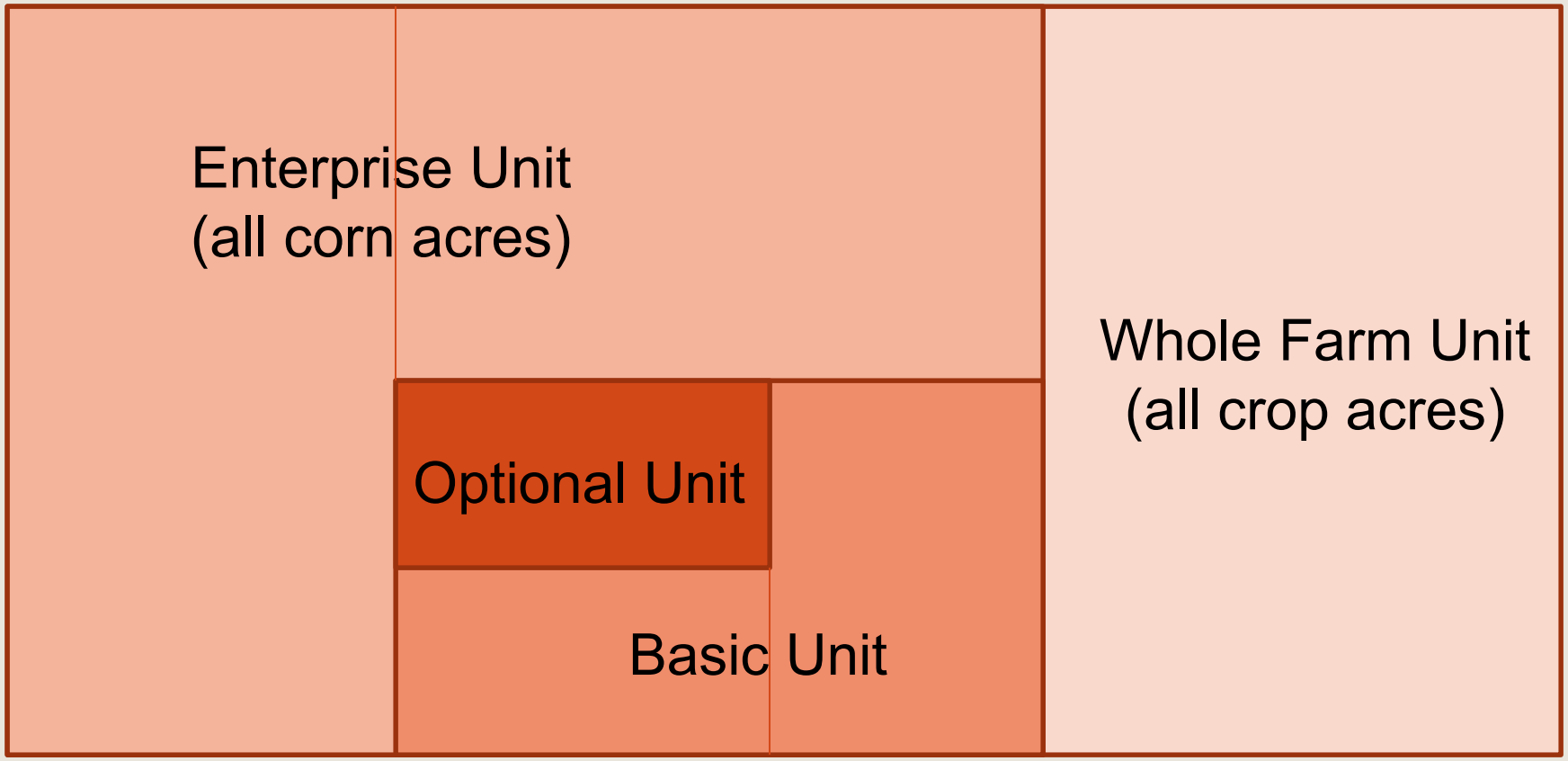
86%

88%

Unit Structure Choices

- All guarantees at the unit level, not on a per acre basis
- 100 acre unit, average yield 160 bu/ac, 75% coverage level = 100 x 160 x 0.75 = 12,000 bushels
  - Guaranteed 12,000 bu from those 100 acres
- Have to choose how to combine fields together into units
- Can't just combine fields any way you want: Rules to follow
- Unit Sizes (smallest to largest):
  - Optional < Basic < Enterprise < Whole Farm
- Smaller units means more indemnities (averaging over smaller area) and so larger premiums
- Government encourages larger units by giving larger premium subsidies for larger units

Unit Structure Graphic



% of Fair Premium Paid by Government

Premium subsidy rates by level of coverage and units.

Coverage level	Basic and Optional Units	Enterprise Units	Whole Farm Units
50%	67%	80%	80%
55%	64%	80%	80%
60%	64%	80%	80%
65%	59%	80%	80%
70%	59%	80%	80%
75%	55%	77%	80%
80%	48%	68%	71%
85%	38%	53%	56%

Average Number of Units per Policy in WI

Year	CORN RP	CORN YP	SOY RP	SOY YP
2009	2.32	2.11	2.04	1.84
2010	2.13	2.08	1.89	1.71
2011	3.51	2.14	2.80	1.77
2012	3.52	2.22	2.81	1.86

- WI farmers using RP are using more Optional Units
  - Big jump in 2011 for corn and soybeans
- WI farmers using YP: no unit changes, using Basic Units

Summary

- 70%-75% of WI corn and soybean acres are insured
- 60% to 65% of WI corn and soybean acres use
  - Revenue Protection (RP)
  - 70%-80% Coverage Level
  - Optional Units
- Smaller group of insured corn and soybean farmers use
  - Yield Protection (YP)
  - Catastrophic policy (CAT)
  - Basic Units
- **If you are doing something different than this for crop insurance, you should be sure you have thought about it and have a good reason why**

Example YP and RP

- Average yield 160 bu/ac
- 75% coverage level (75% x 160 bu/ac = 120 bu/ac)
- A 100 acre unit
- Base price = $6.00/bu based on CBOT Dec Corn Futures
- YP Yield Guarantee: 75% x 160 x 100 = 12,000 bushels
  - Paid $6.00 for every bushel < 12,000 actually harvested from unit
- Initial RP Revenue Guarantee: $6.00 x 12,000 = $72,000
  - Guaranteed at least $72,000 in revenue from the unit, based on actual harvested yield and CBOT Dec price in Nov (not your actual selling price)
  - Guarantee increases if CBOT Dec price in Nov price increases
  - You will have the corn, or the money to buy corn at existing prices in Dec, to meet forward contracts or livestock needs

RP vs. YP with Yield Loss and Price ⇧ vs. ⇩

- 100 Acres, 160 bu/ac Yield, 75% Coverage Level
- Initial Guarantees (with a $6.00 Base Price)
  - **YP**: 75% x 160 x 100 = 12,000 bushels
  - **RP**: $6.00 x 12,000 = $72,000

Policy	Harvest Price	Final Guarantee	Actual Yield	Harvest Revenue	Indemnity	Final Revenue
YP	$5.00	12,000 bu	10,000 bu	$50,000	$6 x 2,000 bu = **$12,000**	**$62,000**
RP	$5.00	$72,000	10,000 bu	$50,000	**$22,000**	**$72,000**
YP	$7.00	12,000 bu	10,000 bu	$70,000	$6 x 2,000 bu = **$12,000**	**$82,000**
RP	$7.00	$84,000	10,000 bu	$70,000	**$14,000**	**$84,000**

YP vs RP

- YP and RP will always pay if actual yield < 12,000 bu
  - If actual yield < 12,000 bu, RP will pay more than YP whether a price increase or decrease occurs
- YP will never pay if actual yield > 12,000 bu
- RP may pay if yield > 12,000 bu if a price decrease occurs
- Assume same case: 12,000 bu YP guarantee and $6.00 base price, so $6 x 12,000 = $72,000 RP guarantee
- Actual yield 14,000 bu and harvest price is $5.00
- Harvest Revenue = $5 x 14,000 = $70,000, so receive a $2,000 indemnity
- You will have the grain, or the money to buy grain at existing prices, to meet contracts or livestock needs

Questions?

What's New for 2013?

- Continued phasing in of updated actuarial tables for corn & soybeans (started in 2012)
- Trend adjusted APH (started in 2012)

} Means lower premium rates

- New types for corn
  - Blue corn and High Amylase corn
- Cover crop rule changes to encourage forage production

- Quick review of forage crop insurance options

Updated Premium Rates

- USDA-RMA sets premium rates and has updated corn and soybean rates for US
  - Premium rates: % of crop value paid as premium, so increases as crop price increases and vice versa
  - Premium ($) = Premium Rate x Price x Yield Guarantee
- Phasing changes in over 2 years, 2013 is year 2
- On average, < 5% decrease in premium rates for each crop for farmers, but varies slightly by county
- Small changes invisible because of crop price swings

Trend Adjusted Yield

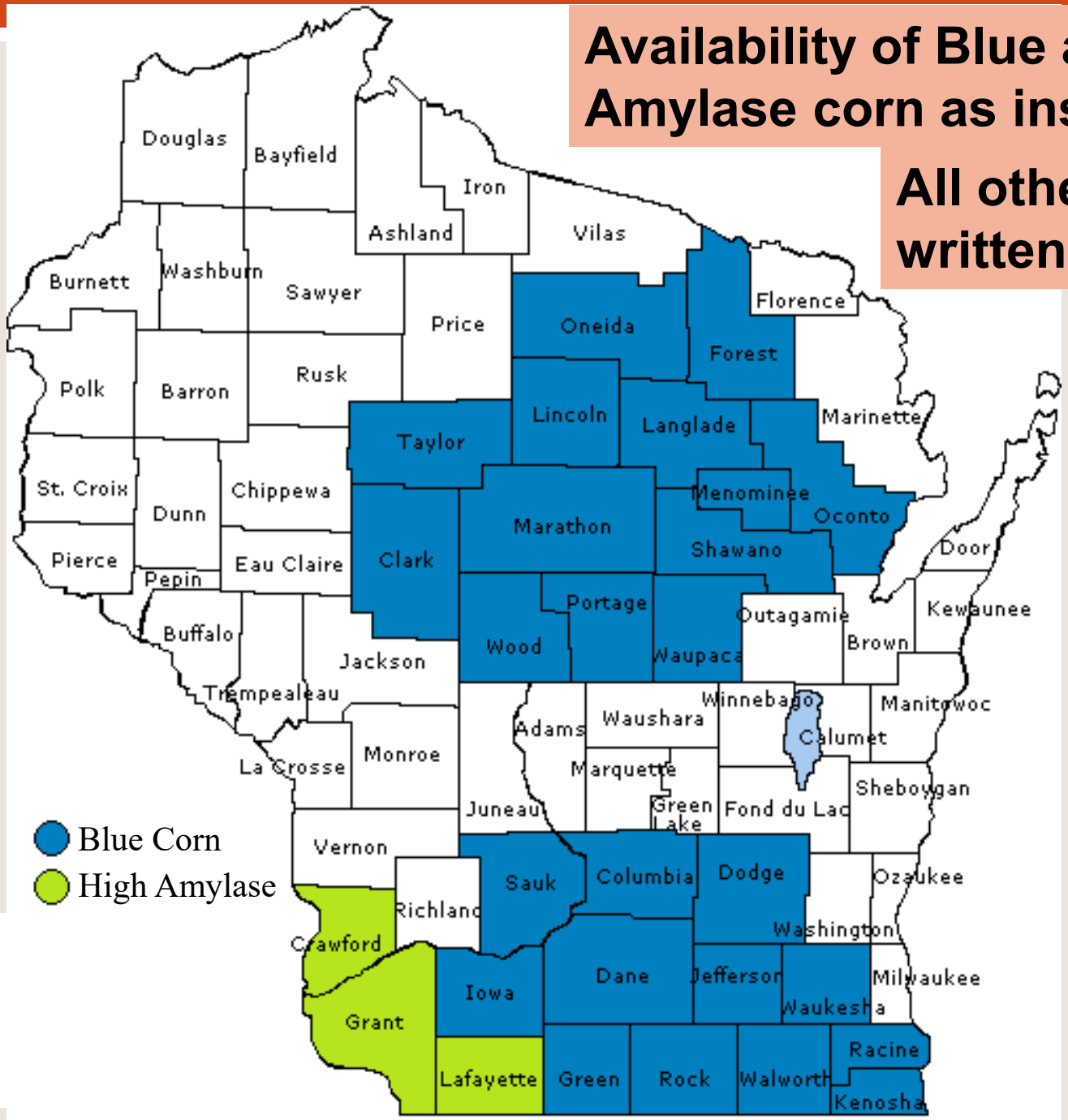
- Simple average of yield history assumes no yield trend and so under-estimates expected yield for next year
  - Yield guarantee too low
  - Premiums too high
- 2012 introduced Trend Adjust Yield for corn and soybeans
- Each county has a factor to add to farmer's yield history to account for the increasing yield trend
- Waupaca = 1.37 bu Outagamie = 1.25 bu Shawno = 1.28 bu
- You do not have to use the trend adjustment, an option you can use or keep the original calculation method
- Insurance agent should know to use both ways to give you the method with the higher guarantee/lowest premium

New Insurable Types of Corn

- Existing Types
  - Grain and Silage, Irrigated or Non-irrigated
- Existing Practices
  - Organic (Certified) and Organic (Transition)
  - Can be Irrigated or Non-irrigated
- New Corn Types: Blue and High Amylase
  - Can be Irrigated or Non-irrigated
- In some counties you will need to use a Written Agreement if you want to insure these types
  - Talk to crop insurance agent if you grow these types
  - Can reduce premiums

Availability of Blue and High Amylase corn as insurable types

All other counties as written agreement only



Previous Crop Insurance Rules Pertaining to Cover Crops

- Suppose a farmer planted a cover crop in the summer/fall after harvesting another crop
  - The cover crop was not insurable
  - Could harvest/graze this cover crop that fall
- Next spring, had to terminate the cover crop before it reached the headed or budded stage
- Could not harvest the cover crop before planting a follow crop (grazing not mentioned)
- Perennial crop such as alfalfa could not be harvested before planting the follow crop

New Crop Insurance Rules Pertaining to Cover Crops for 2013 Only

- Suppose a farmer planted a cover crop in the summer/fall of 2012 after harvesting another crop
  - The cover crop is not insurable (NO CHANGE)
  - Could harvest/graze this cover crop during the fall of 2012 (NO CHANGE)
- Have to terminate the cover crop before it reaches “headed or budded stage (NO CHANGE)

New Crop Insurance Rules Pertaining to Cover Crops for 2013 Only

- Cover crop must be planted at most 12 months before the insured crop (CLARIFICATION)
- Have to terminate the cover crop before planting the insured crop (CLARIFICATION)
- Can harvest the cover crop before May 10 and before planting the insured crop (DATE SET)
- Grazing now explicitly considered harvest (CLARIFICATION)
- Perennial crop (alfalfa) still cannot be harvested before planting the insured crop (12 Month Rule)

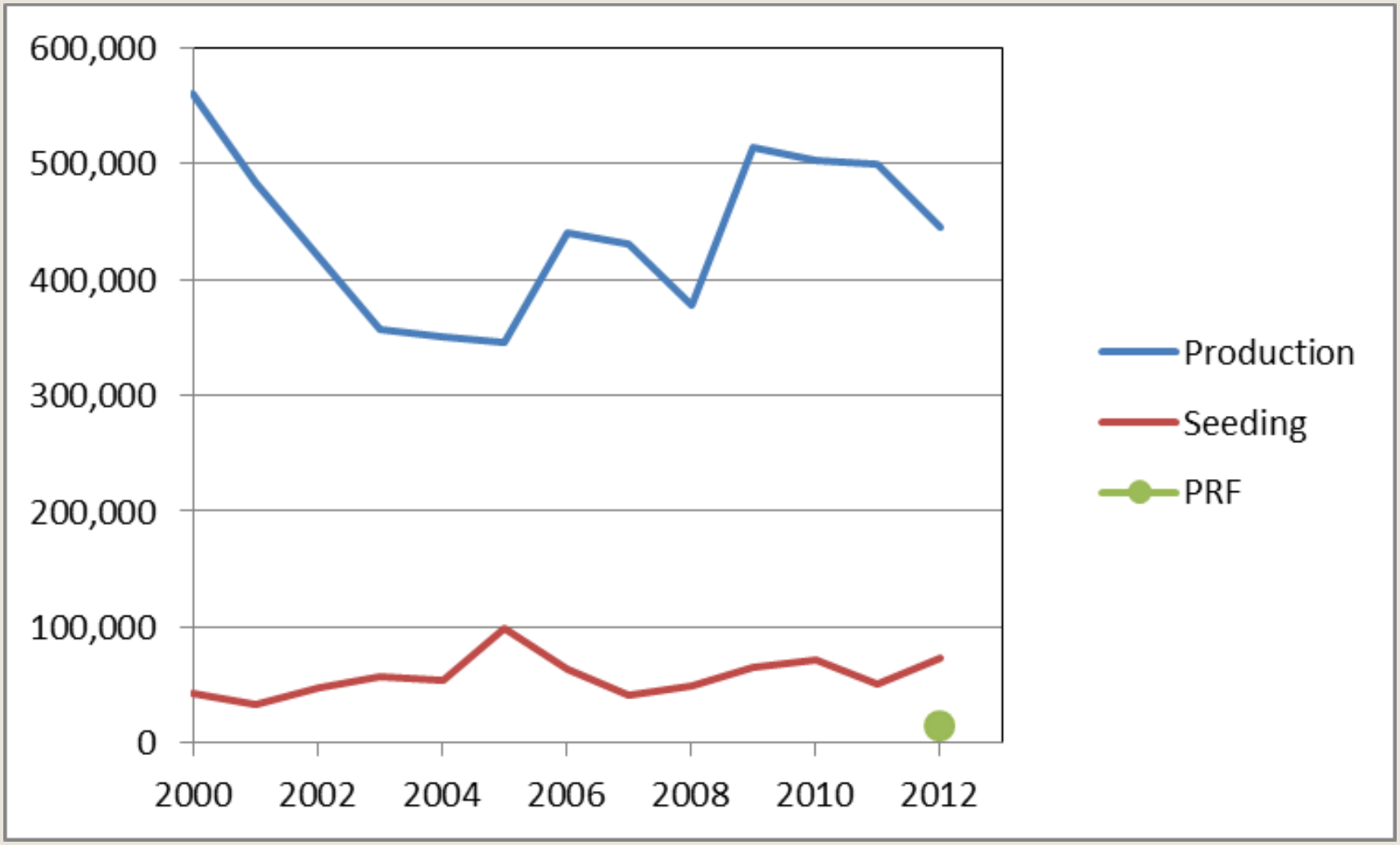
Cover Crop Summary

- Farmers can harvest or graze cover crops for forage in the spring of 2013 and still insure the follow crop (RULE CHANGE)
- Must balance forage needs and prices against soil moisture and expected grain prices
  - Cover crops consume soil moisture, especially when removed from the field
  - Label for herbicides applied to previous crop may mean it's illegal to harvest cover crop for "food or feed" (See Vince Davis WCM Article)

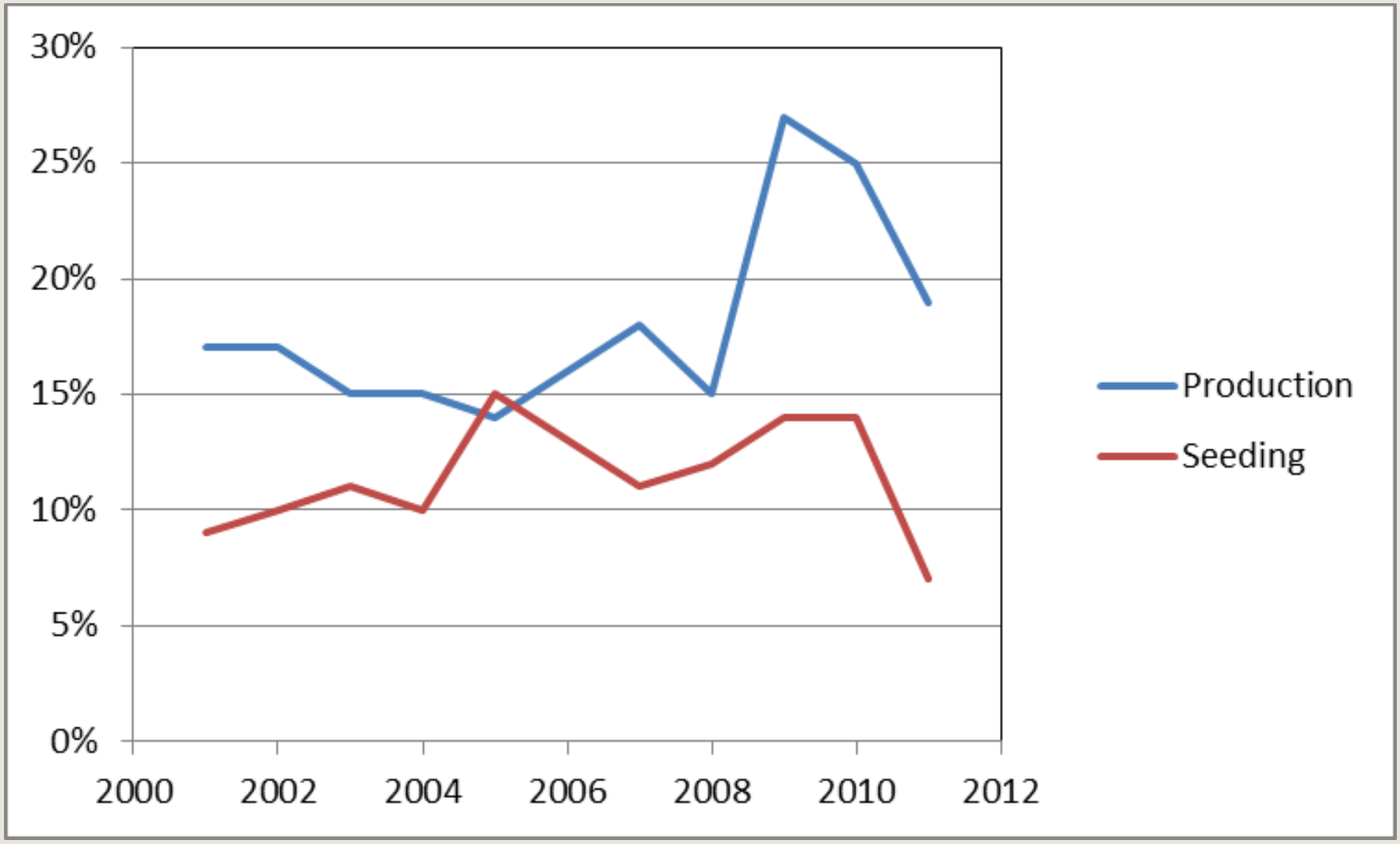
Forage Insurance Options in WI

1) Forage Production: like YP for forage
   - Sales closing date for 2013 was September 30, 2012
2) Forage Seeding: insures stand establishment
   - Sales closing date for 2013 is March 15, 2013
3) Pasture Rangeland Forage (PRF): Rainfall Index insurance – indemnities based on area rainfall index, not actual forage production
   - Sales closing date for 2013 was November 15, 2012
   - 2012 in WI: 138 policies sold, 15,500 acres insured, $370,000 paid for 2012 = $1.38 per $ farmer premium
   - 2013 in WI: 191 policies sold, 24,400 acres insured

Total Forage Acres Insured



% Forage Acres Insured
Why so little forage insured in WI?



Thanks for Your Attention!

Questions?

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