

# ACRE and SURE and an Update on the New Crop Insurance Rules

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# ACRE, SURE, Crop Insurance

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- Overview of ACRE
- Overview of SURE
- Review Crop Insurance Changes
- Recommendations for 2011

# ACRE

## Average Crop Revenue Election

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- ACRE: new with 2008 Farm Bill
- Revenue Safety Net to replace DCP and LDP
  - 20% lower DPs, no CCPs, 30% lower loan rate for LDPs
- Tied to farm's Base Acres like DCP and CCP
  - Signup with FSA like DCP/LDP
- Can shift coverage to crops actually planted, so not “de-coupled”

# ACRE Payments

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- ACRE payments have two triggers
  - Actual State Revenue must be less than State ACRE Guarantee
  - Actual Farm Revenue must be less than Farm ACRE Guarantee
- Guarantees based on 5-year Olympic average of NASS state yields (or farm yields) and 2-year average of USDA Marketing Year Average (MYA) prices

# ACRE: Long Lags in System

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- Have to wait for MYA average prices to determine ACRE guarantees and payments
- Guarantee not set at June 1 signup deadline
  - 2009 guarantee depends on 2008 MYA price
  - 2008 MYA price finalized in Oct. 2009
- Long lag between “Losses” and ACRE payments to growers—like CCP
  - 2009 payments depend on 2009 MYA price
  - 2009 MYA price finalized in Oct. 2010
- 2009 ACRE payments started late last fall

# ACRE Payments (\$/ac) for 2009

Crop	WI	IL	IA	MI	MN
Barely	\$44.78	\$65.34	\$43.58	\$45.09	\$55.22
Corn	--	\$25.17	--	--	--
Oats	\$29.10	\$46.82	\$47.47	\$36.60	\$20.44
Soybeans	--	--	--	--	--
Sunflower	\$45.35	\$59.97	--	--	\$69.35
Wheat	\$52.32	\$89.41	\$74.59	\$60.71	--

# What Happened in 2009?

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- Wet spring—Reduced planted acres
- Cool summer and fall—Early frost worries
- Wet fall—Delayed harvest
- Record yield for corn (153), high yields for soybeans (40), wheat (68) and oats (68)
- Low prices drove ACRE payments in WI, but IL had low yields as well due to wet spring

# ACRE: Do I Sign-Up?

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- ACRE looks valuable for many Wisconsin farmers
- ACRE benefits will differ for each farm & farmer
  - Your benchmark farm yields, probability your yield below farm benchmark, your farm:state yield ratio
  - Number of base acres, base acre crops, and actual acres of each planted crops
  - Landlord personalities and relationships
- “Every producer will have a totally different situation and the ACRE rules will work differently for each of them.” (Greg Biba, WI FSA)



# Integrating ACRE and Crop Insurance

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- Most WI farmers use crop insurance, percentage grows each year
- How best to use ACRE with crop insurance?
- Research shows, ACRE reduces farm income variability very little—CRC helps much more
- ACRE a subsidy program, not a risk management program
  - Payments come late and weakly tied to actual prices and yields
  - How much did CCPs help manage risk?

# ACRE and Crop Insurance

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- Don't sweat too much about ACRE decision
  - Some benefit to ACRE on average over the long run, but not large \$/ac change
  - Doubt that DP/ACRE payments are what's keeping you farming
    - Treat ACRE/DP as nice side dish or condiment, not meat & potatoes of farming
  - ACRE payments mostly driven by lower than average prices over the marketing year, but hopefully you can do a better job marketing than national average price

# SURE: Supplemental Revenue Assistance Payments

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- New permanent disaster program for crop farmers to replace ad hoc disaster aid
- Whole farm revenue guarantee added on top of crop insurance guarantees
- If actual farm revenue below SURE guarantee, SURE pays up to 60% of the difference
  - \$100,000 SURE guarantee, \$90,000 actual revenue, receive 60% of  $(\$100,000 - \$90,000) = \$6,000$  SURE Payment
- **Free increase in your crop insurance coverage, but at whole farm level (not crop by crop)**

# SURE Guarantee

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- Sum of all crop insurance guarantees for farm increased by 15%, capped at 90%
- If only a one crop farm, then
  - 75% coverage now  $75\% \times 1.15 = 86.25\%$
  - 80% coverage now  $80\% \times 1.15 = 92\%$ , but capped at 90%
  - 85% coverage now  $85\% \times 1.15 = 97.75\%$ , but capped at 90%

# SURE Actual Revenue

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- Actual yields x USDA marketing year average price (Sept-Aug) (**Not CBOT**)
- Plus crop insurance indemnities, including replant and prevented planting
- Plus 15% of DP's, all CCPs & ACRE payments, all LDPs
- Plus other disaster payments received

# SURE Payment Eligibility Details

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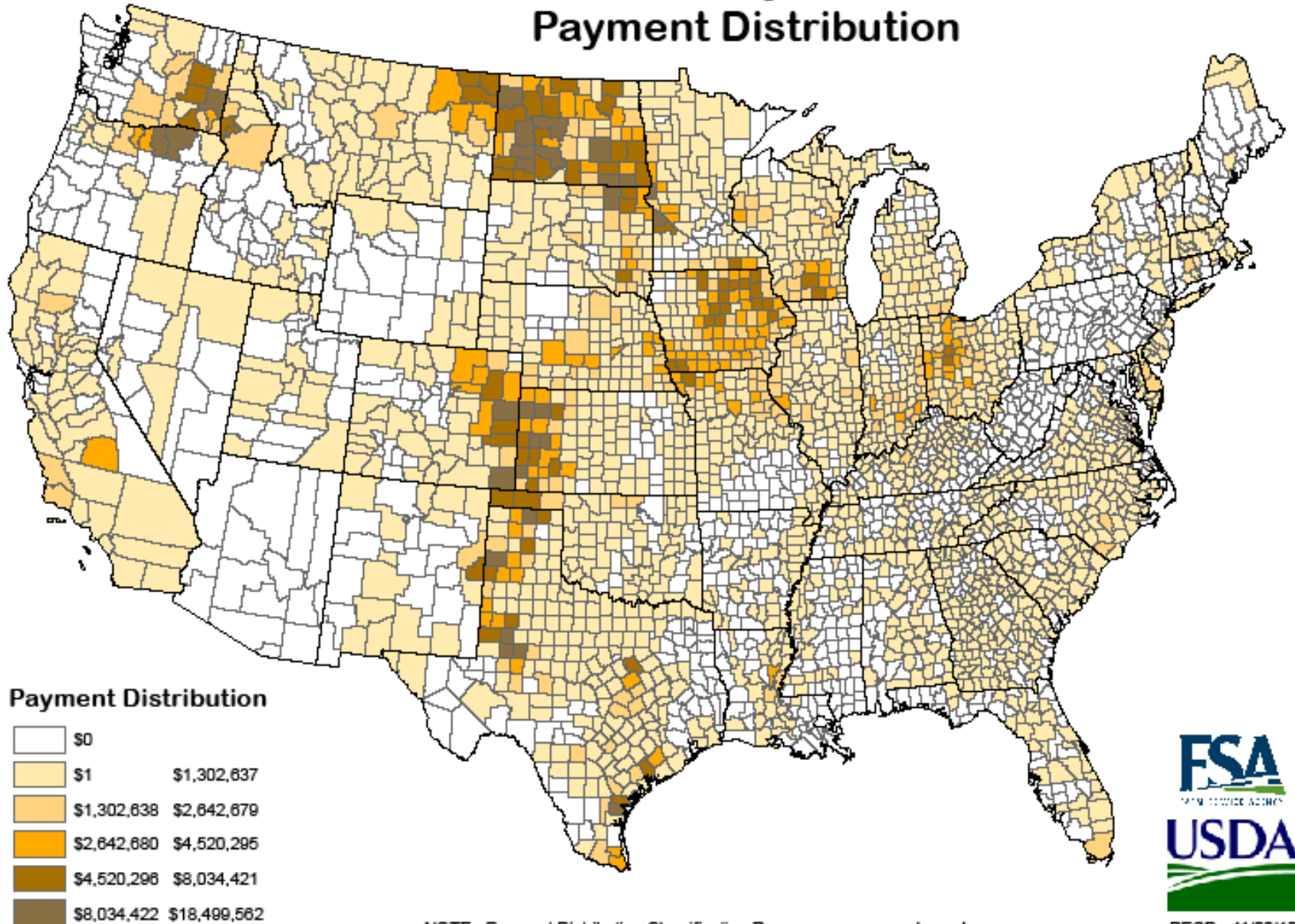
- Produce in a disaster county or contiguous county or suffer 50% production loss
- Suffer at least 10% production loss on at least 1 crop from a natural disaster  
(Price drops alone will not trigger SURE)
- Satisfy the Risk Management Purchase Requirement: Must buy crop insurance!
- Must insure all crops of economic significance
  - Economic Significance: crop contributes at least 5% of expected total farm crop revenue
  - Insure hay, not new seeding or forage for grazing

Rank	State	2008 SURE Payments
1	ND	\$312,516,119
2	IA	\$265,282,135
3	TX	\$244,499,336
4	KS	\$157,235,926
5	OH	\$120,558,980
6	SD	\$89,866,808
7	MO	\$82,381,510
8	MN	\$80,882,541
9	NE	\$80,175,406
10	CO	\$79,667,718
11	IN	\$76,436,101
12	WI	\$70,698,912
13	WA	\$56,449,296
14	IL	\$45,526,962
15	MT	\$41,597,146

## SURE: A Big Deal!

- SURE payments to US farmers for crop losses occurring 2008 were more than \$2.0 billion
- WI Ranked 12<sup>th</sup> with more than \$70 million

# 2008 SURE Recovery Act & Trust Fund Payment Distribution



NOTE: Payment Distribution Classification Ranges may vary each week.



PECD - 11/02/10



# Integrating Crop Insurance and SURE

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- Sign-up for SURE!!!
- Free increase in crop insurance coverage at the whole farm level—a real risk benefit
  - Safety net for your farm income, what matters
  - Some farm situations make SURE eligibility difficult or cumbersome, but likely worth it
- SURE not as cumbersome as at first
  - Don't have to insure pasture now!!!
  - Economic significance check now
  - Check again: higher corn and soybeans prices

# Using SURE with Insurance

- **SURE increases effective coverage at farm level for free, so reduce coverage level you pay for**
  - 60% CRC + SURE = 69% farm coverage
  - 65% CRC + SURE = 74.75% farm coverage
  - 70% CRC + SURE = 80.5% farm coverage
  - 75% CRC + SURE = 86.25% farm coverage
  - 80% CRC + SURE = 90% farm coverage
  - 85% CRC + SURE = 90% farm coverage
- 75% CRC + SURE gives you slightly better than 85% CRC alone, so why buy 85% CRC?

# Using SURE with Insurance

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- **SURE increases your effective coverage at farm level for free, so can cut back on crop coverage level you pay for**
  - 60% CRC + SURE = 69% farm coverage
  - 65% CRC + SURE = 74.75% farm coverage
  - 70% CRC + SURE = 80.5% farm coverage
  - 75% CRC + SURE = 86.25% farm coverage
  - 80% CRC + SURE = 90% farm coverage
  - 85% CRC + SURE = 90% farm coverage
- 75% CRC + SURE gives you slightly better than 85% CRC alone, so why buy 85% CRC?

# Summary

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- Think about ACRE
  - Probably will increase your government payments on average over the long term a few dollars per base acre
  - Not a big risk management benefit, but the extra money will be nice
- Sign up for SURE
  - Clearly worth the free increase in coverage
  - Evaluate whether want to cut back on crop insurance coverage levels

# Crop Insurance Changes for 2011

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- Combo Policy Officially Released
  - Replaces APH (yield) insurance
  - Replaces CRC (revenue) insurance
  - Provides equivalent to RA in WI, which never was available in WI previously
  - GRP and GRIP not changed
- Premiums will be higher
  - Crop prices higher, higher price volatilities
  - Recent changes: range for CRC prices covered expanded to be same as for RA
  - Effect of new rating methods???

# Combo Policy

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- Meant to streamline program
  - Most states had CRC, RA, and/or IP as similar revenue policies
- Process already started earlier
  - RA and CRC covered different price changes
  - CRC: no more than \$1.50 swing in corn prices, \$3.00 for soybean, RA: no limit
  - 2009: Set CRC range to same as RA
- Improved premium rating process so more “actuarially sound” premiums
  - Effect on farmer premiums = ???

# Combo Policy

Combo Product	Policy Replaced
Yield Protection	APH Yield Insurance
Revenue Protection	CRC Revenue Insurance Revenue Assurance with Harvest Price Option (RA-HP)
Revenue Protection with Harvest Price Exclusion	RA with Base Price Option (RA-BP) Income Protection (IP)

**Policies in RED were not available in Wisconsin previously**

# Combo Policy

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- If you used to buy APH, can now buy Yield Protection (YP) as essentially same
- If you used to buy CRC, can now buy Revenue Protection (RP) as essentially same
- Yield Protection and Revenue Protection will use the same price, unlike APH and CRC
  - Corn 2010: APH used \$3.90, CRC used \$3.99
- New revenue policy: Revenue Protection with Harvest Price Exclusion (RP-HPE): Cheaper!
  - What's the difference between RP and RP with Harvest Price Exclusion?



# Revenue Protection vs. Revenue Protection with Harvest Price Exclusion

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- RMA announces Base Price before March 15 based on CBOT/CME Dec. futures prices
- Revenue Guarantee:  $\text{APH Yield} \times \text{Base Price}$
- RMA announce Harvest Price in Oct/Nov based on CBOT/CME Dec. futures prices
- If Harvest Price higher than Base Price
  - RP Revenue Guarantee increases
  - RP-HPE: no change in Revenue Guarantee
- Lower indemnities with RP-HPE if price increases and have low yield: Lower Premium

# RP vs. RP-HPE vs. YP

(150 bu/ac APH and 70% coverage level)

Policy	Base Price \$/bu	Gtee \$/ac bu/ac	Harvest Price \$/bu	Gtee \$/ac bu/ac	Actual Yield bu/ac	Actual Rev \$/ac	Indemnity \$/ac
RP	\$5.00	\$525	\$6.00	<b>\$630</b>	75	\$450	630 – 450 = <b>\$180</b>
RP-HPE	\$5.00	\$525	\$6.00	<b>\$525</b>	75	\$450	525 – 450 = <b>\$75</b>
YP	\$5.00	105 bu/ac	\$6.00	105 bu/ac	75	\$450	\$5x(105 - 75) = <b>\$150</b>
RP	\$5.00	\$525	\$4.00	<b>\$525</b>	75	\$300	525 – 300 = <b>\$225</b>
RP-HPE	\$5.00	\$525	\$4.00	<b>\$525</b>	75	\$300	525 – 300 = <b>\$225</b>
YP	\$5.00	105 bu/ac	\$4.00	105 bu/ac	75	\$300	\$5x(105 - 75) = <b>\$150</b>

# RP vs. RP-HPE vs. YP

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- If harvest price  $>$  base price and low yield, larger indemnity for RP than for RP-HPE
- If harvest price  $<$  base price, no difference for RP vs RP-HPE
- Notice: RP-HPE: can do worse than YP if high prices and low yields
  - RP-HPE uses actual higher harvest price to calculate actual revenue, while YP uses actual yield loss at lower base price
- RP-HPE: worst if low yields and high prices, best if low yields and low prices

# Premium Prices

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- Higher Crop Prices: higher value insured, so higher premiums
- Revenue Policies: higher prices mean higher price volatilities and so higher premiums
- New Premium Rating Method: unknown effect on premiums

# Recommendations and Ways to Reduce Premium Costs

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- Good time to re-examine crop insurance choices when signup for Combo Policy
  - Can always stay with what have used in past
- Signup for SURE and reduce coverage level: Substitute free SURE for paid insurance
- Switch to whole farm, enterprise or basic units to reduce premium costs
  - Lose field specific coverage
- Use catastrophic (CAT) policies for minor crops to qualify for SURE; \$300/crop
  - If few acres, use low coverage level so < \$300

# Recommendations

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- The price protection in RP is much cheaper than buying YP and then going to CBOT/CME
- There are ways to buy RP (with a higher premium) and then sell out of the money put options to cover some of the premium
  - [http://www.agmanager.info/crops/insurance/risk\\_mgmt/rm\\_pdf11/AB\\_Sell\\_Options.pdf](http://www.agmanager.info/crops/insurance/risk_mgmt/rm_pdf11/AB_Sell_Options.pdf)
  - [http://www.agmanager.info/crops/insurance/risk\\_mgmt/rm\\_pdf10/AB\\_2011\\_CropIns.pdf](http://www.agmanager.info/crops/insurance/risk_mgmt/rm_pdf10/AB_2011_CropIns.pdf)
- Use RP-HPE if can bear risk of high prices at harvest with low yields: RP will cost more

# Questions?

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