

# *Making Your 2018 Crop Insurance Decisions*

**Michael Langemeier, Professor & Associate Director**

**James Mintert, Professor & Director**

Purdue Center for Commercial Agriculture

**PURDUE**  
UNIVERSITY

Center for  
Commercial Agriculture

# Considerations for Your 2018 Crop Insurance

- 1. Enterprise units are a good alternative for many Corn Belt farms**
- 2. Use products that include the harvest price option (e.g., RP and ARP)**
- 3. 2018 is not a good year to reduce coverage levels**
- 4. Compare RP to ARP in your county...ARP is attractive in some locations**

# Definitions

## ➤ Basic Units

- ❖ All of one crop in a county for a specific share of production.
  - ❖ All owned and cash rent land for one crop in one county is a basic unit.
  - ❖ Each share rent landowner arrangement would be a separate basic unit.

## ➤ Optional Units

- ❖ Divisions of basic units based on township section.

## ➤ Enterprise Units

- ❖ Addition of all basic units in one county for a single crop.

# Potential Products

- **Yield Policies**

- **AYP = area yield protection**

- Insures against county-wide production loss (based on county yield)
    - Policy protection = dollar amount of protection per acre x net acres
    - 70 to 90% coverage levels

- **YP = yield protection**

- Insures against production loss (based on individual farm yield)
    - Yield protection guarantee = APH approved yield x coverage level x projected price
    - 50 to 85% coverage levels

# Potential Products

- **Revenue Policies**

- **ARP = area revenue protection**

- Insures against county-wide revenue loss (based on county revenue)
    - Policy protection = county yield x coverage level x greater of projected price or harvest price
    - 70 to 90% coverage levels

- **RP = revenue protection**

- Insures against revenue loss due to increase or decrease in price, low yield, or combination of these (based on individual farm revenue)
    - Revenue protection guarantee = APH approved yield x coverage level x greater of projected price or harvest price
    - 50 to 85% coverage levels

# Projected and Harvest Prices

## ➤ Projected Price

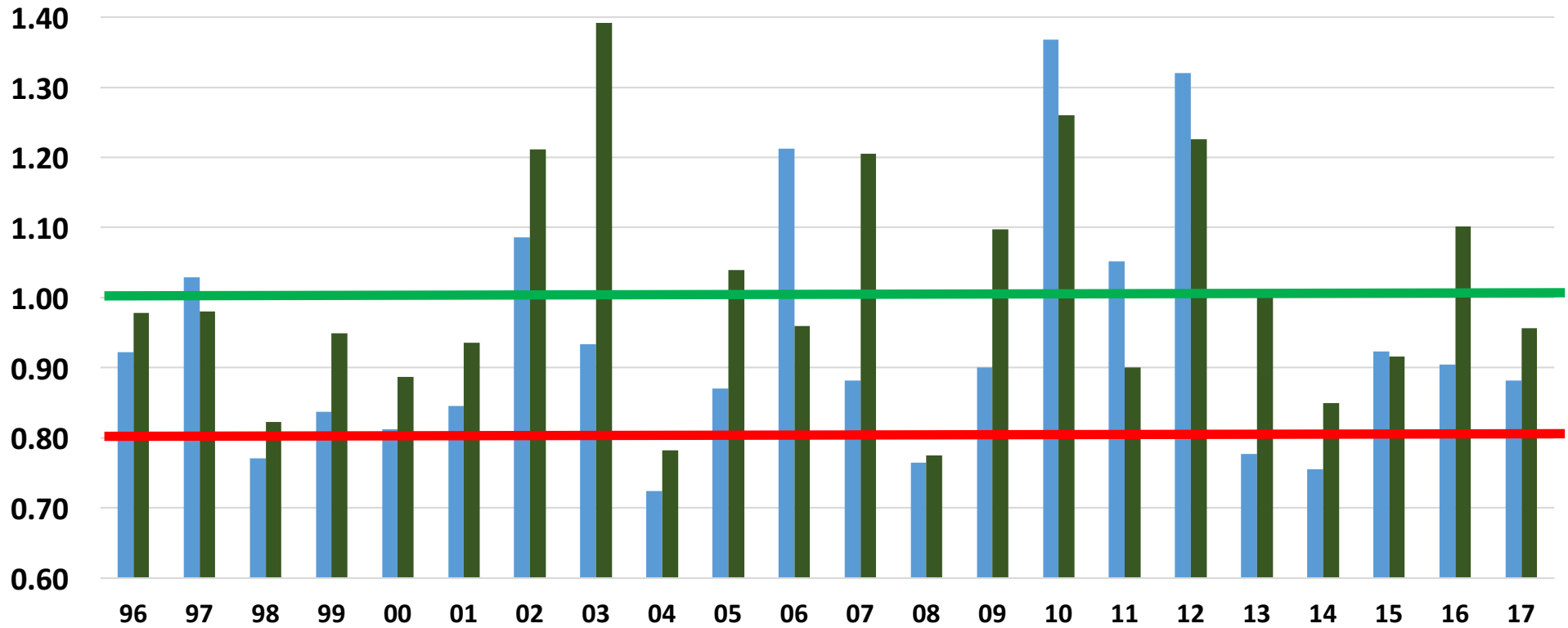
- ❖ Based on settlement prices for futures contracts during February
- ❖ 2016: Corn = \$3.86 and Soybeans = \$8.85
- ❖ 2017: Corn = \$3.96 and Soybeans = \$10.19
- ❖ 2018: Corn = \$3.96 and Soybeans = \$10.16

## ➤ Harvest Price

- ❖ Based on settlement prices for futures contracts during October
- ❖ 2016: Corn = \$3.49 and Soybeans = \$9.75
- ❖ 2017: Corn = \$3.49 and Soybeans = \$9.75
- ❖ 2018: Corn = ?? and Soybeans = ??

## Ratio of Harvested to Projected Crop Insurance Prices

■ Corn ■ Soybeans



## Estimated Premiums: Knox County, Indiana

Corn Price = \$3.96; Volatility = 0.15

Coverage Level	YP Enterprise Units	RP Enterprise Units (Optional Units in red)	ARP 120% Protection Factor
65%	5.02	6.41	N/A
70%	6.41	8.22	4.77
75%	9.05	11.59 (\$30.64)	6.37
80%	15.69	19.88	9.26
85%	28.48	36.88	15.92
90%	N/A	N/A	27.14

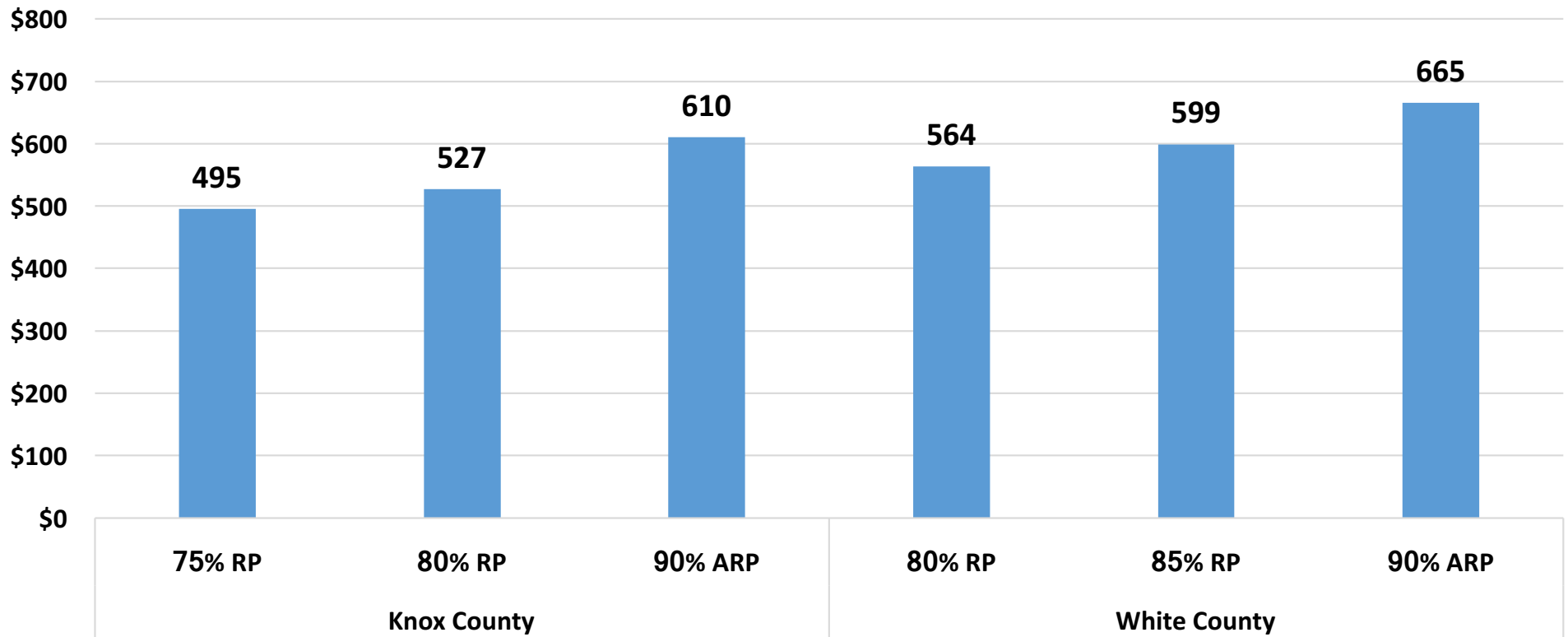


## Estimated Premiums: White County, Indiana

### Corn Price = \$3.96; Volatility = 0.15

Coverage Level	YP Enterprise Units	RP Enterprise Units <i>(Optional Units in Red)</i>	ARP 120% Protection Factor
65%	1.25	1.64	N/A
70%	1.76	2.62	4.36
75%	2.67	4.32	7.22
80%	4.74	7.96	11.76
85%	8.55	14.96 <i>(\$24.53)</i>	20.84
90%	N/A	N/A	34.99

## Revenue Guarantees per Acre for Corn in 2018 for Selected Indiana Counties



## Estimated Premiums: Knox County, Indiana

Soybean Price = \$10.16; Volatility = 0.14

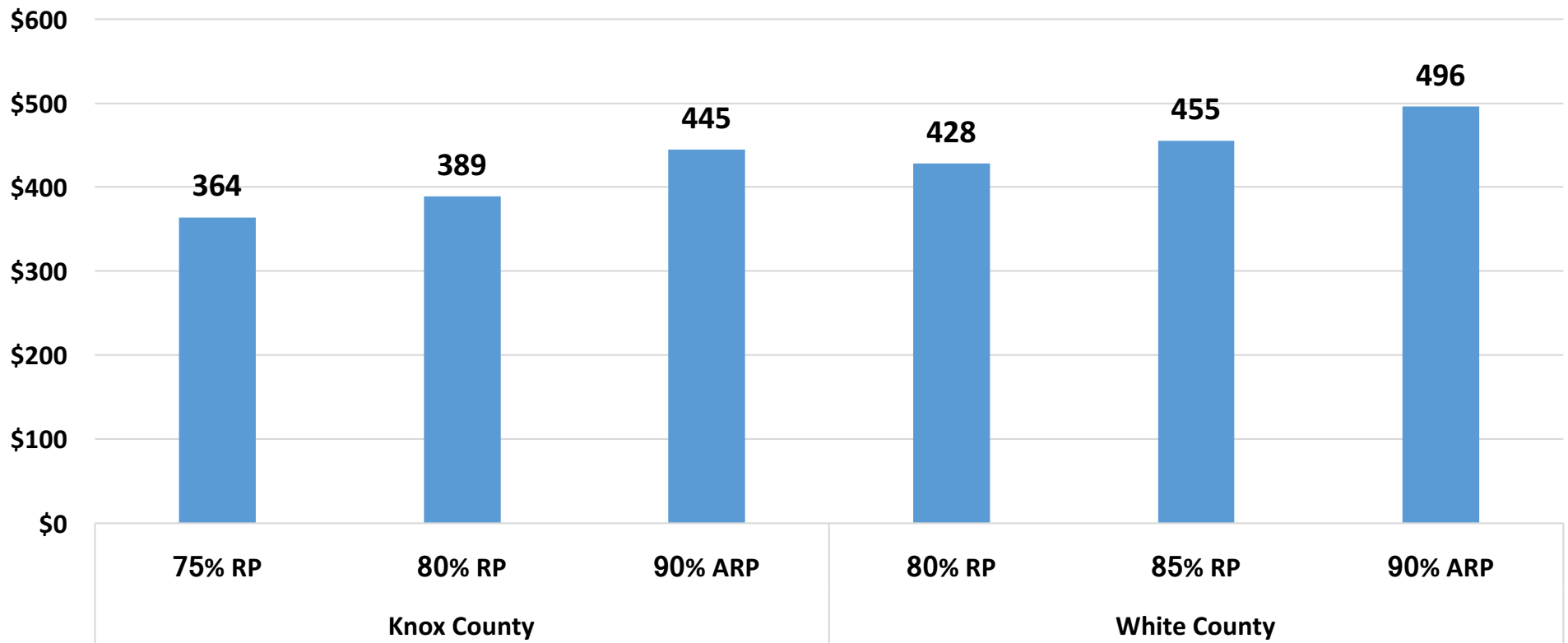
Coverage Level	YP Enterprise Units	RP Enterprise Units	ARP 120% Protection Factor
65%	2.66	3.38	N/A
70%	3.51	4.47	1.36
75%	5.22	6.64	2.11
80%	9.20	11.80	3.23
85%	16.32	21.00	6.42
90%	N/A	N/A	12.87

## Estimated Premiums: White County, Indiana

Soybean Price = \$10.16; Volatility = 0.14

Coverage Level	YP Enterprise Units	RP Enterprise Units	ARP 120% Protection Factor
65%	0.80	1.14	N/A
70%	1.25	1.91	2.39
75%	2.02	3.18	3.51
80%	3.86	6.12	5.35
85%	7.43	11.96	10.48
90%	N/A	N/A	19.13

## Revenue Guarantees per Acre for Soybeans in 2018 for Selected Indiana Counties



# APH Yield Exclusion

- **The APH YE allows for the exclusion of an actual yield for a crop year when RMA determines the county per planted acre yield for a crop year was at least 50% below the simple average of the per planted acre yield for the crop in the county for the previous 10 consecutive crop years.**
- **If yield exclusion is available in a county, it is generally beneficial to use this option since the associated premium increase is small compared to the increase in the revenue guarantee.**

# University of Illinois farmdoc Crop Insurance Tools

- <http://farmdoc.illinois.edu/cropins>
  - Premium Calculator
  - Payment Evaluator
  - FAST tool spreadsheet

# Considerations for Your 2018 Crop Insurance

- 1. Enterprise units are a good alternative for many Corn Belt farms**
- 2. Use products that include the harvest price option (e.g., RP and ARP)**
- 3. 2018 is not a good year to reduce coverage levels**
- 4. Compare RP to ARP in your county...ARP is attractive in some locations**



Check out our new Crop Basis Tool at  
[Purdue.edu/commercialag](http://Purdue.edu/commercialag)

*Thank You*

**PURDUE**  
UNIVERSITY

Center for  
Commercial Agriculture

