

Making Your 2016 Crop Insurance Decisions

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Definitions

➤ Basic Units

- ❖ All owned and cash rent land for one crop in one county is a basic unit
- ❖ Each share rent landowner arrangement is a separate basic unit

➤ Optional Units

- ❖ Divides basic units based on townships

➤ Enterprise Units

- ❖ Combine 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
- ARP with HPE = Area Revenue with Harvest Price Exclusion
 - Same as ARP, but does not protect against rise in price level

Potential Products

Revenue Policies

- 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
- RP-HPE = Revenue Protection with Harvest Price Exclusion
 - same as RP, but does not protect against rise in price level

Determining Yield for Crop Insurance

- **Trend-Adjusted Yield Endorsement (TA)**
 - Allows farmers to add a specified trend factor to the actual yield
- **Yield Adjustment (YA)**
 - Allows 65% of T-Yield to replace the actual yield
- **Yield Exclusion (YE)**
 - Allows eligible years to be excluded from APH yield calculation

Yield Exclusion

- The APH Yield Exclusion allows you to exclude low yields in exceptionally bad years from your production history
- Eligible when average yield for the county was at least 50% below the simple average for the previous 10 consecutive crop years
- Impact can be significant in locations where one year (such as 2012) was very low

Determining Yield for Crop Insurance

- If sufficient yield data exists, the following choices usually result in the highest APH:
 1. Use of Trend Adjustment (TA)
 2. If Yield Exclusion (YE) is available, APH with YE will often increase
 3. Use of Yield Adjustment (YA) when actual yield is below the substitute yield and YE is not available in your county

Projected and Harvest Prices

➤ Projected Price

- ❖ Based on settlement prices for futures contracts during February
- ❖ 2014: Corn = \$4.62 and Soybeans = \$11.36
- ❖ 2015: Corn = \$4.15 and Soybeans = \$9.73
- ❖ **2016: Corn = \$3.86 (down 7%) and Soybeans = \$8.85 (down 9%)**

➤ Harvest Price

- ❖ Based on settlement prices for futures contracts during October
- ❖ 2014: Corn = \$3.49 and Soybeans = \$9.65
- ❖ 2015: Corn = \$3.83 and Soybeans = \$8.91

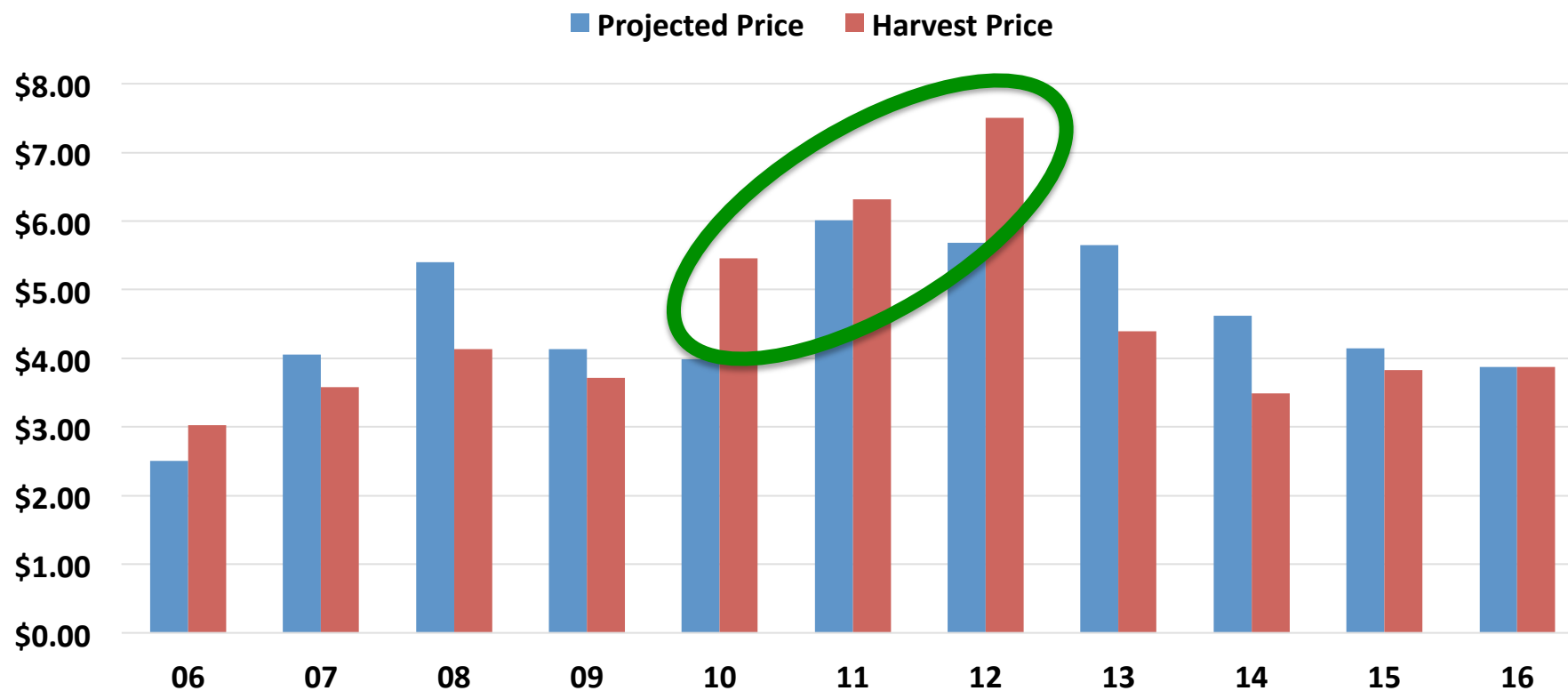
Crop Insurance Example

White County, IN

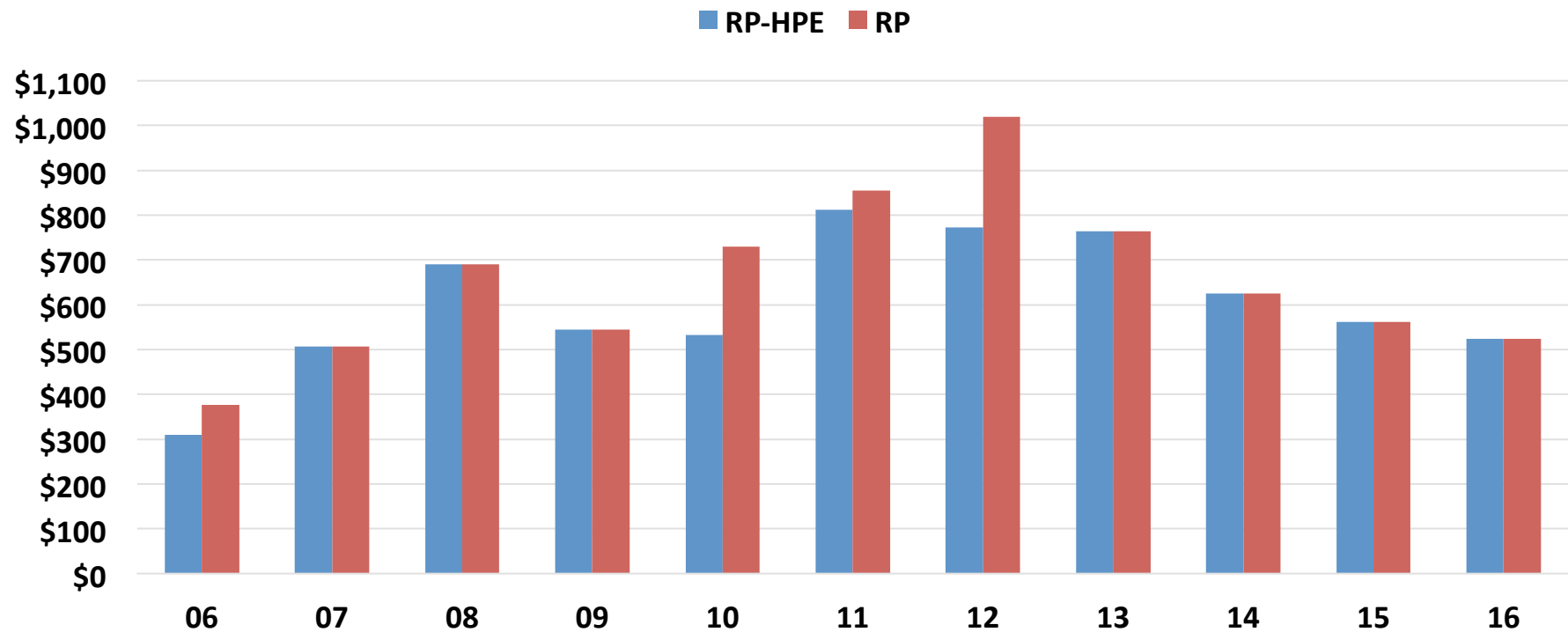
University of Illinois Web Site

- FAST Tools – farmdoc
 - www.farmdoc.illinois.edu/fasttools

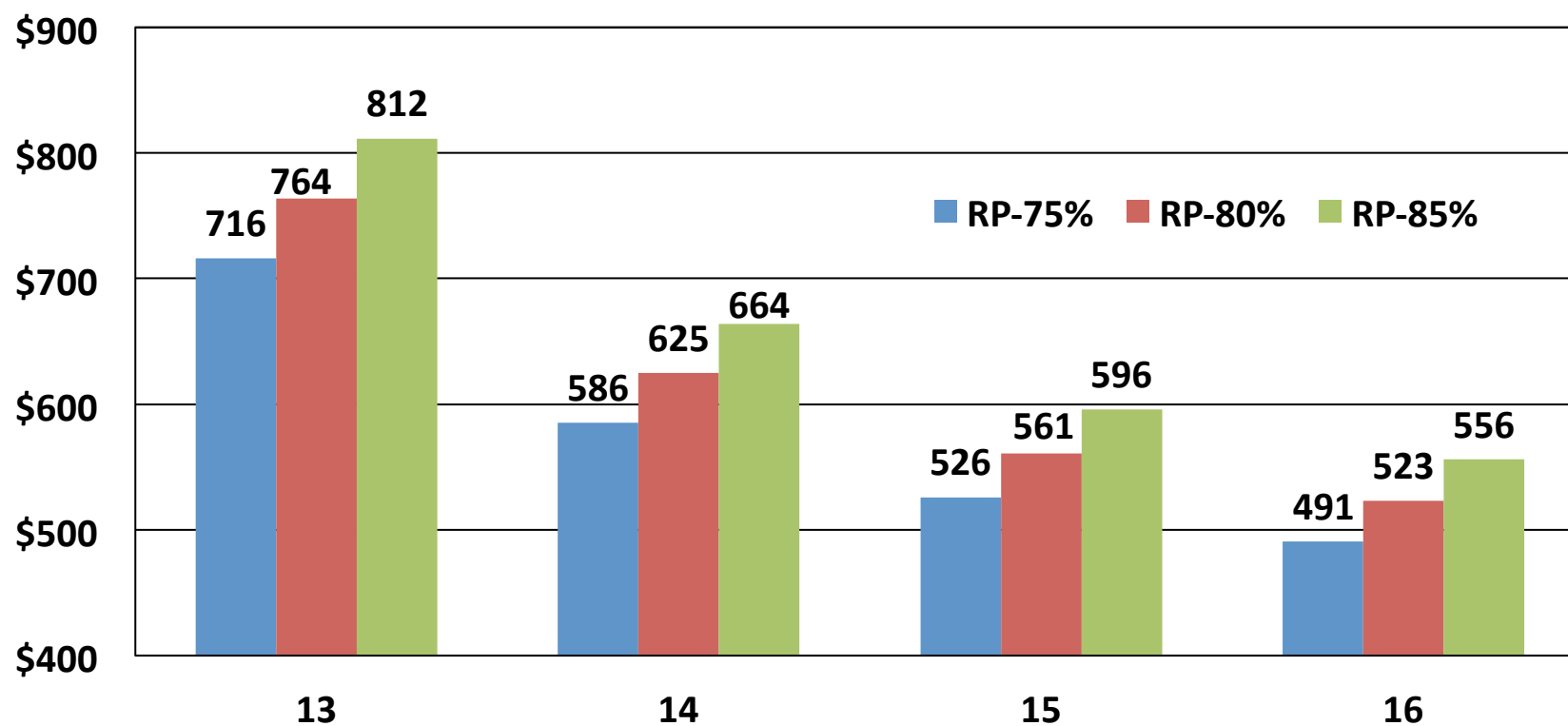
Projected and Harvest Corn Prices, Revenue Protection Products



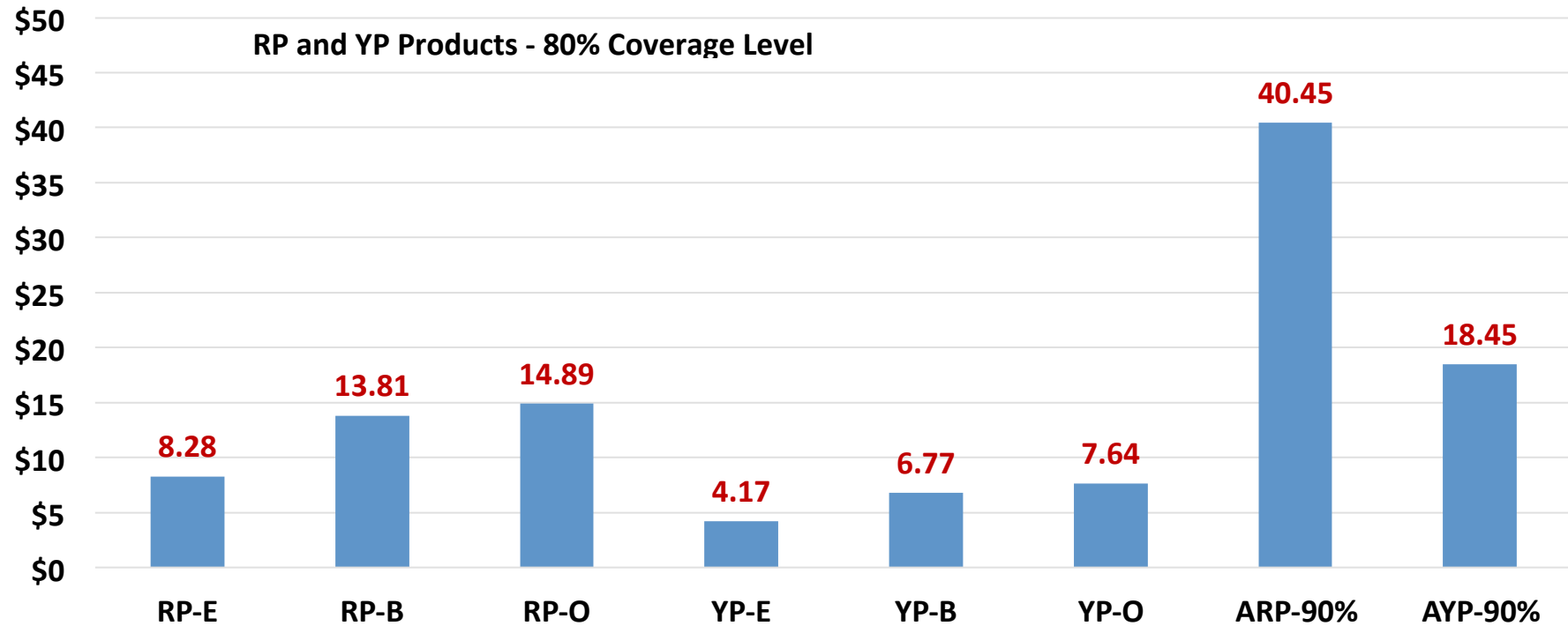
Revenue Protection Guarantees, 80% Coverage Corn in White County



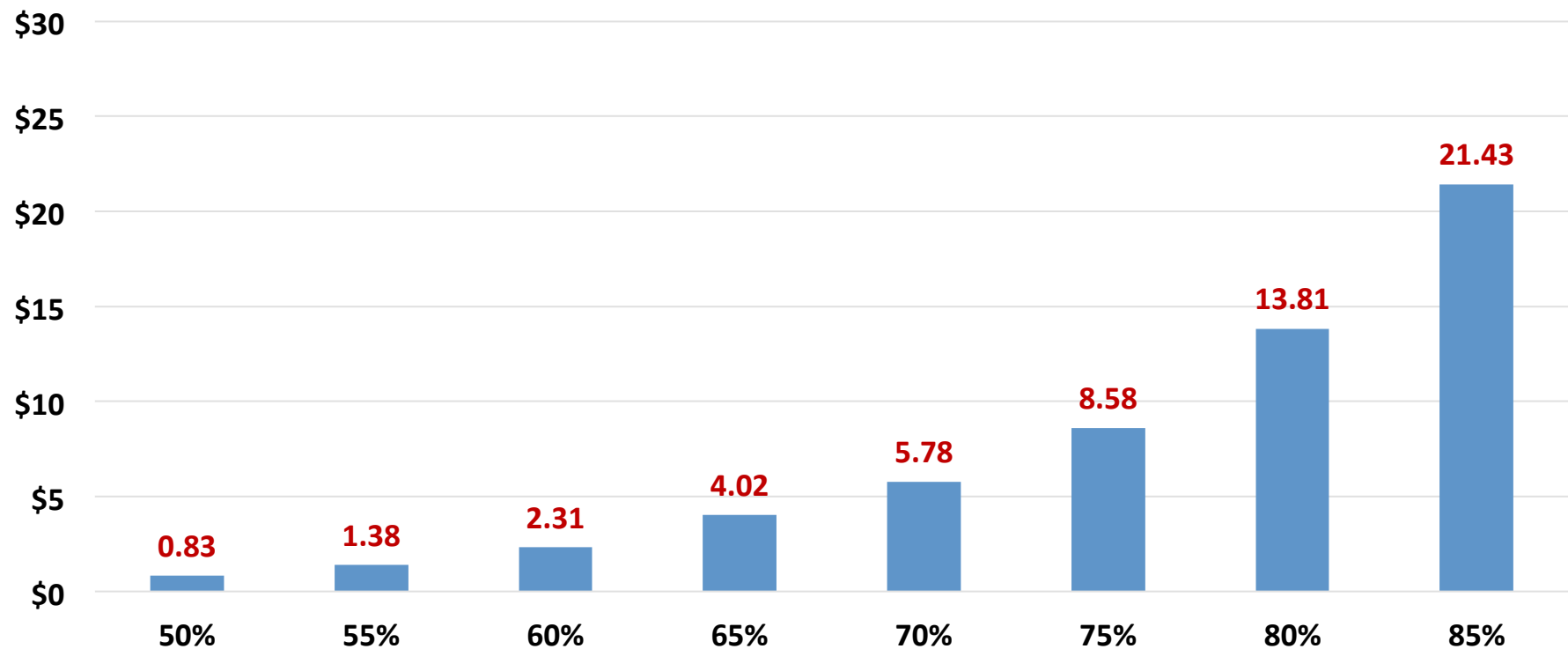
Revenue Protection Guarantees, Corn in White County



2016 Crop Insurance Premiums, Various Products Corn in White County



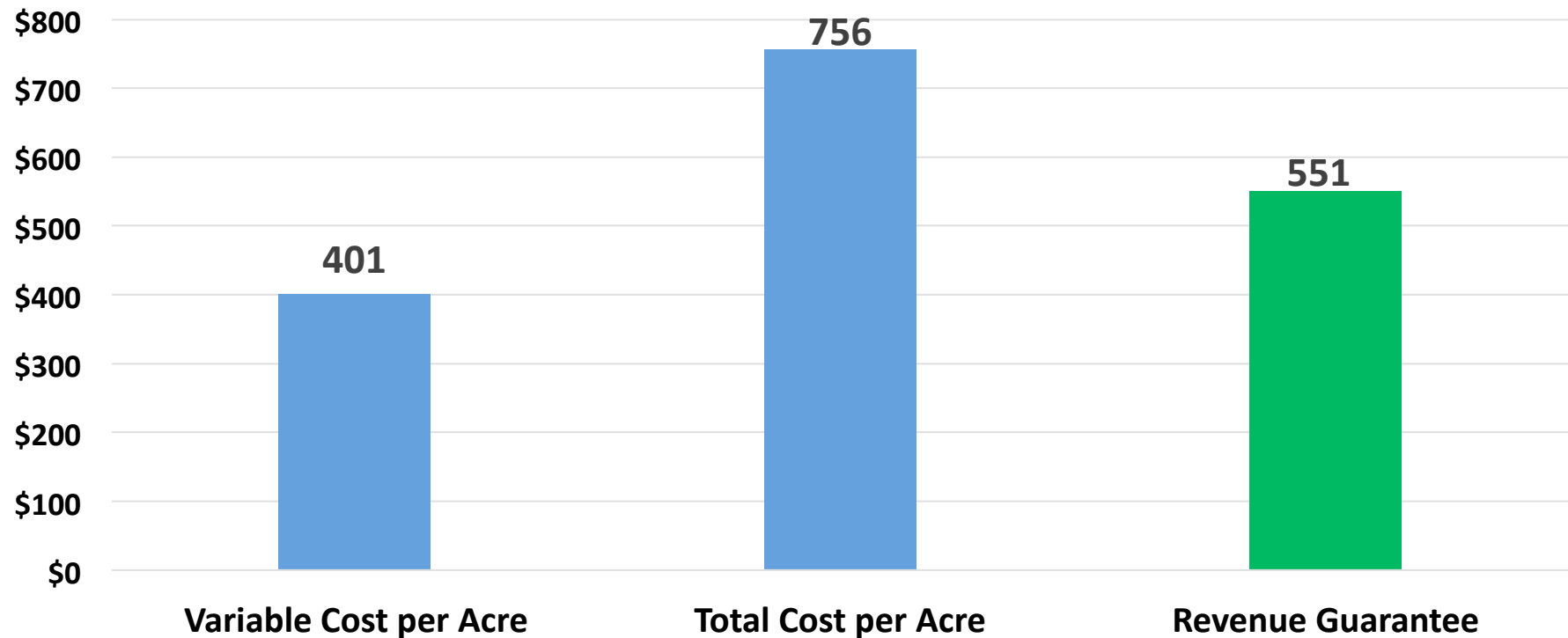
2016 Crop Insurance Premiums, Revenue Protection Coverage Levels Basic Units, Corn in White County



2016 Example Computations for White Co., IN

- The next couple of slides illustrate crop revenue and indemnity payments for yield losses of 15%, 30%, and 45%. Trend adjusted yield is 178 bushels per acre
- Trend adjusted yields were below:
 - 151 bu. per acre (15% yield reduction): 10% of the time
 - 125 bu. per acre (30% yield reduction): 4% of the time
 - 97 bu. per acre (45% yield reduction): 0% of the time

Comparison of Projected Revenue and Variable and Total Cost per acre for Corn in White Co. IN, 2016



Conclusions

- Costs in 2016 could exceed revenues even with ARC-CO and crop insurance
- This is not a year in which crop insurance can be used to assure a profit
- But crop insurance in 2016 can be used to limit losses to more manageable levels