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Cost of Production and Crop Insurance

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Market Report	Yr Ago	4 Wks Ago	2/12/10
Livestock and Products, Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.	$80.87	$84.33	$87.57
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	112.42	114.30	117.55
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	94.54	98.21	101.56
Choice Boxed Beef, 600-750 lb. Carcass.	136.62	144.91	139.32
Western Corn Belt Base Hog Price Carcass, Negotiated.	61.08	67.01	64.34
Feeder Pigs, National Direct 50 lbs, FOB.	63.80	*	*
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean..	58.13	73.61	68.36
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct.	95.00	*	*
National Carcass Lamb Cutout, FOB.	249.03	240.93	251.06
Crops, Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu.	4.97	3.97	3.84
Corn, No. 2, Yellow Omaha, bu.	3.55	3.47	3.51
Soybeans, No. 1, Yellow Omaha, bu.	9.55	9.51	9.22
Grain Sorghum, No. 2, Yellow Dorchester, cwt.	5.05	5.57	5.39
Oats, No. 2, Heavy Minneapolis, MN , bu.	1.89	2.26	2.32
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	200.00	135.00	135.00
Alfalfa, Large Rounds, Good Platte Valley, ton.	77.50	87.50	87.50
Grass Hay, Large Rounds, Premium Nebraska, ton.	85.00	82.50	*
Dried Distillers Grains, 10% Moisture, Nebraska Average.	137.50	108.50	105.00
Wet Distillers Grains, 65-70% Moisture, Nebraska Average.	46.00	40.50	35.00
***No Market**			

As we approach the March 15th deadline for signing up for Federal Crop Insurance there are many things to consider before producers make a decision. Obviously, the rates, weather scares, market volatility and "whatever I did last year" will play a part in producers' decisions, but I think very few consider the real issue of their cost of production.

How does cost of production play into crop insurance? Unfortunately, the days of easy decisions, all separate from each other, are gone. Now your cost of production must play a role in your decisions in crop insurance, your crop insurance decision plays a role in your government payment program decision, your government payment program decision plays a role in your risk management decisions, and it all comes back to cost of production.

By knowing your cost of production, you can be sure you are covering your costs. A "one-size-fits-all" approach is not appropriate because you will not have the same costs, risks, or goals as your neighbor, brother or the "average producer." If you have a highly leveraged operation, you can't afford the same risk or take a low percentage of coverage, the way someone who borrows little or no money. In the same respect, if your cost of production is $3.00 per bushel, your insurance needs are much different than someone whose cost of production is $4.00 per bushel.

Let's use Irrigated Corn as an example, and assume the costs shown in the table on the next page. We also need to make an assumption on what the spring price will be. The price is set by using the average Chicago Board Of Trade price in February for the December 2010 corn contract. For now, let's assume a price of $3.90. This is the price that you are guaranteed through a crop revenue policy.

Seed	**$85.00**	
Fertilizer	**$60.00**	
Chemicals	**$40.00**	
Crop Insurance	**$25.00**	
Drying Expense	**$8.00**	
Irrigation Energy	**$40.00**	
Irrigation Repairs	**$3.00**	
Crop Consultant	**$6.00**	
Fuel and Oil	**$22.00**	
Repairs	**$35.00**	
Land Rent	**$175.00**	**$499/Ac 66.5% Risk = $151/ac**
Personal Property Taxes	**$5.00**	
Insurance	**$5.00**	
Utilities	**$1.50**	
Dues/Marketing	**$5.00**	
Miscellaneous	**$5.00**	
Interest	**$9.50**	**$530/AC 70.7% Risk = $120/ac**
Depreciation	**$45.00**	**$575/Ac 76.7% Risk = $75/ac**
Family Living/Taxes	**$100.00**	**$675/Ac 90.0% Risk - $0/ac**
Total	**$675.00**	
Government Payments	**$25.00**	
Net Costs	**$650.00**	
APH	**200 bu/ac**	
Cost Per Bushel	**$3.25**	

So if we know your Actual Production History (APH) and the spring price, we can determine what level of coverage is appropriate for you.

200 bu x $3.90	65%	70%	75%	80%
Guaranteed Revenue	$507	$546	$585	$624
Expense Not Covered	$143	$104	$65	$26

If you farm 1,000 acres, your potential for loss would be:

Total Loss Potential:	$143,000	$104,000	$65,000	$26,000

With irrigation, the main risks would be wind, hail and price. A loss of 70 bushels per acre would not be common, therefore your chances of collecting on your policy would be slim. It also means you are taking the risk for the first $262.50 per acre, before insurance kicks in. Experts also project no payments under the Supplemental Revenue Assistance program (SURE) , if you are insured at a level less than 75 percent. While it is certainly complicated, one thing we do know about the new SURE program is that your enrollment in crop insurance equates your enrollment in SURE. In other words, if you are enrolled at 80 percent, you will receive a larger SURE payment than if you are enrolled at 65 percent.

There is certainly a cost increase to moving up in coverage, but there are some ways to make it more affordable. For example, starting in 2009, enterprise units were more heavily subsidized by the government, making the premium expense to producers cheaper. In exchange for the lower premiums, you insure all your insurable acreage of the insured crop that you have a share in the county as one unit (i.e. – all corn is insured together, all beans as another unit). You will receive the equivalent of 150 bu. per acre (200 bu x 75%) to be guaranteed 150,000 bu. (200 bu x 1,000 ac x 75%), or $585,000 (150,000 bu. x $3.90) for your entire farm. One field may be an entire wipe-out, but if the other fields yield well enough, there may be no payment. The premium savings are usually good enough to move coverage levels up ten percent, and still have some savings in premiums. The producer may also want to consider incorporating hail coverage in their crop insurance decision when trying to decide what tools work best to cover the cost of production on their farm.

There are many other things to consider in regard to your crop insurance decision. Producers need to find an agent who is willing to teach them the pros and cons of the different policies before they can make a decision for their operation.

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