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Crop Insurance Changes in 2011

H. Doug Jose
University of Nebraska-Lincoln, hjose1@unl.edu

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Market Report	Yr Ago	4 Wks Ago	1/14/11
Livestock and Products, Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	$84.33	$99.56	$106.98
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	114.30	134.75	150.85
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	98.21	121.10	127.59
Choice Boxed Beef, 600-750 lb. Carcass	144.91	162.83	168.24
Western Corn Belt Base Hog Price Carcass, Negotiated	67.01	67.08	73.09
Feeder Pigs, National Direct 50 lbs, FOB	*	*	*
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	73.61	78.71	83.44
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct	*	155.00	165.25
National Carcass Lamb Cutout, FOB	240.93	351.43	348.52
Crops, Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu.	3.97	6.65	7.01
Corn, No. 2, Yellow Omaha, bu.	3.47	5.82	6.22
Soybeans, No. 1, Yellow Omaha, bu.	9.51	12.87	13.69
Grain Sorghum, No. 2, Yellow Dorchester, cwt.	5.57	9.46	10.36
Oats, No. 2, Heavy Minneapolis, MN , bu.	2.26	2.86	4.02
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	135.00	140.00	140.00
Alfalfa, Large Rounds, Good Platte Valley, ton.	87.50	72.50	72.50
Grass Hay, Large Rounds, Premium Nebraska, ton.	82.50	*	*
Dried Distillers Grains, 10% Moisture, Nebraska Average.	108.50	182.25	196.00
Wet Distillers Grains, 65-70% Moisture, Nebraska Average.	40.50	59.00	64.50

*No Market

For a number of years the Risk Management Agency (RMA) of the United States Department of Agriculture (USDA) has been working with the crop insurance industry to streamline the crop insurance program for the major crops. The new Common Crop Insurance Policy, referred to as the COMBO Policy, is in effect beginning with crops harvested in 2011. Crops covered include corn, soybeans, grain sorghum, wheat, barley, cotton, rice, canola and sunflowers.

COMBO Policy

The new combo policy is one master policy with a number of options:

- **Yield Protection (YP).** Yield Protection replaces the Actual Production History (APH), or what was often referred to as the Multiple Peril Crop Insurance (MPCI) program. The APH calculation of four to ten years of actual yield records is still used to establish the yield guarantee. Producers can choose to guarantee 50 to 85 percent of their APH yield. The major change in this option is the determination of the price used to calculate indemnities and premiums. Historically, the RMA has set the price based on their assessment of expected fall cash price. The price will now be the same price as used for the revenue products. That is, it will be established according to the crop's applicable commodity board. For a number of years the RMA of USDA has been working with the crop insurance industry to streamline the crop insurance program for the major crops.

- **Revenue Protection (RP)**. Revenue Protection replaces Crop Revenue Coverage (CRC), Revenue Assurance with the Harvest Price Option (RA-HPO) and Income Protection (IP). RP guarantees the insured a minimum number of dollars of gross revenue per acre. The yield guarantee used in the

calculation is the same APH yield used for YP calculations. The price used to calculate the revenue guarantee is the exchanged-based projected price or the harvest price, whichever is higher.

- **Revenue Protection with Harvest Price Exclusion (RP-HPE).** This option is equivalent to the former basic Revenue Assurance (RA) policy. Under this option the revenue guarantee does not increase if the harvest price is higher than the base price.

- **Group Plans**. The group plans, Group Risk Plan (GRP), Group Revenue Insurance Plan (GRIP) and Group Revenue Insurance Plan with Harvest Price Option (GRIP-HPO) remain the same.

Insurance Prices

"Projected" Prices:

Corn: February average of the December futures contract.

Soybeans: February average of the November futures contract.

"Harvest" Prices:

Corn: October average of the December futures contract.

Soybeans: October average of the November futures contract.

Example Calculations for Corn

In this example, the APH for irrigated corn is 175 bushels. Based on current market prices, the "projected" price, which is the February average of the December futures contract, is set at $5.75 for calculation purposes. The coverage level used is 75 percent.

Yield Protection:

Yield Guarantee = 175 x .75 = 131 bushels.

If the yield is above 131, the yield shortfall will be zero and no payment will be made. If the yield is 125 bushels, the shortfall is 6 bushels and the payment will be 6 x $5.75 = $34.50 per acre.

Revenue Protection:

Revenue Guarantee = 175 x .75 x $5.75 = $755.

The revenue guarantee will increase if the harvest price is above the base or projected price. If the APH yield is achieved the breakeven harvest price for an indemnity payment will be $755/175 bu. = $4.31. If the October average of the December futures contract is less than $4.31 and the yield is average, there will be an indemnity payment. If the yield is 150 bu. and the harvest price is $4.25 the calculated revenue is: 150 bu. x $4.25 = $637.50 .
Indemnity payment = $755 - $637.50 = $117.50 per acre.

Revenue Protection with the Harvest Price Exclusion:

The revenue guarantee is still the $755, but it cannot increase if the futures average price in October is higher than in February.

If the same scenario as above exists – the yield is 150 bu. and the harvest price is $4.25; the calculated revenue is still $637.50 and the indemnity will be the same, $117.50 per acre. If the harvest price is below the projected price, the Revenue Protection and the Revenue Protection with the Harvest Price Exclusion will provide the same protection and provide the same indemnity payments for the same coverage level and APH yield.

If the harvest price would increase to $6.25 and the yield is 150 bu., the calculated revenue would be: 150 x $6.25 = $937.50 and no indemnity would be paid.

The breakeven yield to receive an indemnity with this harvest price scenario would be $755/$6.25 = 120.8 bu. That is, if the yield was 120.8 bu. and the harvest price was $6.25 the calculated revenue would be 120.8 x $6.25 = $755, which is equal to the revenue guarantee.

2011 Premiums

The actuarial schedules for the new COMBO Policy will be different than the equivalent coverage under the previous individual policies. This may result in a higher or lower premium rate than in the past. There may be a tendency to directly compare premiums paid in the past with the calculated premiums for 2011. However, remember that the prices used to set the premiums are significantly higher than last year. This will result in premiums being higher. The current commodity prices may cause "sticker price" shock. As this article is being prepared, the December corn futures price is about $5.75, and the November soybean futures price is about $13.25. Last year the projected or base prices were $3.99 for corn and $9.23 for soybeans.

Good Performance Refund

Recently, RMA announced another enhancement to the crop insurance program by proposing direct payments to participating farmers for good performance. Under the proposed program, payment amounts will vary by producer and will be based on each qualified producer's history in the program. RMA estimates that the average refund amount per producer this year will be about $1,000. The first year of the proposed program will use data from 2009 and prior crop years to calculate the refund because not all 2010 data is finalized.

To be eligible, farmers already must be in the crop insurance program at the "buy-up" level, a step above the lower cost catastrophic risk protection. To get a payment this year, farmers must have been in the program for seven to ten years from 2000 through 2009 with not more than one year with a reported loss, or have gone four to six years during that period with no reported loss. They must have paid more in premiums than they've collected in indemnity claims. Refunds cannot exceed 15 percent of premiums paid in a particular year and will be capped at $25,000 per insured.

Standard Reinsurance Agreement

The Standard Reinsurance Agreement (SRA) is the set of arrangements between the federal government and the Approved Insurance Providers (AIPs) who deliver the program. The SRA has been renegotiated periodically since the private sector became involved in the crop insurance program in 1980. The 2008 Farm Bill added a clause to the Crop Insurance Act stating the SRA was to be renegotiated effective for the 2011 reinsurance year beginning July 1, 2010, and at least once every five years thereafter.

The SRA was negotiated over the summer last year. According to RMA, the agreement met its goal of aligning administrative and operating subsidies for the AIPs closer to the actual delivery costs. As scored by the federal accountants, the new SRA will achieve a $6 billion saving over ten years. Of that, $4 billion will be dedicated to deficit reduction and $2 billion will be directed to producer benefits. The “Good Performance Refund” discussed above will cost about $75 million per year and will be part of the $2 billion SRA benefit to producers.

Summary

Crop insurance policies are continually renewing. Policies effective in 2010 will automatically be rolled into the new COMBO Policy according to the 2010 coverage. If you wish to change your coverage, consult your agent. And lastly, expected revenues per acre will be higher in 2011 than 2010, and so will the cost of insurance to protect that revenue, due to the price increases.

H. Doug Jose, (402) 472-1749
Extension Farm Management Specialist
Dept. of Agricultural Economics
University of Nebraska-Lincoln
hjose1@unl.edu