January 2005

Crop Insurance Decisions for 2005

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

January 26, 2005

Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska – Lincoln
http://agecon.unl.edu/pub/cornhusker.htm

Crop Insurance Decisions for 2005

Market Report	Yr Ago	4 Wks Ago	1/21/05
Livestock and Products, Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	$86.20	$ *	$88.06
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb	118.06	*	126.14
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb	92.61	*	107.60
Choice Boxed Beef, 600-750 lb. Carcass	144.93	*	154.88
Western Corn Belt Base Hog Price Carcass, Negotiated	56.11	*	73.16
Feeder Pigs, National Direct 45 lbs, FOB	38.45	*	67.20
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	60.11	*	75.13
Slaughter Lambs, Ch. & Pr., 90-160 lbs., Shorn, Midwest	*	*	107.00
National Carcass Lamb Cutout, FOB	208.35	*	244.17
Crops, Daily Spot Prices			
Wheat, No. 1, H.W. Omaha, bu	3.83	*	3.31
Corn, No. 2, Yellow Omaha, bu	2.55	*	1.75
Soybeans, No. 1, Yellow Omaha, bu	8.22	*	5.23
Grain Sorghum, No. 2, Yellow Columbus, cwt	4.46	*	2.46
Oats, No. 2, Heavy Minneapolis, MN , bu	1.79	*	1.93
Hay			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton	115.00	*	115.00
Alfalfa, Large Rounds, Good Platte Valley, ton	62.50	*	62.50
Grass Hay, Large Rounds, Good Northeast Nebraska, ton	57.50	*	57.50

* No market.

The prices established by the Risk Management Agency (RMA) used to calculate the premiums and indemnities for the standard APH/MPCI program for 2005 are:

Corn	$2.20 per bu.
Grain Sorghum	$2.15 per bu.
Soybeans	$5.00 per bu.

The spring base prices for Crop Revenue Coverage (CRC) and Revenue Assurance (RA) are the averages of the closing prices during February for the December and November CBOT contracts for corn and soybeans, respectively. At the close on January 21, 2005, the DEC corn contract was at $2.28 and the NOV soybean contract was at $5.33. These are both significantly lower than the 2004 planting prices of $2.83 and $6.72 for corn and soybeans, respectively.

CRC versus RA

Revenue Assurance was available for the first time in Nebraska in 2004. There are three differences between RA and CRC. The basic RA contract has only one price, the price established in February. The harvest price is not part of the basic contract. However the "harvest price option" is available for RA, making it almost the same as CRC. The "almost" qualifier is that the harvest price for RA is determined from the DEC CBOT contract during November rather than October for CRC. The "whole farm" option is available for RA but not CRC and coverage levels below 65 percent are not available for RA. A key consideration in choosing CRC or RA is the premium rates which differ.

Recommendations:

1. ***Only consider RA with the harvest price option;***
2. ***Purchase the policy which is the cheapest for your county; and,***
3. ***Chart the DEC contract for corn and NOV contract for soybeans during February and begin planning forward pricing strategies if you plan to purchase either of the revenue policies.***

Group Risk Income Protection

The GRIP program is being offered for the first time in Nebraska in 2005. GRIP is an area based revenue insurance product that pays the insured in the event a county average per acre revenue falls below the insured's county "trigger revenue." GRIP is similar to GRP in that participation is driven by the relationship of individual yield to the county expected yield, except that price is added into the equation.

Coverage levels are the same as for GRP, 70 percent to 90 percent in 5 percent increments.

GRIP Prices for Corn:

Expected: Average of the final closing prices for the last five trading days in February for the CBOT December corn futures contract for the current crop year.

Harvest: Average of the final closing prices in November for the CBOT December corn futures contract.

GRIP Prices for Soybeans:

Expected: Average of the final closing prices for the last five trading days in February for the CBOT November soybean futures contract for the current crop year.

Harvest: Average of the final closing prices in October for the CBOT November soybean futures contract.

GRIP Prices for Grain Sorghum:

Expected: Average of the final closing prices for the month of February for the CBOT December corn futures contract for the current crop year, multiplied by the price percentage relationship between grain sorghum and corn as determined by RMA based on the January estimate of corn and sorghum prices.

Harvest: Average of the final closing prices in October of the CBOT December corn futures contract multiplied by the price relationship between grain sorghum and corn as determined by RMA based on the January estimate of corn and sorghum prices. The harvest price cannot be less than the expected price minus $1.50, or greater than the expected price plus $1.50.

Dollar amount of protection per acre is selected from amounts specified in the actuarial tables.

The payment calculation factor and the loss payment or indemnity are calculated using similar formulas as for GRP.

Payment Calculation Factor = (Trigger Revenue - County Revenue)/Trigger Revenue
Indemnity = Payment Calculation Factor x Policy Protection.
Expected County Revenue = Expected County Yield x Expected Price
Trigger Revenue = Expected County Revenue x Coverage Level Selected
County Revenue = Final County Yield x Harvest Price

GRIP is available in 74 counties for corn, 20 counties for grain sorghum and 35 counties for soybeans.

Recommendation: Check with your agent to determine what the GRIP history would have been for your county for the past five years.

H. Douglas Jose, (402) 472-21749
Extension Farm Management Specialist