

# **Assessing 2011 Risk Management Choices**

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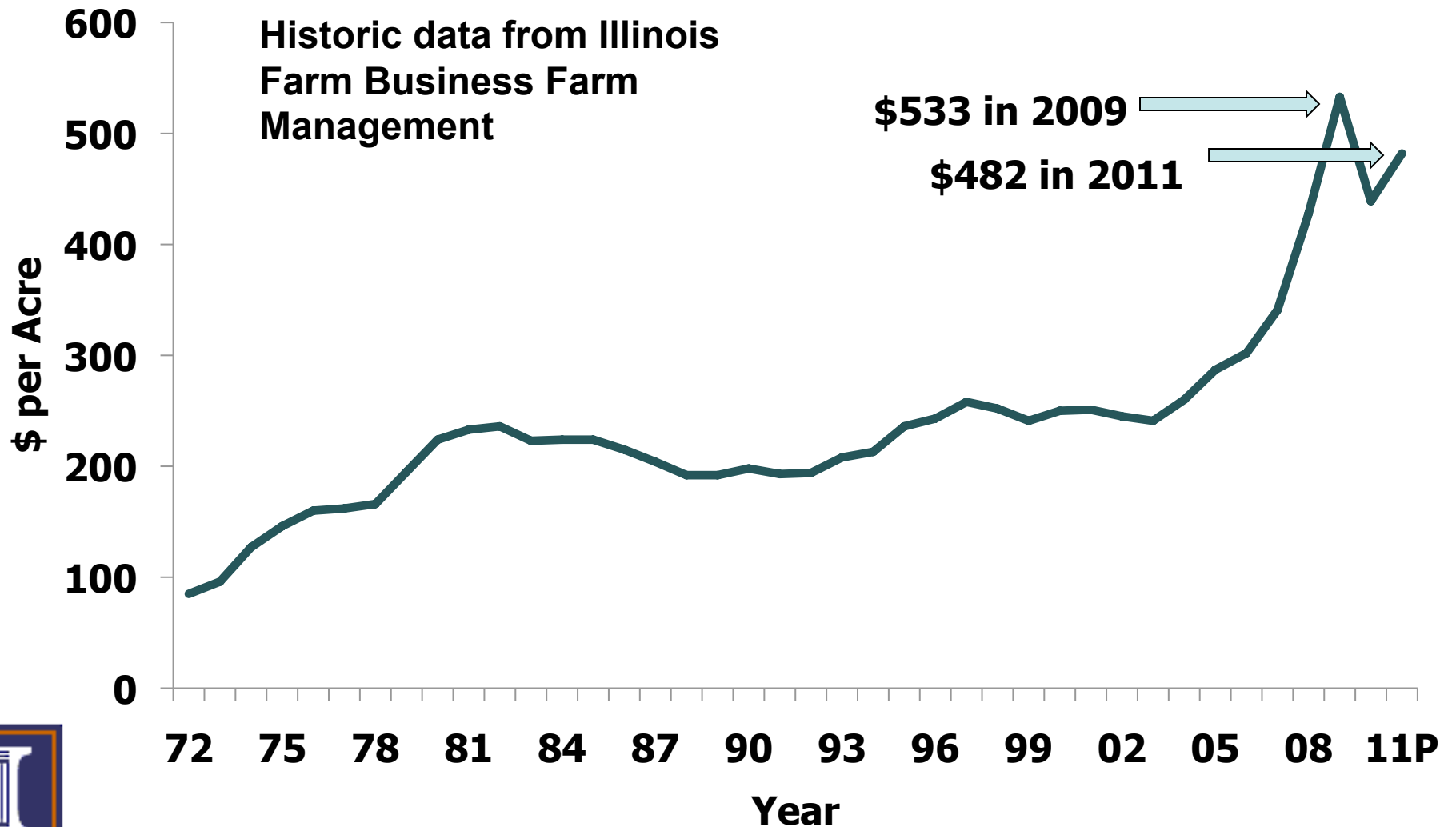
# 2011 Outlook

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- **Looks great right now. 2011 harvest-time bids in December 2010**
  - **\$5.00 for corn**
  - **\$11.60 for soybeans**
- **Costs are going up, probably not to 2009 levels**



# Non-land Costs, Central Illinois, Corn



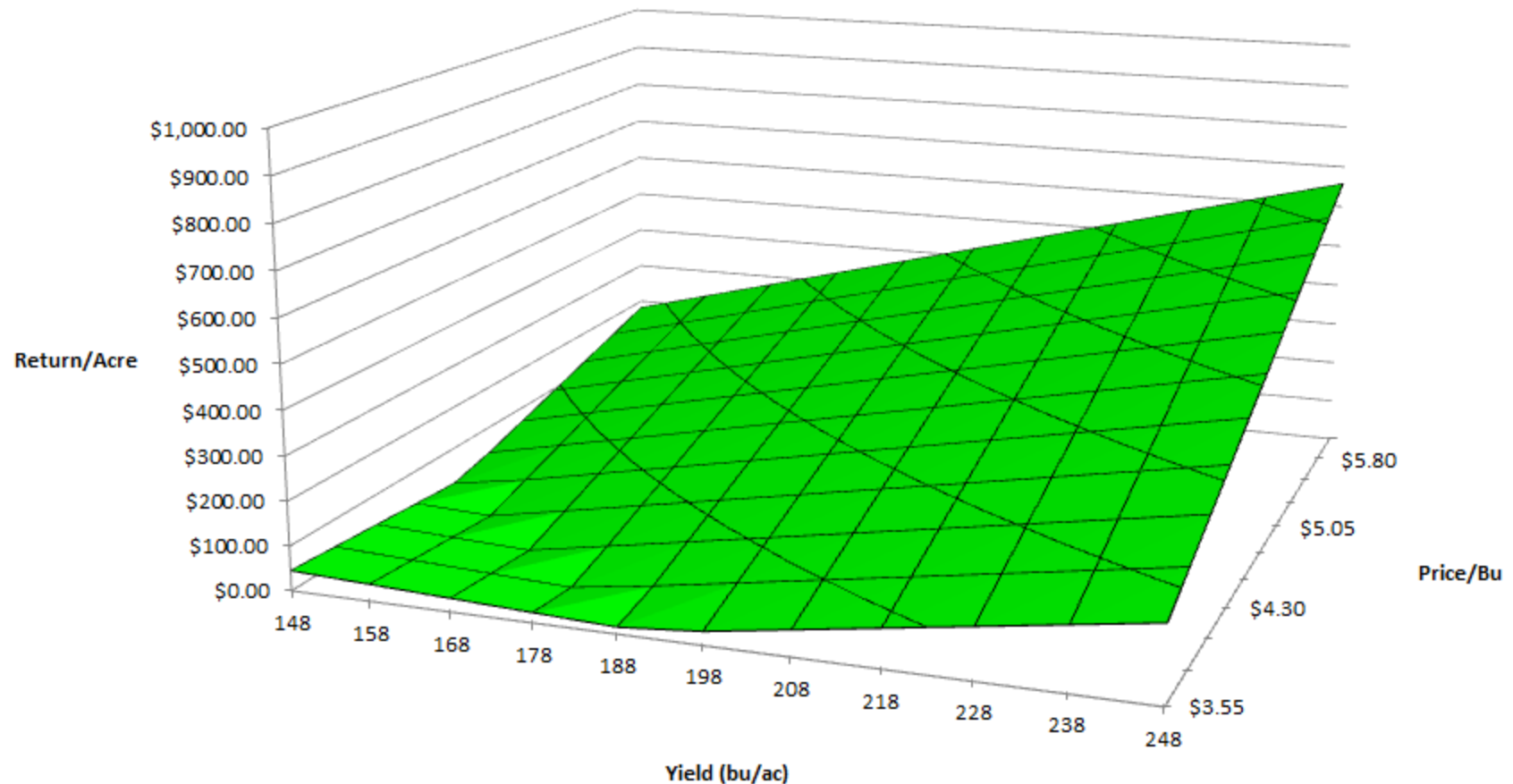
# Outlook

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- **If have not bid it all away in cash rents, 2011 will be projected to have profit levels equivalent or better than 2007 and 2008**
- **“Lock it in” with high coverage crop insurance decisions and pre-harvest hedging**



# Possibility of "All Green" with Crop Insurance and Pre-harvest Hedging



Scenario Analysis from Grain Economics FAST Tool

Unusual to be able to lock in profit at all price and profit levels



# Prices will be Different at 2011 Harvest

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- **Lower prices if:**
  - Normal of above trend yields
  - China stops buying
  - Ethanol or other policy changes
  - Trade war
  - Etc.
- **Higher prices if:**
  - Below trend-line yields across South America or corn-belt (**could be explosive**)



# By March 2011

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- **Pre-harvest price at least 25% of expected production**
- **Purchase crop insurance**
  - **80 or 85% coverage level of Revenue Protection (Combo product replacement of CRC or RA-HP) or**
  - **90% GRIP (vary protection level to lower costs)**



# 2010 and Estimated 2011 Crop Insurance Premium Costs

Coverage Level	CRC 2010	RP 2011	GRIP	
			2010	2011
\$ per acre				
70	3.88	4.81		
75	5.10	7.90		
80	9.20	15.21	13.52	42.31
85	17.49	29.77	22.85	61.91
90			38.57	87.38

**Premiums will  
cost more in  
2011**

**Get over  
sticker shock**

**Still buy high  
coverage  
levels**

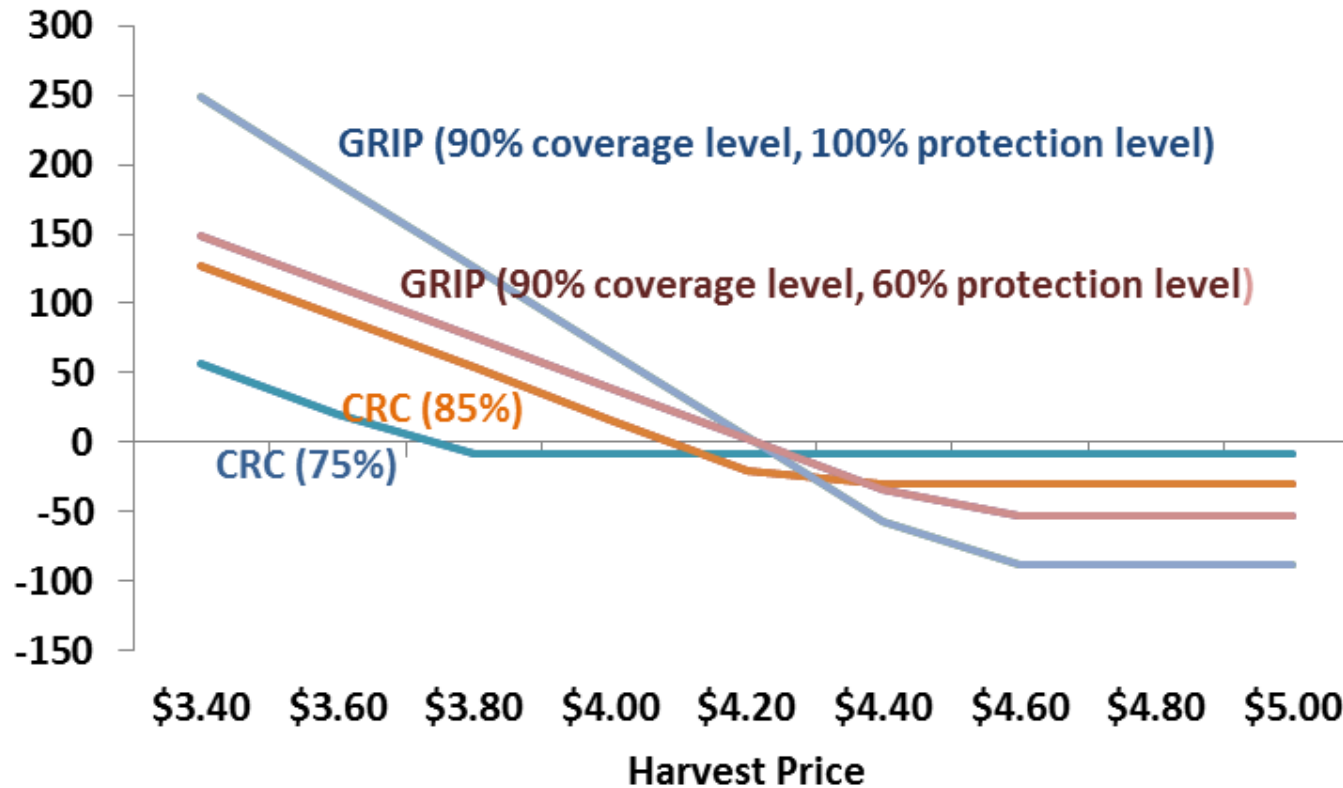
Premiums for:

180 bu. APH corn, enterprise units,  
McLean County, Illinois  
GRIP at 100% protection level





**Figure 1. Net Insurance Payments Given Different Harvest Prices, Corn, 2011E. \***



**GRIP is better at price protection**

**RP at better at yield protection**

\* For GRIP, county yield is at the expected yield of 183 bushels. For CRC, actual yield is at the APH yield of 185 bushels.



# Why Every Farm Should be in ACRE

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- **Crop insurance does not protect against intra-year price declines**
- **What happens if price falls to \$3.00 between now and February? -- No crop insurance protection**
- **Multi-year hedging has risks**
- **ACRE protects against declines between years**



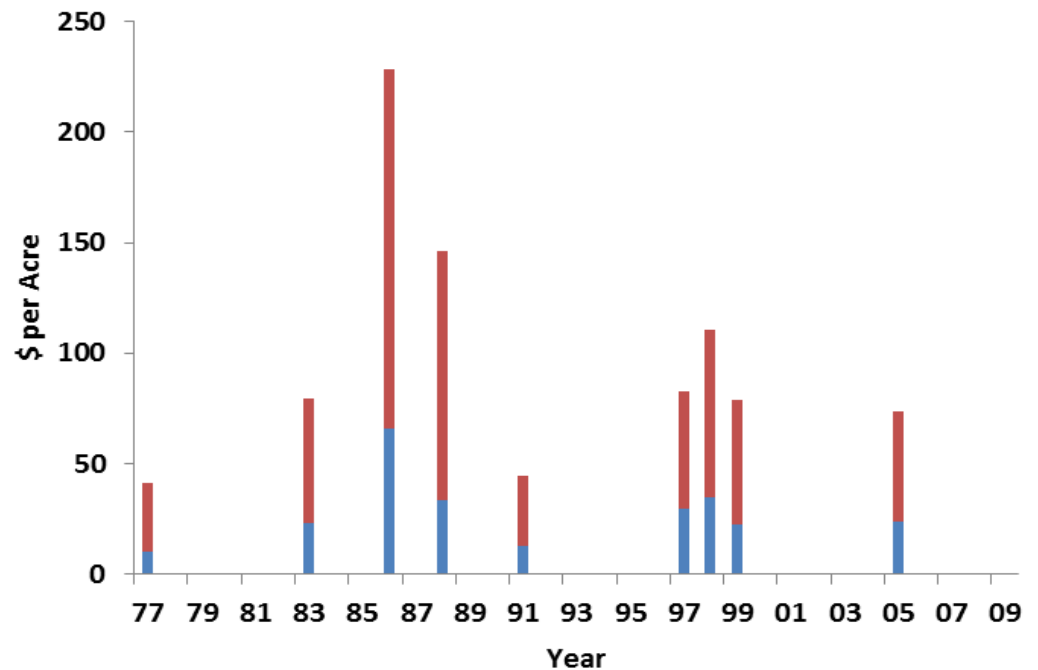
# Years in Which State ACRE Payments Occur for Corn in Illinois

Had ACRE existed, graph shows state ACRE payments for corn in Illinois

State payments in about 1 in 3 years

Note 97, 98, and 99, low price years compared to those preceding it.

Estimated State ACRE Payments



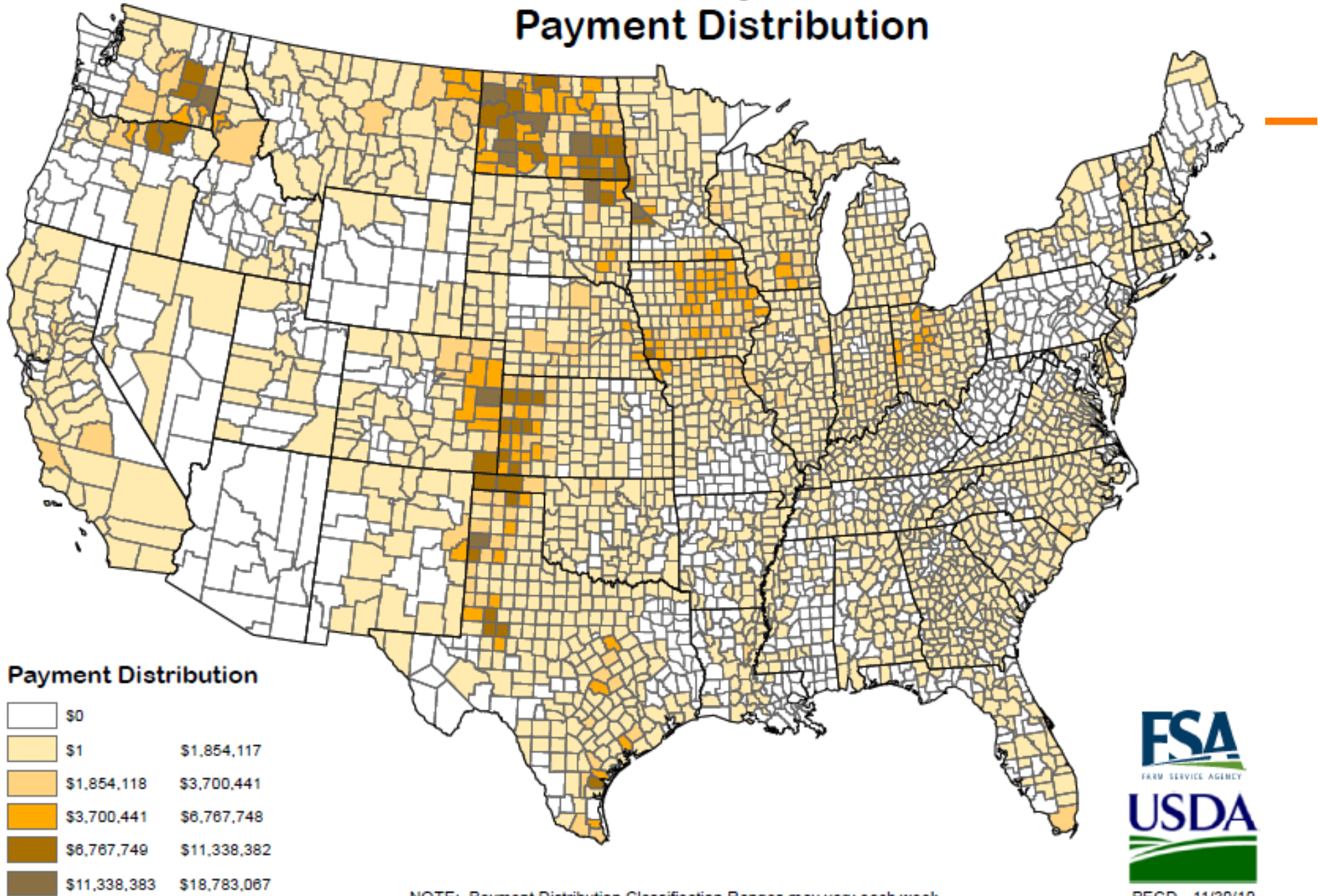
**State ACRE Payment, Corn, 1975 – 2009**

Average

\$18.40 per acre



# 2008 SURE Recovery Act & Trust Fund Payment Distribution



NOTE: Payment Distribution Classification Ranges may vary each week.



PECD - 11/30/10

# What Can You Say About SURE?

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- **It has made big payments**
- **In many opinion, too many criteria**  
**In Illinois, 10% yield loss requirement caused some farms to have zero payments while others in similar situations had large payments**
- **It's a Lottery**



# 2011 Summary

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- **Buy crop insurance at high coverage levels**
- **Pre-harvest price 25% of crop by March**
- **Think about ACRE for 2011**

