Managing Crop Insurance and Revenue Risk for 2013 and Beyond

Gary Schnitkey
University of Illinois

Topics

- What about 2013?
- After 2013: Why your crop insurance decisions will look different

Crop Insurance Decisions in 2013

- Most Midwest farmers took either:
  - Revenue Protection (RP) at 75, 80, and 85%
  - Group Risk Income Plan with harvest price option at 90%
- Similar Federal products available in 2012
- Similar decision in 2013 as in 2012 seems prudent
  - Harvest price option
  - Trend adjustment endorsement
  - High coverage level

What Will Change

- 201(2/3) Farm Bill could change decisions
- Likely challenges to Federal crop insurance subsidies

Supplemental Coverage Option (SCO)

- Contained in both Senate and House Ag committee bills
- Offers GRIP like coverage from a 90% coverage level (lower than 90% on some alternatives) down to coverage level of farm-level policy
- Example: Farmer buys 75% RP policy. Takes SCO from 90% to 75%. SCO makes payment on a county RP policy from 90% to 75%

SCO, McLean County, Illinois
Corn, 2012 Example

Coverage	Farmer-Paid Premium	Average Payment	Net Payment
90% to 85%	$7.75	$16.03	$8.28
90% to 80%	$13.18	$29.64	$16.46
90% to 75%	$19.08	$42.61	$23.53
90% to 70%	$23.04	$53.79	$30.75

Premium based on 2012 GRIP-HR premiums, actual rates may differ from those shown above.

RP and SCO, McLean County, Illinois

Revenue Protection Policy				RP and SCO	
Coverage Level	**Farmer Premium**	**Average Payment**	**Net Payment**	**Farmer Premium**	**Net Payment**
85%	20.73	32.29	11.56	28.48	19.84
80%	10.18	19.76	9.58	23.36	26.04
75%	5.03	11.25	6.22	24.11	29.75
70%	2.91	5.86	2.96	25.95	33.71

Commodity Program Choices in 2012 Senate Ag Bill

1. Agriculture Risk Coverage (ARC) at a county level
   - Payment limit on ARC of $50,000
   - SCO at 79% max coverage level
2. ARC at farm level
   - Payment limit on ARC of $50,000
   - SCO at 79% max coverage level
3. No ARC
   - Avoid commodity program payment limit
   - SCO at 90% max coverage level

Crop Insurance "Reforms" Put Forward

- Cut risk subsidies by 20%
- Limit total amount of risk subsidy per farm
- Cause risk subsidy to vary with taxable income
- Only subsidize a 70% yield insurance
- Eliminate the harvest price option

Beyond 2013

- Federal crop insurance could become more costly and/or limited due to congressional action
  - Federal portion becomes more limited and then rely on private add-ons

Lower Prices

- **What happens in March 2014 if (not a prediction but an if)**
  - Projected price for corn is $4.50
  - Projected price for soybeans is $10.50
- **Profits are narrowed and private add-ons will cost a larger portion of returns**
- **Have to look at adjusted rental arrangements and cash rents**