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Ag Decision Maker
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2002 Crop insurance update—Results from 2001

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Declining corn and soybean prices from February 2001 to harvest time coupled with spotty yields and late planting in southeast Iowa resulted in significant crop indemnity payments to Iowa farmers in 2001. The ratio of indemnity payments to total premiums was 44 percent, the highest since 1998. After subtracting the federal share of crop insurance premiums, farmers received indemnities equal to 95 percent of the premiums they paid as shown in Figures 2 and 3.

Handbook Updates

For those of you subscribing to the *Ag Decision Maker Handbook*, the following updates are included.

2002 Iowa Crop Production Cost Budgets — File A1-20 (13 pages)

Farmland Lease Contract—File C2-06 (2 pages)

Please add these files to your handbook and remove the out-of-date material

Revenue Assurance policyholders actually received more dollars in indemnity payments than they paid in premiums, while CRC policies were slightly below breakeven. Note that Group Risk Plan (GRP) indemnities haven't been determined yet, pending estimation of county average yields.

Revenue insurance

The February 2001 futures prices that were used to calculate the guarantees for Crop Revenue Coverage (CRC) and Revenue Assurance (RA) were $2.46 for corn and $4.67 for soybeans. The fall futures prices used to calculate the actual revenue in 2001 were $2.05 for corn and $4.37 for soybeans. Thus, the increasing coverage feature of CRC and RA-harvest price optional policies did not go into effect this year. Corn producers who purchased revenue insurance at the 85 percent level and achieved yields equal to their APH yield received a small payment based solely on the price decline. The table above shows what percent of yield loss below the APH yield would have been required to receive an indemnity payment at other guarantee levels.

Guarantee level	Corn	Soybeans
85 %	0 %	9 %
75 %	10 %	20 %
65 %	22 %	31 %

For 2002 the fall futures price used to calculate the actual revenue for corn will be the average of the December contract price during October instead of November.

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Actual Production History (yield) Insurance

APH indemnity prices for 2002 are not available yet. They likely will be close to the levels set for the past two years:

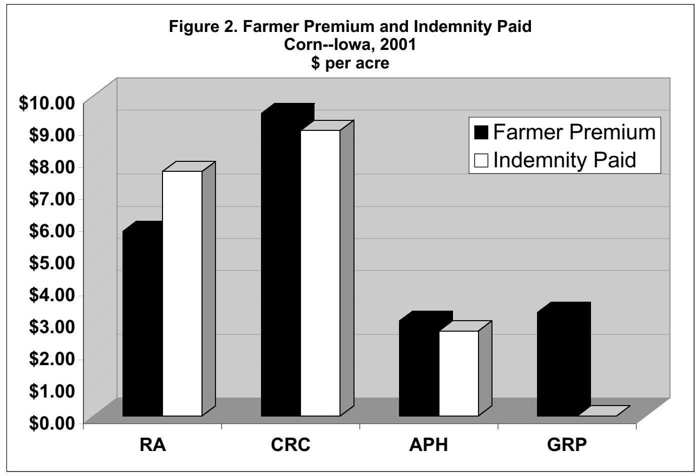
	Corn	Soybeans
2000	$1.90	$5.16
2001	$2.05	$5.26

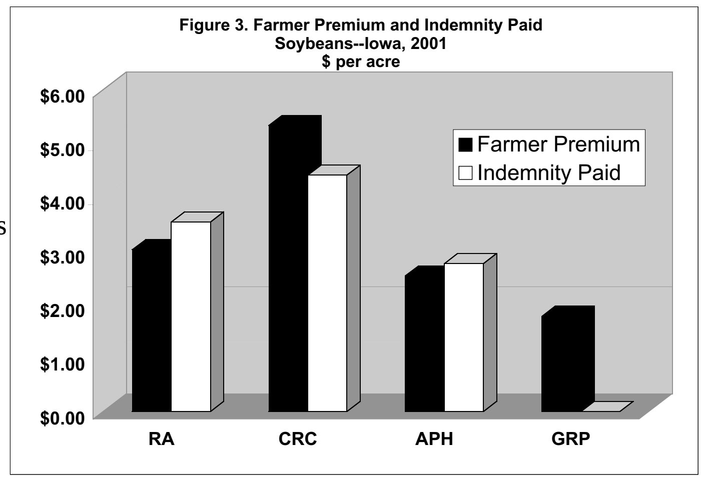
Premiums

Higher coverage rates mean higher premiums. As a general rule, increasing the guarantee from 65 percent to 75 percent will about double the premiums, and increasing it from 75 percent to 85 percent will double it again. The federal subsidy (percent) is lower for higher levels of coverage. Figure 1 shows the coverage levels chosen by Iowa producers in 2001. The 50 percent coverage level was mostly from catastrophic policies.

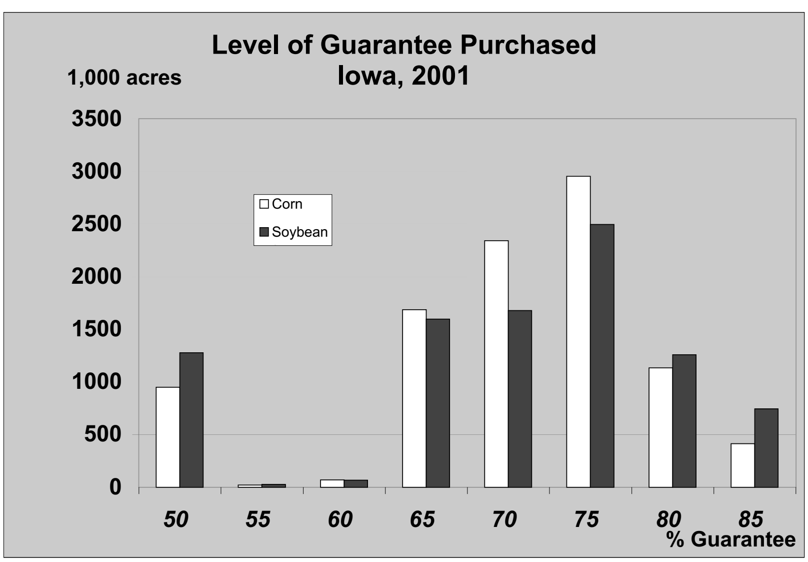
Points worth remembering for 2002

- The USDA loan rate (LDP or marketing loan) sets a price floor near or above insurance rates, especially for soybeans.
- If yields are low and prices go up:
  - -CRC or RA-optional give the most $ coverage
  - -MPCI is next
  - -Standard RA gives the least protection
- If yields are average or better and prices don't rise, standard RA will give the same guarantee as optional RA or CRC, but often at a lower premium.





- The futures price for corn used to calculate RA and CRC guarantees has been above the APH indemnity price, but the futures price for soybeans has been considerably lower than the APH indemnity price. This makes APH insurance relatively more attractive for soybeans, and revenue insurance more attractive for corn.



- Producers who want to be in a position to aggressively pursue forward pricing opportunities in the event of a weather rally may prefer revenue insurance with the increasing coverage option, to protect against the possibility of yields falling below the level that is forward contracted. The same philosophy applies to producers who feed most of their corn and want to protect against having to buy supplemental bushels at a high price.