



Crop insurance and marketing strategies for 2005

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Corn and soybean producers in the Midwest need to make decisions about crop insurance by March 15 each year. If you don't advise your agent to make any changes, your coverage will be the same as last year. However, changing market conditions make it advisable to review your policy specifications each year.

Indemnity Prices

Even if you don't alter your coverage from year to year, the dollar value of your guarantee will change according to market prices. The price used to calculate your guarantee and determine your payment in case of a loss is called the "indemnity price." How high the indemnity price is each year depends on market projections and the type of insurance you have. Traditional yield insurance, or APH (actual production history), uses a projected harvest cash price set by the USDA. For 2005 these prices have been fixed at \$2.20 for corn and \$5.00 for soybeans, considerably lower than last year's levels (see table).

Revenue insurance, both RA (Revenue Assurance) and CRC (Crop Revenue Coverage), set their indemnity prices equal to the average Chicago Board of Trade prices during the month of February. Prices for November soybean contracts and December corn contracts are used. While these average prices won't be known until March 1, it is likely that they will be much lower than last year.

Group Insurance

Still another type of crop insurance, the Group Risk Income Protection (GRIP) policy, uses the average futures prices during just the last 5 days of February. Last year a late month market rally resulted in very attractive indemnity prices of \$2.93 for corn and \$7.27 for soybeans. The fall market prices used to calculate the "actual" revenues were \$1.99 and \$5.26, a decrease of 32 percent for corn and nearly 28 percent for soybeans. Actual county yields for 2004 haven't been released yet, but even if they are above long-term averages, some producers who purchased GRIP with a high level of coverage will receive a payment due solely to the decline in price.

GRIP and its yield insurance counterpart, GRP, have not been very popular in Iowa. Only 3 percent of corn and soybean acres in the state were insured with group policies last year. This can be attributed to the fact that protection is based on average county yields instead of individual farm yields. However, producers who have land in several locations within a county or who can safely carry more financial risk may find group insurance to be a low cost alternative with a significant chance of paying an indemnity. Of course the value of group coverage available for 2005 is likely to be quite a bit lower than last year, as well.

USDA Payments

USDA commodity program payments should also be taken into account when analyzing crop insurance coverage. Loan deficiency payments provide direct price protection when prices are low at harvest, and counter

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cyclical payments provide some additional protection. When insurance indemnity prices are near USDA loan rates (after adjusting for basis difference), ordinary yield insurance with LDP eligibility provides about the same protection as standard revenue insurance alone. In both cases, yield and price risk are reduced. Of course, if you purchase revenue insurance and prices go low enough to trigger indemnity payments, you will probably collect from both the insurance company and the USDA!

Preharvest Pricing

Producers who purchase Revenue Assurance policies this year should seriously consider the “harvest price option,” since low February prices increase the odds that prices will rise by harvest. This is especially true for soybeans, given the possibility of yield losses due to Asian rust. Crop Revenue Coverage has the increasing guarantee as a standard feature. However,

CRC limits the increase in coverage to \$1.50 per bushel for corn and \$3.00 for soybeans. Revenue Assurance without the harvest price option is probably the least attractive alternative this year, due to the low levels of coverage available, and no prospect of increasing coverage if markets rally.

Producers who like to forward price much of their production prior to harvest can utilize CRC or RA insurance with the harvest price option to protect themselves against harvesting fewer bushels than they contract. As long as they don’t commit more bushels than they have insured, they can rely on the insurance indemnity payment to cover the cost of any shortfall. This was especially helpful in 2004, when preharvest pricing opportunities were attractive.

Indemnity and Harvest Prices for Crop Insurance

	Corn		Soybeans	
	2004	2005	2004	2005
<u>Beginning Indemnity Price</u>				
APH, GRP	\$2.45	\$2.20	\$5.60	\$5.00
RA, CRC	\$2.83	Feb. futures	\$6.72	Feb. futures
GRIP	\$2.93	Last 5 days of Feb. futures	\$7.27	Last 5 days of Feb. futures
<u>Harvest price</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
APH, GRP	Not applic.	Not applic.	Not applic.	Not applic.
RA, GRIP	\$1.99	Nov. futures	\$5.26	Oct. futures
CRC	\$2.05	Oct. futures	\$5.26	Oct. futures
<u>USDA payment prices</u>				
Loan rate (Iowa average)	\$1.90	\$1.90	\$4.93	\$4.93
Counter cyclical trigger	\$2.35	\$2.35	\$5.36	\$5.36