

2009 Crop Insurance Choices March 2009



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Presentation Objectives

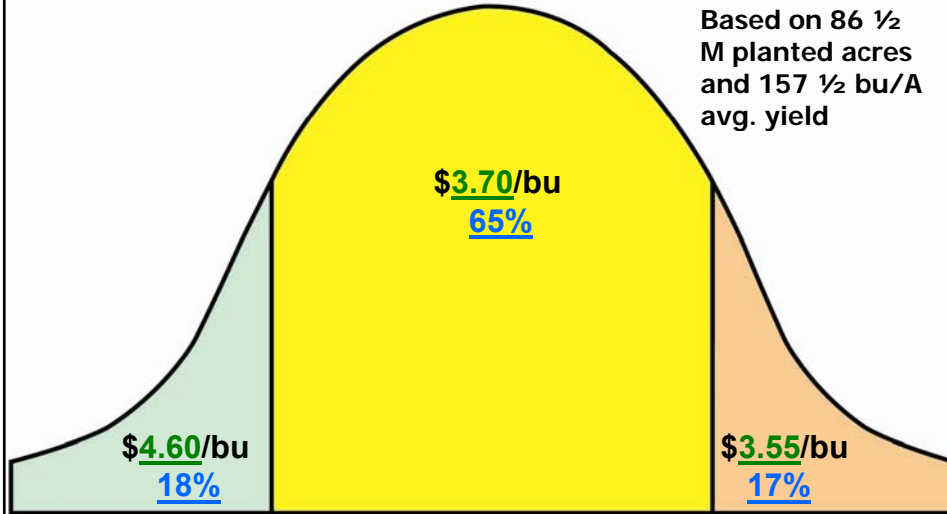
- **Highlight 2009-10 Crop Price Outlook & Seasonal Trends**
- **Review Iowa 2009 Estimated Costs of Crop Production**
- **Help You Build a Bridge to Crop Revenue**
 - Crop Insurance
 - SURE
 - ACRE
- **Provide 5 Crop Risk Management Strategies & 5 Supporting Web Sites**

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Corn Cash Price & Probability Forecast

'09-'10 Marketing Year

Based on 86 ½ M planted acres and 157 ½ bu/A avg. yield

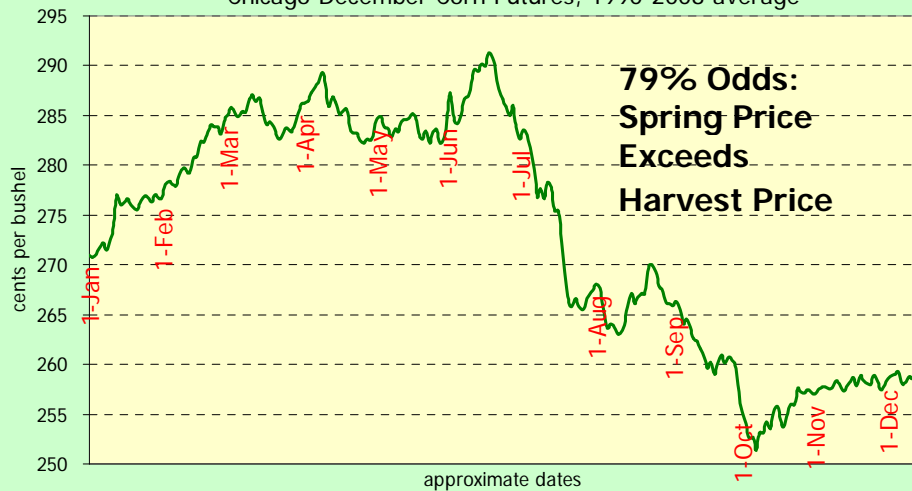


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Source: Wisner, ISU Ag Decision Maker, Feb. 10th, 2009

New Crop Corn Seasonal Trend

Chicago December Corn Futures, 1990-2008 average



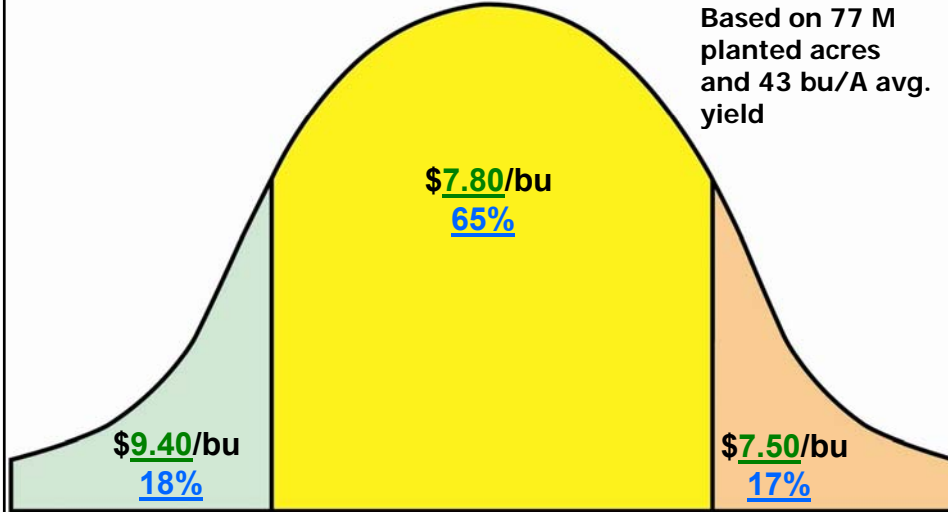
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Source: CBOT, U of MN, CFFM, 2008

Soybean Cash Price & Probability Forecast

'09-'10 Marketing Year

Based on 77 M planted acres and 43 bu/A avg. yield

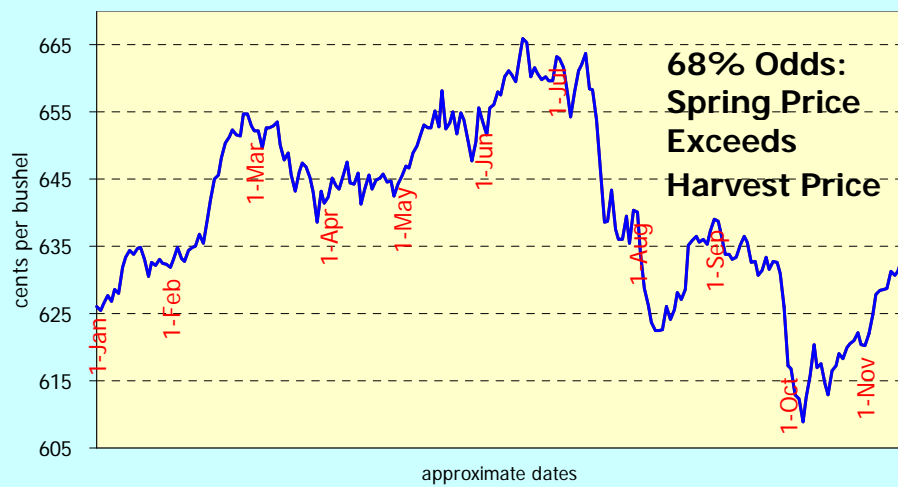


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Source: Wisner, ISU Ag Decision Maker, Feb. 10th, 2009

New Crop Soybean Seasonal Trend

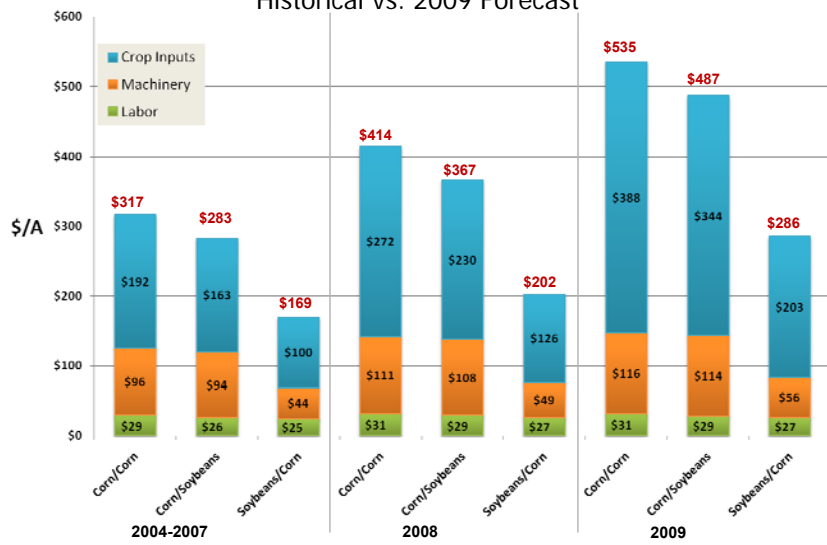
Chicago November Soybean Futures, 1990-2008 average



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Source: CBOT, U of MN, CFFM, 2008

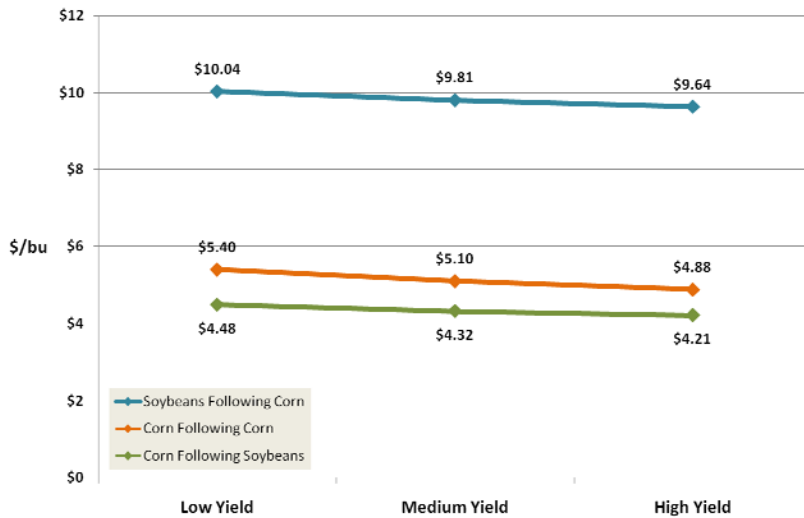
Crop Production Costs – (Non-Land in \$/A) Historical vs. 2009 Forecast



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Source: ISU Ext. Economics, FM-1712, Dec. 2008

2009 Break Even Costs: Crop Rotation and Yield



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Source: ISU Ext. Economics, FM-1712, Dec. 2008

Yield Insurance Products

- Catastrophic (CAT)
- Multi-Peril Crop Insurance (MPCI)
also called APH
- Group Risk Plan (GRP)
- Crop Hail or Hail/Wind Companion

Revenue Insurance Products

- Revenue Assurance (RA) – Standard or Base Price (BP)
- * – Revenue Assurance (RA) – w/Harvest Price Option (HP)
- * – Crop Revenue Coverage (CRC)
- Group Risk Income Protection (GRIP) – Standard or Base Price (BP)
- * – Group Risk Income Protection (GRIP) – w/Harvest Price Option (HP)

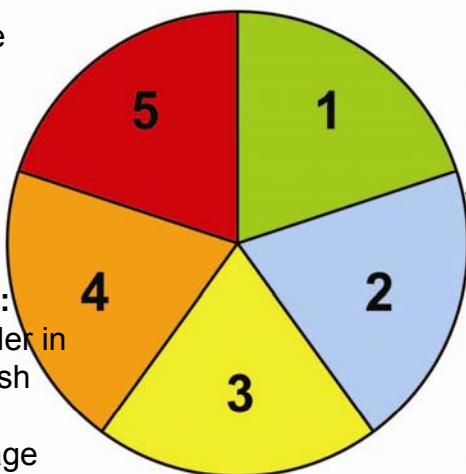
- * Recommended with Pre-Harvest Sales

Farm Financial Risk Categories

High Risk: large debt, all cash rented, variable ground, large livestock feeder, limited storage

Above Average: large debt, smaller in scale, mostly cash rented, variable ground, no storage

Average: some debt, larger in scale, mostly cash rented land, some variable soils, limited storage



Low Risk: little debt, productive owned land, adequate on-farm storage

Below Average: some debt, larger in scale, mostly owned land, adequate on-farm storage

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Source: Johnson, ISU Extension, March 2009

Choosing Crop Insurance Products

Farm Financial Risk

Likely Product

- | | |
|-------------------------|---|
| 1. Low Risk | GRIP-HR and Hail, APH/MPCI, CRC or RA |
| 2. Below Average | GRIP-HR and Hail, CRC or RA |
| 3. Average | CRC or RA-HP, medium level of coverage, larger units |
| 4. Above Average | CRC or RA-HP, medium to high level of coverage, smaller units |
| 5. High Risk | CRC or RA-HP, high level of coverage, smaller units |

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Source: Johnson, ISU Extension, March 2009

2009 Spring Base Prices

- **MPCI/APH Price**

- Corn **\$4.00** /bu.
- Soybeans **\$9.90** /bu.

- **CRC, RA and GRIP Base Price**

Use the February 2009 futures price averages
for December Corn and November Soybeans

- Corn ≈ \$ **4.04** /bu.*
- Soybean ≈ \$ **8.80** /bu.*

Spring Wheat \$ **6.20** Grain Sorghum \$ **3.56**

** Base Price and Guaranteed Revenue was determined in the month of February*

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Source: www.rma.usda.gov, March 2009

2009 Corn Strategy using CRC or RA-HP

170 bu/A APH

X **75%** level of coverage

127½ /bu/A Guaranteed Yield

X \$ **4.04** /bu * Dec. Corn Futures in Feb.

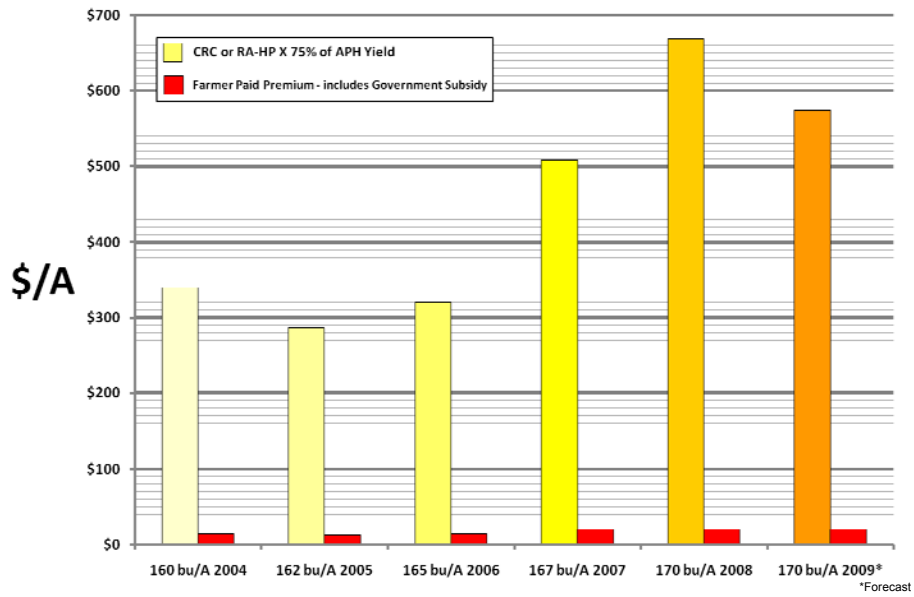
\$ **515** /A * Guaranteed Revenue

** Base Price and Guaranteed Revenue was determined in the month of February*

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Source: Johnson, ISU Extension, March 2009

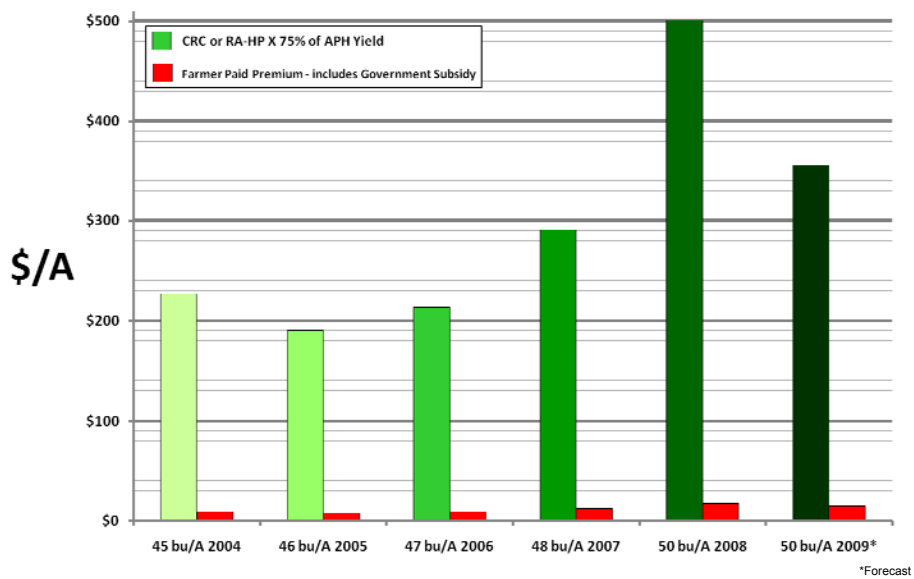
Corn Revenue Guarantee vs. Insurance Premium



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*Spring Base Price determined in February
Source: Johnson, ISU Ext. Economics, Feb. 2009

Soybean Revenue Guarantee vs. Insurance Premium



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*Spring Base Price determined in February
Source: Johnson, ISU Ext. Economics, Feb. 2009

2009 Crop Insurance Changes

- **New 200% Cap on the Spring Base Price** for CRC, RA-HP and GRIP; No downside limits
- **Addition of new Supplemental Revenue (SURE) Disaster Program**
- **Higher Subsidies for Enterprise** and Whole Farm **Units**, Lower Subsidies for GRIP and GRP
- **Expanded Biotech Endorsement (BE)**: Additional Hybrids and States

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Source: Johnson, ISU Ext. Economics, March 2009

SURE - Supplemental Revenue Disaster Program

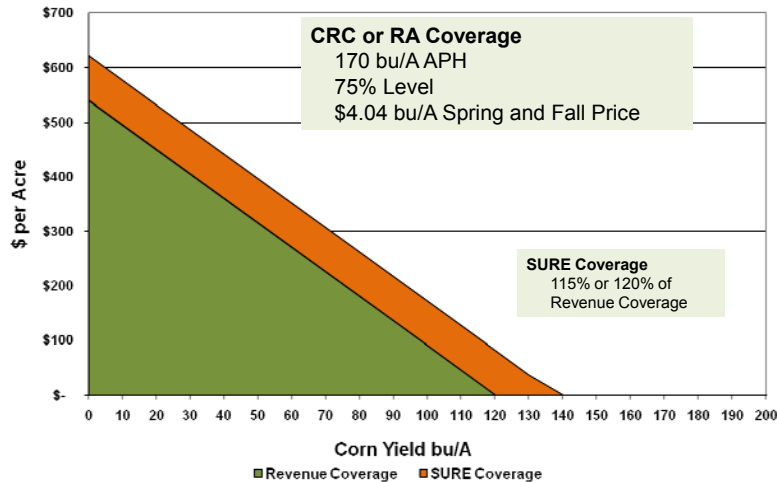


- Provides **“supplemental revenue” coverage to existing crop insurance policies**
- **Insured must cover all crops, all farms, all counties**
- Program offered annually 2009 through 2012, **administered by the Farm Service Agency (FSA)**
- All **qualified crops on all farms must be insured or purchase Non-Insured Assistance Program (NAP)**
- **Claims must meet one of three** requirements:
 - be in a “disaster county” (U.S. Secretary of Ag designation)
 - or a contiguous county (U.S. Secretary of Ag designation)
 - or crop revenue loss on all crops on all farms must exceed 50%

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Source: ISU Ext. Economics, Feb. 2009

Crop Revenue Insurance Coverage (with SURE)



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Source: Johnson, ISU Extension, Feb. 2009

SURE Program Technical Corrections

- Clarifies how to measure 50% of production loss for crops harvested
- Adds a requirement of a 10% production loss or greater on at least one crop of economic significance
- Excludes subsequently planted crops (ghost crops)
- Allows the Secretary of Ag to adjust the average market price received to reflect regional variations
- Provides exception to crop insurance linkage:
 - Crops that are not of economic significance (5% or less do not have to be insured or NAP coverage)
- Allows for a waiver for 2009 crop year for 3 exceptions:
 - Socially disadvantaged, Limited resource or Beginning farmer
- Removes the Grazing Land linkage for SURE Program
- Clarifies Payment Limit rule changes

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Source: Iowa Farm Service Agency, Nov. 2008 and Jan. 2009

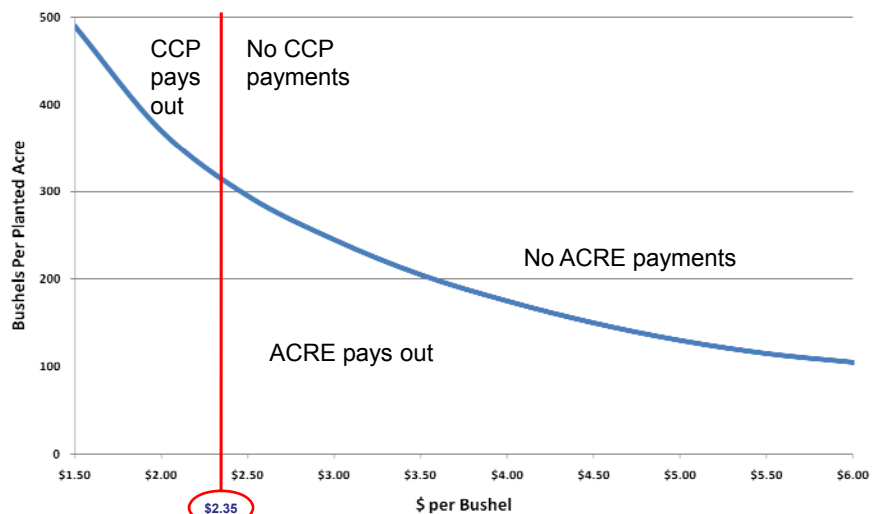
Direct & Counter Cyclical Program (DCP) vs. ACRE Election

<u>Traditional DCP</u>	<u>ACRE Election</u>
Direct Payments Certain	80% of Direct Payments Certain
Loan Payments at Full Loan Rates Little Chance of Collecting a Marketing Loan Gain (MLG)	Loan Program at 70% of Loan Rate More Bushels Required *\$1.36 ½ per bu. Corn *\$3.50 per bu. Soybeans (*70% of National Loan Rates)
Counter-Cyclical Payment (CCP) Little Chance of Collecting	ACRE Program No CCP Payments ACRE payments likely 20%-30% of Years

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Source: Schnitkey, U of IL Ext. Economics, Jan. 2009

ACRE vs. CCP Payments



\$5.36/bu Soybeans, \$3.40/bu Wheat

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Source: ISU Extension Economics, March 2009

State Revenue Trigger

State Guarantee	State Revenue
<p style="text-align: center;">2009 Iowa Example</p> <p>5-year Olympic Avg. State Yield (Planted Acre) 167 bu/A C & 50.3 bu/A Sb</p> <p style="text-align: center;">X</p> <p>2-year National Market Year Average (MYA) Cash Price \$4.05 C & \$9.67 ½ Sb</p> <p style="text-align: center;">X</p> <p style="text-align: center;">90%</p> <p>\$609/A C & \$432/A Sb</p> <p style="text-align: center;">Capped at +/- 10% from previous year</p>	<p style="text-align: center;">Actual State Yield (Planted Acre) January 2010</p> <p style="text-align: center;">X</p> <p style="text-align: center;">Actual National Market Year Average (MYA) Cash Price September 2010</p>
Must Exceed	

Farm Revenue Trigger

Farm Guarantee	Farm Revenue
<p>5-year Olympic Avg. Farm Yield *</p> <p>Favors higher yielding farms</p> <p style="text-align: center;">X</p> <p>2-year National Market Year Average (MYA) Cash Price \$4.05/bu C / \$9.67 ½/bu Sb</p> <p style="text-align: center;">+</p> <p>Crop Insurance Premium (Farmer paid portion)</p> <p>Likely from RMA: About \$15/A C and \$10/A Sb</p>	<p style="text-align: center;">Actual Farm Yield After Harvest</p> <p style="text-align: center;">X</p> <p style="text-align: center;">Actual National Market Year Average (MYA) Cash Price September 2010</p>
Must Exceed	

* Implies that farm-level yields will have to be provided to FSA at ACRE sign-up.

ACRE Set-up for Iowa Corn

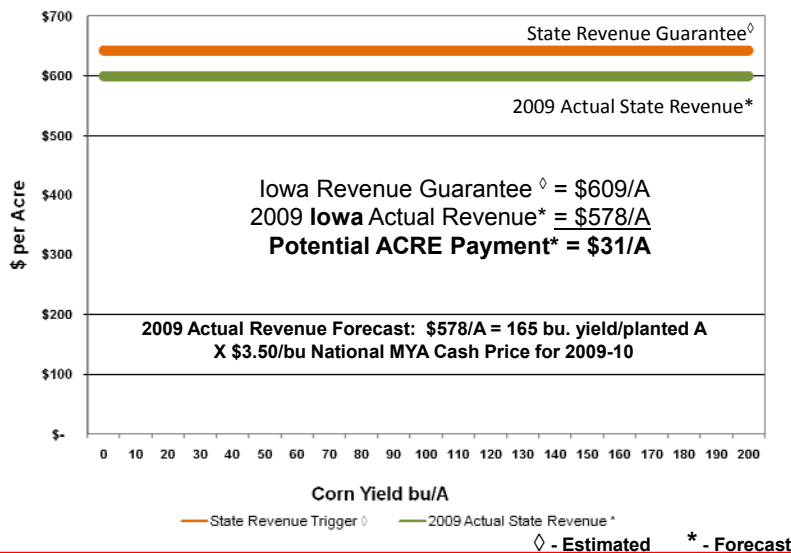
Year	Yield per Planted Acre (bu./acre)	Year	Marketing Year Average Cash Price (\$/bu.)
2004	176.7	2007/08	4.20
2005	168.9	2008/09	3.90
2006	162.7		
2007	167.4	Average	\$4.05
2008	164.6		
Olympic Average	167.0		

$167 \times \$4.05 \times 90\% = \$609/A$

The 2008 yield and price are USDA's January and February 2009 estimates.

So the expected state yield would be 167.0 bushels per acre and the ACRE price guarantee would be \$4.05 per bushel.

Potential ACRE Payment for Corn



ACRE Set-up for Iowa Soybeans

Year	Yield per Planted Acre (bu./acre)	Year	Marketing Year Average Cash Price (\$/bu.)
2004	48.8	2007/08	10.10
2005	52.2	2008/09	9.25
2006	50.3	Average	\$ 9.67 ½
2007	51.9		
2008	45.6		
Olympic Average	50.3		

$50.3 \times \$9.67 \frac{1}{2} \times 90\% = \$438/A$

The 2008 yield and price are USDA's January and February 2009 estimates.

So the expected state yield would be 50.3 bushels per acre and the ACRE price guarantee would be \$9.67 ½ per bushel.

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Source: Hart, ISU Ext. Economics, Feb. 2009

Determining 2009 ACRE Payment (Considers Both Triggers are Met)

Lesser of	State ACRE Revenue Guarantee	Minus	Actual State Revenue
or	State ACRE Revenue Guarantee	Times	25%
		$\$609/A \text{ C} \ \& \ \$432/A \text{ Sb}$	

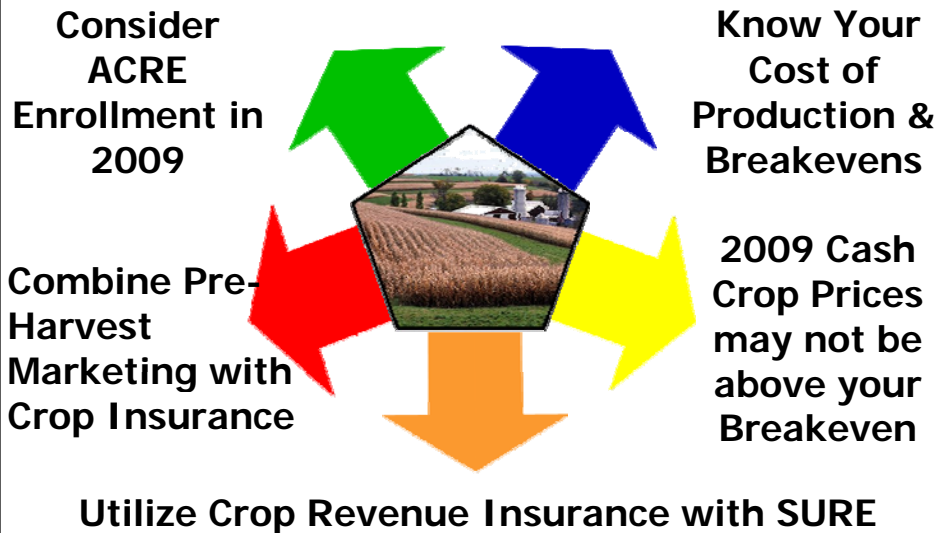
ACRE Payments are issued after October 1st of the year following harvest.

Payment Limits: Traditional DCP; \$40,000 for DPs and \$65,000 for CCPs.
 ACRE Payment Limits: \$32,000 for DPs and \$73,000 for ACRE Payments.
 Both payment limits total \$105,000 per Individual using Direct Attribution.

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Source: ISU Extension Economics, Feb. 2009

5 Strategies for Managing Crop Risks



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Source: Johnson, ISU Extension, March 2009

5 Crop Risk Management Web Sites

- **Ag Decision Maker – ISU Extension Economics**
(Spreadsheets - Decision Tools: SURE & ACRE)
www.extension.iastate.edu/agdm
- **Farm Doc – U of IL Extension Economics**
www.farmdoc.uiuc.edu
- **USDA Risk Management Agency (RMA)**
www.rma.usda.gov
- **USDA Farm Service Agency (FSA)**
www.fsa.usda.gov
- **Crop Risk Management – ISU Polk County**
Marketing, Farm Program & Crop Insurance:
Updates/Newsletters/Webcasts
www.extension.iastate.edu/polk/farmmanagement



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Source: Johnson, ISU Extension, March 2009