

# CROP MARKETING STRATEGIES

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## Crop Insurance Decisions

The USDA Risk Management Agency (RMA) offers farmers a number of crop insurance products with several different levels of coverage from which to choose. The federal government subsidizes the premiums typically from 38% to 59%, depending on the product and level of coverage.



Any change in crop insurance products or level of coverage from the previous year for spring planted crops must be communicated to an agent on or before March 15<sup>th</sup>. Premiums quoted include the government subsidy and do not have to be paid until fall. If losses occur, they are called indemnity payments and have the premiums subtracted.

## Establishing Base Price

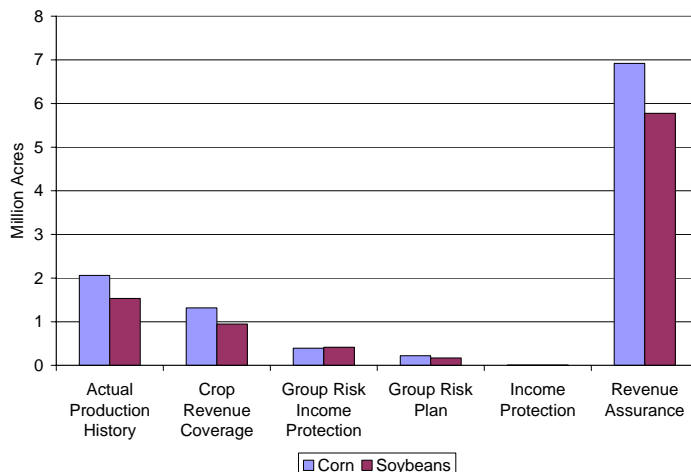
The RMA establishes the Base Price for the traditional product known as Multi-Peril Crop Insurance (MPCI). Most crop insurance products are actually multi-peril, so Actual Production History (APH) more accurately describes this yield product. RMA established the base price for the APH product in 2006 at \$2.00/bushel for corn and \$5.15/bushel for soybeans.

Group Risk Plans (GRP) are also yield products that use actual county average yields rather than a producer's production at harvest in order to determine an indemnity payment. For the GRP product RMA established the 2006 base price at \$2.00/bushel for corn and \$5.40/bushel for soybeans. In order to collect an indemnity payment from an APH or GRP product, yield loss must occur.

While farmers can elect to use these yield products, most choose revenue products whose indemnity payments reflect both yield and price. The trend in recent years has shifted the majority of Iowa insured corn and soybean acres to revenue products such as Revenue Assurance (RA-Standard or Revenue Assurance with Harvest Price Option - RA w/HPO) and Crop Revenue Coverage (CRC). These products use a producer's own production history determined over the most recent 10 years in order to calculate premiums with production at harvest used to determine if an indemnity payment will be provided.

A relatively new revenue product is Group Risk Income Protection (GRIP). The product combines the actual county average yield and typically the higher of the spring base or fall price, which ever is higher. This product is called GRIP with Harvest Revenue Option (GRIP w/HRO).

2005 Acres Insured in Iowa



Note that most of Iowa's insured acres in 2005 were primarily Revenue Assurance (RA). This is because RA includes both RA Standard (spring base price only) and RA w/HPO whose

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indemnity payments are made at the higher of the spring base or harvest price. This RA w/HPO product is similar to the Crop Revenue Coverage (CRC) product in coverage, but has a different method for determining premiums.

In early March both the spring base price for revenue products and premiums for all products are released. The base price for revenue products is \$2.59/bushel for corn (average December corn futures price in February). For soybeans the spring base price is \$6.18/bushel (average November soybean futures price in February). These spring prices are about 10% higher than 2005 prices and as a result, premiums for the same product and level of coverage will have a slightly larger premium in 2006. However, choosing the same product and level of coverage provides a larger revenue guarantee.

The base price calculations for various products, as well as fall adjustments (should they be higher than the base price), are reflected below.

## 2006 Corn Crop Insurance Prices

Product	Base Price	Fall Price
APH	\$2.00/bu.	NA
GRP	\$2.00/bu.	NA
RA Standard	\$2.59/bu.	NA
CRC	\$2.59/bu.	Oct. Avg.
RA w/HPO	\$2.59/bu.	Nov. Avg.
GRIP w/HRO	\$2.59/bu.	Oct. Avg.

## 2006 Soybean Crop Insurance Prices

Product	Base Price	Fall Price
MPCI	\$5.15/bu.	NA
APH	\$5.40/bu.	NA
RA Standard	\$6.18/bu.	NA
CRC	\$6.18/bu.	Oct. Avg.
RA w/HPO	\$6.18/bu.	Oct. Avg.
GRIP w/HRO	\$6.18/bu.	Oct. Avg.

Given a choice of revenue products with the same level of coverage and premium, most farmers will choose the RA w/HPO, especially

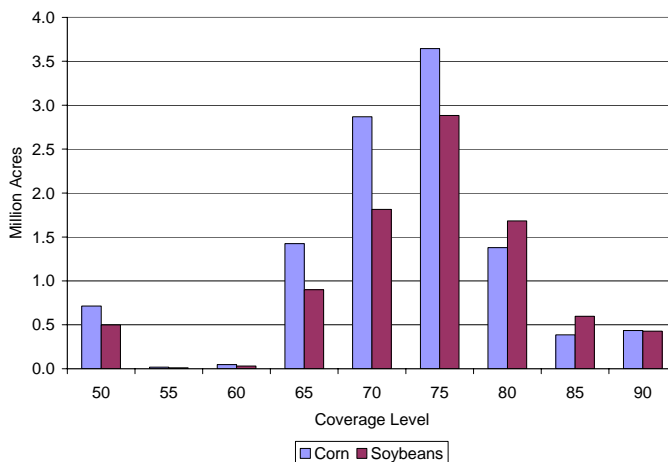
when used to compliment pre-harvest sales strategies. That's because the RA w/HPO product has no cap on fall price. CRC coverage on corn has a cap of \$1.50/bushel over the spring base price ( $\$2.59 + \$1.50 = \$4.09/\text{bushel cap}$ ) in 2006. The CRC coverage on soybeans is capped at \$3/bushel above the spring base price ( $\$6.18 + \$3.00 = \$9.18/\text{bushel cap}$ ). Since RA w/HPO has no cap, it appears to have an advantage if the premiums are similar for CRC.

Use of either the RA w/HPO or CRC products allow an indemnity payment to reflect the higher of the pre-established spring base price or the average fall price. Both prices use the same December corn futures or November soybean futures. Note CRC uses the month of October to determine fall price for both corn and soybeans. While the RA w/HPO product determines fall prices by using the month of October for soybeans and November for corn.

## Level of Coverage

Besides choosing a product, a decision regarding level of coverage must also be made. For each product, the higher the level of coverage the larger the premium and the smaller percent of government subsidy.

Insurance Coverage by Iowa Farmers in 2005



Note most farmers tend to choose a 70% or 75% level of coverage. This is an individual farm's decision and reflects the level of risk-

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bearing ability and the amount of premium they're willing to pay. In addition, many farms utilize the revenue products in order to cover livestock feed needs or to more aggressively pre-harvest sell a portion of their expected production.

## **Which Product Should You Choose?**

There is no one best product that fits all Iowa farms. The decision includes the product, level of coverage, premium, level of risk-bearing ability and pre-harvest marketing plan.

The choice of whether to select CRC or RA w/HPO for 2006 will likely be influenced by the premium. Because CRC is calculated using a High-Low Price Factor and RA w/HPO used a Price Volatility Factor, it may pay to compare the products. For many Iowa counties, the CRC product will have a lower premium than RA w/HPO for the same level of coverage. This is especially true at the 75% level of coverage and higher.

## **Conclusion**

Crop insurance products have various levels of coverage and are subsidized by the federal government. Products can be broken into two primary categories: yield and revenue. Check with your crop insurance agent prior to March 15<sup>th</sup> to make any changes from your 2005 selection of products and coverage.

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