

CROP MARKETING STRATEGIES

Selling Your Insurance Bushels

With the March 17th deadline for making 2008 crop insurance decisions behind, producers should consider how they can utilize their crop insurance product in order to improve pre-harvest marketing of insured bushels. The first step was the choice of a crop revenue product for 2008, preferably one that uses your farm-based yields. The most common product would likely have been Revenue Assurance with the Fall Harvest Price Option (RA-HP) or Crop Revenue Coverage (CRC).

These two are preferred over the Multi-Peril Crop Insurance Product (MPCI), which guarantees against yield loss and a predetermined price. Should yield loss occur, the indemnity payment would multiply those lost bushels times \$4.75/bu for corn and \$11.50/bu for soybeans, respectively. These prices were established by the USDA Risk Management Agency in January 2008. Forward pricing a large portion of insured bushels is difficult, because this product only provides protection against yield loss, regardless of what the actual price is for your crop next fall.

Two other products that producers could have chosen in 2008 are the county-based yield products such as Group Risk Protection (GRP) or Group Risk Income Protection (GRIP). However, committing a large number of bushels to delivery based on the actual production of your farm could be less risky, since the final yield of that entire county determines the indemnity payment. If you elect a GRP or GRIP product, then you should consider adding hail coverage and perhaps wind or green snap. These are perils that could occur on your farm, but would not necessarily be reflected in the final county yield. Committing a large percentage of your bushels to production should be cautioned, since the indemnity payment is based on the final county yield. This yield will not be determined by USDA NASS until late winter of 2009, so using the indemnity proceeds to replace the pre-harvest commitment of bushels may be difficult.

Comparing Corn Coverage

Selecting RA-HP or CRC was an individual decision, likely determined by the premium and the understanding of the price limitations that CRC has of \$1.50/bu on corn and \$3.00 per bushel on soybeans above and below the 2008 Spring Base Price of \$5.40/bu and \$13.36/bu. These prices were determined in the month of February and reflect the futures price average using the December corn futures contract and the November soybean futures contract. However, a producer is only guaranteed that price should the combination of their harvest yield times the fall price be lower than the Revenue Guarantee.

The ability to pre-harvest sell insurance bushels is an attractive component of revenue products, especially when the December corn futures or November soybean futures price is higher than the spring base price. This was especially true for soybeans in early March, and continues to be possibility for corn at this writing. This

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is because the insured is guaranteed bushels, and once the Spring Base Price is known, is guaranteed that price thus the reference to Revenue Guarantee. Many refer to these bushels as your insurance bushels or guaranteed bushels.

Comparing Multi-Peril Crop Insurance to Crop Revenue Products

Comparing the indemnity payment calculation is the easiest way to demonstrate the advantage that RA-HP or CRC products have over the traditional MPCl coverage. Note in the example below the assumption uses a farm-based APH of 150 bu/A and the 70% level of coverage is elected. Using a typical central Iowa county, the MPCl product would have had a farmer paid premium of \$6 per acre and around \$15 per acre for RA-HP and closer to \$13 per acre for the CRC product.

Comparing MPCl vs. CRC or RA-HP		
80 bu/A Harvest Yield, Fall Price Decreases		
Fall Price Decline	MPCl	CRC or RA-HP
APH	150 bu/A	150 bu/A
Coverage	70%	70%
Base Price	\$4.75/bu	\$5.40/bu
Guarantee	105 bu/A	\$567/A
Harvest Yield	80 bu/A	80 bu/A
Harvest Price		\$4.00/bu
New Guarantee		---
Indemnity	\$118.75/A	\$247/A

Now compare the use of MPCl that it is a yield product. It provides an indemnity payment when the actual harvest yield falls below 105 bu/A, 80 bu/A in this example. The loss payment is at \$4.75/bu for a total indemnity of \$118.75. Now look side by side at CRC or RA-HP which has a guarantee of \$567/A, that's the yield times the price. When the fall price declines to \$4/bu, the actual yield of 80 bu/A is multiplied times this price and subtracted from the Guarantee. Thus the indemnity of \$247/A is more than twice that of the MPCl product. Again, you could have pre-harvest marketed bushels and committed to delivery of up to the 105 bu/A using either CRC or RA-HP coverage.

Comparing MPCl vs. CRC or RA-HP		
80 bu/A Harvest Yield, Price Increases		
Fall Price Increase	MPCl	CRC or RA-HP
APH	150 bu/A	150 bu/A
Coverage	70%	70%
Base Price	\$4.75/bu	\$5.40/bu
Guarantee	105 bu/A	\$567/A
Harvest Yield	80 bu/A	80 bu/A
Harvest Price		\$6.00/bu
New Guarantee		\$630/A
Indemnity	\$118.75/A	\$150/A

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If the December Corn futures price increases above the Spring Base Price, CRC uses the average for the month of October and RA-HP for the month of November. In this example, the fall price increases to \$6/bu, again the actual yield of 80 bu/A is multiplied times this price. Since the fall price is higher than the spring price, a new guarantee of \$630/A is calculated. Now multiply the actual yield times this \$6/bu and subtract from the \$630/A guarantee. The \$150/A indemnity reflect the \$6 per bushel on any bushel that can be used to replace bushels that you are short, but might have committed to delivery. A slight basis risk may exist, so not committing all 105 bu/A to delivery is advised should a short fall of contracted bushels be likely.

Conclusion

The use of crop insurance revenue products such as CRC or RA-HP can be used in combination with pre-harvest sales that commit bushels to delivery. This is especially true when cash sales can be made when the futures sales price is higher than the Spring Base Price. In 2008, that price is \$5.40/bu for corn and \$13.36/bu for soybeans, respectively. These amounts do represent the highest Spring Base Prices ever recorded, thus the interest in pre-harvest marketing strategies.

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