

Crop INSURANCE

Delayed and Prevented Planting

As of late May 2011, private estimates of more than 10 million acres of corn nationwide are yet to be planted. Many of those acres will be planted in June, which reduces the yield potential.

In the past, it was assumed that if corn wasn't planted by late May in most the Corn Belt, the delayed planting coverage would take place or perhaps soybeans would be planted on those acres instead. With the prevent planting coverage contained in most farm-level policies, the projected prices determined in February of \$6.01 per bushel for corn and \$13.49 per bushel soybeans provides record revenue guarantees and offers some unique opportunities to claim prevent planting, especially on acres intended for corn in 2011.

2011 Changes with COMBO

Both delayed and prevented planting provisions are contained in the new COMBO products: Revenue Protection (RP), Revenue Protection with Exclusion (RPE) and Yield Protection (YP). Delayed and prevented planting coverage does not exist for Group Risk Plan (GRP) and Group Risk Income Plan (GRIP) county policies. When considering a prevent planting claim for a specific farm, a crop insurance agent should be contacted within 72 hours of a known loss.

Final Planting Date

A key date relative to prevented planting provisions is the final planting date which varies by state and sometimes the county. In Iowa, Minnesota and most of Illinois, the final planting date for corn is May 31st. For Indiana, Ohio and Michigan that date is June 5th. The soybean final planting date varies greatly across the Corn Belt from June 10th to June 25th. The final planting dates in North Dakota are May 25th and 31st for corn and June 10th for soybeans.

Delayed Planting

Farmers can plant after the final planting date. If they do, they will not receive a prevented planting payment. Also, the guarantee will be reduced by 1 percent per day for each day after the final planting date up to 25 days. After 25 days, the guarantee will be 60 percent of the guarantee.

Example: A farmer has an RP policy with a minimum guarantee of \$817 per acre (80 percent coverage level x \$6.01 projected price x 170 bushel APH). Note that this is a minimum guarantee, as the guarantee could increase if the harvest price is above the projected price. Assume this farmer is in a county with a final planting date of June 5th. If corn is planted on or before June 5th, the minimum guarantee is \$817 per acre. A one percent reduction occurs if planting takes place on June 6th and the guarantee is \$809 ($\$817 \times .99$). Planting on June 7th results in a 2 percent reduction, or \$801 per acre ($\$817 \times .98$). After 25 days, the guarantee is 60 percent of the original, or \$490 per acre ($\$817 \times .60$). If the harvest price is above the projected price, the higher harvest price will be used in calculating the final revenue guarantee.

Prevented Planting

Farmers will be able to claim prevented planting once the final planting date is reached in late May or early June. According to University of Illinois Extension Economics, the net returns from taking prevented planting on corn will have returns competitive with planting corn or soybeans.

In 2011, farmers could have large incentives to take prevented planting payments once the final planting date has been reached. However, the number of acres on which prevented planting are taken will depend on weather as well as the expected commodity prices at harvest time if an RP product was used.

Prevented Planting Payments

Unless a higher prevented planting option has been selected at crop insurance signup, prevented planting payments equal 60 percent times the coverage level times the projected price times the Actual Production History (APH) yield. As an example, take a corn RP policy with an 80 percent coverage level having a 170 bushel APH yield. The 2011 base price is \$6.01 per bushel. The prevented planting payment equals \$490 per acre (60 percent x 80 percent coverage level x \$6.01 base price x 170 bushel APH yield). Higher options allow the 60 percent payment factor to be replaced with either 65 or 70 percent for additional premium costs. That decision to “buy up” prevent planting coverage was required before the March 15th deadline.

There is a difference in prevented planting payments under RP in 2011 compared to revenue insurance with guarantee increases in 2010 (i.e., CRC and RA with the harvest price option). In 2010, the higher of the projected or harvest price was used in calculating prevented planting payments. In 2011, only the projected price is used in calculating prevented planting payments.

If a prevented planting payment is taken, a farmer cannot plant another crop during the late planting period consisting of 25 days following the final planting date. After 25 days, another insured crop can be planted, usually resulting in a reduction in prevented planting payment to 35 percent of the original payment. In double-crop situations, obtaining the entire prevented planting payment while planting soybeans may be possible.

Prevented Planting and Units

Prevented planting does not have to be taken on all acres in an insurable unit. However, there is a minimum number of acres on which prevented planting can be received: the lower of 20 acres or 20 percent of the acres in the unit. This is the same “20-20 rule” used for replant coverage. Many insureds also elect enterprise unit coverage to receive a more attractive premium discount. However, a farmer is

not eligible for the enterprise unit premium discounts if no planting occurs or if the corn is planted only in one section of land.

Example: A unit has 400 total acres. This unit has 250 acres of corn planted and 150 acres on which nothing is planted. Once the final planting data has been reached, prevented planting can be taken on 150 acres. The remaining 250 planted acres will have the corn policy in place. Potential insurance payments on the 250 planted acres will be influenced by production from those 250 acres. There will be a guarantee based on 250 planted acres. The prevented planting payment on the other 150 acres will not impact the payment on the 250 planted acres.

Factors Impacting Prevented Planting Acres

The number of 2011 prevented planting acres will be impacted by three primary factors:

1. The type of policy and level of coverage the insured elected for 2011 in addition to their knowledge and that of their crop insurance agent.
2. Weather; as dry weather in late May and early June would allow more farmers to plant corn. They would still have the potential for delayed planting provisions to be utilized but higher revenue incentives than claiming prevented planting.
3. Harvest price expectations for corn and soybean futures. Higher commodity prices will increase expected returns from planting a crop, leading to more of an incentive to plant. The use of an RP policy which allows for the final revenue guarantee to use the higher of the projected price (February average for futures price) or the harvest price (October average for futures price). Those that elected RPE or YP policies may not have the same incentive to plant a corn or soybean crop in 2011.