

2008 Crop Insurance Decisions

March 2008

Factors for 2008 other than BYE

- Higher base prices. Corn: \$5.40 in 2008 compared to \$4.06 in 2007. Soybeans: \$13.36 in 2008 compared to \$8.09 in 2007.
- Higher revenue guarantees because of higher base price. Likely able to lock in profits.
- Higher premiums. All going up because of higher base prices and volatilities. GRIP going up because of subsidy level decreases requested by crop insurance companies. Soybean premiums have doubled.
- CRC harvest price limits. CRC limits price movements of harvest price: \$1.50 for corn, \$3.00 for soybeans. In 2008, corn range is \$3.90 to \$6.90. Soybean range is \$10.35 to \$16.36. In 2008, estimate that 1 in 3 years will be outside range, much higher chance than in previous years. Consider RA-HP rather than CRC. If use CRC, consider purchasing out of the money put options.

Farm-Level Revenue Product Comparison

	RA-BP	RA-HP	CRC ²
APH yield	165	165	165
x Base price	\$5.40	\$5.40	\$5.40
<u>x Coverage level</u>	75%	75%	75%
= Minimum revenue guarantee ¹	\$668	\$668	\$668
Premium, Basic units, Champaign County, Illinois	\$15.75	\$23.67	\$17.32
Scenario 1. Settlement prices above limit and equal \$4.00			
Harvest price ³	\$4.00	\$4.00	\$4.00
<u>x Actual yield</u>	160	160	160
= Harvest revenue	640	640	640
Guarantee	\$668	\$668	\$668
Payment	\$28	\$28	\$28
Scenario 2. Settlement prices below limit and equal \$3.00			
Harvest price	\$3.00	\$3.00	\$3.80
<u>x Actual yield</u>	180	180	180
= Harvest revenue	540	540	684
Guarantee	\$668	\$668	\$668
Payment	\$128	\$128	\$0
Scenario 2. Settlement prices above limit and equal \$8.00			
Harvest price	\$8.00	\$8.00	\$6.90
<u>x Actual yield</u>	120	120	120
= Harvest revenue	960	960	828
Guarantee	\$668	\$990	\$854
Payment	\$0	\$30	\$26

¹ RA-HP and CRC guarantee increases if harvest price is above base price.

² CRC limits harvest price movements (\$1.50 for corn, \$3.00 for soybeans).

³ For corn, RA uses October settlements to determine harvest price, CRC uses October. For soybeans, both use October.

Date:

3-Mar-08

County: Champaign County

Group Risk Income Plan -- Harvest Revenue (GRIP-HR) Option

Revenue insurance based on county-level yields. Guarantee can increase.

Farmers choose 1. coverage level -- influences when a payment occurs.

2. protection level -- influences amount of payment, not occurrence.

Guarantee Level	Corn		Soybeans		Coverage Level Comparison		
	2007	2008	2007	2008	Coverage Level	2008 Corn	2008 Soybeans
Expected yield (bu.)	164.0	168.9	51.1	52.6	70%	638	492
x Base price *	\$4.06	\$5.40	\$8.09	\$13.36	75%	684	527
or harvest price **					80%	730	562
x Coverage level	90%	90%	90%	90%	85%	775	597
Guarantee (\$/acre)	\$599	\$821	\$372	\$632	90%	821	632

* Set using Feb. Chicago Board of Trade settlement prices (Dec contract for corn, Nov for beans).

** Harvest prices set using CBOT settlement prices during October. Higher of base price and harvest price is used by GRIP-HR. GRIP-NoHR uses only base price in guarantee calculation. Price limits on harvest price movement (\$1.50 on corn, \$3.00 on soybeans).

Protection Level	Corn		Soybeans		Protection Level Comparison		
	2007	2008	2007	2008	Protection Level	2008 Corn	2008 Soybeans
Expected yield	164	168.9	51.1	52.6	70%	\$958	\$738
x Base price	\$4.06	\$5.40	\$8.09	\$13.36	80%	1094	843
x 1.5	1.5	1.5	1.5	1.5	90%	1231	949
x Farmer choice	100%	100%	100%	100%	100%	1368	1054
Protection Level	\$999	\$1,368	\$620	\$1,054			

* Farmers choose between 60% and 100%

Shortfall	Corn		Soybeans		Shortfall Example: Corn **		
	2007	2008	2007	2008	Price	2007	2008
Actual county yield	180.0	180	54.6	54.6	\$2.00	39.93%	56.14%
x Harvest price	\$4.00	\$4.00	\$10.00	\$10.00	\$2.25	32.42%	50.66%
Harvest revenue	\$720	\$720	\$546	\$546	\$2.50	24.91%	45.18%
					\$2.75	17.40%	39.70%
Guarantee	\$599	\$821	\$460	\$632	\$3.00	9.89%	34.21%
					\$3.25	2.38%	28.73%
Shortfall **	0.00%	12.29%	0.00%	13.67%	\$3.50	0.00%	23.25%

* Shortfall equals (Guarantee - Harvest Revenue) / Guarantee.

** Uses yields in shortfall box

Payment	Corn		Soybeans		Protection Level Example: Corn **		
	2006	2007	2006	2007	Protection Level	Com 2007	Soybeans 2007
Protection Level	\$999	\$1,368	\$620	\$1,054	70%	\$118	\$101
x Shortfall	0.00%	12.29%	0.00%	13.67%	80%	\$134	\$115
x Price factor *	1.00	1.00	1.24	1.00	90%	\$151	\$130
Payment	\$0	\$168	\$0	\$144	100%	\$168	\$144

* Equals the maximum of 1 or harvest price / base price. GRIP-NoHR does not use price factor.

Choice

RA-BP

- Good risk protection.
- Maybe lower prices product.
- Note guarantee will not increase.
- Should use with limited pre-harvest marketing.

RA-HP or CRC

- Good risk protection
- Note limits on CRC (consider using options).
- Illinois farmers have tended to pay more in than pay out.
- Go to higher unit to save on premium (enterprise, basic, optional).

GRIP

- Less risk protection.
- Illinois farmers have tended to receive more than pay in.
- Lower protection level to lower premium.

iFARM Preliminary Results for 2008, Champaign County

Product: Coverage Level:	CRC 65%	CRC 75%	CRC 85%	RA-HP 75%	RA-HP 85%	GRIP-HR 90%
% of years pay	5%	14%	32%	21%	39%	43%
Estimated payment	3.08	11.32	32.8	22.67	53.08	104.48
Estimated premium	<u>8.81</u>	<u>17.66</u>	<u>42.62</u>	<u>23.07</u>	<u>62.67</u>	<u>68.74</u>
Net costs	-5.73	-6.34	-9.82	-0.40	-9.59	35.74
5% Value-at-Risk ²	545	588	625	595	637	656

¹ See the Crop Insurance section of *farmdoc* (www.farmdoc.uiuc.edu) for more detail.

² 5% of the time revenue will be below this number

Biotech Yield Endorsement (BYE) provides lower premiums on APH, CRC, and RA (about \$3.00 at 75% coverage level for corn) if:

1. Plant 75% of an insurable unit's acres to hybrids containing Monsanto-base triple stacks (Roundup Ready® Corn 2, YieldGard® Corn Borer, and YieldGard® Rootworm).
2. Sign a certification indicating that 75% of the insured unit is planted to eligible hybrids.
3. Maintain invoices showing that sufficient quantities of eligible hybrids have been purchased to plant required acres. Guideline is 2.7 acres per 80,000 kernels unit (29,360 kernels per acre).
4. Provide signed certifications from seed dealers indicating that eligible hybrids were purchased in sufficient quantity to plant the acres insured using BYE. Copies of invoices must accompany the seed dealer certification. Seed for different individuals (entities) purchasing insurance will need to be divided out on certification. Take, for example, a farmer with a share-rent landlord. If a share-rent landlord wants to take BYE, his purchase of seed must be noted on the seed dealer certification.
5. Be prepared for spot checks during growing seasons. Two chances to pass test. Checking for traits in non-refugee area.

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