Considerations In The Face Of The Feb. 28 Crop Insurance Deadline

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Uncertainties about the economy, federal farm programs, commodity prices and input costs mean farmers need to take extra care in the risk-management decisions they make for this year.

Aside from how to allot acres, one of the first decisions growers will make this year – by the Feb. 28 signup deadline – is about insurance for the 2012 spring-planted crops.

"With increasing production costs and continuing volatility in commodity prices, Arkansas row crop producers should try to remove as much yield and price risk as possible," said Scott Stiles, extension economist for the University of Arkansas System Division of Agriculture. "Crop insurance is one tool available for that purpose and producers have some choices to consider in approaching risk management."

There are essentially four major types of crop insurance products available in Arkansas. These four types fall into two categories: policies that insure against yield losses only and policies that insure against revenue losses.

The policies that insure against yield loss are Catastrophic Risk Protection Endorsement, or CAT, and Yield Protection, or YP.

The CAT policies insure up to 50 percent of a producer's historical yield and pay 55 percent of the projected crop price determined by the USDA Risk Management Agency. RMA subsidizes 100 percent of CAT insurance premiums; however, CAT coverage does require a $300 administrative fee for each crop insured in a county.

Yield Production policies insure against yield losses due to natural causes such as drought, excessive moisture, hail, wind, frost, insects and diseases. The producer selects the amount of average yield to insure, ranging from 50 to 85 percent. The producer also selects the percent of the projected crop price to insure, ranging from 55 to 100 percent of the price established annually by RMA.

Stiles said RMA certified the projected prices on Feb. 15. They were $5.66 for corn; $12.20 for soybeans; 94 cents per pound for cotton; and 14.7 cents per pound for rice.

If the harvested yield plus any appraised production is less than the yield insured, the producer receives an indemnity based on the difference, he said.

Revenue Protection, or RP, policies insure producers against yield losses due to natural causes as well as revenue losses resulting from a decrease in commodity prices. RMA calculates a projected price and a harvest price for use in determining changes in producer revenue.

The preseason or projected price for spring-planted crops is determined by averaging the daily Jan. 15 to Feb. 14 closing prices of futures contracts from either the CME Group for grains or The Intercontinental Exchange for cotton. The harvest time price equals the average of daily closing prices in the month of October.

Unless the producer elects to exclude the harvest price, the higher of either the projected price or the harvest time price is used in the revenue calculation. If the producer does not choose the high-price option, the early season price is used.

The producer also selects the amount of average yield he or she wishes to insure, ranging from 50 to 85 percent. The projected price and the harvest price are 100 percent of the amounts determined by RMA.

The amount of insurance protection is based on the higher of the projected price or the harvest price. If the harvested yield plus any appraised production multiplied by the harvest price is less than the amount of insurance protection, the producer receives an indemnity based on the difference.

Revenue Protection with Harvest Price Exclusion, or RP-HPE, policies insure production in the same manner as RP polices, except the amount of insurance protection RP-HPE provides is based on only the projected price – that is, the amount of insurance protection does not increase if the harvest price exceeds the projected price. This option generally carries a lower premium.

For more information on crop insurance, visit the National Agricultural Law Center at http://www.nationalaglawcenter.org. For more information on risk management, visit the Southern Risk Management Education Center at http://srmec.uark.edu/. Δ