Crop Insurance Changes May Influence Producer Choices

URBANA, ILL.

Changes to crop insurance policies in 2009 may impact farmer choices, said a University of Illinois Extension farm financial management specialist.

"Two changes reduce premiums on Crop Revenue Coverage (CRC) and Revenue Assurance (RA)," said Gary Schnitkey. "Higher subsidy levels have been implemented for enterprise units and the Biotech Endorsement (BE) has been expanded.

"In addition, subsidy levels have been lowered for Group Risk Income Plan (GRIP). One other change in 2009 is a simplification of limits of harvest price movements."

Schnitkey discussed the changes and the implications for producers in his recent report, "2009 Crop Insurance Changes Suggest Considering Either GRIP or Enterprise Units and BE for CRD and RA-HP," (http://www.farmdoc.uiuc.edu/manage/newsletters/fefo09_03/fefo09_03.html), which can be read online at U of I Extension's farmdoc website.

Most Illinois farmers insure their crops using CRC, RA, or GRIP, he noted. Of the corn acres insured in 2008, 35 percent were insured with CRD, 30 percent with RA, and 18 percent with GRIP.

Of the soybean acres insured in 2008, 18 percent were insured with CRD, 45 percent with RA, and 12 percent with GRIP.

"In 2008, 83 percent of the corn acres were insured with these three products, while 75 percent of the soybean acres were insured with these three products," he said.

This year, he noted, one of the three products will be a good choice.

GRIP is a county product that makes payments when county revenue falls below a county guarantee. Over time, GRIP has paid out more in indemnity payments than farmers have paid in premiums.

"This occurs because all federal crop insurance products are subsidized," he explained. "Over time, GRIP should return about $1.78 for each dollar of farmer-paid premium given that GRIP premiums are set correctly."

CRC and RA are two farm products that make payments when farm revenue falls below a farm guarantee. Because a farm's yields are used in calculating guarantees and revenues, CRC and RA provide better risk protection than GRIP.

"Unlike GRIP, however, historical analyses indicate that Illinois farmers have paid more in premiums on CRC and RA than they have received in indemnity payments," said Schnitkey. "Hence, the choice between CRC, RA, and GRIP comes down to a risk-return tradeoff.

"Because they are based on farm yields, CRC and RA will provide better risk protection than GRIP. But GRIP will tend to have higher indemnity payments relative to farmer-paid premiums than CRC or RA."

Schnitkey's full report includes examples and charts that can help farmers make decisions about which product to use in 2009. Δ