Extra Crop Insurance 'Homework' Paid Off Last Year

Enterprise Units Expected To Be Popular In 2009

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Falling yields, combined with falling crop prices, usually paint a disastrous profit picture. But in 2008, many farmers were able to lock in favorable prices for their crops, knowing that their crop insurance policies would help cover revenue losses.

In some cases, Nebraska farmers experienced little or no yield loss, marketed soybeans for between $12-15/bu. and still received crop insurance payments of $95/acre or more, says Ruth Gerdes, a crop insurance agent with the Auburn Agency, Auburn, NE. Gerdes says that the payouts vary, but 99 percent of her customers in the nine states she serves buy some type of revenue-based policies and reaped the benefits this year.

As the map on page 21 indicates, indemnity payouts in some counties (shown in dark red) are reaching over $10 million. Driven by a steep drop in futures prices, soybean revenue assurance claims topped a record $1.3 billion for the first time in 2008, and the checks are still coming. Corn claims for 2008 are not far behind, reaching the $1.02 billion mark as of Jan. 26, 2009.

Revenue assurance policies written for 2008 corn were insured at a base price of $5.40 a bushel, only to have the RMA's harvest price drop 31 percent to $3.74. Soybean prices also hit the skids, dropping from $13.36 to $9.26.

"The guys who spent time analyzing the decisions to stay at 75-85 percent coverage, even with the extremely high premium prices last year, really benefited from doing their homework," Gerdes emphasizes. "There are a lot of minutiae to go through with each producer that no one in Washington seems to understand. But, as a result, we have dramatically pushed a farmer's ability to forward price. The difference means thousands of dollars in farmers' pockets," she emphasized.

Nationwide, more and more farmers are switching from traditional APH policies, based on yield, to those that pay when revenues drop. In 2008, over 75 percent of the crop insurance coverage sold on corn and soybeans was revenue-based, says RMA Acting Associate Administrator Tim Witt. And it wasn't an easy decision.

"Given the considerably higher price elections and the volatility factors, revenue coverage was very expensive," adds Witt. "But people demonstrated that they were willing to buy that type of protection." Nationwide, farmers paid almost $9.9 billion in premiums on revenue policies and all other types written, with the U.S. government subsidizing a considerable portion of the cost. The subsidy rate depends on the coverage level and insurance plan selected by the producer. (See table, page 21.

About $5.5 billion in total indemnity payments have been made thus far and are continuing to arrive in farmers' mailboxes at about $350 million a week. For the 2008 crop year, we estimate there will be about $6.7 billion paid in indemnities, plus or minus three points (one point = approximately $98 million), says Witt.

For most spring-planted crops, the decisions about what to plant and how to manage the risks are well underway and will need to be finalized by March 15. Gerdes hosted one of several customer meetings on Monday, connecting insurance industry experts with marketing gurus and customers in an effort to "educate, educate, educate," she says about the options.

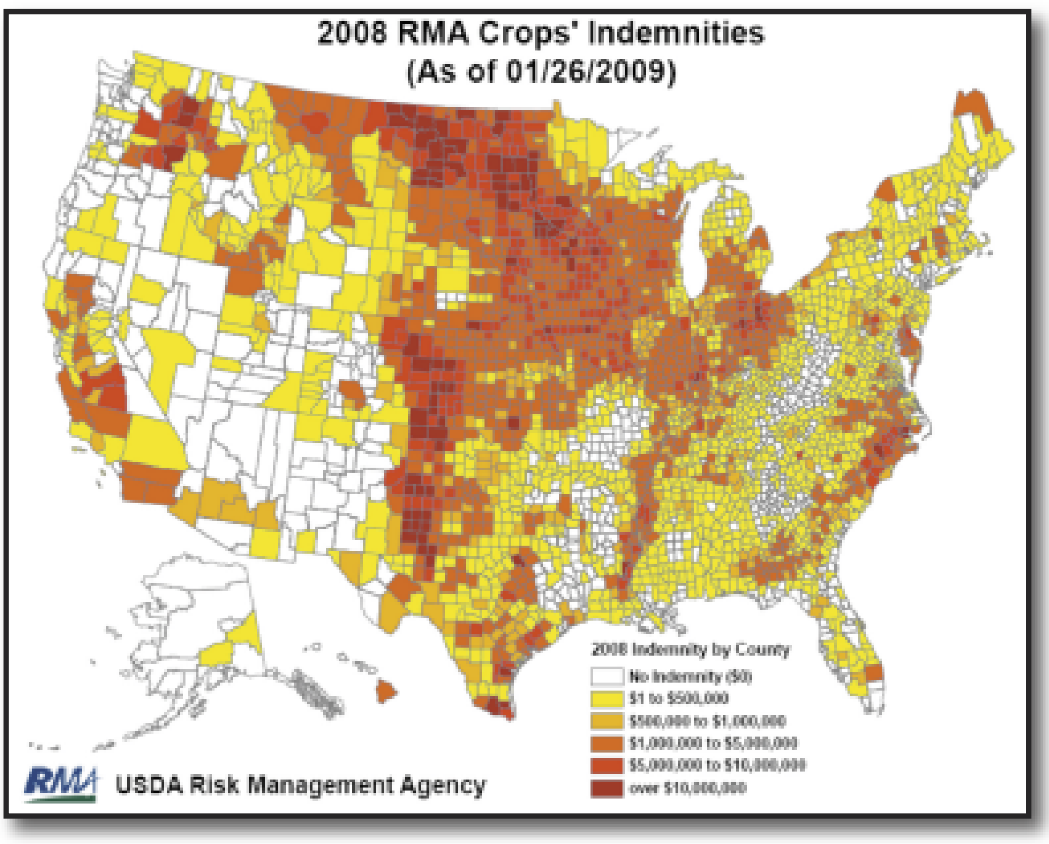
For 2009, the rules are changing once again. The Federal Crop Insurance Corporation (FCIC) provides a higher subsidy if you insure enterprise or "whole farm" units rather than optional units; neither Crop Revenue Coverage (CRC), Revenue Assurance (RA) or county-based group risk income protection (GRIP) policies has any limit on the size of price drop from spring guarantee to harvest price and the harvest price is limited to two times the base price for all three plans; and requirements to qualify for biotech discounts are more flexible.

Now that CRC and RA are basically the same, Gerdes says she is recommending that farmers pick whichever option is cheaper, which can vary by $2-8/acre in her area.

"When you add the different rules on CRC and RA enterprise units, there is even more to consider. The RA enterprise unit discounts are based on how many sections a farmer plant in, while CRC is based upon how many acres he plants. For example, a farmer with 3 sections and 600 acres will be much better off with CRC, because he will get the maximum discount under CRC, but only a fraction of the discount under RA. Ten sections is the maximum discount under RA," Gerdes explains. For more on these changes, contact USDA's Risk Management Agency at: http://www.rma.usda.gov/news/2009/01/pricechange.html . Δ

2008 Crop year	Policies sold	Net Acres	Total Premium	Subsidy	Indemnity
Corn					
APH	144,033	13,637,587	299,746,318	197,843,225	148,468,869
CRC	107,162	14,550,877	806,845,546	433,642,691	373,642,648
RA	219,905	35,685,120	2,270,504,184	1,273,714,125	1,027,741,265
Cotton					
APH	39,707	3,343,909	76,570,354	53,993,150	68,597,431
CRC	40,975	5,355,233	315,590,775	193,255,551	355,334,855
RA	711	28,296	1,562,931	918,194	4,404,404
Soybeans					
APH	131,286	13,806,489	246,556,768	173,919,232	100,737,393
CRC	72,289	7,925,642	366,994,094	205,404,658	212,117,070
RA	235,050	34,958,912	1,757,848,840	973,404,334	1,304,749,488
Wheat					
APH	94,035	10,586,830	143,279,114	96,963,246	83,344,396
CRC	111,728	19,168,083	569,899,070	330,439,605	453,008,556
RA	81,390	18,750,194	869,007,869	504,004,282	571,866,030

Source: RMA Summary of Business as of 1-26-09



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