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2016 Crop Insurance Decisions

During the next few weeks, many farm operators will be finalizing their crop insurance decisions for the 2016 crop year. March 15th is the deadline to purchase crop insurance for this year.

Profit margins for crop production in 2016 are the tightest in several years, which makes 2016 insurance decisions especially important. Producers have several policy options to choose from, including yield-protection (YP) policies and revenue-protection (RP and RPE) policies, as well as several other group options. There are also decisions regarding enterprise units versus optional units, and whether to take advantage of the trend-adjusted, actual production history (APH) yields for 2016.

YP insurance policy options provide yield-only protection, based on APH yields. YP prices are based on the average Chicago Board of Trade (CBOT) prices for December corn futures and November soybean futures during the month of February. Producers can purchase YP insurance coverage levels from 50-85 percent and losses are paid if actual corn or soybean yields on a farm unit fall below yield guarantees.

RP insurance policy options provide a guaranteed, minimum dollar of gross revenue per acre (yield x price), based on yield history (APH) and the average CBOT prices for December corn futures and November soybean futures during the month of February. The revenue guarantee is increased for final insurance calculations, if average CBOT prices during the month of October are higher than February CBOT prices. Producers purchase RP insurance coverage levels from 50-85 percent and losses are paid if the final crop revenue falls below the revenue guarantee. The final crop revenue is the actual yield on a farm unit multiplied by the CBOT December corn futures price and November soybean futures price

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during the month of October.

The revenue protection with harvest-price-exclusion (RPE) policy options function the same as RP policies, except RPE policies have a minimum-revenue guarantee (yield and price) that is fixed, based on February CBOT corn and soybean prices, and cannot be increased later.

In recent years, a high percentage of crop insurance policies for corn and soybeans in the Upper Midwest have been RP policies, because of the combination of yield and price protection. As of February 8, 2016, estimated crop prices in the Upper Midwest for YP, RP, and RPE policies were: $3.92 per bushel for corn; $8.90 per bushel for soybeans; and $5.18 per bushel for Spring wheat. 2016 YP prices and RP base prices will be finalized on March 1.

Important Considerations Regarding 2016 Crop Insurance Decisions

- 2016 crop insurance premiums for most coverage levels of corn and soybeans in the Midwest should be the same, or slightly lower, than comparable 2015 premium levels, due to lower insurance guarantees for 2016, as well as RMA premium adjustments that are based on updated crop insurance actuarial data for several years.
- A wide variety of crop insurance policies and coverage levels are available. Make sure you are comparing "apples to apples" when analyzing crop insurance costs and recognize the limitations of various crop insurance products.
- View crop insurance decisions from a risk-management perspective. Given the tight profit margins for crop production in 2016, some producers may have a tendency to reduce their crop insurance coverage in order to save a few dollars per acre. However, a producer must first ask the following question: "How much financial risk can I handle if crop yields are significantly reduced due to weather problems in 2016 and lower-than-expected crop prices occur? RP crop insurance policies serve as an excellent risk-management tool for these situations and 2016 may not be the year to reduce insurance coverage.
- In most instances, utilize the trend-adjusted (TA)-APH endorsement for 2016. Many producers in the Upper

Midwest have been able to significantly enhance their insurance protection in recent years by utilizing the TA-APH option, with only slightly higher premium costs. Using the TA-APH endorsement is a very good crop insurance strategy for most eligible corn, soybeans, and wheat producers.

- Utilizing enterprise units is generally favorable, but know the limitations. Enterprise units, which combine all acres of a crop in a given county into one crop insurance unit, are generally favorable to optional units, which allow producers to insure crops separately in each township section. Enterprise units usually have significantly lower premium costs compared to optional units for comparable RP policies. However, enterprise units are based on larger coverage areas, and do not necessarily cover losses from isolated storms or crop damage that affect individual farm units, so additional insurance, such as hail insurance, may be required to insure against these types of losses.
- Take a good look at the 85 percent coverage levels, especially when using enterprise units with RP insurance policies. Most Midwest corn and soybean producers have been utilizing a minimum of 80 percent RP coverage with enterprise units in recent years. 2016 may be the time to consider upgrading to the 85 percent coverage level. In many cases, the 85 percent coverage level offers considerably more protection, with a modest increase in premium costs. Many producers will be able to guarantee nearly $600 to $650 per acre for corn, and near $350 to $400 per acre for soybeans at the 85 percent coverage level for 2016, when also utilizing trend-adjusted APH yields.
- A reputable crop insurance agent is the best source of information to find out more details regarding various coverage plans.

The following are resources with more information on crop insurance:

University of Illinois
http://www.farmdoc.illinois.edu/cropins/index.asp

Iowa State Univ. Ag Decision Maker
http://www.extension.iastate.edu/agdm/

USDA Risk Management Agency
http://www.rma.usda.gov/

For more information, contact Kent Thiesse, Farm Management Analyst at: kent.thiesse@minnstarbank.com or 507-726-2137.

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