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farmdoc DAILY

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2014 Crop Insurance Decisions: The 2014 Farm Bill and 2014 Product Recommendations

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Passage of the 2014 Farm Bill leads to questions on whether the Farm Bill impacts 2014 crop insurance decisions. Because the 2014 Farm Bill does not change crop insurance programs in 2014, the 2014 Farm Bill will not impact 2014 decisions. The 2014 Farm Bill may impact crop insurance decisions in 2015. The two most significant differences between the 2013 and 2014 crop insurance decision environments are 1) dramatically lower projected prices and 2) introduction of the Area Risk Protection Insurance policy. Even given these differences, the basic recommendation for policies do not change in 2014. Most farmers will find adequate protection with a Revenue Protection (RP) policy at a 75% or higher coverage level using enterprise units and the Trend Adjusted Yield Endorsement. Some farmers will find the Area Revenue Protection (ARP) and Revenue Protection with the harvest price exclusion (RP-HPE) useful.

The 2014 Farm Bill and Crop Insurance Decisions

The 2014 Farm Bill does not change any Federal crop insurance programs for 2014. The same programs, specifications, and rates existed before passage as exists after passage of the 2014 Farm Bill. Hence, passage of the 2014 Farm Bill will not impact 2014 crop insurance decisions. Furthermore, the 2014 Farm Bill did not change the products or subsidy levels that currently exist. The same Combo and the Area Risk Protection Insurance (ARPI) policies that exist in 2014 will exist in 2015 and onward.

The 2014 Farm Bill did institute two changes. First, farmers purchasing crop insurance will have to be in compliance with conservation provisions for highly erodible land and wetlands beginning in 2015. Conservation compliance has been a requirement of receiving Federal commodity title payments, such as direct payments. Since most farmers were required to comply with these provisions in order to be eligible for commodity title payments, conservation compliance for crop insurance is not expected to add new requirements for most farmers when making crop insurance decisions.

Second, the 2014 Farm Bill creates the Supplemental Coverage Option (SCO), which will begin for the 2015 crop year. SCO will offer a band of coverage based on county revenue (or yields) from an 86% coverage level down to the coverage level of the farm-level insurance policy (SCO will not be available for

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Area Risk Protection Insurance (ARPI) plans). For example, a farmer taking RP at an 80% coverage level will be eligible for SCO coverage from 86% down to 80%. A farmer taking RP at a 75% coverage level will be eligible for SCO coverage from 86% down to 75%. If RP is purchased, the SCO band of coverage will be based on county revenue with the possibility of a guarantee increase if harvest price is above the projected price.

SCO only will be available to farms that select one particular commodity title program: Price Loss Coverage (PLC). Whether the availability of SCO should influence commodity title choice is a subject being investigated and will be handled in future articles on *farmdoc daily*. Also, whether the availability of SCO should influence farm-level crop insurance choices will be dealt with as crop insurance decisions are made for 2015. While these are important considerations in the future, they should not have an impact on 2014 crop insurance decisions, as 2014 Farm Bill modifications begin in the 2015 cropping year.

2014 Insurance Decision Environment

There are two large changes between the 2013 and 2014 crop insurance decision environments. First, 2014 projected prices will be much lower than 2013 projected prices. The projected price for corn was $5.65 in 2013, and is likely to be around $4.58 in 2014. This decrease in projected price will lower guarantees. More information on these impacts are provided in a December 10, 2013 article on *farmdoc daily* entitled *Crop Insurance Premiums and Guarantees for 2014*. In that article, it is argued that lower projected prices should not influence coverage level choices. Most farmers will find taking RP at an 80% and 85% coverage level advisable. The 80% and 85% coverage levels are the most used coverage levels by farms in Illinois (see the January 14 *farmdoc daily* article entitled *Coverage Level Choices for 2014* for more detail).

The other change has been a new policy for providing county-level insurance. The Agricultural Risk Protection (ARPI) policy was introduced and replaces Group Risk Plan and Group Risk Income Plan. Under ARPI, there are different plans that result in different types of insurance. The ARPI plan called Area Risk Protection (ARP) provides the equivalent coverage as offered by Group Risk Income Plan with the Harvest Revenue option (GRIP-HR). While there are differences between ARPI plans and previous Group insurances, most farmers will find ARPI plans as useful substitutes for previous plans. Farmers who purchased GRIP-HR will find ARP a good substitute. More detail on ARPI is provided in a January 7th *farmdoc daily* article entitled *Area Risk Protection Insurance: A Comparison to Group Plans*.

2014 Crop Insurance Recommendations

Lower projected prices and introduction of ARPI does not change the basic crop insurance product recommendations offered for 2014 decisions (see *farmdoc daily* March 5, 2013 for more detail). In my opinion, a basic product that will be appropriate in most situations is:

- RP used at a 75% through 85% coverage level (most farms will find 80% and 85% coverage levels beneficial),
- Use of enterprise units, and
- Use the Trend Adjustment Actual Production History (TA-APH) Yield Endorsement.

This choice will provide cost effective protection based on farm yields. It has a harvest price increase provision, which provides useful protection to those farmers who hedge or price grain prior to harvest. The harvest price provision also is useful in widespread drought years, providing payments when yields are below guarantees at the higher harvest prices.

In certain cases, there will be deviations from this basic product.

When should the Area Risk Protection (ARP) be used?

Using a county-level revenue product may be appropriate in the following situations:

- Farmers who are concerned more about price risk than yield risk. Because ARP has a 90% coverage level option, it will provide better price risk protection than RP.

- Farms that do not have an enterprise option available. ARP generally is more costly than RP at the enterprise unit level. However, basic units have higher costs than enterprise units, causing GRIP-HR to have close to the same costs as RP.

- Farms whose Actual Production History (APH) yields are low relative to their expected yields. In these cases, coverages offered by RP may be insufficient.

Generally, ARP should be taken at the highest coverage level of 90%. Premiums and payments can be varied by changing the protection factor. There are a number of features that farmers should be aware of if they take ARP:

- ARP does not have replant or prevented planting provisions. Planting must take place before ARP coverage begins. Planting must be accomplished by a final planting dates. For Illinois, final planting dates are in late June for corn and mid-July for soybeans.

- ARP payments will not be known until the National Agricultural Statistical Service (NASS) releases yields in February following harvest. NASS yield determination is final. NASS yields are determined following statistical procedures, but occasionally questions are raised about yield levels. In any case, NASS yields are final.

Who should take RP-HPE?

RP-HPE provides a revenue guarantee that will not increase if the harvest price is above the projected price. RP-HPE may be appropriate in the following situations:

- Cost conscious crop insurance purchasers may find RP-HPE attractive as it has lower premiums than RP.

- Farmers who do not hedge much crop prior to harvest. RP-HPE does not have a guarantee increase. Therefore, pre-harvest hedging can reduce risk protection offered by RP-HPE.

- Farmers who are willing to take "drought" risk. RP-HPE will pay much less than RP during drought years like 2012. If a farmer is willing to have lower payments during drought years, RP-HPE may be appropriate.

Who should take basic or optional units?

Most individuals who can take enterprise units will find it beneficial to take enterprise units. Basic and optional units may be useful in situations in which the quality of farmland varies greatly across a farming operation.

Who should not take the TA-APH Yield Endorsement?

The TA-APH yield endorsement is beneficial in the vast majority of situations. It will provide the same dollar guarantees for the same or lower price. The only situations TA-APH is not beneficial is when yields are extremely low and the APH yield is based on floors and other limits.

Summary

More detail on 2014 crop insurance are available in the crop insurance section of *farmdoc*. There you will find access to online tools providing premiums and evaluations of crop insurance payouts. Also, a Microsoft Excel tool entitled the *2014 Crop Insurance Decision Tool* is available for download from the website.

There will be a webinar on February 27th dealing with 2014 crop insurance decisions. This webinar will be offered through *farmdoc*. More detail on this webinar will be forthcoming.

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