



Crop Insurance Revenue Guarantees Likely Lower in 2015

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Next year, crop insurance guarantees likely will be lower than those for recent years. As a result, farmers will face more downside revenue risks. In this article, 2015 crop insurance guarantees are projected using levels of current Chicago Mercantile Exchange (CME) futures contracts. Revenue guarantees for crop insurance products will be below total costs of production.

For corn and soybeans grown in Midwest states, projected prices for determining minimum revenue guarantees are set during the month of February. The 2015 December contract will be used for corn. The November 2015 contract will be used for soybeans. February still is several months away. However, the current prices on the Chicago Mercantile Exchange futures contracts will provide a gauge of 2015 projected prices

Corn

The December 2015 corn contract currently is trading near \$4.10 per bushel. A \$4.10 projected price would be 11% below the 2014 projected price of \$4.62. This 11% price decrease then translates into an 11% decrease in minimum revenue guarantees on Revenue Protection, given no changes in guarantee yields and coverage levels. A \$4.10 projected price would be the lowest price since 2010, when the projected price was \$3.99.

Another decrease in the projected price will continue to erode revenue guarantees since 2011. Changes are illustrated by calculating minimum revenue guarantees for each year from 2009 using the projected price for that year, a 190 bushel TA-APH yield, and an 80% coverage level. A projected guarantee for 2015 also is given using a \$4.10 projected price. Guarantees over time are:

2009: \$628 per acre (\$4.13 projected price x 190 bushel TA-APH yield x .80),
2010: \$606 per acre (\$3.99 projected price x 190 bushel TA-APH yield x .80),

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2011: \$914 per acre (\$6.01 projected price x 190 bushel TA-APH yield x .80),
2012: \$863 per acre (\$5.68 projected price x 190 bushel TA-APH yield x .80),
2013: \$859 per acre (\$5.65 projected price x 190 bushel TA-APH yield x .80),
2014: \$702 per acre (\$4.62 projected price x 190 bushel TA-APH yield x .80), and
2015 projected: \$623 per acre (\$4.10 projected price x 190 bushel TA-APH yield x .80).

In 2011, 2012, and 2013, revenue guarantees exceeded \$850 per acre. In 2013, the guarantee was \$702 per acre. The revenue guarantee is \$623 per acre for a \$4.10 projected price.

These lower level of guarantees will put farmers at greater financial risks. Unlike in 2011 through 2013, revenue guarantees in 2015 cannot be set above total costs. The [2015 Crop Insurance Budgets](#) estimates non-land costs at \$550 per acre. A cash rent of \$300 gives total costs of \$850 per acre, significantly higher than the \$623 revenue guarantee at an 80% coverage level. The guarantee at an 85% coverage level is \$662 per acre, still below total cost by \$200 per acre.

Soybeans

Currently, the November 2015 soybean contract is trading near \$10.10 per bushel. A \$10.10 projected price would be 11% lower than the 2014 projected price of \$11.36. A \$10.10 projected price would be the lowest projected price since 2009, when the projected price was \$9.23.

Like corn, revenue guarantees offered by crop insurance have decreased since 2011, 2012, and 2013. To illustrate, revenue guarantees are calculated each year since 2009 given a 50 bushel TA-APH yield and an 80% coverage level:

2009: \$352 per acre (\$8.80 projected price x 50 bushel TA-APH yield x .80),
2010: \$369 per acre (\$9.23 projected price x 50 bushel TA-APH yield x .80),
2011: \$544 per acre (\$13.49 projected price x 50 bushel TA-APH yield x .80),
2012: \$502 per acre (\$12.55 projected price x 50 bushel TA-APH yield x .80),
2013: \$515 per acre (\$12.87 projected price x 50 bushel TA-APH yield x .80),
2014: \$454 per acre (\$11.36 projected price x 50 bushel TA-APH yield x .80), and
2015: \$404 per acre (\$10.10 projected price est. x 50 bushel TA-APH yield x .80).

In 2011 through 2013, revenue guarantees were above \$500. The 2015 revenue guarantee at an 80% coverage level will be near \$400 per acre. Similar to corn, soybean revenue guarantees will not exceed costs. The [2015 Illinois Crop Budgets](#) lists soybean costs at \$375 per acre. A \$300 cash rent results in \$675 total costs, significantly above the \$404 revenue guarantee. An 85% coverage level has a \$429 per acre revenue guarantee, still over \$100 lower than total costs.

Summary

Lower projected prices will cause crop insurance to provide protection at lower revenue levels. As a result, farmers will face more risks from lower revenue in 2015 than they did in 2014. These lower guarantees continue point to the need of farmers to conserve cash and employ other risk management strategies.

Reference

Schnitkey, G. "[Crop Budgets, Illinois, 2015](#)." Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, September 2014.

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