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Weekly Farm Economics: Crop Insurance Product Recommendations

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This blog post discusses a “basic” product which will be appropriate for most farm situations. This “basic” product uses Revenue Protection (RP) insurance. Also discussed are situations in which Group Risk Income Plan with the Harvest Revenue Option (GRIP-HR) and RP with the Harvest Price Exclusion (RP-HPE) are appropriate choices. The post summarizes an online webinar that is available for viewing when deciding between crop insurance products.

The on-line webinar is available here.

The webinar also is available as a download as a zip file here.

A pdf of the presentation is available here.

Basic Product:

The basic choices appropriate in most situations are:

- RP used at a 75% through 85% coverage level. In my opinion, most farmers with find the 80% and 85% coverage level products provide guarantee levels that will cover mosts costs.
- Enterprise units , and
- Use the Trend Adjustment Actual Production History (TA-APH) Yield Endorsement.

This product 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.

When should GRIP-HR be used?

GRIP-HR pays based on county yields rather than farm yields. GRIP-HR will be useful in the following situations:

- Farmers who are concerned more about price risk than yield risk. Because RP has a 90% coverage level option, it will provide better risk protection than RP.
- Farms that do not have an enterprise option available. GRIP-HR 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.
- Farms that do not want to deal with the yield record keeping associated with farm-level products.

There are a number of features that farmers should be aware of if they take GRIP-HR:

- GRIP-HR does not have replant or prevented planting provisions.
- GRIP-HR 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 quality of farmland varies greatly.

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

Most farmers will find RP at high coverage levels using enterprise units and the TA-APH yield endorsement to be a good product. GRIP-HR is good for individuals more concerned about price risk. RP-HPE is a good product for cost conscious buyers who do not do a great deal of pre-harvest pricing of grain.