How High is Your Safety Net?
Crop Insurance and Forage Insurance

UNL Women in Agriculture
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Outline

- Outcomes for 2013
  - Wheat, corn, soybeans
- What's ahead in 2014?
  - Prices, revenue guarantees, and premiums likely lower
- Crop insurance and the new Farm Bill
  - Crop insurance and other safety net programs
  - Rule changes for crop insurance
- Pasture, Rangeland, and Forage (PRF) insurance

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Insured Nebraska wheat in 2013

- 1.35 M acres insured in NE
  - Insured acres represent 92% of planted acres
- Move to higher coverage: 75% guarantee now most popular
- Revenue Protection is most popular plan
  - 92% RP
  - 7% YP
  - 1% RP-HPE

Share of acres insured, by coverage level

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2013 wheat: lower yields, falling price

- 2013 wheat yields reflected continuing drought in western Nebraska
  - State average yield of 35 bu/a
  - Almost 19% below trend yield of 43 bu/a
- Also saw significant price decline for revenue coverage
  - Projected price in fall 2012 was $8.79
  - Harvest price in July 2013 was $6.99
  - Price decline of 20.5%

Result: state loss ratio = 2.21 for wheat

- Loss ratio = \[
\frac{\text{Indemnities paid out}}{\text{Premiums paid in}}
\]
- 62.8% of insured units received indemnities
- Total payout of $115 million
  - Total dollar coverage of $365 million
- Average indemnity payment of $85 / insured acre

(figures as of 12/30/2013; source RMA-USDA)

Insured Nebraska corn in 2013

- 9.08 M acres insured in NE
  - Insured acres represent 89% of planted acres
- Similar shift to higher levels of coverage
- Revenue Protection is most popular plan
  - 91% RP
  - 8% YP
  - 1% Others

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Corn in 2013: also saw a large price decline

- Projected price during February $5.65
- Harvest price during October $4.39
- Percentage price decline 22%

2013 results for corn

- Yield results much better than 2012
  - Dryland yields much better in 2013
  - Local areas with major hail losses in SC Nebraska
- With 22% price decline, revenue coverage triggered by even a small yield loss
- Preliminary 2013 claims results (as of 12/30/2013)
  - 12.8% of insured units received indemnities
  - Loss ratio = .40
  - $182 million paid in claims (source: RMA, 12/30/13)

Insured Nebraska soybeans in 2013

- 4.43 M acres insured in NE
  - Insured acres represent 93% of planted acres
- Higher coverage: more acres insured at 80% than 70%
- Revenue Protection is most popular plan
  - 91% RP
  - 8% YP
  - 1% Others

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Soybeans: projected price = harvest price

- Projected price during February: $12.87
- Harvest price during October: $12.87
- Percentage price change: 0%

2013 results for soybeans
- With no price change, revenue coverage triggered only by significant yield loss
- Yield results
  - Dryland yields much better in 2013
  - Concern for later-planted acres?
- Preliminary 2013 results (as of 12/30/2013)
  - 6.4% of insured units received indemnities
  - Loss ratio = .16
  - $27 million paid in claims (source: RMA, 12/30/13)

Looking ahead to 2014
- Wheat: lower projected price
  - already set at $7.11
- Corn, soybean prices trending lower
  - Lower prices mean lower revenue guarantees, lower premiums
Wheat projected price for 2014 already set

Contract: Sep 2014
HRW wheat
2014 projected price: $7.11
Volatility factor: 0.20
Comparison to 2013:
Projected price: $8.79
Volatility factor: 0.25
Year-to-year price decline: 19%

Corn: projected price for 2014 coverage is February average of Dec 2014 futures

Projected price for 2013 crop: $5.65
Dec 2014 futures Avg thru Feb 12: $4.57
Year-to-year price decline: 19%

Soybeans: projected price for 2014 coverage is February average of Nov 2014 futures

Projected price for 2013 crop: $12.87
Nov 2014 futures Avg thru Feb 12: $11.16
Year-to-year price decline: 13%
New Farm Bill: program directions

- Crop insurance as the foundation
- Revenue safety net to complement crop insurance
- Price safety net as an alternative
- Supplemental crop insurance option
- No direct payments
- Marketing loan remains, but loan rates low
- Disaster assistance for livestock

New “alphabet soup” to learn

- ARC – Agricultural Risk Coverage
  - ARCF – Ag. Risk Coverage; Farm
  - ARCC – Ag. Risk Coverage; County
- PLC – Price Loss Coverage
- SCO – Supplemental Coverage Option

A picture of the safety net proposals

ARC coverage starts at 86\% and extends to 76\% of average revenue

SCO coverage: 86\% of county average down to farm covg level

PLC reference prices:
  - corn: $3.70
  - soybeans: $8.40
  - wheat: $5.50

One-time choice between ARC-F, ARC-C, and PLC

SCO is not available if you select ARC; SCO starts in 2015
Supplemental Coverage Option

- New insurance based on county yields
- Intended to cover the deductible part of your individual crop insurance policy
  - Small deductible
  - Limited coverage range
- Significant premium subsidy 65%
- Not eligible if you sign up for ARC
- Not available until 2015

New crop insurance rules

- Conservation compliance tied to eligibility for crop insurance premium subsidies
  - Applies to highly erodible land and wetlands
  - Five years to develop an approved conservation plan
- Sodbuster: reduced benefits for native sod converted to cropland
  - Reduced yield in APH yield history: 65% of county T-yield for 4 years
  - Premium subsidy reduced by 50%

New crop insurance rules, part 2

- NO payment limitations on premium subsidies
- Extra premium subsidy for enterprise units made permanent
- Can now establish separate enterprise units for irrigated and dryland acres starting in 2015
Insurance for forage production

- Pasture, Rangeland, and Forage (PRF) coverage
  - Backed by RMA
  - Covers pastures and perennial forage crops (alfalfa, grass hay fields)
  - Subsidized by federal government
  - Based on rainfall index for grid area
  - Select coverage for two-month intervals

Why PRF coverage?

- Gives forage and livestock producers another tool to help protect their operations
- Coverage for huge area: about 588 million acres of pasture and rangeland and 61.5 million acres of hay land (USDA-RMA)
- Nebraska: 22.6 million acres of pasture and 2.5 million acres of perennial forage
- Provide a workable insurance product in a situation where output is difficult to measure

PRF history

- Introduced as a pilot program in 2007 by USDA’s Risk Management Agency
- Pilot programs used to make coverage available in limited areas to “field test” the coverage
- Included both Rainfall Index coverage and Vegetative Index coverage in different areas
- First available in Nebraska for 2009
- PRF coverage in Nebraska used Vegetative Index in 2009-2012
- 2013 was first year for Rainfall Index in Nebraska
Comparing coverage options

- How often do losses occur?
- How do premium costs compare by coverage level, month?
- How do indemnities compare?
- Which months to choose
- Risk management vs. investment perspective
- Using RMA’s online Decision Support Tools

Online RMA Decision Support Tool

- PRF Decision Support Tool
  - http://agforceusa.com/rma/ri/prf/dst?active_tab=graph&load_chart=true
- Grid locator
- Historic rainfall index experience
- User selects coverage parameters
- Tool calculates coverage, premiums, and indemnities
Quick look: payouts and premiums

- How often does PRF pay out?
  - 90% coverage: 45% of the time or more
  - 70% coverage: 25% of the time or more
  - Summer months pay less often

- How do premium costs compare?
  - 90% coverage: 6% to 12% of dollar coverage
  - 70% coverage: 2% to 6% of dollar coverage
  - Summer months are cheapest

Payments and premiums, cont’d.

- How do indemnity payouts compare? Same pattern as premiums:
  - Summer months have less frequent and smaller payouts, as rainfall is less variable in these months

- Comparing payouts to premiums?
  - With premium subsidies, roughly $2 back for each $1 paid in
  - Slightly higher return for summer months and lower guarantee levels

Some participation issues

- Significant subsidy: producers should get more back over time than they pay in
- Efficacy for reducing risk: how well will rainfall index reflect forage production losses?
- Does grazing coverage pay enough to purchase replacement forage?
- How is PRF linked to other disaster payment programs?
- What other risk management options are available?
Dates and timing

- Period of coverage: January 1 to December 31
- Sales closing date: Nov. 15 of preceding year
- Final observed rainfall index values require a few weeks for posting on RMA's website after the index interval ends
- Should receive payment for loss within 60 days after posting of final rainfall index value

Questions?

Comments?

Thanks!

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