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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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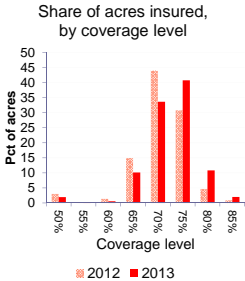


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Insured Nebraska wheat in 2013


- 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



Coverage level	2012 (%)	2013 (%)
50%	0	0
55%	0	0
60%	0	0
65%	0	0
70%	15	10
75%	45	40
80%	10	10
85%	0	0
90%	0	0
95%	0	0


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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%

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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)

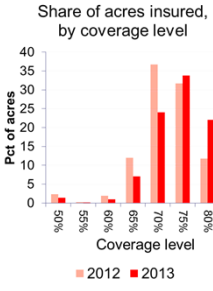
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Insured Nebraska corn in 2013

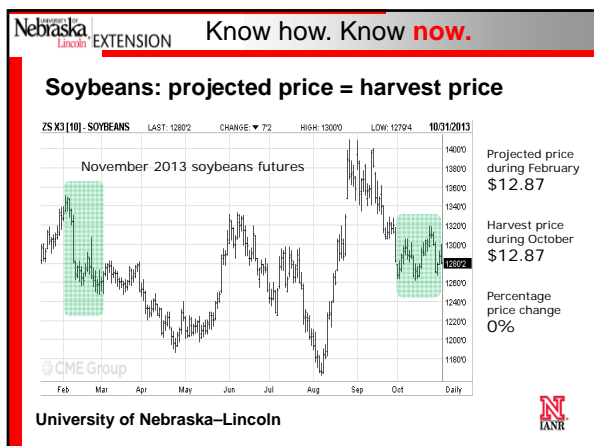
- 9.08 M acres insured in NE
 - Insured acres represent 89% of planted acres
- Similar shift to higher levels of coverage
- Revenue Protection is most popular plan
 - 91% RP
 - 8% YP
 - 1% Others

Share of acres insured, by coverage level



Coverage level	2012 (%)	2013 (%)
50%	~2	~1
55%	~1	~1
60%	~1	~1
65%	~12	~8
70%	~38	~25
75%	~35	~35
80%	~12	~22
85%	~1	~10
90%	~1	~1
95%	~1	~1

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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)

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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

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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

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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**

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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

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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

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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%

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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

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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

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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

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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

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2013 and Succeeding Crop Years - Pasture, Rangeland, Forage Availability

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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

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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

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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

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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

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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?

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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

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Questions?

Comments?

Thanks!

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