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New Prices and Products for Crop Insurance

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Premiums on many crop insurance products will be higher in 2004 than in 2003. In addition, Group Risk Income Plan – Harvest Revenue option (GRIP-HR) is available for the first time in 2004. An updated is provided below.

Higher Premium

The Risk Management Agency (RMA) is the Federal agency that determines rates for crop insurance. RMA periodically changes rates so that premiums for crop insurance products reflect the history of previous payouts from those products. The 2004 changes result in higher premium on many products.

Higher indemnity prices in 2004 also will cause premium increases. For example, the price for setting payments on Actual Production History (APH) policies on soybeans is $5.60 in 2004, a $.30 increase over the $5.30 price used in 2003. Base prices on revenue products also will be higher in 2004. The 2003 base prices were $2.42 for corn and $5.26 for soybeans. Given current Chicago Board of Trade futures prices, base prices for 2004 will be in the $2.75 range for corn and $6.40 range for soybeans.

For revenue products, the underlying price volatilities also influences insurance premium. In 2004, these volatility estimates will likely be higher than the 2003 estimate, leading to higher insurance premium.

Overall, these factors will cause increases on many insurance products. Across Illinois, University of Illinois estimates indicate that APH premiums in 2004 will be between 5 and 10 percent higher than in 2003. Premium increases on revenue products, such as Crop Revenue Coverage (CRC) and Revenue Assurance (RA), will be higher. At 80 and 85 percent coverage levels, CRC increases are between 12 and 20 percent on corn products. For soybean products, the increases could be over 50%.

In previous year, many farmers have shifted away from CRC to RA with the harvest price option (RA-HP). Both products are similar and RA-HP had lower premiums than CRC in 2002 and 2003. Rate changes may cause CRC to have lower premiums than RA-HP in 2004. Farmers should again compare the costs of these two products.

GRIP-HR

GRIP is an insurance product that makes payments when county revenue is below a county revenue guarantee. Farm yields do not influence whether or not a farmer gets a payment when this product is purchased. Moreover GRIP does not have replant or prevented planting provisions.

In 2004, GRIP introduced a harvest revenue option that is conceptually similar to farm-level revenue products with guarantee increases (i.e., CRC and RA-HP). Prior to 2004, GRIP did not have a guarantee increase provision.
Farmers who have been purchasing group products should consider purchasing GRIP-HR. Over time, GRIP-HR returns significantly more in payments than will be paid in as premium. In addition, GRIP-HR reduces risks more than the other group products.

Summary
More detailed information on crop insurance issues is provided in the crop insurance section of farmdoc (www.farmdoc.uiuc.edu). An insurance evaluator compares the returns and risk reductions associated with alternative insurance products. A premium calculator shows costs of alternative products. Extensive information exist describing GRIP-HR and other group products.