Illinois farmers and share-rent landowners have until March 15th to make changes to their crop insurance programs. If no changes are reported to insurance agents, the same products and coverage levels used in 2004 will be in effect for 2005.

The Risk Management Agency did not make major changes to crop insurance programs in 2005. The same products having the same provisions are available this year. Even without changes, farmer may wish to alter crop insurance choices in 2005 due to three factors.

First, base prices are substantially lower in 2005. These base prices are calculated using settlement prices for Chicago Board of Trade contracts during the month of February. The December contract is used for corn and the November contract is used for soybeans. In 2004, base prices were $2.83 for corn and $6.72 for soybeans. Because this article appears before the end of February, base prices are not known for certain, but they appear to be in around $2.25 for corn and $5.30 for soybeans.

Base prices enter into the calculation of guarantees on revenue insurance products. Lower base prices result in lower guarantees. Base prices for both corn and soybeans will be about 20% lower in 2005 than in 2004. As a result, guarantees also will decline by about 20% for the same coverage level. To maintain the same guarantee, farmer will have to raise coverage levels to offset the decline in base prices.

Second, farmers will face lower premiums in 2005. In 2004, premiums rose substantially, particularly on revenue products. For some insurance products, premiums in 2004 were over $5 per acre higher than 2003 premiums. These increases were due to historically high base prices. Price volatilities also enter into the calculation of insurance premiums, with higher volatilities leading to higher premium. Last year, premiums on put options contracts were high, leading to high estimates of price volatilities. It appears that 2005 volatilities will be closer to 2003 levels. Overall, 2005 premiums are likely to be closer to 2003 levels.

The third factor farmers may wish to consider is the possibility of Asian rust impacting soybean production. It is not certain that rust will be a production problem in Illinois. If rust does occur, soybean yields may decline. Multi-peril insurance policies will cover losses due to rust, as long as good farming practices are used in treating rust.
Historically, many Illinois farmers have either not insured soybeans or used relatively low coverage levels. The possibility of Asian rust suggests that this strategy should be re-evaluated. Increasing soybean coverage levels may offset some of the yield risks associated with rust.

Overall, many Illinois farmers may wish to increase coverage levels in 2005 compared to 2004. Premiums in 2004 will be lower, causing the costs of carrying higher coverage levels to be lower in 2005 than in 2004. Moreover, coverage levels must be increased in order to offset reductions in revenue guarantees due to lower base prices.