Changes to Crop Insurance Products in 2006

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The Risk Management Agency did not make major changes to multi-peril crop insurance products except for Group Risk Income Plan (GRIP). Three changes have been made to GRIP, a revenue insurance that uses county yields in calculating its payments.

First, the period over which base prices are determined has been changed. The base price is used to calculate guarantees on revenue insurance products and is the average of settlement prices of Chicago Board of Trade (CBOT) futures contracts (December contract for corn, November for soybeans). In prior years, settlement prices during the last five days of February were averaged to determine GRIP’s base prices. Beginning in 2006, settlement prices during the entire month of February will be used. This change causes GRIP to have the same base prices as Crop Revenue Coverage (CRC) and Revenue Assurance (RA), revenue insurances that use farm yields to determine insurance payments.

Second, the month used to determine the harvest price for corn under GRIP has been changed. In previous years, the harvest price was determined by averaging settlement prices of the December Chicago Board of Trade (CBOT) contract during the month of November. In 2006, the average will be taken during the month of October. This change causes GRIP and CRC to have the same harvest price. RA still uses settlement prices in November to determine its harvest price.

Third, limits have been placed on allowable harvest prices. For corn, the harvest price can not be above or below the base price by more than $1.50 per bu. As an example, suppose the base price is $2.50 per bu. The harvest price can not be below $1.00 per bu. ($2.50 base price - $1.50 limit) or above $4.00 ($2.50 base price + $1.50 limit). If the price is outside these limits, the limit is used. For soybeans, harvest prices are limited to be between the base price plus or minus $3.00 per bu.

Choice of Crop Insurance Product

The above changes are not likely to have large impacts on choice of crop insurance product, as they do not change expectations of payouts from these products. Group products tend to have higher payments than the cost of the insurance premiums. Estimates of the net positions (expected insurance payments – insurance premium) are provided in iFARM insurance evaluator in the crop insurance section of farmdoc. Averaged across all Illinois counties, GRIP with the harvest revenue option at the 90%
coverage level and a 100% protection level is projected to pay $15 per acre more in insurance payments over time than is paid in premium for corn.

RA and CRC do not tend to pay more in insurance premiums than are paid in premium. However, RA and CRC provide better risk protection than GRIP as they base payments on farm yields rather than county yields.

Hence, choice of GRIP versus farm-level product (CRC and RA) may come down to a risk/return tradeoff. GRIP enhances income and provides risk protection; however, GRIP’s risk protection is not as good as CRC and RA. CRC and RA have better risk protection but have higher costs than GRIP.