Crop Insurance Decisions in 2010

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The most popular crop insurance products used in Illinois are Crop Revenue Coverage (CRC), Revenue Assurance (RA), and Group Risk Income Plan (GRIP). Of corn acres insured in 2009, 68% were insured with CRC, 7% with RA, and 13% with GRIP. For soybean acres, 57% were insured with CRC, 15% with RA, and 10% with GRIP. In 2009, 88% of the corn acres and 82% of the soybean acres were insured with one of these three products.

One of these three products will be a good choice in 2010. The choice comes down to either a farm-level product or a county-level product. CRC and RA are farm-level products while GRIP is a county-level product.

CRC and RA make payments when farm revenue falls below a farm guarantee. Actual yields from the farm enter into the calculation of revenue and a history of yields enters into the calculation of the guarantee. CRC and RA with the harvest revenue option (RA-HP) are very similar products. The most significant difference is that RA uses settlement prices during the month of November to determine the harvest prices for corn while CRC uses settlement prices during the month of October. Because the two products are similar, most farmers should select the product with the lower premium.

Last year, higher subsidy levels were introduced for enterprise units under CRC and RA. An enterprise unit is all of the crop in a county. Other unit alternatives are basic and optional units. A basic unit is all of one crop in one county with the same ownership structure. One basic unit will exist for all owned and cash rent land in a county and one basic unit will exist for farmland for each share-rent landlord. Optional units divide basic units into smaller units based on township sections. Due to the higher subsidy levels, many farmers will find enterprise unit premiums substantially below basic and optional unit premiums. As a result, most farmers will find it advantageous to insure using enterprise units.

GRIP makes payments when county revenue falls below a county guarantee. Farm yields do not matter under GRIP and GRIP does not have replant or prevented planting provisions. GRIP can be purchased at a 90% coverage level, 5% higher than the highest level available under CRC or RA. We suggest purchasing GRIP at the 90% coverage level. If premium is a concern, a lower protection level can be selected.

GRIP provides excellent protection against price declines. The 5% higher coverage level under GRIP results in many more cases in which price declines trigger payments. Given a base price of $4.00 per bushel for corn, for example, prices have to fall to $3.40 given an 85% coverage level to trigger a payment, assuming that yields are
at their guarantee values. Prices only have to fall to $3.60 under a 90% coverage level. The $.20 difference results in a great deal more cases in which the 90% policy pays indemnities while an 85% policy does not.

The choice between revenue products with farm-level guarantees (CRC or RA) or the county-level product (GRIP) comes down to a point of emphasis. CRC and RA provide better yield protection while GRIP provides better price protection. In either case, there is good revenue risk protection offered by both product types.