

## Crop Insurance Important to Many Producers in 2005

The 2005 crop year was one of contrasts. While many areas were enjoying barely adequate moisture, other areas, sometimes just a few miles away were experiencing drought. In the end, most corn yields were quiet good (November estimate was tied for the 2<sup>nd</sup> highest state average yield in the last 10 years). But those producers who suffered disasters received crop loss insurance payments of \$8.4 million (\$4.4 million for corn losses), with more to be paid. And that's the strength of crop insurance...it responds to individual producer disasters.

<b>2005 PA CROP INSURANCE PERFORMANCE (preliminary data)</b>								
	Total	Protection		Total	Farmer Net	Losses Paid	Farmer	Benefits per
	Crop	In Force	Acres	Premium	Paid Premium	to Producers	Benefits per	\$1 of Total
	Policies	(\$)	Insured	(\$)	(\$)	(\$)	\$1 of Premium	\$Premium
Corn Only	7,226	\$110,367,277	710,169	\$18,533,608	\$5,288,519	\$4,361,350	\$0.82	\$0.24
All Crops	15,299	\$250,149,783	1,118,256	\$29,887,612	\$8,333,384	\$8,405,710	\$1.01	\$0.28
Estimates for educational purposes as of 12/05				Source: RMA/USDA				

The multiple year performance snap shot emphasizes the aggregate benefits producers have received. During the period of 2000–2004 producers netted about \$100 million from the program. While this did not cover 100% of the losses that they experienced, the \$100 million certainly helped both producers and local communities.

<b>1995-2004 PA CROP INSURANCE PERFORMANCE - ALL CROPS</b>								
	Total	Protection		Total	Farmer Net	Losses Paid	Farmer	Benefits per
	Crop	In Force	Acres	Premium	Paid Premium	to Producers	Benefits per	\$1 of Total
Year	Policies	(\$)	Insured	(\$)	(\$)	(\$)	\$1 of Premium	\$Premium
95	10,745	72,142,405	735,058	4,760,689	1,448,607	5,215,273	3.60	1.10
96	8,500	74,754,880	594,729	5,370,601	1,891,539	2,798,147	1.48	0.52
97	7,094	76,761,707	558,883	5,146,381	1,862,749	9,558,588	5.13	1.86
98	6,064	79,456,733	519,681	5,575,329	2,300,937	5,358,217	2.33	0.96
99	7,005	110,996,708	609,052	6,863,407	2,323,363	22,470,052	9.67	3.27
00	11,602	162,210,837	941,218	11,681,648	3,931,058	6,474,594	1.65	0.55
01	11,822	186,790,076	978,658	13,962,714	3,854,986	18,176,779	4.72	1.30
02	13,985	222,088,649	1,119,972	19,010,537	5,732,528	63,841,658	11.14	3.36
03	15,265	258,382,174	1,144,492	32,055,728	7,003,514	27,574,951	3.94	0.86
04	16,195	283,542,432	1,173,731	32,621,875	10,614,562	14,946,336	1.41	0.46
<b>2000-04</b>	<b>68,869</b>	<b>1,113,014,168</b>	<b>5,358,071</b>	<b>109,332,502</b>	<b>31,136,648</b>	<b>131,014,318</b>	<b>4.21</b>	<b>1.20</b>
<b>1995-04</b>	<b>108,277</b>	<b>1,527,126,601</b>	<b>8,375,474</b>	<b>137,048,909</b>	<b>40,963,843</b>	<b>176,414,595</b>	<b>4.31</b>	<b>1.29</b>
<b>1981-04</b>		<b>1,769,903,745</b>	<b>10,005,483</b>	<b>155,076,528</b>	<b>54,351,102</b>	<b>201,554,360</b>	<b>3.71</b>	<b>1.30</b>
<b>PA provided about \$12 million to reduce producers premium cost (2000-2005)</b>								
Source: RMA/USDA as of 7/19/05				Estimates for educational purposes				

## **Risk Management Planning for 2006**

Many producers are doing a lot of figuring as budget projections are tight. But remember that skimping on crop insurance protection is very risky. A crop loss in a tight budget year could impact the farming operation for a decade.

Two ideas to consider. First remember that the CRC protection can reduce the risk of preharvest pricing that usually maximizes profits. Second, with 9 different corn insurance plans or combinations of plans available in many counties, contact your crop insurance agent early for the details so that you have time to evaluate each of the choices. A brief summary of the different plans follows:

**Individual crop plans include:** MPC-APH yield coverage, the very popular CRC Crop Revenue Coverage and the IIP Indexed Income Protection are available in almost all counties. You can vary the level coverage on these plans from 50% to 75% (some up to 85%) of your yield history and change the premium cost by consolidating your farm insurance units.

Then there are two relatively new group insurance plans Group Risk Plan **GRP** and Group Risk Income Protection **GRIP** for corn protection that are available in 47 PA counties. GRP is yield based while GRIP is revenue based. These programs are based on county NASS data adjusted by RMA/USDA. Producers can purchase a fixed dollar amount of coverage and a percentage of the county average loss trigger from 70 to 90% (CAT is also available for GRP only). Generally, a yield loss triggers for GRP when the county average yield for the year is less than the historical county average (expected) yield times percentage trigger. GRIP works similarly except that the county yields information is converted to dollars using spring and fall CBOT prices. These programs usually provide more dollars of protection for reduced premium cost...but losses only trigger when the county average declines more than the historical average times the percentage loss trigger. However, reports from the Midwest are that these programs are gaining in popularity among producers there because producers feel that declines in county average yields in disaster years adequately reflect their individual farm losses.

**AGR-Lite** has undergone important improvements resulting from efforts initiated by the PA Dept. of Agriculture and approved by USDA. These include: increasing the maximum policy size from \$250,000 to \$1,000,000 (producers with annual commodity income of \$2,000,000 or less can qualify for protection), producers with only one commodity revenue source can qualify for all 65% and 75% coverage level choices (only 3 revenue sources are required for 80% coverage levels), a broader and more clearly defined causes of loss definition, and an extended enrollment period until 3/15/06 for new applicants. This plan is the purest individual revenue plan and usually costs less than other plans.

This whole farm revenue coverage provides dollars of protection based on a percentage of the producer's revenue history and projections for the current year, plus current year market fluctuations. It includes commodity revenues from almost all farm products. The revenue to count for poor quality and low quantity losses, due to insurable cause, is determined directly from the market place. This program can be used separately or in conjunction with MPC-APH, CRC and IIP...and AGR-Lite premiums are discounted up to 50% for such combinations.

The many protection choices provide producers with a wide range of risk management possibilities. Producers are encouraged to do a thorough benefit/cost analysis of each plan and combination of plans to get the best "bang for the buck" in formulating a superior plan for 2006. Contact a crop insurance agent for details.