

Managing Production Risk with Crop Insurance: New Policies, Higher Coverage Levels, Cheaper Insurance Premiums, and Free CAT coverage

Although the current growing season is rapidly winding down, now is the time to start thinking about production risk management strategies for next year. Several things have happened in the past year to make crop insurance an even better risk management tool for Pennsylvania farmers:

1) Crop Revenue Coverage (CRC), an insurance product first introduced in 2000, became available to more Pennsylvania corn and soybean growers this year. Unlike multi-peril crop insurance (MPCI) that covers only yield losses, CRC provides protection against both yield and price risk. The farmer selects a level of revenue to protect based on price and yield expectations. Losses are paid if revenues fall below the guarantee at the higher of an early-season price or the harvest price. Indexed Income Protection (IP) is a similar product that protects producers against reductions in gross income when either a crop's price or yield declines from early-season expectations. Another new program, Adjusted Gross Revenue (AGR), is available in Berks, Carbon, Lackawanna, Lehigh, Monroe, and Northampton Counties. This program insures the revenue of the entire farm rather than an individual crop. It does this by guaranteeing a percentage of average gross farm revenue, including a small amount of livestock revenue. The plan uses information from a producer's Schedule F tax forms to calculate the policy revenue guarantee. Expansion of the AGR program statewide is possible if more farmers express an interest in the program. It would be a useful risk management option for farmers who have diversified crop mixes or who produce crops that are not currently covered by crop insurance policies.

2) Farmers using crop insurance have traditionally been able to choose a yield guarantee level of 50, 55, 60, 65, 70, or 75% of their farm's actual production history yield. In a sense, this determines the "deductible" before an insurance claim would be paid. Selecting a lower yield guarantee lowers the premium. Many farmers, however, felt that they would like to have higher levels of coverage available. In response, the 80 and 85% coverage levels were introduced for corn and soybeans in many counties this year.

3) Under the Federal 2000 Agricultural Risk Protection Act crop insurance premiums for farmers were reduced by 27-41% depending on the level of coverage selected. In addition, the Commonwealth of Pennsylvania is paying the \$50/crop application fee and reducing producer paid premiums by an additional 11-22% in 2002. This means that crop insurance premiums will be 40-58% lower in 2002 than they were in 1999.

4) Catastrophic crop insurance (CAT) was introduced years ago to replace ad hoc disaster assistance programs enacted by Congress and provide a producer safety net based on a farmer's actual production history and insurance principles. The per acre insurance premium for CAT is paid totally by the Federal government. For a flat administrative fee of \$100/crop/county, the producer gets a crop insurance yield guarantee of 50% of their farm's actual production history yield, with any losses reimbursed at 55% of the established indemnity price. Compared to higher levels of coverage, CAT provides only

minimal protection against yield losses. For some diversified farmers this level of coverage is sufficient to protect them against severe cash flow shortfalls. To encourage all farmers to have at least this level of protection, the Commonwealth of Pennsylvania is paying the \$100 administrative fee in 2002.

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