By Moe Russell

Managing Risk In Highly Volatile Times

Crop insurance decisions need to be made by March 15, especially for federal crop insurance products. Now is the time to think about choosing a policy and deciding how much coverage you need.

Every operation is different. Each of you is able to bear different levels of financial and psychological risk. This determines what and how much insurance you need. Let's take a closer look at each.

The last 18 months are indicative of the volatility we can expect in 2005 and beyond. Revenue products are generally preferable to regular multi-peril products because they are tied to price. With low world coarse grain carryover stocks, having the fall price option may be of great benefit in 2005 if there are production problems anywhere in the world.

Therefore you should look at purchasing Crop Revenue Coverage (CRC) or Revenue Assurance (RA) with the harvest option this year. In addition, the new Group Risk Income Plan (GRIP) policies that are also referred to as county policies are increasingly popular.

Even if you have irrigated crops, insurance is a good investment. It gives you the confidence to make forward sales during the summer months before you know how much you'll actually produce. Pricing opportunities are best during the summer.

The next question is how much insurance is needed. This varies with each operation, so let's look at some examples.

Let's assume you need $275/acre gross income on soybeans to cover your payments, operating expenses, living, depreciation and a $50/acre profit. This is your marketing goal and if achieved should result in a good return on assets and equity.

The concept of insurance should be to insure your costs, not your profit. So in this example you would subtract $50/acre profit from your projected gross needs of $275. This leaves you $225.

If your operation is highly leveraged and you have significant debt on machinery you need to insure all of these costs. Let's assume the February average of November futures will be $5.50. Divide the $225 by $5.50 and this gives you the bushels you need to insure. ($225/$5.50 = 40.9 bu.) if your APH is 50 bu./acre this would require an 80% coverage policy. (40.9/50 = 81.8%)

If you're well established financially, and have little or no machinery debt, you probably don't need to insure your machinery costs.

So if your machinery costs are $50/acre you only need to cover $175/acre. This should take care of most of your out-of-pocket production costs. $175 divided by the $5.50/bu. anticipated price would be 31.8 bu. This is what you should insure. ($175/$5.50 = 31.8 bu.) This divided by your APH of 50 is 63.6% (31.8/50 = 63.6%). A 65% coverage policy should adequately insure your crops.

Now consider your psychological propensity to bear risk. You can tweak your policy up to 85% in the first case, or down to 60% in the second case. ■

New Crop Insurance Products

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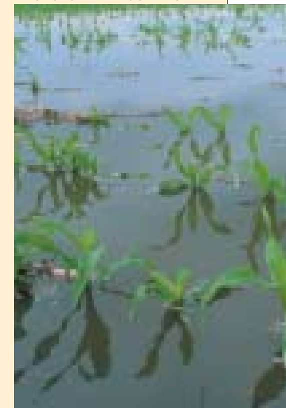

The Group Risk Income Plan (GRIP) insurance policies now available in most Midwestern states is the fastest growing multi-peril crop insurance plan in the nation. Your farm yields do not apply to the GRIP policy and your production records are not needed.

The Silveus Insurance Group of Warsaw, Indiana (*www.cropins.com*) has been a pioneer in developing and marketing this product and it's a tool you need to look at, especially if your farm is average or above average in your county.

Additionally, it is a great alternative to the Crop Revenue Coverage (CRC) and Revenue Assurance (RA) policies. If you have had reduced yields the past several years like much of the High Plains area, but still have good trendline yields for your county, it's especially appropriate.

GRIP has the highest government subsidy percentage of any buy-up coverage. Another advantage of area risk plans like GRIP is they tend to keep the producer in the black when you look at premiums vs. loss checks over a period of time.

We had clients in 2004 who produced 200-bu. corn and collected on GRIP policies due to the dramatic drop in the corn price. This next year could be similar to the 2003 soybean year if we have any production problems in corn and if you have the HRO option.

A thorough analysis is provided by the University of Illinois at *www.farmdoc.uinc.edu publication FEFO 04-01*. ■

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