FARM BUSINESS MANAGEMENT

FARM ECONOMICS Facts & Opinions

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TOOLS FOR MAKING CROP INSURANCE DECISIONS

Two tools for making crop insurance decisions are available at farm.doc, a web site maintained in the Department of Agricultural and Consumer Economics (www.farmdoc.uiuc.edu). These tools are located in farm.doc's crop insurance section and are 1) a Premium Calculator and 2) a Crop Insurance Evaluator.

IFARM: Premium Calculator

The premium calculator shows estimates of per acre premiums (i.e., costs of insurance products) for Actual Production History (APH), Revenue Assurance – Base price option (RA-BP), Crop Revenue Coverage (CRC), Group Risk Plan (GRP), and Group Risk Income Plan (GRIP) insurances. Per acre costs are shown for coverage levels between 50 and 90 percent in 5 percent increments, where applicable.

To get these premiums, the following information must be entered:

1. Crop – either corn or soybeans,
2. County – one of the counties in Illinois,
3. APH yield – the Actual Production History yield for the unit to be insured,
4. Unit – either basic or optional units, and
5. Protection level – choices range from 100 to 60 percent. This choice applies to Group Risk Plan (GRP) and Group Risk Income Plan (GRIP) insurances. An entry of 100 means that 100 percent of the maximum protection level is chosen. An entry of 85 means that 85 percent of the maximum protection level is chosen.

Estimated per acre costs give a feel for the actual costs of crop insurance products. Actual quotes will vary from estimated premium shown in the premium calculator based on other parameters including: 1) unit selected for insurance, 2) whether or not the unit contains any high risk farmland, and 3) options selected with the crop insurance product. Actual quotes must be obtained from crop insurance agents.

IFARM: Crop Insurance Evaluator

The crop insurance evaluator compares APH, RA-BP, CRC, and GRP insurance policies. Comparison include:

1. Estimated premium costs,
2. Frequency of payments under the crop insurance products,
3. Net costs of insurance products (Estimated payments from the products minus estimated premium costs), and
4. Risk reductions associated with the crop insurance products.

Users of the Crop Insurance Evaluator will select a crop and county. Based on these selections the above comparisons are made.

Crop insurance comparisons are made for an "average" farm in each county based on data provided by Illinois Farm Business Farm Management (FBFM). Based on this typical farm, crop insurance products are simulated using a sophisticated numerical model similar to models used by Wall Street firms to evaluate returns and risks associated with alternative financial instruments.

Generally, GRP has lower net costs than the other insurance products. However, risk reductions generally are the higher for RA-BP and CRC. Hence, there is a risk—return tradeoff: lower risks generally come up somewhat higher costs.

Actual results on a farm can vary from those shown by the Crop Insurance Evaluator when an individual farm varies from the case farm given in the evaluations. Variations will occur when a farm's APH yield significantly differs from that shown for the "average" farm and when a farm's yield variability differs from the "average" farm.

Summary

Both of these tools will aid farmer's in making crop insurance decisions. Further information about crop insurance products also is available at farm.doc

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