

April 23, 2007**FEFO 07-08****Crop Insurance Decisions Associated with Wheat Failure**

Recent freezes have harmed wheat causing some farmers to consider destroying wheat and planting another crop. For many farmers, planting another crop will have crop insurance implications. This article covers these implications in general. Farmers need to contact their crop insurance agents to discuss their specific situations. Three topics are discussed here: 1) implications when wheat acres are not insured, 2) implications when wheat acres are insured, and 3) considerations with Group Risk Plan (GRP) and Group Risk Income Plan (GRIP) policies.

Wheat acres are not insured

If a farmer has not insured wheat acres, the wheat can be destroyed and another crop planted. The following crop may be insured if the farmer has a policy for the following crop and certain criteria are met. For example, consider a farmer that has signed up for a corn policy by the March 15th deadline and the destroyed wheat acres will be planted to corn. In this case, the acres will be insured as corn. On the other hand, the acres will not be insured if the farmer does not have a corn policy.

Wheat acres are insured

Before destroying wheat, a farmer must contact his or her crop insurance agent. The agent will contact the crop insurance company. The company will assign an adjustor who will determine acres of loss. If wheat acres are going to be destroyed, it is possible that representative strips will need to be left in the field (except if the policy is GRP or GRIP). These representative strips will be used to determine the wheat yield for calculating crop insurance indemnities at a later date.

On destroyed acres, the farmer will have a choice concerning crop insurance. The farmer can:

1. Elect to not insure the succeeding crop. In this case, the farmer will receive 100% of the payment for wheat and pay 100% of the wheat premium.
2. Elect to insure the second crop, given that the farmer has a policy for the succeeding crop. Except for double crop soybeans (see "Double Crop Soybeans" paragraph below), the farmer will receive 35% of the wheat insurance payment and pay 35% of the wheat premium. In addition, the farmer will pay the premium on the succeeding crop. A decision then will have to be made when the insurance payment on the succeeding crop is known. The farmer can elect to either a) receive the remaining 65% of the wheat payment and pay the remaining 65% of the premium, or b) receive the payment on the succeeding crop.

Take as an example, a farmer with a wheat policy that costs \$10 per acre and has a \$140 per acre crop insurance payment. This farmer will destroy wheat, plant corn, and insure corn. The farmer will pay 35% of the wheat insurance premium ($\$3.50 = \$10 \times .35$) and receive 35% of the wheat insurance payments ($\$49 = \$140 \times .35$), for a net of \$45.50 per acre (\$49 payment minus \$3.50 premium). The net on the remaining 65% is \$84.50. The \$84.50 is composed of \$91 per acre in insurance payments ($\$140 \times .65$) minus \$6.50 in premium ($\$10 \times .65$). If the corn policy ends up having an insurance payment greater than the \$84.50 per acre, the farmer should elect to receive the corn payment to maximize insurance payments. If the corn policy has a payment less than \$84.50, the farmer should elect to receive the remaining 65% of the wheat insurance payments and pay 65% of the wheat premium.

The decision to insure or not insure the succeeding crop comes down to whether the farmer wants a possibility of increasing insurance payments above the 65% net wheat payment. By paying the succeeding crop's premium the farmer allows for the possibility of receiving more than the 65% of the net wheat payment. The size of the succeeding crop's premium, the expected value of the 65% net wheat payment, and the risks associated with the succeeding crop enter into the decision.

Double Crop Soybeans: The above rules prevent a farmer from receiving 100% of crop insurance payments for two crops in one year, except where double crop soybeans are prevalent. If soybeans are planted following the destroyed wheat, the farmer can receive 100% of payments for wheat and double-crop soybeans. Farmers with double-crop soybeans should work with their crop insurance agents to determine eligibility for 100% payments.

What about GRP and GRIP?

GRP and GRIP are treated the same way as farm-level products (APH, CRC, IP, and RA) except that yields do not have to be determined from destroyed fields. Therefore, representative strips for determining wheat yields are not required in fields where wheat is destroyed because individual farm yields do not enter into the calculation of GRP and GRIP indemnity payments.

Concerns exist regarding the size of GRP and GRIP payments as wheat acres are destroyed. County yields for determining GRP and GRIP are calculated using data provided by the National Agricultural Statistical Service (NASS). In Illinois, a county wheat yield for determining GRP and GRIP payments equals bushels of wheat produced in a county divided by planted acres. As wheat acres are destroyed, the number of planted acres will not change while bushels produced will presumably decline as destroyed acres have zero yields. Hence, destroying wheat acres increases the likelihood and expected amount of GRP and GRIP payments.

There may be some confusion on county yields per acre when NASS releases their yield estimates. NASS typically reported yields as bushels produced per county divided by harvested acres. Since planted acres are used in GRP and GRIP, yields will differ from NASS reported yields. GRP and GRIP yields always will be less than NASS yields. If harvested acres are considerably less than planted acres, there could be large difference between NASS yields and yields used for determining payments on GRP and GRIP.

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