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Using ACRE and Crop Insurance to Manage Risk

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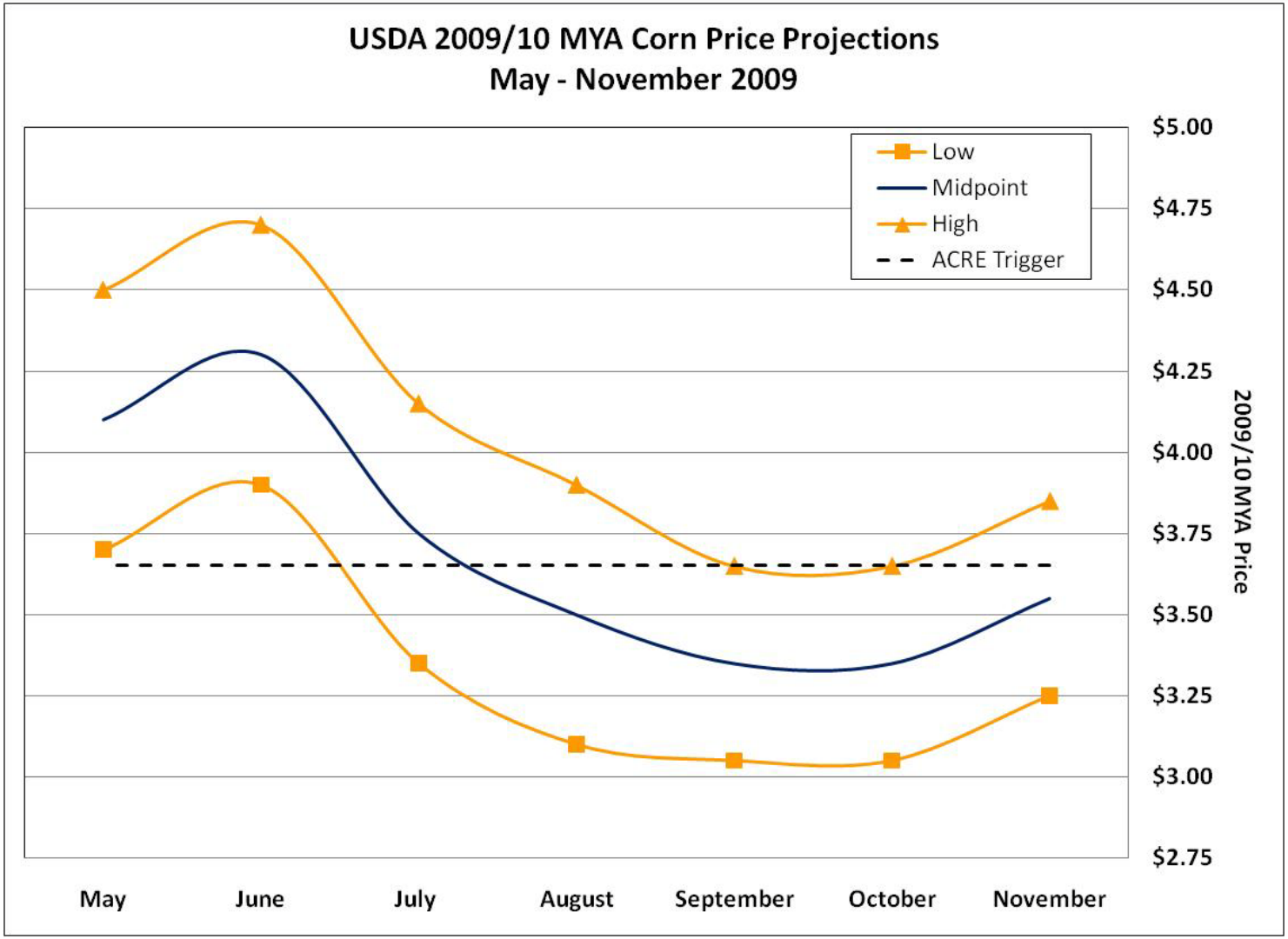
Agricultural and Consumer Economics

2009 Illinois Farm Economics Summit

The Profitability of Illinois Agriculture: Profitability at a Crossroads

The 2009 Crop Year

MYA Corn Price Projections



ACRE Payment Scenarios - Corn

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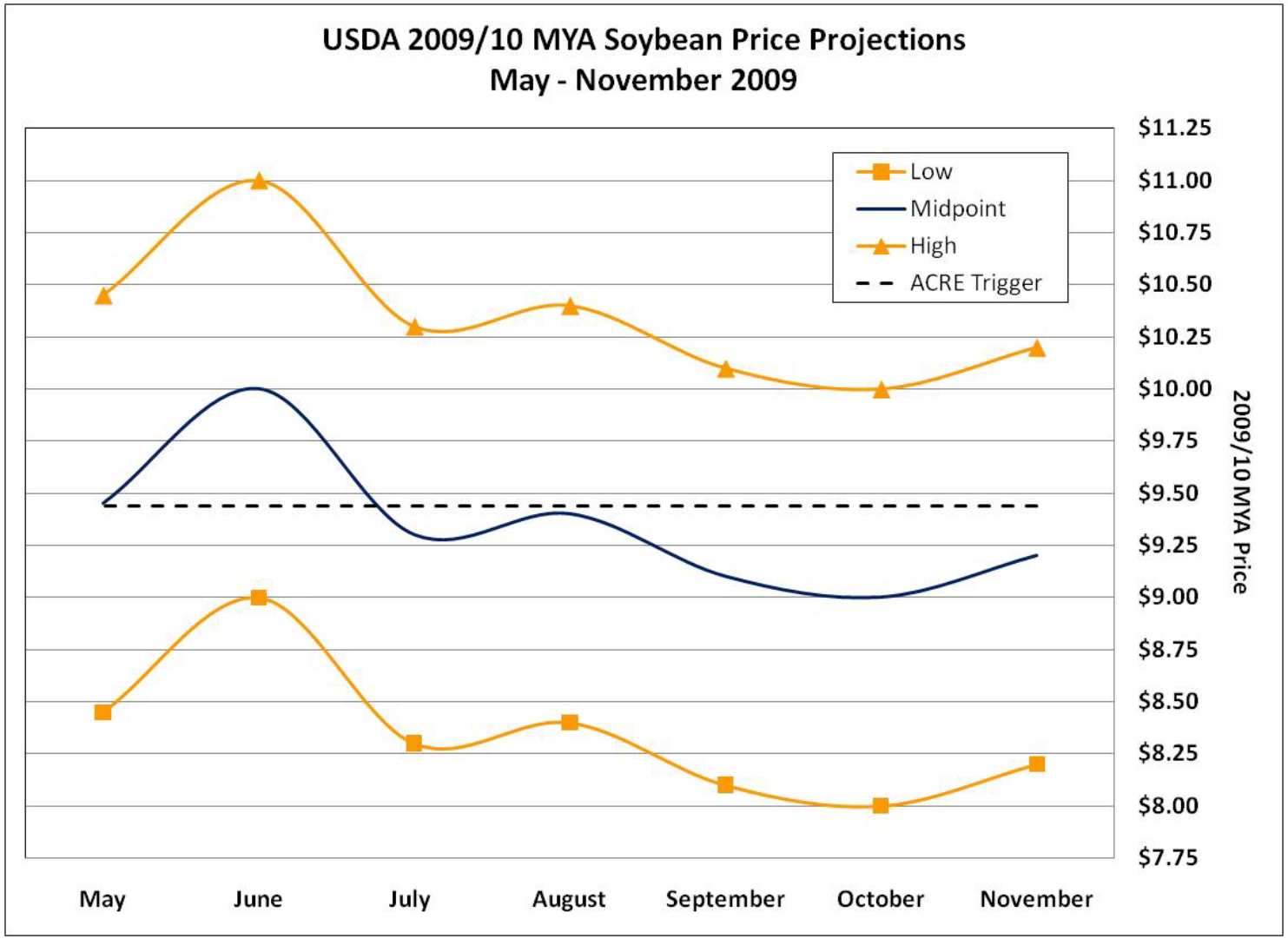
	2009 Season Average Price ($ per bu.)		
2009 IL Yield	$3.25	$3.55	$3.85
(bu. per acre)	——— $ per acre ———		
165	$103	$54	$4
170	$87	$36	$0
175	$71	$18	$0
180	$54	$0	$0

MYA Soybean Price Projections



ACRE Payment Scenarios - Soybean

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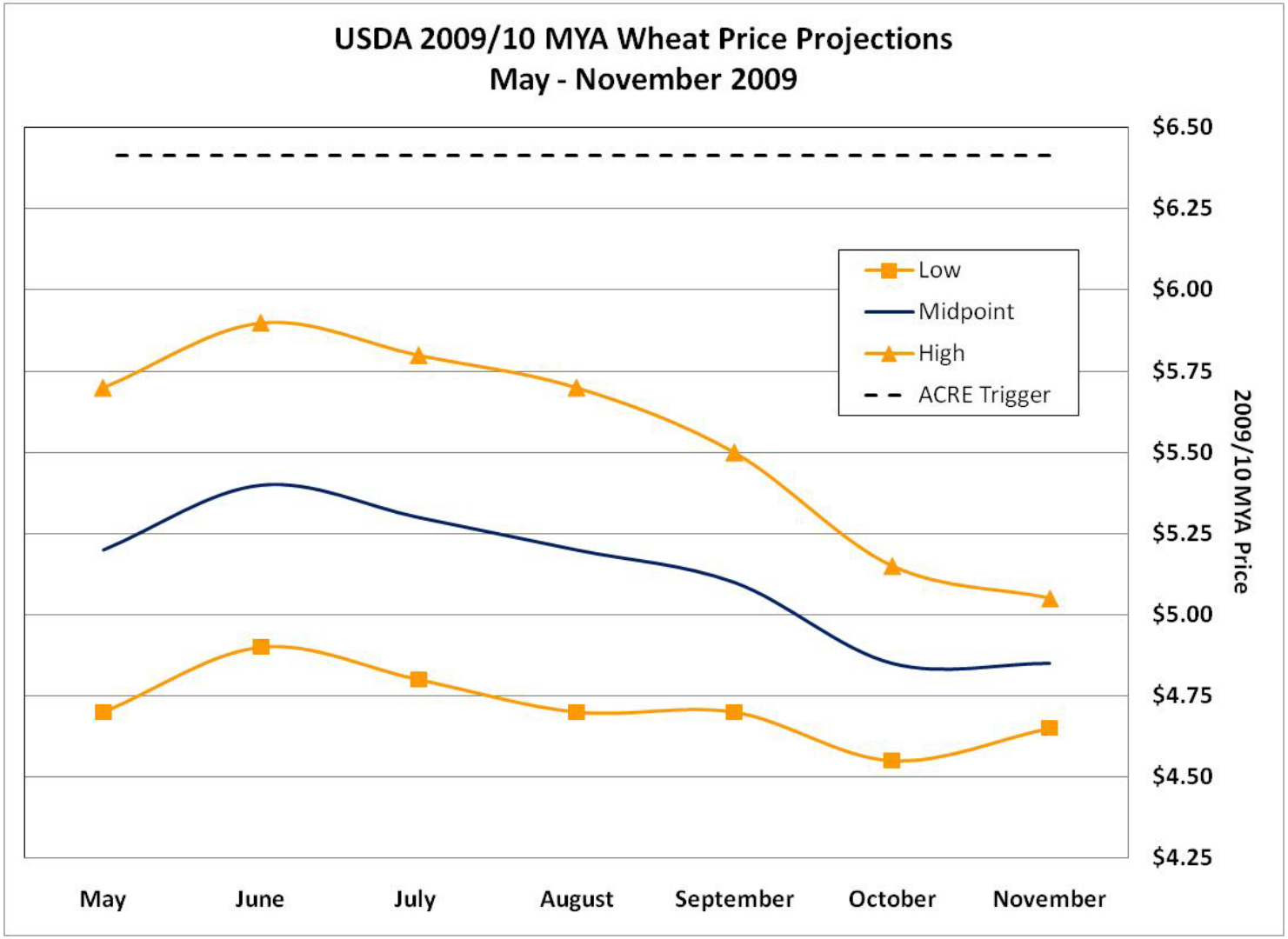
	2009 Season Average Price ($ per bu.)		
2009 IL Yield	$8.20	$9.20	$10.20
(bu. per acre)	——— $ per acre ———		
41	$88	$47	$6
43	$72	$29	$0
45	$56	$11	$
47	$39	$0	$0

MYA Wheat Price Projections



2009 Crop Insurance Payments

	Base Price	Harvest Price	Change
Corn (CRC, GRIP)	$4.04	$3.72	($0.32) (7.9%)
Corn (RA)	$4.04	$3.90	($0.14) (3.5%)
Soybeans	$8.80	$9.66	$0.86 9.8%
Wheat	$8.58	$5.17	($3.41) (39.7%)

2009 Crop Insurance Payments

- Individual plans
  - Yield losses required for corn and soybeans
- Area plans
  - Most likely for corn and soybeans in the Southwest region of IL
  - Large payments on wheat acres, especially in Western region counties
- Effects of delayed harvest
- Future crop years

ACRE and Crop Insurance

- **ACRE not a complete substitute for crop insurance**
  - Historical revenue index vs. "expected" yield/revenue in a given crop year
  - State vs. county vs. farm yields
  - U.S. season average price vs. futures
  - Insurance units vs. FSA farm id's
- **Farm trigger rules provide incentive to purchase crop insurance**
  - Reduces chance of being ineligible when ACRE payments occur

ACRE and Crop Insurance

- **ACRE**
  - state average yields
  - national average prices
  - averages based on last 3-5 years
- **GRIP and GRP**
  - county yields
  - futures prices
  - price changes over growing season

ACRE and Crop Insurance

- **Individual insurance plans cover risk at the farm level**
  - availability of yield and revenue protection
  - farm-level yields
  - futures prices
  - price changes over growing season

- **In any given year**
  - ACRE AND insurance may pay
  - ACRE OR insurance may pay
  - neither may pay

Historical Analysis - Corn

- **Percentage of farms receiving payments**

Year	ACRE	85% CRC	85% APH
1980	0%	50%	50%
1981	0%	30%	3%
1982	0%	48%	2%
1995	0%	49%	49%
2002	0%	25%	25%
2004	0%	57%	1%

- **Percentage of farms receiving payments**

Year	ACRE	85% CRC	85% APH
1981	0%	53%	6%
1983	0%	61%	61%
1988	0%	73%	73%
1991	0%	30%	20%
1995	0%	22%	22%
1996	0%	20%	16%
2003	0%	66%	66%

ACRE and Area Plans - Corn

- **McLean County**
  - High productivity/low risk, highly correlated with IL yield
  - GRIP payments
    - 9 of 31 years
    - 6 out of the 10 ACRE payment years
  - GRP payments
    - 5 of 31 years
    - 3 out of the 10 ACRE payment years

- **Williamson County**
  - Lower productivity/higher risk, less correlated with IL yields
  - GRIP payments
    - 7 of 31 years
    - 3 out of the 10 ACRE payment years
  - GRP payments
    - 6 of 31 years
    - *none* of the 10 ACRE payment years

- **McLean County**
  - GRIP payments
    - 7 of 31 years
    - 3 out of the 5 ACRE payment years
  - GRP payments
    - 3 of 31 years
    - 1 out of the 5 ACRE payment years

- **Williamson County**
  - GRIP payments
    - 7 of 31 years
    - 3 out of the 5 ACRE payment years
  - GRP payments
    - 6 of 31 years
    - *none* of the 5 ACRE payment years

ACRE and Yield Insurance

- **Coupling ACRE with yield insurance may offer similar risk reduction at a lower cost than with revenue insurance**

- **Substitutability considerations**
  - Farm-state yield correlation
  - Insurance (futures) vs. MYA prices
  - Timing of marketing
  - Farm yield risk
  - Current preferred coverage level

ACRE and Crop Insurance

- **If ACRE is elected - may be able to reduce coverage level within farm-level insurance plans to achieve similar levels of risk reduction**
  - Premium savings will, in general, offset reduction in direct payments
  - Depends on
    - Level of correlation between farm and state yields
    - Farm yield volatility (risk)
    - Current coverage level

ACRE and Area Plans

- **ACRE, GRP, and GRIP**
  - State vs. county yields
  - Futures vs. MYA prices
  - Amount of overlap depends on correlation between county and state yields
  - Lack of overlap illustrates the price-driven nature of ACRE/GRIP

Questions?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when! when!
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