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South Dakota State University

No. 441

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Fall Crop Insurance Decisions

by

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Fall is a time for harvest, but it is also a time for planting certain crops and for managing risk using crop insurance products. The fall purchasing deadline of September 30 for winter wheat, forage production, and rye coverage is quickly approaching. In this *Commentator*, insurance coverage is discussed to help producers make more informed decisions this fall and to highlight various aspects of interest to a broader audience.

Crop insurance itself is not overly complex, but details abound – especially at the county level. Edwards and Barnaby (2000) provide an overview of the types of coverage available and how to make well-informed purchase decisions. For more details about specific coverage available in a given county, contact a crop insurance agent.

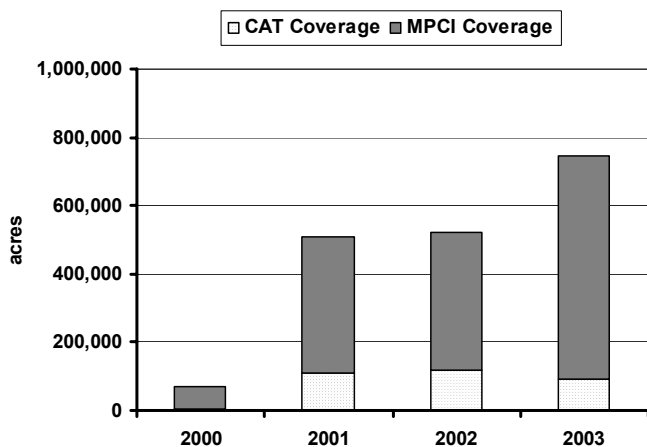
The USDA's Risk Management Agency administers federal crop insurance programs. Their website, <http://www.rma.usda.gov/>, has a variety of information related to specific programs and product use by producers. At the site under the **Participation Data** section one can find useful maps of sales deadlines under "Sales Closing Dates". Information under "Date Summaries", "County Crop Program", and "Price Addendums" is useful when exploring the crop insurance alternatives available across different counties. For a historical perspective, the "Summary of Business Reports" can be accessed for breakdowns of what was purchased and what indemnities were paid at the county level.

Also at the main site, **Tools/Calculators** is a useful section that houses the "Actuarial Document Browser". Here county-specific details are available on special provisions for the different contracts, t-yields, and cost factors. Much of the crop-specific information below was gleaned from the website.

Forage Production Insurance

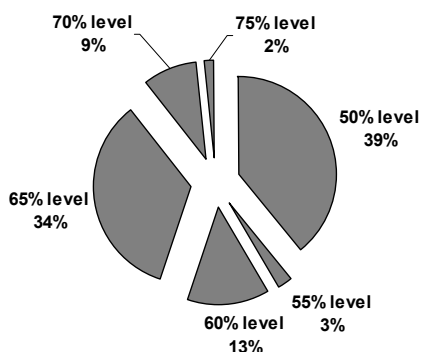
Forage production insurance covers alfalfa and alfalfa mix hay (called alfalfa/grass and grass/alfalfa) in South Dakota. Coverage has been available statewide for the last few years, but the percent of alfalfa acres insured lags that of other crops. For the 2003 crop year, South Dakota producers insured 750,000 acres of alfalfa or alfalfa mix hay (figure 1). However, producers intend to harvest 2.6 million acres of alfalfa in 2003. Acres covered increased for the 2003 crop year in response to increased awareness of the coverage available and the yield damage that drought conditions can cause. The increase in acres was under Multiple Peril Crop Insurance (MPCI) coverage, while acres under Catastrophic (CAT) coverage declined slightly from 2002.

The higher levels of coverage purchased also lags behind that of other major crops in South Dakota. A breakdown of the yield election level for acres under MPCI coverage shows that 39 percent of the acres (the bottom label in figure 2) were only insured at the 50 percent yield election level (the top label in figure 2). In essence, this gives CAT coverage with the full price election. An additional 34 percent of the acres were insured at the 65 percent yield election level. The 65 percent level tends to be the minimum election chosen on the majority of acres of other crops.



Source: USDA-RMA

Figure 1. South Dakota Forage Production Insurance, 2000-2003.



Source: USDA-AMS

Figure 2. Percent of forage acres covered by yield election in South Dakota in 2003.

The sales closing date for forage production insurance is September 30. For those establishing coverage for the first time, the county-specific t-yields would be of interest. The 2004 t-yields range from a low of 1.4 tons per acre in Harding County to 4.1 tons per acre in Union County. The established price on insured acres is \$64 per ton for alfalfa and alfalfa/grass types. The established price is \$46 per ton for the grass/alfalfa type, an increase of \$1 per ton from 2003. The cost of the insurance varies by county, coverage level chosen, and yields. If a stand does not qualify for at least the grass/alfalfa class, then Non-Insured Assistance Program (NAP) coverage is available as discussed in Diersen (2002).

Winter Wheat Insurance

Wheat insurance is widely utilized by South Dakota producers and a variety of products are available. However, only certain counties, 37 in all, are designated as winter wheat counties (figure 3). CAT, MPCI, Crop Revenue Coverage (CRC), Income Protection (IP), and Revenue Assurance (RA) policies are available in each county. Group Risk Plan (GRP) coverage is also available, but only in 25 of the counties. County-specific, non-irrigated t-yields range from 20 bushels per acre in Harding County to 39 bushels per acre in Hanson and Hutchinson Counties for 2004. Written agreements are needed to obtain coverage in other counties.

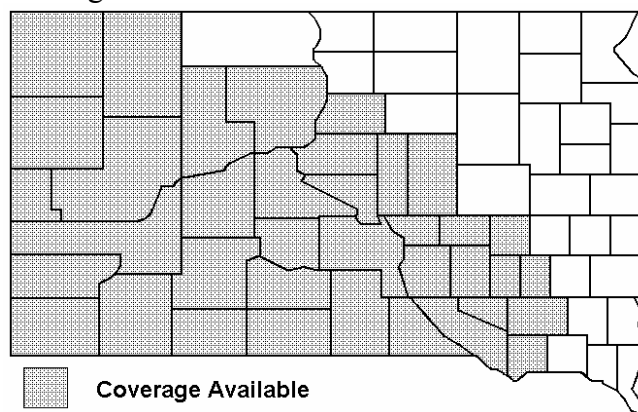


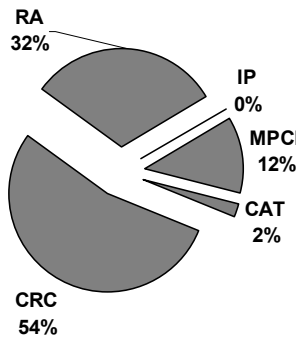
Figure 3. South Dakota winter wheat counties.

The policy type used has depended on the year and price elections available. In 2003, for all wheat, CRC was the preferred product, purchased on 54 percent of the wheat acres (figure 4). RA was also widely used, being purchased on 32 percent of the wheat acres. IP was not purchased during 2003.

The deadline for purchasing winter wheat coverage for 2004 is September 30. The choice among products will likely depend on a producer's preference between yield or revenue protection. The relative price is also important. The APH price is \$3.35 per bushel and the revenue product prices are still to be determined, but are currently estimated at \$3.40-\$3.45 per bushel. The Kansas City Board of Trade price is used for CRC and RA while the Chicago Board of

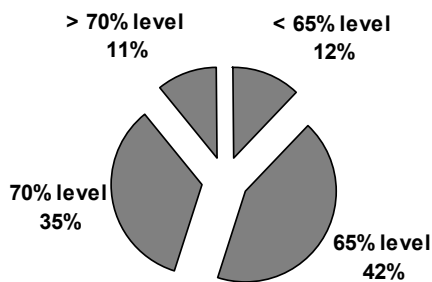
Trade price is used for IP. Insurance agents can give premium estimates for specific counties.

In addition to the product choice, the coverage level must also be selected. As for coverage levels in 2003, 42 percent of the acres were insured at the 65 percent level with another 23 percent at the 70 percent level (figure 5). The appropriate coverage choice is easier to make if producers know their expected cost of production. This becomes especially important when deciding on a coverage level for revenue insurance products. Loan rates are another aspect to consider when choosing among products. Loan rates on winter wheat follow a pattern similar to t-yields, ranging from a low of \$2.54 per bushel in Butte County to \$2.82 per bushel in Hanson and Hutchinson Counties. The “MBM Risk Calculator”, available under the “Markets” tab at <http://sdces.sdstate.edu/>, can be used to evaluate the combinations of loan rates, insurance products, and marketing tools.



Source: USDA-RMA

Figure 4. Percent of wheat acres covered by policy type in South Dakota in 2003.



Source: USDA-RMA

Figure 5. Percent of wheat acres covered by yield election in South Dakota in 2003.

Rye Insurance

MPCI and CAT coverage are available for rye in certain counties in South Dakota. The deadline for 2004 coverage is September 30 with an established price of \$3.05 per bushel. Producers in counties in the northeast crop-reporting district and in the eastern two-thirds of the north central crop-reporting district can purchase rye policies. In 2003 producers insured just less than 2,000 acres of rye, but intend to harvest 15,000 acres across the state. The coverage tends to be MPCI at the 50 or 65 percent level (figure 6). Written agreements can be used to obtain coverage in other counties.

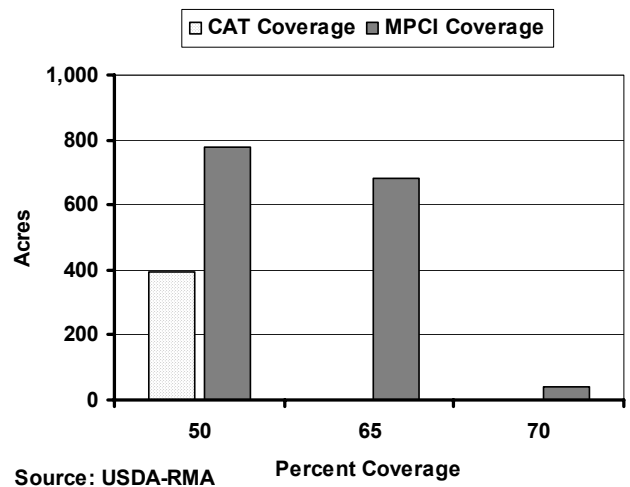


Figure 6. South Dakota Rye Insurance Coverage in 2003.

Conclusion

A few crops in South Dakota have fall insurance deadlines. While the percent of forage acres insured lags other major crops in South Dakota, the product continues to gain acceptance. Winter wheat is often covered, but price changes make annual product choice and coverage level decisions necessary. Rye coverage is available in a form and to an extent similar for other minor crops in the state.

References

Diersen, M.A. 2002. *Crop Insurance Alternatives for Hay in South Dakota*. ExEx 5044, Cooperative Extension Service, South Dakota State University, Brookings, September.

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