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Your Enterprise Recommendation Doesn't Work For Us!¹

Dear Art,

I have been told and have looked into SURE and have found that if you are diversified and have 60% wheat and 40% row crop like we do in lot of area I write coverage in, that if wheat crop is average and we lose our row crops to drought, that the wheat crop would kick us out of any SURE payment. Reason I'm asking is that I am getting phone calls about writing 80% coverage from your comments on radio, and I just do not think that our area from past history will ever see any SURE payments. It has been told to me from FSA personal that in bad years of 2002 (average wheat - no fall crops), 2007 (poor wheat - good fall crops), even 1989 (very poor wheat - average fall crops) we still would not see any SURE payment. Is this true or have I been told wrong and there is parts of SURE I do not understand. Thanks for your help.

Crop Insurance Agent

Dear Agent,

SURE provides the most protection for single enterprise farms. There is less protection for diversified farms. The Corn Belt is not diversified, it is mostly corn-

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soybeans, and often more than half of the acres are planted to corn. In addition they have very little winter wheat so the crops are growing at the same time. In Kansas many areas are diversified between fall and spring planted crops, and this lowers the effective SURE protection. At least Kansas doesn't have both spring and winter wheat.

However, the reason for an 80% enterprise unit over a 70% optional unit will often stand on its own, with the increased SURE coverage as a side benefit. The enterprise unit is by crop so wheat payments are based only on wheat losses. Farmers with insurance coverage by optional unit (coverage by field) could have a field hailed out but with other wheat acres averaged in the crop insurance would generate no payment. However, by increasing the coverage from 70% to 80% it will help offset some of the field by field payment losses. In return growers receive a premium discount for the enterprise unit, an increase in subsidy from 59% to 68% of their premium and, assuming revenue coverage, increase their total dollars guaranteed for their farm. The increased dollars of coverage may be important to some producers who need the extra coverage for their operating loan.

Under a revenue enterprise unit, if a price decline is causing the loss then units will add very little protection. If it is drought, freeze, or other widespread perils then the higher coverage level under an enterprise unit is likely to pay as well if not better than the optional unit. Remember when a farm crosses a county or state line farmers get a new enterprise unit that "stands on its own".

Under SURE, an enterprise unit will allow farmers to deduct their entire premium for a crop and that will increase the size of the SURE payment. Under optional units, if two farmers receive the same gross indemnity that is deducted from their SURE payment but the farmer with optional units can only deduct the premium from units with claims, and this will lower ones SURE payment, while the farmer with an enterprise unit would be able deduct the entire premium and increase ones SURE payment.

The enterprise unit does provide less protection against hail because hail tends to happen in a very small area. Therefore, most farmers who elect enterprise units will add private hail coverage. But one could add hail with a 20% deductible rather than a zero deductible and cut the hail premium in half. Growers will still have more protection than was in their Risk Management Agency (RMA) reinsured coverage that would have had a 30% deductible. In additional, any indemnity payments that were paid under private hail or other private crop insurance contracts are not deducted from the SURE payment. This means SURE payments will be larger if the hail or other peril losses are paid under a private insurance contract rather than if the loss is paid under a RMA reinsured product.

SURE is a 90% all crop revenue guarantee (does not include pasture or livestock sales). A major point that is being missed is SURE settles claims on post harvest cash prices (Marketing Year Average price (MYA)) rather than harvest time futures prices that is used to settle claims in the revenue insurance contracts. Table 1 below shows the comparisons of the two prices. For example the 2009 SURE winter wheat settlement price is expected to be about \$1.50 lower than the settlement price for CRC insurance. SURE is a revenue guarantee and this “large” reduction in the 2009 wheat price means a larger SURE payment (remember farmers are currently filing for 2008 losses they will file for the 2009 crop losses next fall with FSA). The increase in the size of the SURE payment will reduce the number of farmers without SURE payments because of a good spring crop. So if farmers are mostly wheat with low yields then likely there will be a 2009 SURE payment but if they are mostly corn, then probably no payment. Many Northwest Kansas farmers produced both bumper wheat and feedgrain crops, so it is unlikely they will receive any 2009 SURE payments.

SURE works best for less diversified farms, but SURE is a 90% all crop revenue guarantee; **so SURE coverage is better than many growers think.** My suggestion is to buy the type and level of crop insurance that makes sense and the SURE is an added benefit. However, those who do buy 80% coverage (many growers will only see the enterprise unit as “affordable” with 80% coverage), will get higher SURE payments than the same farmer buying 70% coverage, unless they are over the payment limit.

The enterprise unit was developed by an Iowa State professor and works very well for Iowa. The enterprise unit does not work well for Great Plains growers who have both irrigated and dryland corn acres because an enterprise unit will insure the irrigated and dryland acres all as a single crop. In some cases farmers can “create” an enterprise unit that will work. For example, growers would plant the irrigated acres to corn and then plant the dryland acres to sorghum or soybeans. This would create an irrigated corn enterprise unit.

A policy change that would make the SURE and enterprise unit work for the Great Plains is to set the SURE guarantee as all fall planted crops and a separate SURE guarantee for all spring planted crops. SURE was developed by interest in the spring wheat area so the current method works for them but is much less effective for winter wheat areas that also grow spring planted crops. The enterprise unit in crop insurance would also work for the Great Plains if RMA would redefine irrigated corn as a separate enterprise unit from dryland corn. This public policy would allow Great Plains farmers to insure all irrigated corn acres as one unit and all dryland corn acres as one unit. This will become an even bigger issue if RMA continues to provide these much larger subsidies for an enterprise unit, but at least the RMA did give growers the option to elect optional units. There were some Washington policy makers arguing that only an enterprise unit should be offered.

Dear Art,

You never said anything about GRIP in your posting on SURE. How does SURE work with GRIP?

Michigan farmer

Dear Michigan farmer,

The short answer is that I don't know. The original Farm Service Agency (FSA) formula would have multiplied dollars of crop insurance coverage by 115% and that would have set a grower's SURE coverage. However, this method would let farmers insure with Group Risk Plan (GRP) and Group Risk Income Plan (GRIP) that are loss adjusted at the county level and receive 90% SURE coverage with farm level loss adjustment for very few premium dollars. Because GRIP/GRP have a disappearing deductible insured farmers will have the same dollars of coverage with a 70% contract as they do with a 90% contract, but the 70% cost a lot less. For example if the SURE formula being applied to APH, RA, and CRC were applied to GRIP/GRP, then farmers could buy a 70/100 GRP contract and generate the maximum SURE coverage. In the Great Plains a 70/100 GRP contract in some cases would only cost about a dollar an ACRE but would give farmers a "free" 90% SURE revenue guarantee adjusted at the farm level. This would be very cheap insurance in region where hail rates can run over \$20 per \$100 of coverage. It is unlikely that a 70/100 GRP contract would pay but for very little cost it would provide the maximum level of SURE protection and farmers could supplement their coverage with private hail. This public policy would provide very low cost protection for irrigated corn or irrigated sorghum.

The 70/100 GRP low cost strategy would shift nearly all of the risk to the "free" SURE coverage. This is the reason that I really doubt FSA will use the same SURE formula for aph products and group products. I have not been able to find out the exact procedure, but for growers buying 85/100 GRIP or GRP one would expect they will get the maximum SURE coverage. It is unlikely farmers who lower their GRP or GRIP coverage to 70% or buys less than 100% of the price will get the maximum SURE coverage. So if GRIP or GRP make sense on ones farm then that would be the choice. Until the fine points are on paper it will be impossible to determine the level of SURE coverage for GRP/GRIP insured farmers. Or at least in my case, I need more details than I currently have to make a recommendation.

ART

Table 1. Claim Settlement Prices for SURE and Crop Insurance

	Strike Price	Ins. Settlement Price	Ins. Price Decline	SURE Settlement Price ¹	SURE Price Decline	Price Difference
08 RA Corn	5.40	3.74	1.66	4.06	1.34	(0.32)
08 RA-HPO Corn	5.40	3.74	1.66	4.06	1.34	(0.32)
08 CRC Corn	5.40	4.13	1.27	4.06	1.34	0.07
08 APH Corn	4.75	4.75	0.00	4.06	0.69	0.69
08 CRC Sorghum	5.06	3.87	1.19	3.20	1.86	0.67
08 APH Sorghum	4.45	3.87	0.58	4.45	0.00	(0.58)
08 RA Soybeans	13.36	9.22	4.14	9.97	3.39	(0.75)
08 RA-HPO Soybeans	13.36	9.22	4.14	9.97	3.39	(0.75)
08 CRC Soybeans	13.36	10.36	3.00	9.97	3.39	0.39
08 APH Soybeans	11.50	11.50	0.00	4.06	7.44	7.44
08 RA Winter Wheat	5.88	8.60	(2.72)	6.57	(0.69)	2.03
08 RA-HPO W. Wheat	8.60	8.60	0.00	6.57	2.03	2.03
08 CRC Winter Wheat	7.88	7.88	0.00	6.57	1.31	1.31
08 APH Winter Wheat	4.90	4.90	0.00	6.57	(1.67)	(1.67)
09 RA Corn	4.04	3.90	0.14	3.54	0.50	0.36
09 RA-HPO Corn	4.04	3.90	0.14	3.54	0.50	0.36
09 CRC Corn	4.04	3.72	0.32	3.54	0.50	0.18
09 APH Corn	4.00	4.00	0.00	3.54	0.46	0.46
09 CRC Sorghum	3.56	3.28	0.28	3.08	0.48	0.20
09 APH Sorghum	3.85	3.85	0.00	3.08	0.77	0.77
09 RA Soybeans	8.80	9.66	(0.86)	9.97	(1.17)	(0.31)
09 RA-HPO Soybeans	9.66	9.66	0.00	9.97	(0.31)	(0.31)
09 CRC Soybeans	9.66	9.66	0.00	9.97	(0.31)	(0.31)
09 APH Soybeans	9.90	9.90	0.00	4.06	5.84	5.84
09 RA Winter Wheat	8.77	5.48	3.29	4.84	3.93	0.64
09 RA-HPO W. Wheat	8.77	5.48	3.29	4.84	3.93	0.64
09 CRC Winter Wheat	8.77	6.35	2.42	4.84	3.93	1.51
09 APH Winter Wheat	7.35	7.35	0.00	4.84	2.51	2.51

¹The 2009 SURE settlement prices are based on the estimated Marketing Year Average (MYA) price for 2009/10.