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# 2008 Wheat Crop Insurance Opportunities

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## Crop Insurance Tools for Risk Management

- Multi-peril Crop Insurance (*MPCI*)
  - Revenue Assurance (*RA*)
  - Revenue Assurance – Harvest Price Option (*RA-HPO*)
  - Crop Revenue Coverage (*CRC*)
  - Group Risk Income Protection (*GRIP*)
    - GRIP – Harvest Revenue Option (*GRIP-HRO*)
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## Multi-peril Crop Insurance (MPCI)

- MPCI protects against **crop yield losses**
- APH (Actual Production History) &/or “T” yields are used in the coverage calculation
  - Yield coverage: 5% increments from 50% to 85%
- **2008 MPCI Market Price Election**
  - Wheat: \$4.20 /bu (Preliminary Estimate)

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## Revenue Assurance (RA)

- RA protects **Minimum Revenue Guarantee**, but not against **rising harvest \$s**
- **Crop Yield Coverage**: 65%-85% (5% increments)
- **2008 RA Market \$ Elections**  
(Same as RA-HPO & CRC)
  - Wheat: \$?.?? /bu

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## RA Calculations

APH Proven Yield X Coverage Level %

= Guaranteed Bushels / Acre

X Early Base\$

= RA Minimum Level Guarantee\$ / Acre

**Compared to Actual Production Value\$:**

APV\$ = Actual Production X Harvest\$

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## Revenue Assurance – Harvest Price Option (RA-HPO)

- RA-HPO protects against **revenue loss** due to **yield losses** &/or **price fluctuation**
  - **Yield coverage**: 65%-85% (5% increments)
  - **2008 RA-HPO Market Price Elections**
    - No limit on either higher or lower Price moves from the Base\$ (early\$) to the final Harvest\$
      - Crop Revenue Coverage (CRC) has \$ limits
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## Crop Revenue Coverage (CRC)

- CRC is nearly identical to RA-HPO coverage
- Protects against **revenue loss** due to **yield losses** &/or **price fluctuation**
- **Yield coverage**: 50%-85% (5% increments)
- **CRC Limits [Base\$ +/- Final\$] Changes**
  - Wheat: +/- \$2.00 /bu
  - Corn & Milo: +/- \$1.50 /bu
  - Soybeans: +/- \$3.00 /bu

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## RA-HPO & CRC Revenue Calculations

APH Proven Yield X Coverage Level %

= Guaranteed Bushels / Acre

X ***Higher of*** (Early Base\$ OR Harvest\$)

= \$Coverage Level / Acre

**“Coverage Level\$” Compared to “Actual Production Value\$”:**

APV\$ = Actual Production X Harvest\$

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## Group Risk Income Protection (GRIP & GRIP-HRO)

- GRIP insures against widespread loss of revenue for an insured crop **by County** rather than **by Individual**
  - \*\*\*Unit structure is the **County**\*\*\*
    - No individual farm unit APH yield needed
  - Coverage levels: 70%-90% (5% steps)
  - Select Protection Level & Trigger Revenue
  - Most often used to insure forage crops
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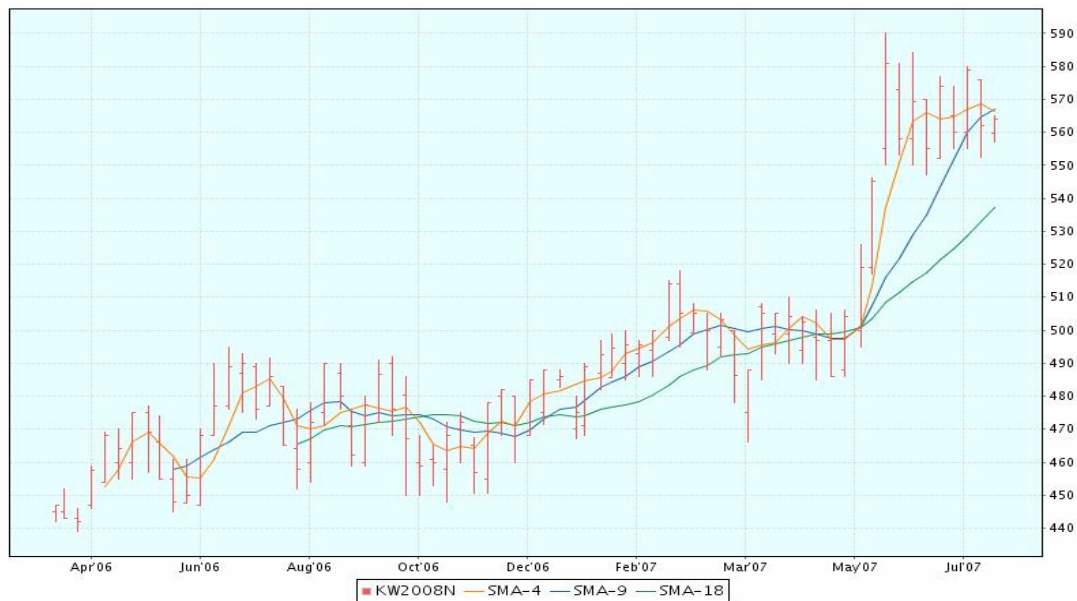
## 2008 Wheat Revenue Insurance Price Elections

- **Base \$:** KCBT JULY 2008 Wheat Average \$ during August 15 – September 14, 2007
  - **Final Harvest \$ for CRC:**
    - KCBT JULY '08 Wheat Average \$: June 1-30, 2008
    - MAX +/- \$2.00 /bu. Change (Base\$ +/- Harvest\$)
  - **Final Harvest \$ for RA / RA-HPO:**
    - KCBT JULY '08 Wheat Average \$: July 1-14, 2008
    - No limits on price changes (Base\$ to Harvest\$)
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# 2008 July Wheat Futures (Weekly)

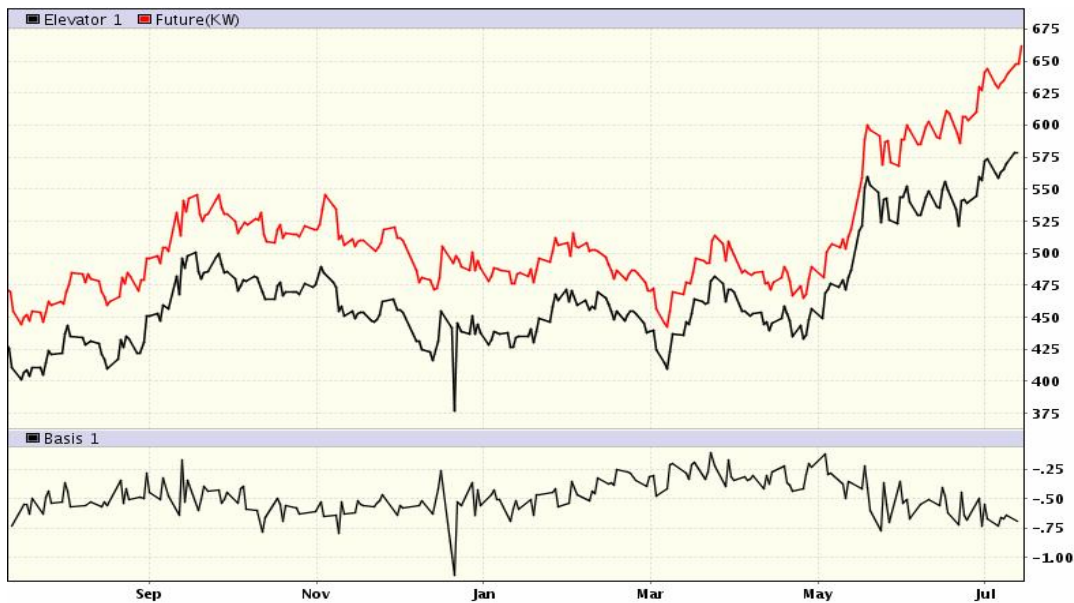
April 2006 thru Present (KCBT)



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# 2007 Wheat Cash Prices & Basis

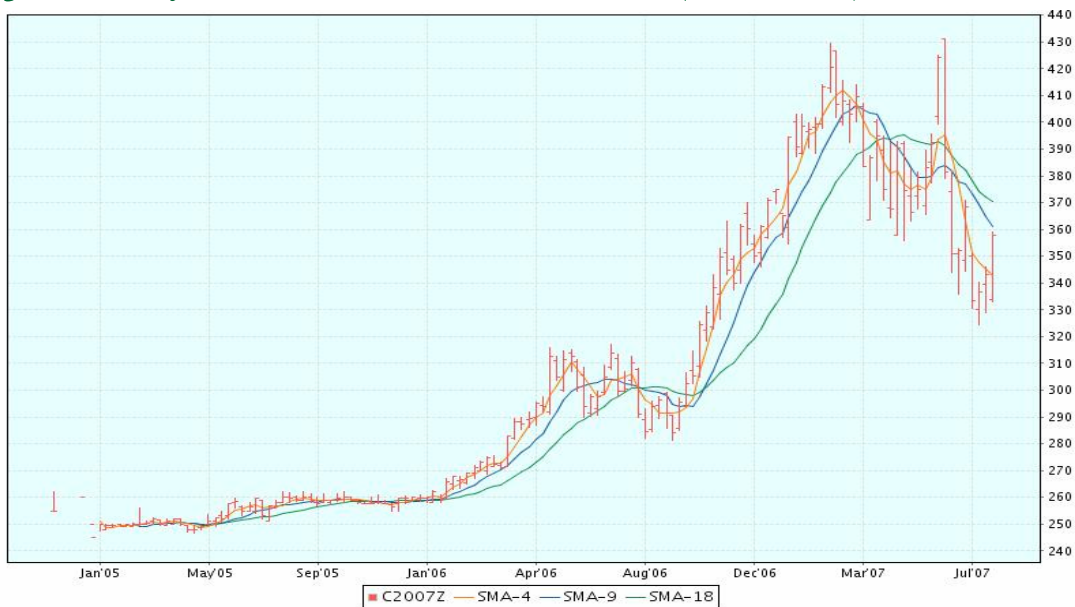
Source (DTN): Garden City Coop, Dighton



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# 2007 DEC Corn Futures (Weekly)

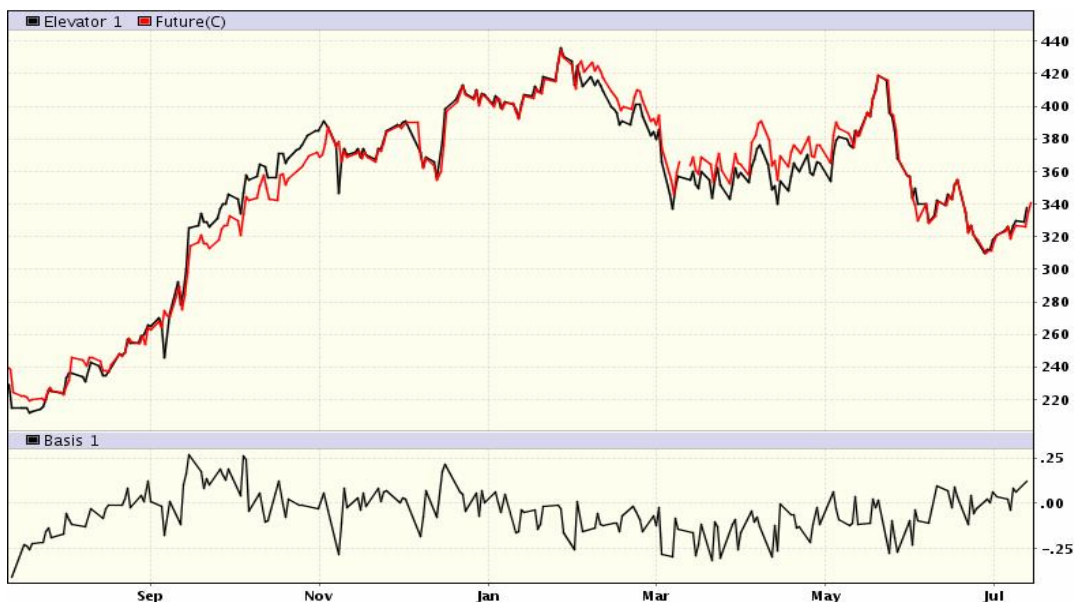
January 2005 thru Present (CBOT)



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# 2007 Corn Cash Prices & Basis

Source (DTN): Garden City Coop, Dighton



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# 2007 Milo Cash Prices

Source (DTN): Garden City Coop, Dighton



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# 2007 NOV Soybean Futures (Weekly)

March 2005 thru Present (CBOT)



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## 2007 Soybean Cash Prices & Basis

Source (DTN): Garden City Coop, Dighton



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## 2008 Wheat Crop Insurance Costs in Lane County, Kansas

**MPCI:** Multiple Peril Crop Insurance

**RA:** Revenue Assurance

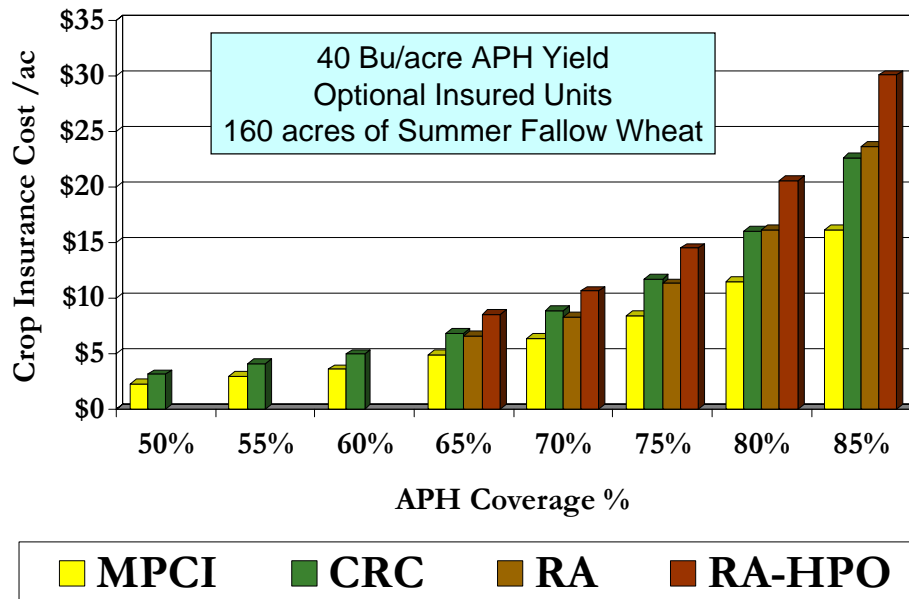
**RA-HPO:** RA - Harvest Price Option

**CRC:** Crop Revenue Coverage

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# Wheat Crop Insurance Costs

## 2008 Lane County, KS (general assumptions)



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# The Affect of Wheat Yields

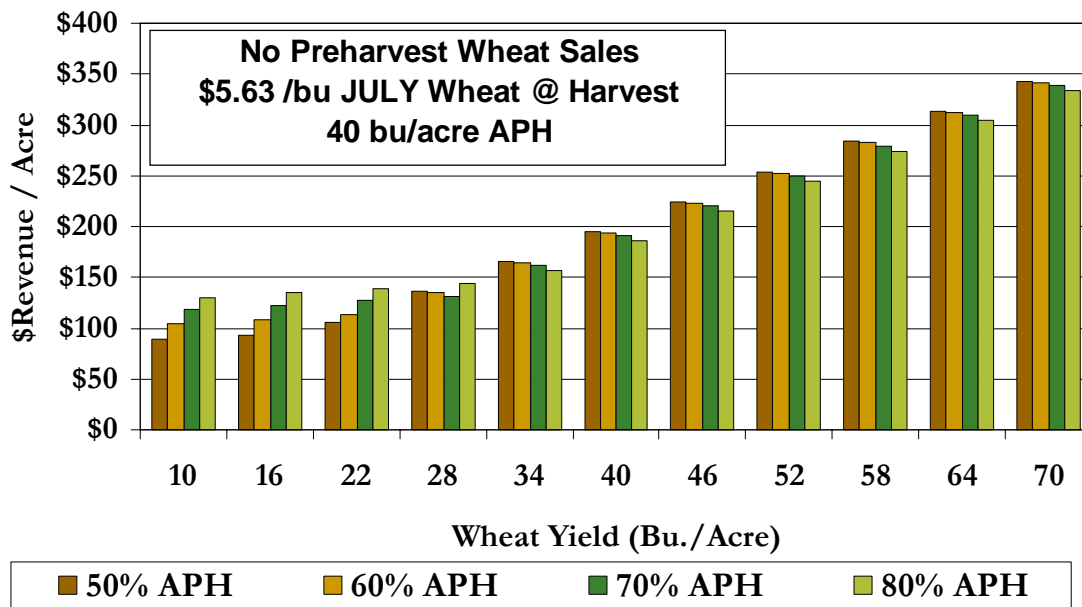
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## 2008 Wheat Insurance Coverage in Lane County, Kansas

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# MPCI: 50%-80% APH Coverage

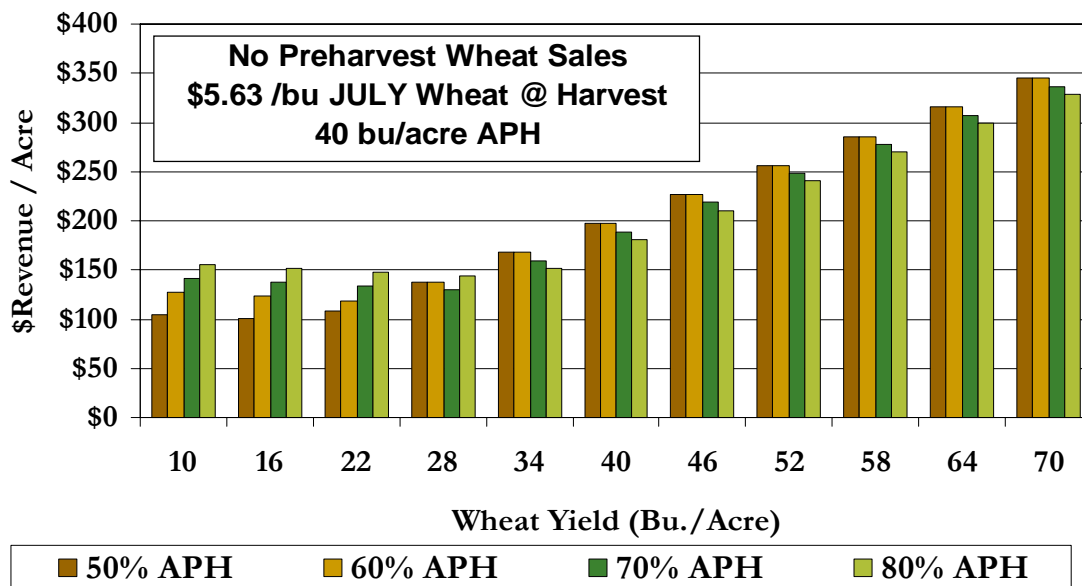
\$5.63 JULY Wheat @ 2008 Harvest



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# RA: 50%-80% APH Coverage

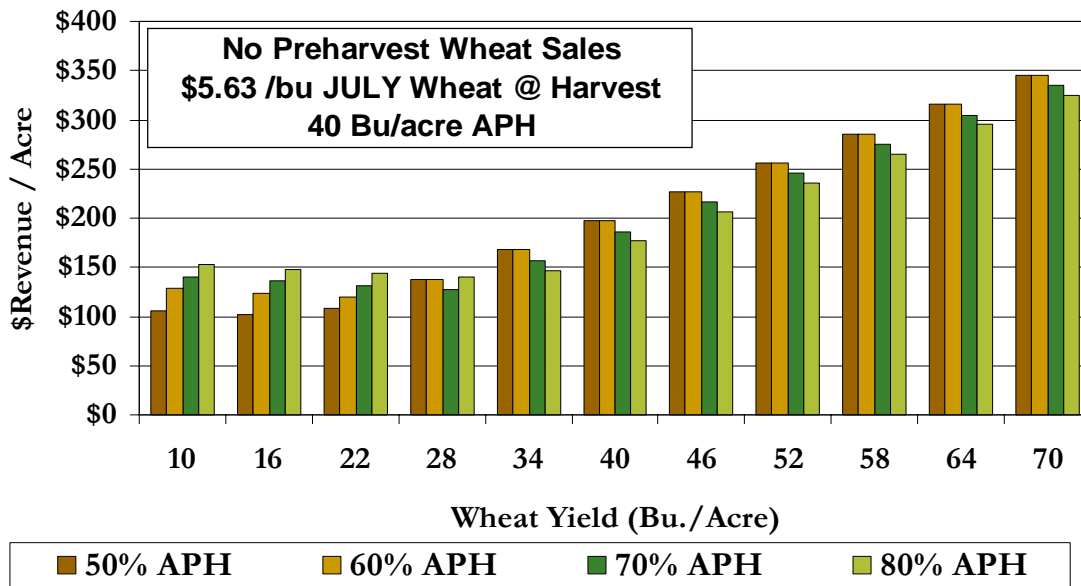
\$5.63 JULY Wheat @ 2008 Harvest



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# RA-HPO: 50%-80% APH Coverage

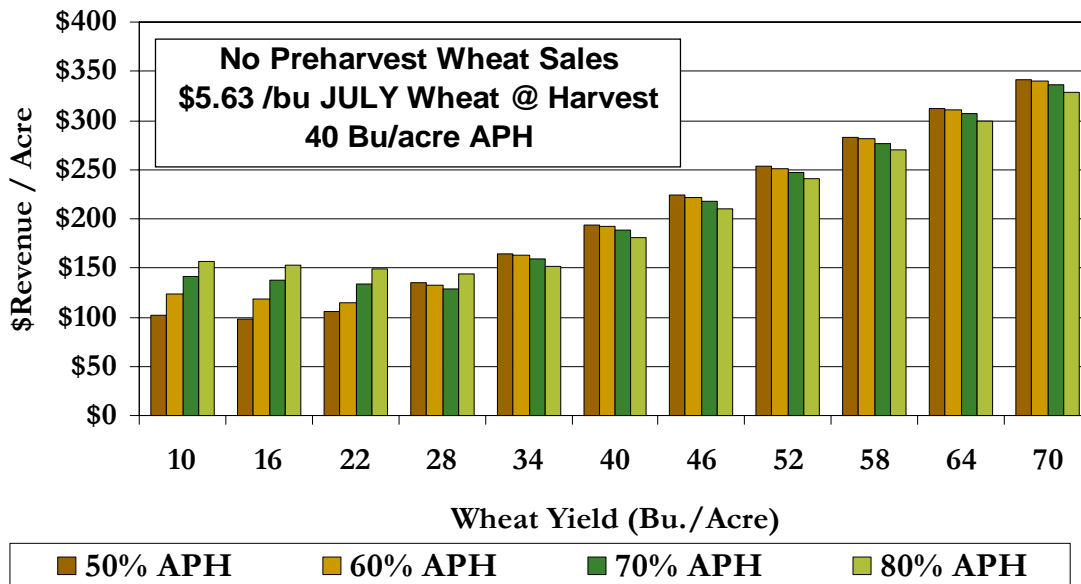
\$5.63 JULY Wheat @ 2008 Harvest



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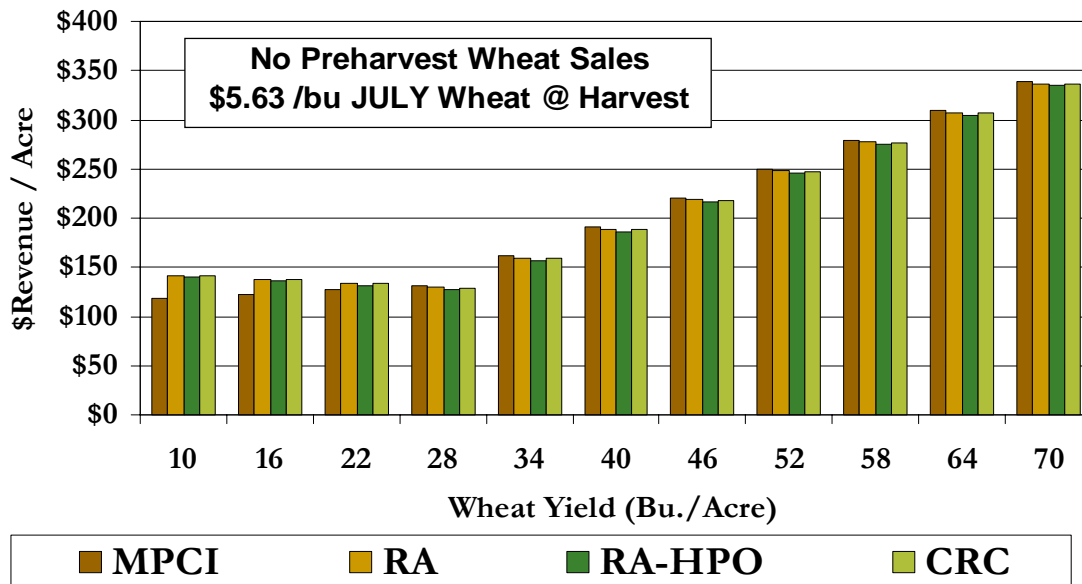
# CRC: 50%-80% APH Coverage

\$5.63 JULY Wheat @ 2008 Harvest



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## Comparison @ 70% APH Coverage \$5.63 JULY Wheat @ 2008 Harvest



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## Findings on Wheat Yield Risk

- **Results are similar for RA-HPO, CRC and RA when only Wheat Yield Risk is accounted for (*ignoring Price Risk*)**
  - IF prices do NOT vary from now till harvest 2008 (i.e., KCBT Wheat @ \$5.63 / bushel), then coverage is nearly identical across Revenue Insurance Products (*i.e., Low Cost Competition*)
- **The Lower Payment price for MPCI (\$4.20 / bushel preliminary RMA price) negatively affects MPCI insurance coverage.**

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# The Affect of Wheat Prices

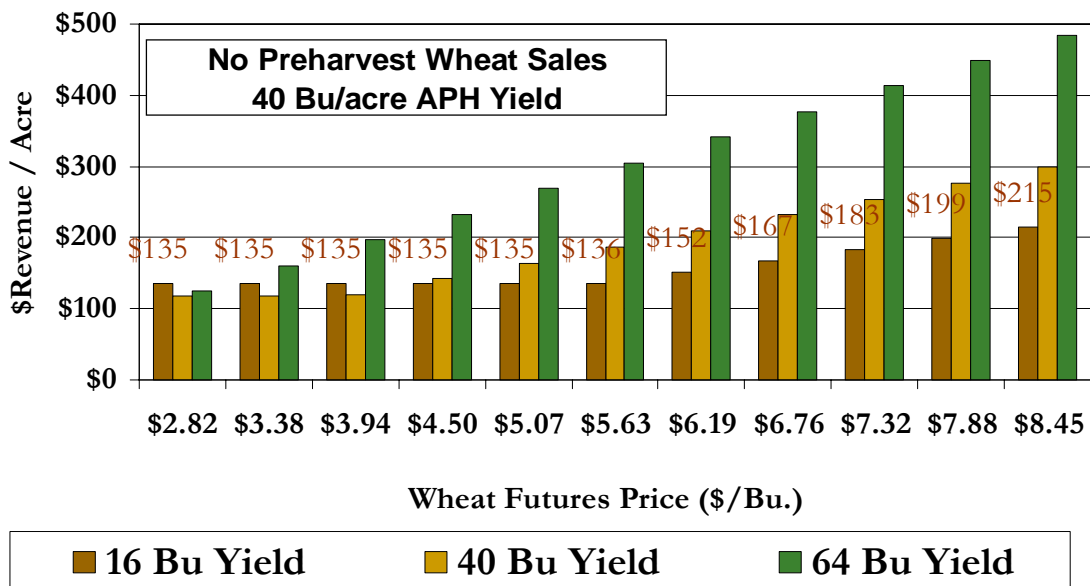
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## 2008 Wheat Insurance Coverage in Lane County, Kansas

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### RA-HPO @ 70% APH Coverage

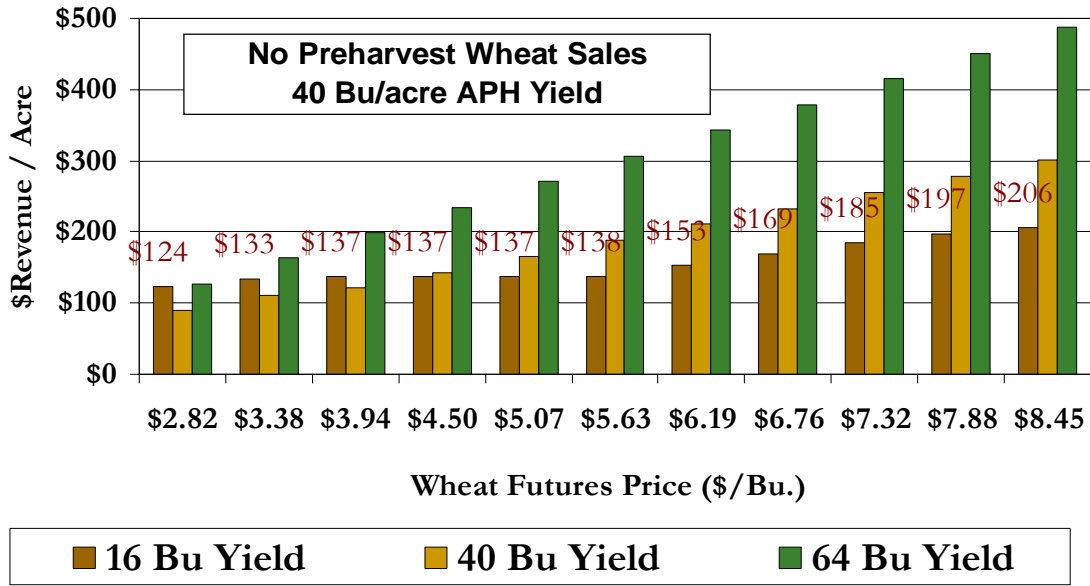
JULY Wheat \$2.82 – \$8.45/bu @ 2008 Harvest



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# CRC @ 70% APH Coverage

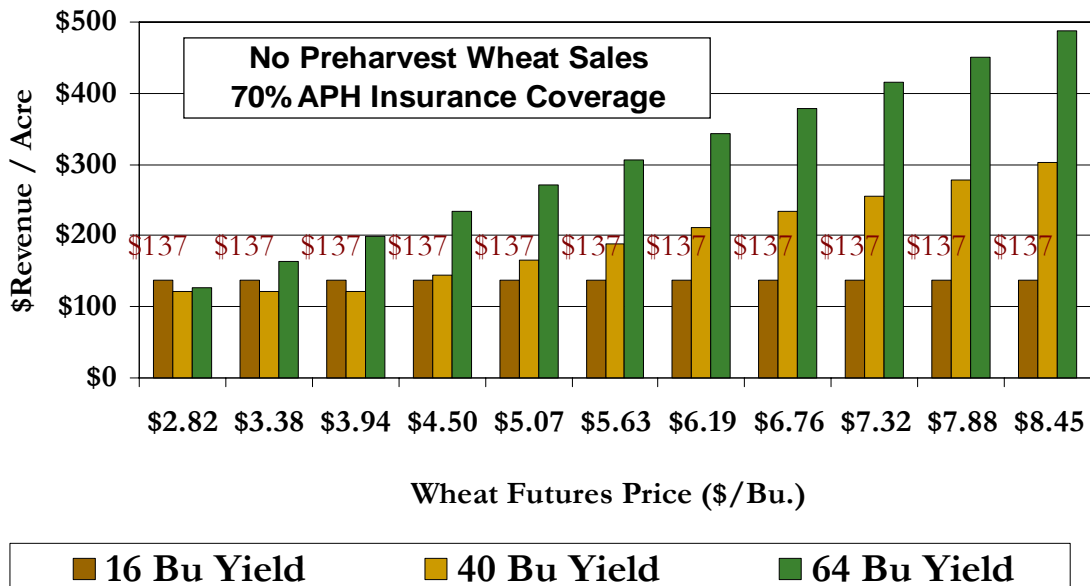
JULY Wheat \$2.82 – \$8.45/bu @ 2008 Harvest



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# RA @ 70% APH Coverage

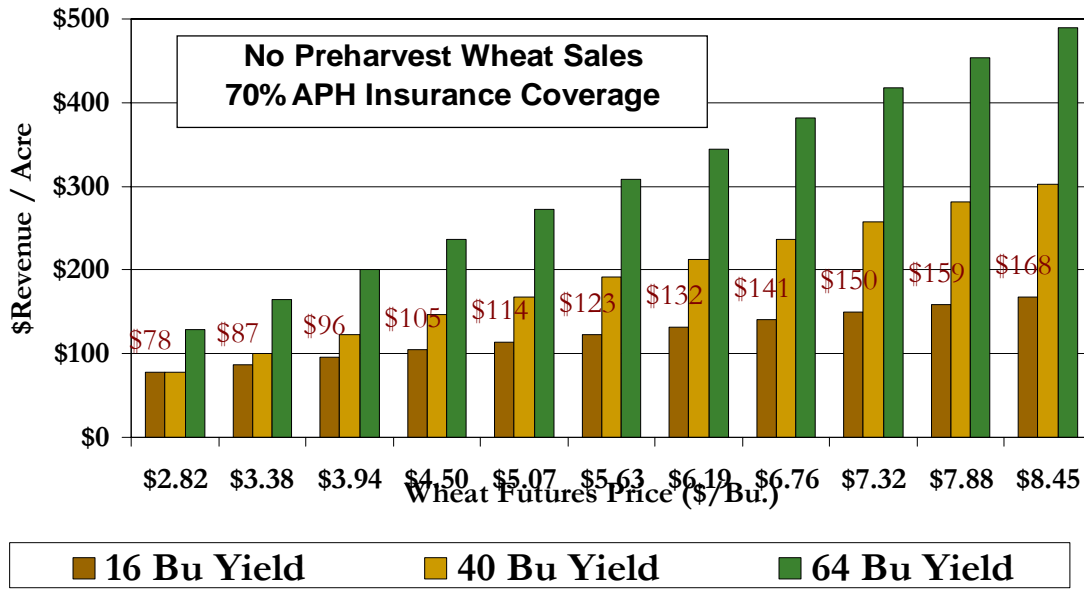
JULY Wheat \$2.82 – \$8.45/bu @ 2008 Harvest



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# MPCI @ 70% APH Coverage

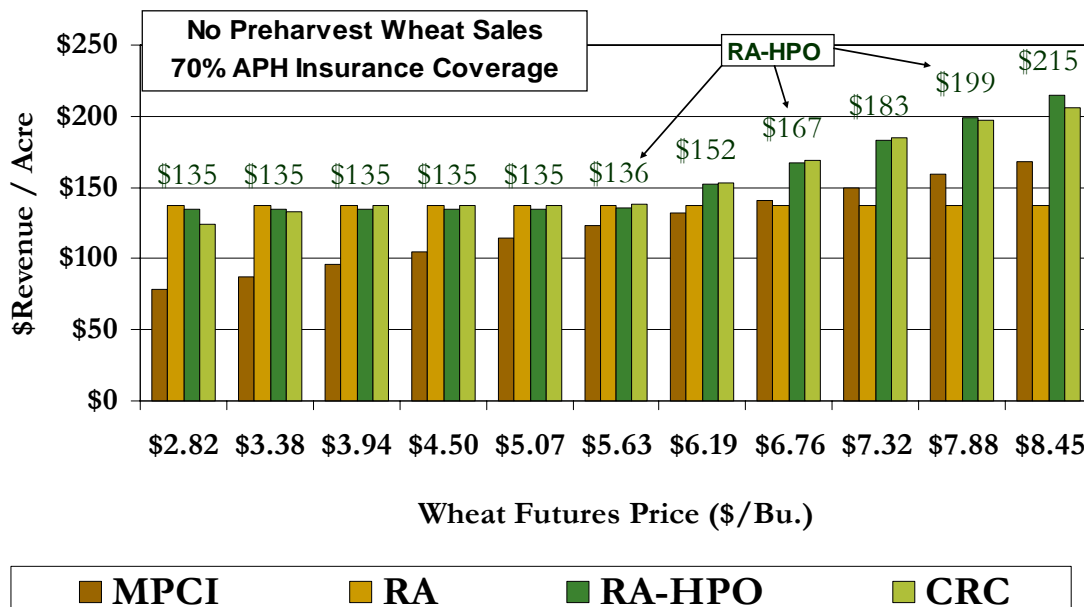
JULY Wheat \$2.82 – \$8.45/bu @ 2008 Harvest



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# Comparison @ 16 bu/acre Wheat

JULY Wheat \$2.82 – \$8.45/bu @ 2008 Harvest



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## Findings on Wheat Price Risk

- **Results are similar for RA-HPO and CRC up to the point where CRC reaches its Price difference limits (i.e. +/- \$2.00 / bu from Base Price)**
    - RA Policies provide markedly lower returns when final harvest revenue estimates are increased due to higher yields or futures prices (less coverage)
  - **Negative Impact of \$4.20 MPCl Payment \$**
  - Both Yield and Price risk are important in current volatile grain market environment.
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## Final Thoughts & Observations....

- **Use of RA-HPO (vs CRC, MPCl, RA, etc.)**
  - **Market Uncertainty & Potential Price Volatility for 2007 Crops**
    - With these of historically high grain market prices, Grain Marketing Plans will likely be oriented toward managing price risk than toward “maximizing selling price.”
    - Grain prices are currently high enough that traditional grain price risk management tools (marketing loans / government program income support mechanisms) are **nearly “irrelevant.”**
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## Comments or Questions?

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