

# **Risk Management and the 2012 Farm Bill**

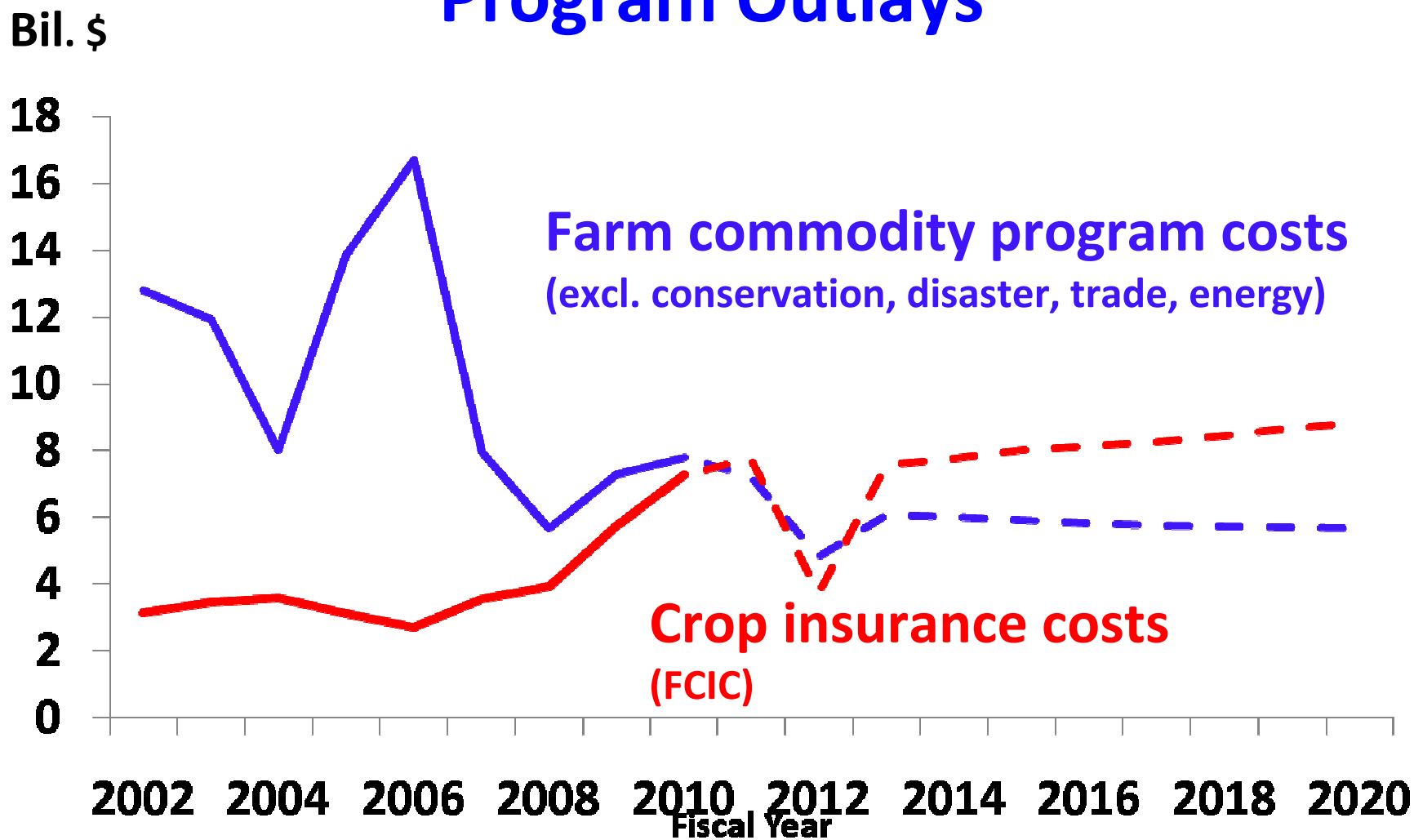
**Keith Collins**

**CFARE/USDA Economists Group Seminar, Nov. 9, 2010**

## **Topics**

- Farm Bill & crop insurance environment**
- Key risk management issues**

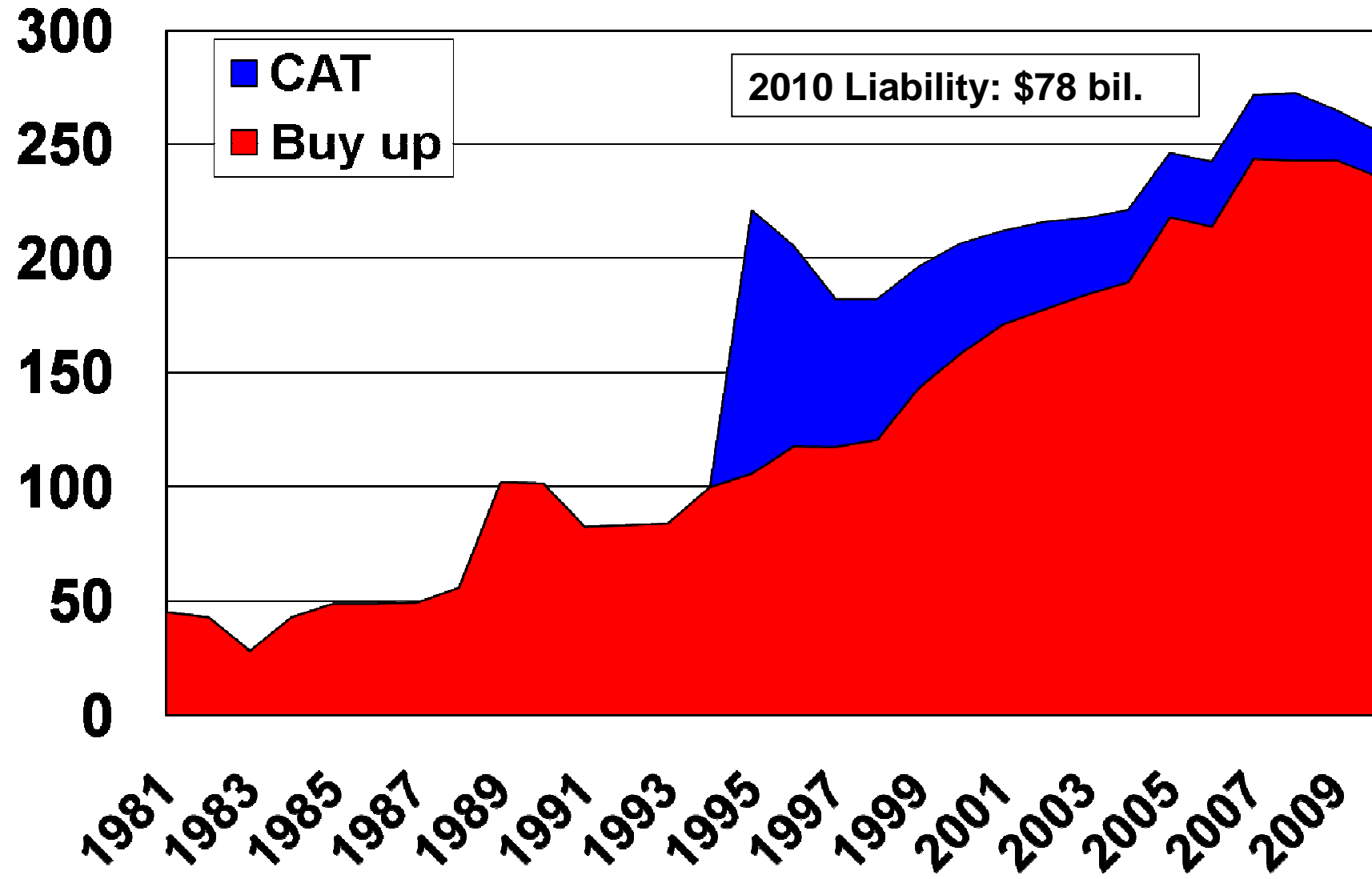
# Trends in Crop Insurance & Commodity Program Outlays



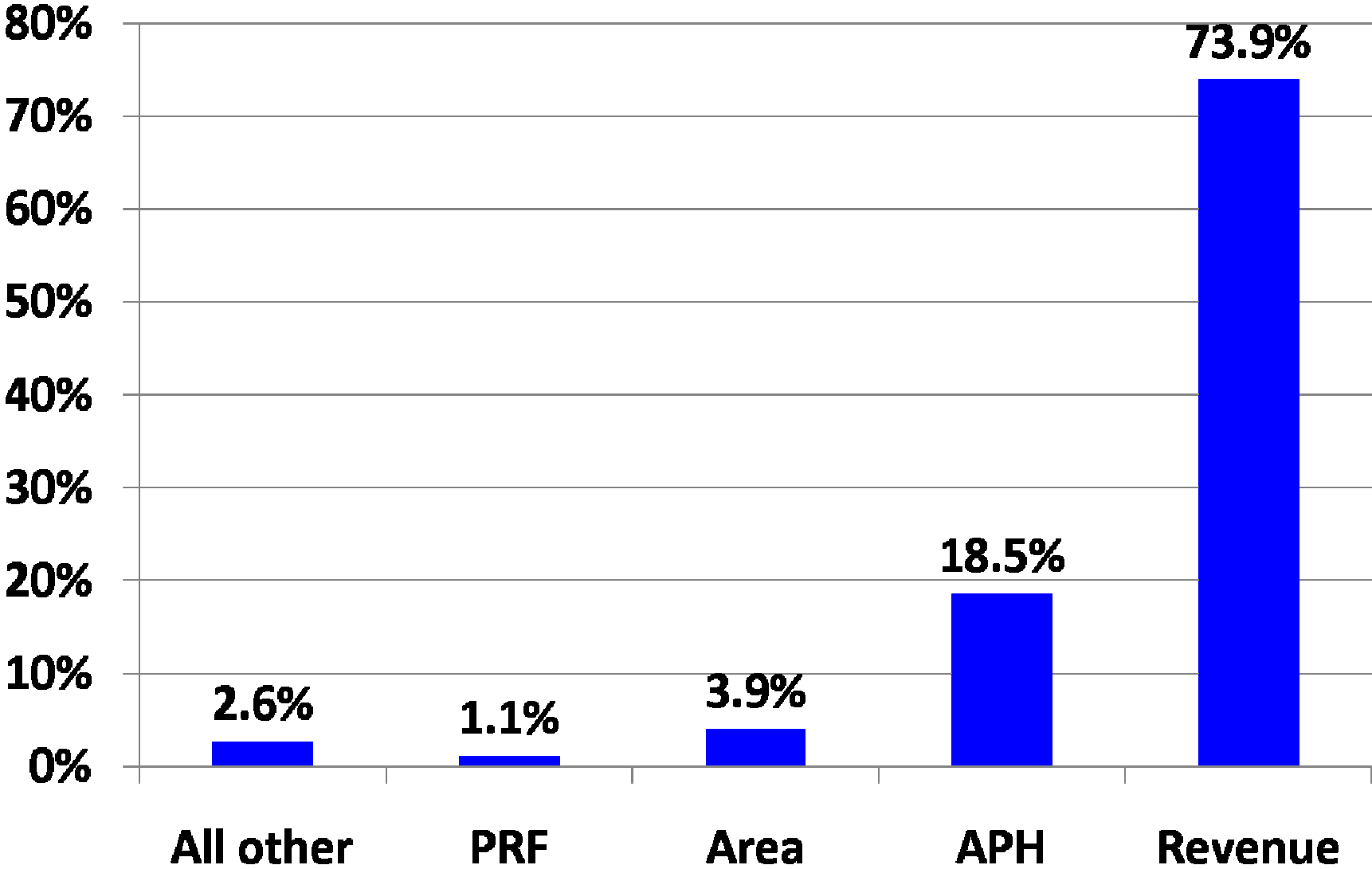
Sources: USDA baseline for commodity program costs; CBO for crop insurance costs

# Acres Enrolled in Crop Insurance

Mil. acres

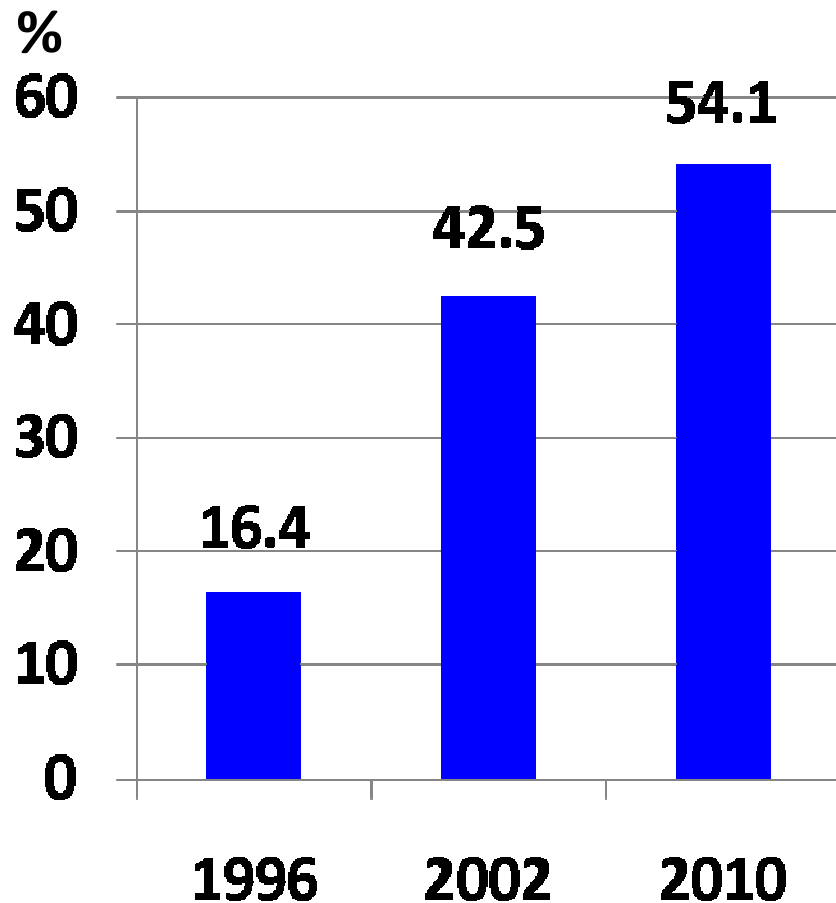


# Plans of Insurance: 2010 Premium Share

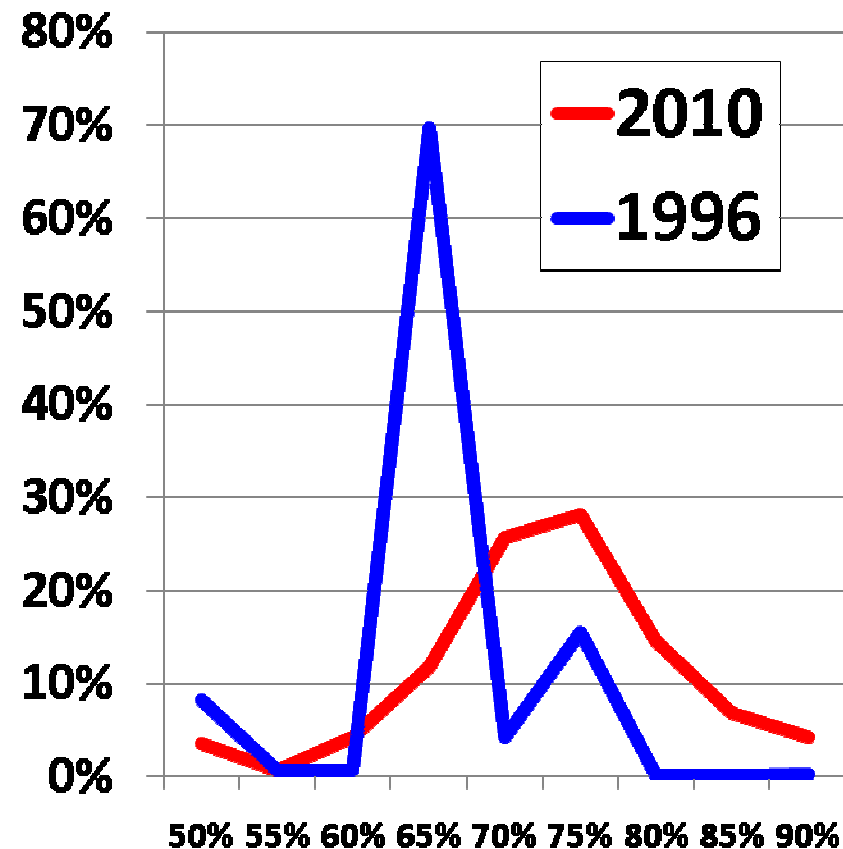


# Growth in Coverage Levels

*Share of Buy-up Premium at 75% or more*



*Share of Buy-up Premium at Each Coverage Level*



# Farmer-Paid Premium Rate Examples, Central Illinois, Corn, 2010

- **Optional unit**
  - No biotech **\$13.58/ac**
  
- **Enterprise unit pilot**
  - No biotech **\$5.22/ac**
  
- **Enterprise unit pilot**
  - With biotech **\$4.21/ac**

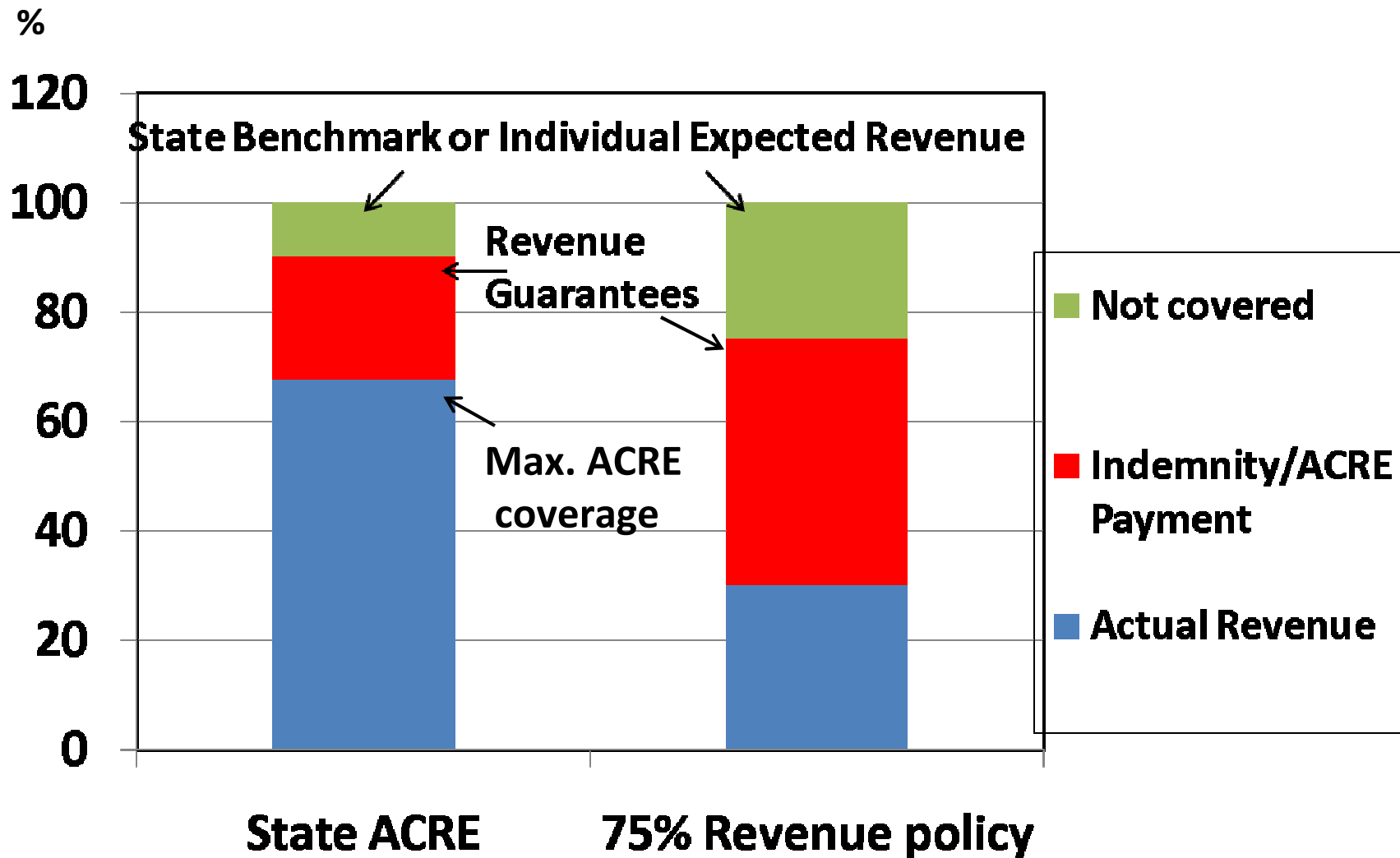
# Why Policy Support for Crop Insurance?

- **Producers share program cost**
- **Individual coverage**
- **Timely payments**
- **Strong loss adjustment**
- **Self-correcting and adjustments**
- **Aids with pre-harvest marketing and credit**
- **No payment limits**
- **Can be green box under the WTO**
- **Contributed to deficit reduction**

# How About Policy Concerns for Farm Programs and Crop Insurance?

- **Marketing Loans and CCPs**
  - Update triggers? Still of value?
- **Direct Payments**
  - Keep, reduce, or divert for what?
- **SURE/ACRE**
  - SURE: improve/extend?
  - ACRE: shift to a more local level—cost, farm, regional issues?
- **Crop Insurance**
  - Premium rates, APH, coverage levels, new plans/products, subsidy levels, interaction with ACRE?

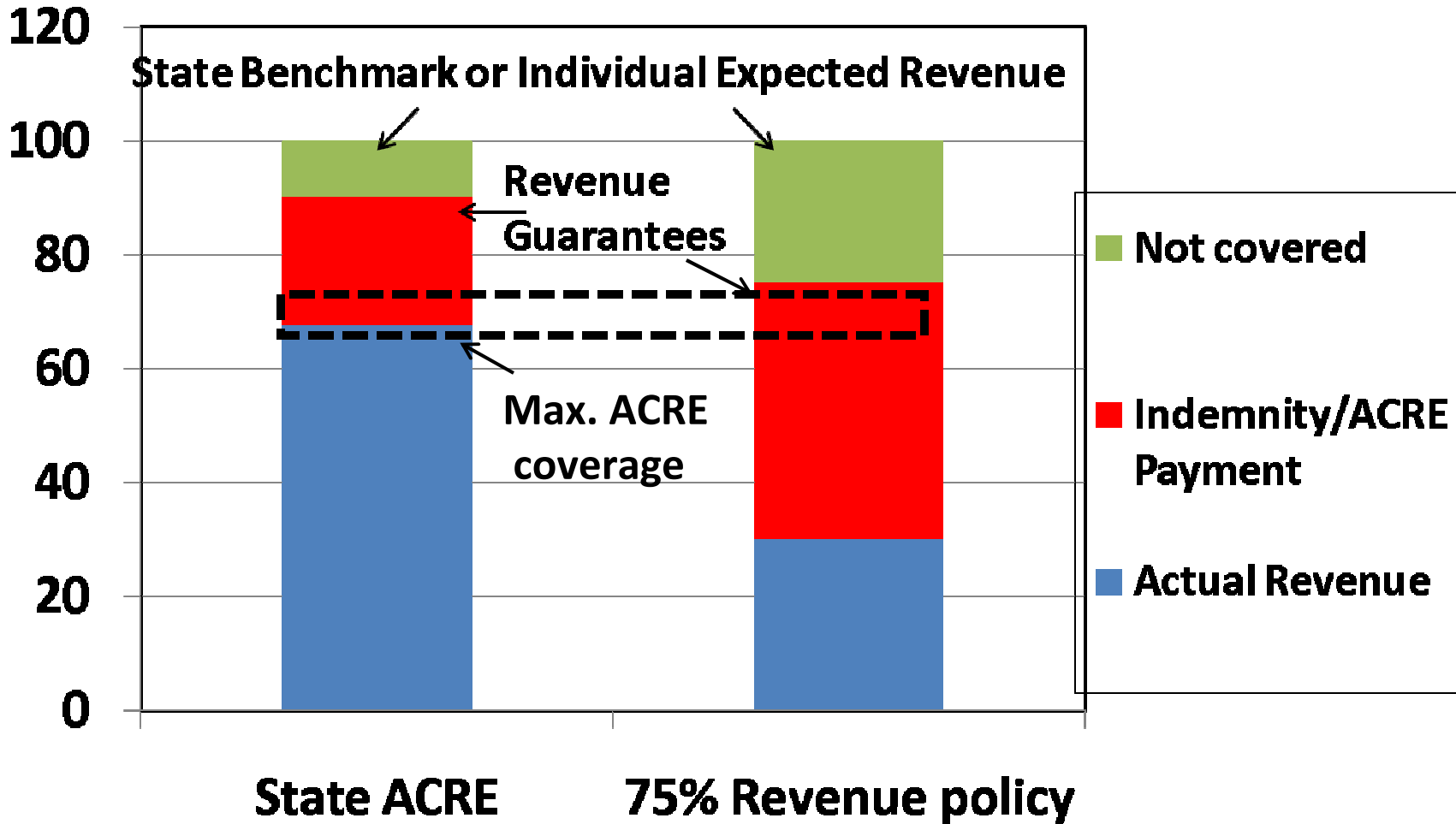
# Comparing ACRE & Crop Insurance



# Comparing ACRE & Crop Insurance

Potential redundancy: ACRE pymnt in excess of uninsured loss | — — |

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# Simulation Outcome

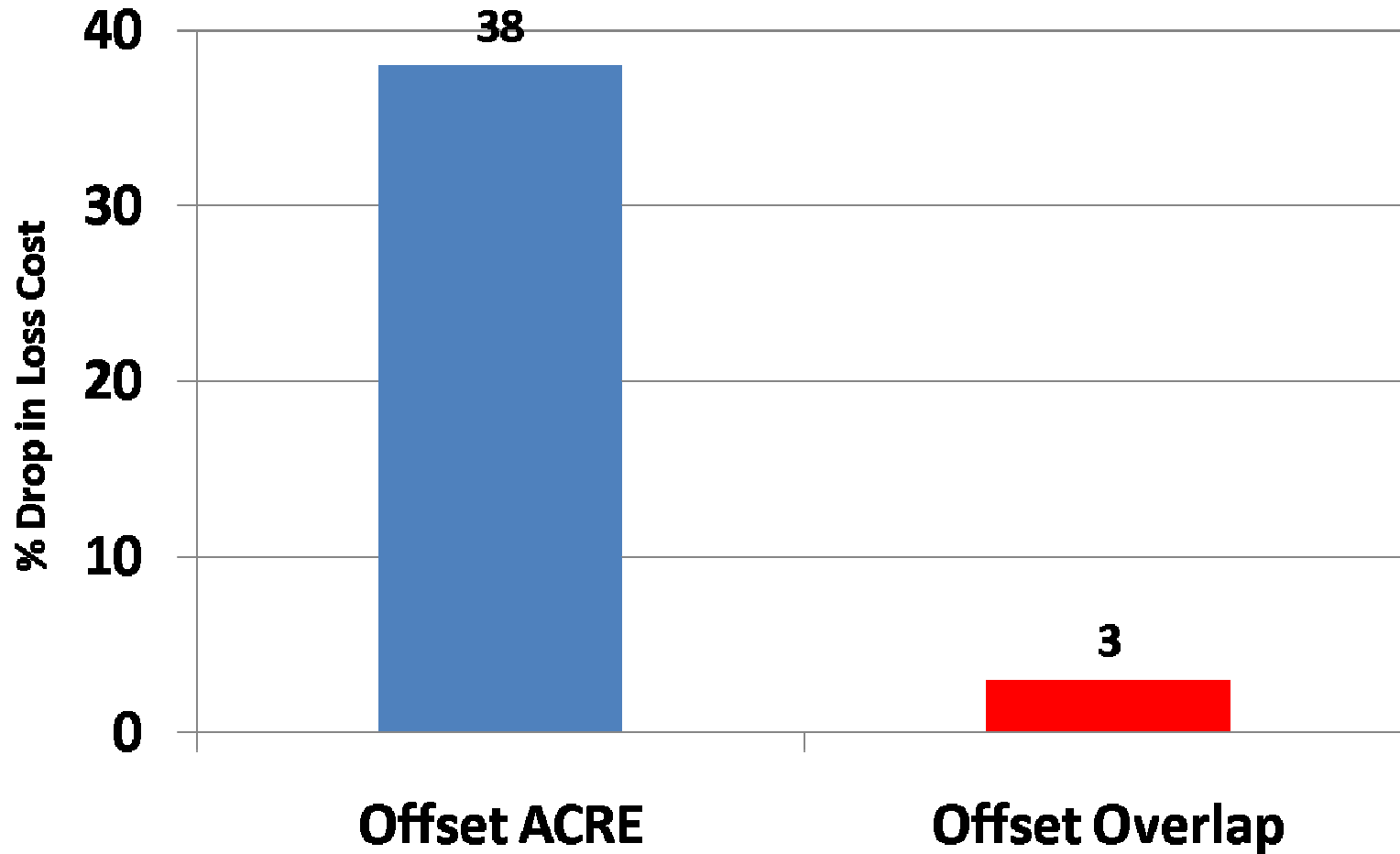
## 90% County ACRE/85% Revenue Policy

*--rep. corn farm, in rep county, in rep state, correlated yield and price draws--*

	<b>Indemnity &gt;0</b>	<b>Indemnity=0</b>
<b>ACRE Pymt &gt;0</b>	<b>21%</b>	<b>5%</b>
<b>ACRE Pymt=0</b>	<b>7%</b>	<b>68%</b>

# Reduction in Crop Insurance Loss Costs for an Example County ACRE Program

*Very simple, limited sample corn revenue simulation:  
90% ACRE & 85% CI when indemnity is made*



# Some Thoughts for Early in the Farm Bill Process...

**In the long term:** What programs are left standing and should we be transitioning toward those?

**In the near term:** At the least, consider this

- Design farm programs and crop insurance to enhance individual protection from risks
- Determine what risks programs should address
- Design programs to complement one another
- Determine the best delivery mechanism
- Don't forget production distortions, and
- Reduce program costs