# From Insuring Profits to Minimizing Losses

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In recent years farmers have been able to insure profits with crop insurance guarantees. Times have changed and farmers are now hoping to minimize losses. With guarantees off nearly 20 percent over the last two years, farmers are forced to take a hard look at their operations and any cuts needed to breakeven.

Bankers are also influencing decisions and may restrict operating lines of credit. This is important to both landowners and operators when discussing future leases because cash rents haven’t generally adjusted accordingly.

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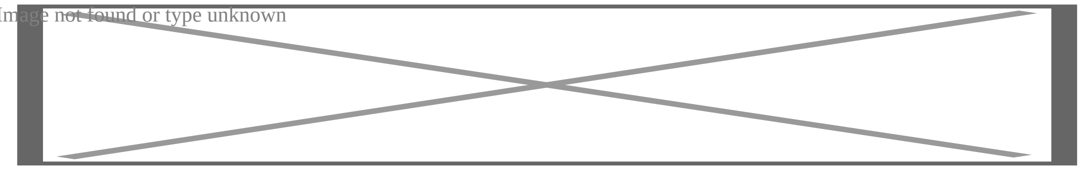

Above is an example of input costs concerning both corn and soybeans with $250/acre cash rent. The insurance price was released on March 1, with corn at $3.86 a bushel and beans at $8.85 a bushel. We compared these prices to an Iowa farm with a corn T-Yield of 178 and a bean T-Yield of 53. A “T-Yield” is an estimated county yield that’s assigned if the insured isn’t able to provide a minimum of four (4) years of actual production history.

At the newly released insurance prices, this example farm would have a crop insurance guarantee of $550 for corn and $375 for beans at 80 percent insurance coverage. When compared to the estimated input expenses from the chart above, you would be insuring a shortfall of $130/acre on corn and $125/acre on beans. This has been a slow but dramatic change over the last six years.

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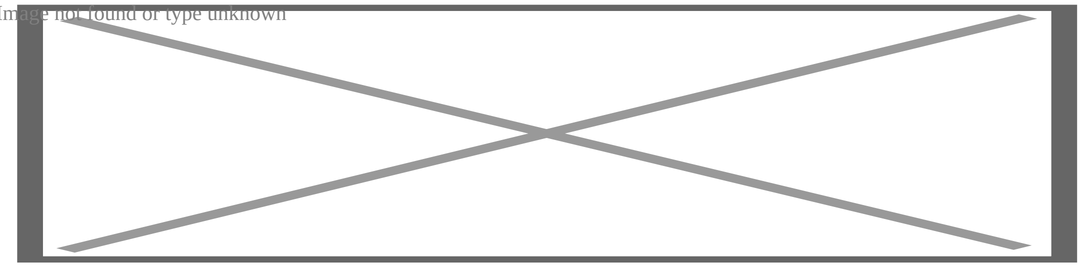

Most crop insurance plans in the Midwest are Revenue Protection (RP). These policies guarantee a certain level of revenue rather than just production. It protects you from declines in both crop prices and yields. With RP, the Revenue Guarantee is determined by using the larger of the Projected Price (PP) or Harvest Price (HP).

In 2011-2013, using the same inputs cost and average yields, farmers could insure a nice profit which eventually lead to high cash rent prices. As commodity prices have slowly decreased the ability to insure profits has dried up. When looking at the anticipated expenses and revenue concerning this year’s crop, most farmers will be expecting losses. In this scenario, breakeven prices were $3.82 for corn with a 178 bushels per acre yield and $9.43 for soybeans at 53 bushels per acre yield.

The above scenarios do not factor in the USDA’s Agricultural Risk Coverage – County Option (ARC-CO) or Price Loss Coverage (PLC). Most Iowa counties north of I-80 received an ARC-CO payment for year 2014.

Landowners and operators are encouraged to contact the Peoples Company Land Management team with insurance guarantee questions or concerns.

Please visit PeoplesCompany.com for more information.

Kyle Walker, Land Manager

Daran Becker, Land Agent