



2000 Cotton Management Economic Notes

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Crop Insurance Rate Adjustments for Cotton

USDA's Risk Management Agency (RMA) announced last fall that cotton insurance rates would be recalculated for the 2000 crop year, resulting in a general lowering of rates for the West and Mid-South. RMA stated that, "rate changes have been adjusted to account for historically low producer participation in these regions." This adjustment has resulted in a fairly significant lowering of insurance premiums for most, but not all of Arizona's counties. The accompanying table illustrates the percentage change in rates for a "mid-level" policy by county from 1999 to 2000 for Upland and ELS. That is, rate changes assume a rate class of R07 (e.g., insured yield of 1,223-1,339 lbs. for Maricopa Upland) and 65 percent basic yield coverage level. Rate changes are before any government discounts.

Percentage Change in Rates for a Mid-Level Policy from 1999 to 2000

County	Upland	ELS
Cochise	0%	- 1%
Graham	+ 5%	+ 3%
Greenlee	+ 5%	- 12%
LaPaz	- 36%	- 18%
Maricopa	- 23%	- 20%
Mohave	- 4%	0%
Pima	0%	- 14%
Pinal	- 17%	0%
Yuma	- 36%	- 25%

Source: Risk Management Agency, Davis Regional Office

insurance for the 2000 crop year. Similar to last year's discount, the amount of the discount will depend on crop prices and how many producers choose to insure or increase their protection. Last year's premium discount has been described as an "unqualified success" by RMA. The discount resulted in an estimated 9 percent increase in insured acreage and higher levels of coverage were up almost 21 percent over 1998 levels for the US. Arizona's insured cotton acreage increased 13 percent while plantings increased 3 percent.

A projected base market price of 59¢ for Upland and 83¢ for ELS has been established by RMA for the Desert Southwest 2000 crop year. Quality adjustments for Upland will be made relative to grade 31-4, staple 35, and 4.5 micronaire reading. The sales closing date to add, cancel or augment coverage to a policy is **28 February, 2000**. Taking the

time to add or expand your coverage may be one of the best investments of your time that you'll make for the 2000 crop year.

Renewal of crop insurance discounts. On 12 November, 1999 RMA announced an estimated 25 percent premium discount to farmers that purchase crop

Arizona Crop Insurance Returns. The table on the following page gives the historical payout received for each \$1.00 of producer premium and signup costs expended by Arizona farmers. Note that historical returns reported would be higher than what is shown in the table if the recently adjusted 2000 crop year rates were applied. On average, 1999 yielded very good returns for Arizona producers. For each dollar spent on all crops they received \$3.38 back in claims or around a 238 percent return. For each dollar spent for cotton policies, \$3.02 was received in claims. Only a handful of mutual funds exceeded this rate of

Recent Prices (February 14, 2000)	Upland (¢/lb)	Pima (ELS) (¢/lb)
Spot - uncompressed	55.51	80.25
Mar '00 Futures	57.26	
Jul '00 Futures	60.52	
Dec '00 Futures	61.72	
Adj. World Price	38.13	

Note: Upland Spot for Desert SW grade 31-3, staple 35, add 300 points for compressed bales, Pima Spot for DSW grade 03, staple 46,

**Historical Payout for Each \$1.00 of
Producer Premium & SignUp Costs**

	1996	1997	1998	1999
AZ: All Crops	\$1.99	\$3.04	\$1.59	\$3.38
AZ: APH Cotton	\$2.19	\$2.78	\$1.78	\$0.98
AZ: CRC Cotton		\$4.31*	\$0.00*	\$7.34
Maricopa County				
CAT: Upland		\$0.00	\$0.00	\$0.00
BuyUp: Upland		\$3.19	\$3.45	\$2.89
CRC: Upland		\$4.39	\$0.00	\$8.07
CAT: ELS		\$0.00	\$0.00	\$0.00
BuyUp: ELS		\$0.00	\$0.00	----
Pinal County				
CAT: Upland		\$0.00	\$0.00	\$0.00
BuyUp: Upland		\$2.30	\$0.77	\$0.38
CRC: Upland		n/a	n/a	\$7.05
CAT: ELS		\$0.00	\$2.65	\$0.00
BuyUp: ELS		\$0.47	\$3.69	\$5.53

* Less than 10 policies sold as a pilot program in the State.

Source: Risk Management Agency, Davis Regional Office and RMA web site(www.rma.usda.gov).

return in 1999. However, note that several policies did not receive any payout in 1999. Policies based on average yield or Actual Production History (APH, BuyUp and CAT policies) were essentially a wash for Arizona's cotton in 1999. A payout of 98¢ was received for each producer dollar expended. APH is a simple average of at least four but not more than ten prior yields. If a farmer has fewer than four years of yields that can be certified, proxy yields established by RMA can be substituted for missing years.

The best returns for cotton were generated from Crop Revenue Coverage (CRC) policies last year. CRC provides revenue protection based on price and yield expectations. Given the significant drop in spot prices during 1999, most producers with these policies had revenue shortfalls that resulted in substantial indemnity claims. As described in the above table, Maricopa and Pinal county CRC Upland policy holders received \$8.07 and \$7.05, respectively, back in claims for every dollar expended. Unfortunately, a very small number of producers had CRC policies in 1999. Out of 686 Upland policies sold, 660 were for just yield coverage and only 26 had crop revenue coverage. However, a higher percentage of total acreage was insured with CRC. Out of 228,674 acres insured, 22,008 was insured with CRC.

Insurance Policies. Multiple Peril Crop Insurance is a yield-based insurance coverage program. The minimum level of coverage (CAT) is paid by the Federal Government with the exception of a \$60 signup or administrative fee. CAT pays 55 percent of the established commodity price on crop losses less than 50 percent of APH yields. BuyUp coverage is also available for up to 85 percent (increased from 75 percent for last year) of expected yield with price elections from 55 to 100 percent of RMA's predicted price. Although the percentage of premium that is paid through government subsidy declines as coverage levels increase, the total government subsidy still increases as coverage levels increase. Grower premiums also climb with increased coverage levels.

CRC provides revenue protection based on price and yield expectations. Because CRC pays the higher of the planting base price or harvest price, yield losses under CRC are paid at a higher rate than APH when prices increase. Reinsurance companies have offered price insurance policies that go above RMA's announced price levels, but RMA does not provide any additional subsidies beyond their announced price levels. Last year at this time many producers felt that prices couldn't go lower than RMA's established price of 64¢ for Upland. However, as prices declined below the loan rate, CRC policy holders had a double downside price cushion with both Loan Deficiency Payments and their revenue insurance.

Additional Information. Numerous options and discounts are available for APH and CRC policies. Given the numerous combinations of options and discounts for each policy and crop, a local crop insurance sales agent is really needed to obtain specifics on a quote for your situation. If you are hesitant about contacting an insurance sales agent but would like more information, try the interactive calculator tools available from RMA's web site. After going to the address of www.rma.usda.gov, select the tools/calculators button to access an on-line calculator or download a PC-based program that will provide specific rates for your county, crop, insurance plan, acreage, price election, yield, and other options or discounts. Note that these interactive web tools are still mainly targeted at reinsurance sales agents and not producers.