Group Risk Plan (GRP) and Group Risk Income Protection (GRIP)

Group Risk Plan (GRP) and Group Risk Income Protection (GRIP) are multiple peril insurance programs designed to help farmers protect their crops from disastrous losses. GRP and GRIP are alternatives to the traditional Actual Production History (APH) and the various revenue insurance products, and are based on county average yields rather than the actual yield of the farm or insured unit. Corn and soybeans are eligible for coverage in all Iowa counties.

Trigger Yield and Trigger Revenue

Under GRP, farmers receive payments any time the actual county yield drops below the trigger yield that the farmer chooses. The trigger yield can be 90, 85, 80, 75, or 70 percent of the expected county yield, which is based on the county's yield history since 1962. Expected county yields are adjusted for upward trends.

Example 1. Trigger yield with GRP (soybeans)

Expected county avg. yield	40 bu.
Trigger level	80%
Trigger yield (80% x 40 bu.)	32 bu.

As shown in Example 1, if the expected average county yield for soybeans is 40 bushels per acre and a farmer chooses a coverage level of 80 percent, the trigger yield is 32 bushels. If that year's official county yield as estimated by the National Agricultural Statistics Service (NASS) falls below 32 bushels, a payment is made, regardless of the farmer's own yield.

Under GRIP, farmers receive payments any time the actual county revenue drops below the trigger revenue that the farmer chooses. The trigger revenue is calculated by multiplying the expected price by the expected county yield, and multiplying this by 90, 85, 80, 75, or 70 percent. The expected price is the average CBOT futures price for the month of February. For corn the December contract futures prices are used. The November contract futures prices are used for soybeans. GRIP can be purchased with a harvest price option, which means the harvest futures price is used to calculate the trigger revenue if it is higher than the February price.

As shown in Example 2, if the expected average county yield for soybeans is 40 bushels per acre, the expected price based on February futures prices is $10, and a farmer chooses a coverage level of 80 percent, the trigger revenue is $320 per acre (40 bu. x $10 x 80 percent). If that year's actual county revenue falls below $320

per acre, a payment is made, regardless of the farmer's own revenue. The actual county revenue is computed by multiplying the actual county yield by the harvest price. The harvest price for corn is the October average of the December contract futures price. For soybeans it is the October average of the November contract futures price.

Example 2. Trigger revenue with GRIP

Expected county avg. yield	40 bu.
Expected price	$10
Trigger level	80%
Trigger revenue	$320

Dollar Protection Level

The amount of payment the farmer receives depends on the level of protection selected when the farm is enrolled. For GRP, the Risk Management Agency (RMA) sets a maximum protection level each year. For GRIP the maximum protection level is 150 percent of the average futures price for the month of February, multiplied by the expected county yield. The value of protection can be as high as 100 percent of the RMA maximum protection level and as low as 60 percent.

With a GRP policy and a coverage level of 80 percent, a farmer receives an insurance payment if the county average yield drops below the trigger yield of 32 bushels. As shown in Example 3, if the actual county yield is only 28 bushels, this is a four bushel shortfall from the trigger yield, or 12.5 percent. If the dollar coverage chosen was $350, the farmer would receive a payment equal to 12.5 percent of $350, or $43.75 per acre. The amount of payment received does not depend on the yield achieved on the farmer's acres, only the county yield.

Example 3. Insurance payment with GRP

Maximum dollar protection	$400
Protection level chosen	$350
Trigger yield (80%)	32 bu.
Actual county yield	38 bu.
Yield percent shortfall (4 bu./32)	12.5%
Indemnity payment (12.5% x $350)	$43.75

With a GRIP policy, a futures price of $10, and a coverage level of 80 percent, a farmer receives an insurance payment if revenue drops below the trigger revenue of $320. As shown in Example 4, if the actual county yield is 28 bushels and the fall price is $8, the actual county revenue is only $224. This is a 30 percent

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shortfall from the trigger revenue. The farmer would receive a payment equal to 30 percent of the dollar coverage level chosen ($600 in the example), or $180 per acre. The amount of payment received does not depend on the yield achieved on the farmer's acres or the actual selling price. The dollar level of coverage can be any value between the RMA maximum and minimum.

Example 4. Insurance payment with GRIP

Expected county average yield	40 bu.
Feb. futures price	$10
Trigger level chosen	80%
Trigger revenue ($400 x 80%)	$320
Actual county yield	28 bu.
Actual price (Oct. futures)	$8.00
Actual county revenue (28 bu. x $8)	$224
Revenue shortfall ($320 - 224)	$96
Revenue percent shortfall ($96 / 320)	30%
Dollar protection chosen	$600
Insurance payment (30% x $600)	$180

The final payment is not determined until the official NASS county yield estimates are released, usually in early spring. Payments will be received within 30 days.

Harvest Price Option

GRIP policies are also available with the harvest price option (HPO). Under HPO the trigger revenue is calculated using the higher of the average futures price in February or at harvest (October). However, the harvest price cannot be more than twice the February average price. The revenue guarantee can increase, but will not decrease if prices decline. Premiums will be higher for GRIP-HPO than for basic GRIP. The HPO policy is useful for producers who forward price a significant portion of their crop, since potential payments in case of a production shortfall increase as the market rises.

Premiums

The insurance cost depends on the trigger yield (or trigger revenue) and coverage value selected by the farmer. Higher trigger yields and higher coverage levels require higher premium rates. RMA pays a portion of the premium up to a maximum value per acre in each county. All acres of the insured crop on a farm must be insured together as an enterprise unit. Estimated GRP and GRIP policy premiums can be obtained from a crop insurance agent or on the following internet site: www.farmdoc.illinois.edu/cropins/index.asp.

Advantages and Disadvantages

Some advantages of the GRP and GRIP programs are:
- no individual yield history is needed
- damaged crops do not have to be appraised to determine the amount of payment
- there is only one policy per farm for each crop, unless county borders are crossed
- past farm level loss experience does not affect premiums
- higher dollar amounts of coverage are available
- protection against price risk is the same as for individual policies.

However, the GRP and GRIP programs protect farmers only when yields are low all over the county, not when isolated problems hit an individual's crops. In addition, GRP and GRIP do not provide coverage for prevented and delayed planting or for reduced grain quality such as aflatoxin damage. Crop producers who can afford a large loss in one year, or whose yields track closely with county yields will benefit the most from GRP and GRIP. This could be the case if the insured acres are scattered throughout the county, or located near the center of the county. Producers who cannot prove a satisfactory APH yield may also find the group policies attractive.

Farmers who purchase GRP or GRIP insurance may want to supplement it with private hail and fire insurance, to guard against isolated occurrences that could damage their crops without substantially lowering county yields. However, there is no reduction in the GRP or GRIP premium when supplemental coverage is purchased, as there is with crop insurance products based on the farmer's actual production history.