

Revenue Protection Products

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OUTLINE

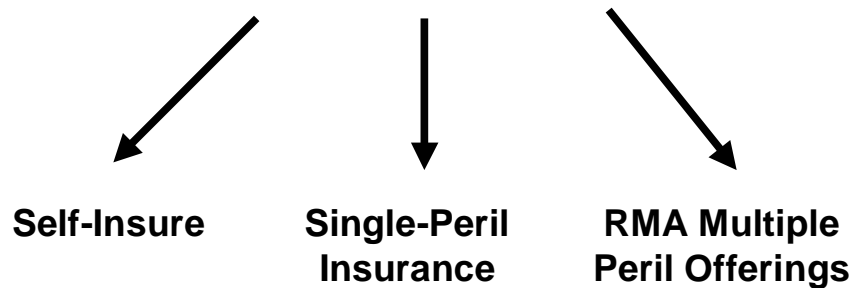
- 1. Definitions**
- 2. Income Protection**
- 3. Crop Revenue Coverage**
- 4. Group Risk Plan**
- 5. Product Availability**
- 6. Summary**

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Production Risk Management Options

Choices When RMA

Offerings Are Available



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RMA Insurance Categories

Two Broad Categories

1. Yield Insurance
 - a. Indemnities Paid When Per Acre Yields Are Low
2. Revenue Insurance
 - a. Indemnities Paid When Per Acre Revenue Is Low

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RMA Insurance Acronyms

1. **MPCI** **Multiple Peril Crop Insurance**
2. **IP** **Income Protection**
3. **CRC** **Crop Revenue Coverage**
4. **RA** **Revenue Assurance**
5. **GRP** **Group Risk Plan**
6. **GRIP** **Group Revenue Insurance Plan**
7. **AGR** **Adjusted Gross Revenue** 5

RMA Insurance Categories

	Individual Farm Plans (APH)	Group Plans (County Yield/Revenue)
Yield Insurance	MPCI	GRP
Revenue Insurance	IP CRC, RA, AGR	GRIP

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Income Protection (IP)

- 1. Can Only Insure Only Enterprise Units**
- 2. Producer Establishes An APH For Each Crop**
- 3. Producer Chooses A Coverage Election**
 - a. 50%-75% (or 85%)**
- 4. FCIC Establishes A “*Projected Harvest Price*”**

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Income Protection (IP)

5. **IP Revenue Insurance Guarantee**
 - a. **APH Yield x Coverage Election
x FCIC Projected Harvest Price**
6. **“Crop Value” Is Your Actual Harvest Yield Multiplied By The “FCIC *Actual* Harvest Price”**
7. **Producer Receives An Indemnity When**
 - a. **“Crop Value” Is Less Than the IP Revenue Insurance Guarantee**

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IP Example

Contract Data	Value	Calculation
APH Yield	40 bu.	
Coverage Election	70%	
FCIC Price Forecast	\$3.50/bu.	
IP Revenue Guarantee	\$98/ac	40 bu. X 0.70 x \$3.50

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IP Example 1: Price Constant

1. **Suppose You Actually Harvest 20 Bushels Per Acre (Yield Protection)**
2. **Suppose The Actual FCIC-Determined Harvest Price Is \$3.50/bushel**
3. **Your “Crop Value” Is**
 - a. **20 bu x \$3.50 = \$75/Acre**
4. **You Receive An Indemnity Of \$23/Acre Because \$75/Acre Is Less Than \$98/Acre**
 - a. **\$98 - \$75 = \$23/Acre**

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IP Example 2: Price Increase

1. **Suppose You Actually Harvest 20 Bushels Per Acre**
2. **But, The Actual FCIC-Determined Harvest Price Increased To \$4.00/bushel (Rather Than The Projected Harvest Price of \$3.50/bu.)**
3. **Your “Crop Value” Is**
 - a. **20 bu x \$4.00 = \$80/Acre**
4. **You Receive An Indemnity Of \$18/Acre**
 - a. **\$98 - \$80 = \$18/Acre**

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IP Example 3: Price Decrease

1. **Suppose You Actually Harvest 35 Bushels Per Acre (Price Protection)**
2. **But, The Actual FCIC-Determined Harvest Price Decreased To \$2.50/bushel (Rather Than The Expected Harvest Price of \$3.50/bu.)**
3. **Your “Crop Value” Is**
 - a. **35 bu x \$2.50 = \$87.50/Acre**
4. **You Receive An Indemnity Of \$10.50/Acre**
 - a. **\$98 - \$87.50 = \$10.50/Acre**

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Crop Revenue Coverage (CRC)

1. **Producer Establishes An APH**
2. **Producer Chooses A CRC Coverage Election**
 - a. **50%-75%**
3. **FCIC Establishes A “Base Price” At The Time Of Planting**
4. **Producers Choose One Of Two Price Elections**
 - a. **95% or 100%**

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Crop Revenue Coverage (CRC)

5. **CRC Minimum Revenue Guarantee**
 - a. **APH Yield x Coverage Election
x Base Price x Price Election**
6. **Actual Harvest Price Increase,
Decrease, Or Stay The Same By
Harvest Time**
7. **If The Harvest Price Increases Over
The Base Price**
 - a. **The Producer’s Minimum
Revenue Guarantee Increases**
8. **Receive An Indemnity If (Actual Yield
x Harvest Price) < Revenue Guarantee**

CRC Example

Contract Data	Value	Calculation
APH Yield	40 bu.	
Coverage Election	70%	
FCIC Price Forecast	\$3.50/bu.	
Price Election	100%	
CRC Minimum Revenue Guarantee	\$98/ac	40 bu. X 0.70 x \$3.50 x 1.0

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CRC Example 1: Price Constant

1. **Suppose You Actually Harvest 20 Bushels Per Acre (Yield Protection)**
2. **Suppose The Actual FCIC-Determined Harvest Price Is \$3.50/bushel**
3. **Your “Crop Value” Is**
 - a. **20 bu x \$3.50 = \$75/Acre**
4. **You Receive An Indemnity Of \$23/Acre Because \$75/Acre Is Less Than \$98/Acre**
 - a. **\$98 - \$75 = \$23/Acre**

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CRC Example 2: Price Increase

1. **Suppose You Actually Harvest 20 Bushels Per Acre**
2. **But, The Actual FCIC-Determined Harvest Price Increased To \$4.00/bushel (Rather Than The Projected Harvest Price of \$3.50/bu.)**
3. **Your “Crop Value” Is**
 - a. **20 bu x \$4.00 = \$80/Acre**
4. **Your New CRC Revenue Guarantee Is \$112/Acre (40 x 0.70 x “\$4.00”)**
5. **Indemnity Is \$32/ac (\$112 – \$80)**

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CRC Example 3: Price Decrease

1. **Suppose You Actually Harvest 35 Bushels Per Acre (Price Protection)**
2. **But, The Actual FCIC-Determined Harvest Price Decreased To \$2.50/bushel (Rather Than The Expected Harvest Price of \$3.50/bu.)**
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Group Risk Plan (GRP)

1. **Indemnities Are Determined By County-Wide Yields**
 - a. **Individual Producer APH's Are Not Considered**
2. **Must Insure All Acres Of A Crop In A County Under One GRP Contract**
 - a. **Enterprise Unit**
3. **FCIC Calculates An Average County Yield**
 - a. **Based On Long-Term Averages**

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Group Risk Plan (GRP)

4. **Producer Selects 1 Of 5 Yield Elections**
 - a. **70%, 75%, 80%, 85%, or 90%**
5. **GRP Trigger Yield Is The County Average Yield Multiplied By The Selected Yield Election**
6. **Producer Selects Between 60% And 100% Of The Maximum Per Acre Dollar Amount Of Protection Available**

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Group Risk Plan (GRP)

7. **Producer Receives An Indemnity When**
 - a. **Actual County Yield Falls Below The Trigger Yield**
 - b. **The Indemnity Depends Upon The Per Acre Dollar Amount Of Protection Purchased**
 - c. **This Is Adjusted By The “Payment Calculation Factor”**
 - **$(\text{Trigger Yield} - \text{Actual Yield}) / \text{Trigger Yield}$**

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GRP Example

Contract Data	Value	Calculation
APH Yield	40 bu.	
Yield Election	70%	
Trigger Yield	28 bu	0.70×40
Maximum Dollar Protection	\$140/ac.	
Protection Election	85%	
Dollar Amount Of Protection	\$119/ac.	$0.85 \times \$140$

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GRP Example 1

1. **Suppose The Actually County Average Is 20 Bushels Per Acre**
 - a. **An Indemnity Will Be Paid To This Producer Because**
 - **The Actual County Yield Is Less Than The Producer's Trigger Yield**
2. **PCF = (Trigger Yield – Actual Yield)/ Trigger Yield**
 - a. **PCF = (28 – 20)/20 = 0.40**

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GRP Example 1

3. Indemnity Is Calculated As
 - a. PCF x Dollar Amount Of Protection
 - $0.40 \times \$119 =$
 - $\$47.60/\text{acre}$
4. Premiums Depend Upon Yield And Protection Elections
 - a. Pre-subsidy: $5\% \times \$119 = \$5.95/\text{ac}$
 - b. Producer Pays: $\$5.95 - \$2.00 =$
 $\$3.95/\text{ac}$ 27

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Wheat Production and IP Coverage

Wheat Production,
2000 Crop Year

Insured Counties for Wheat,
2001 IP Coverage

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Barley Production and IP Coverage

Barley Production,
2000 Crop Year

Insured Counties for Barley,
2001 IP Coverage



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Wheat Production and CRC Coverage

**Wheat Production,
2000 Crop Year**

**Insured Counties for Wheat,
2001 CRC Coverage**

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Wheat Production and GRP Coverage

**Wheat Production,
2000 Crop Year**

**Insured Counties for Wheat,
2001 GRP Coverage**

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Summary

- 1. What Can You Do If RMA Products Are Not Available For A Crop In Your County?**
 - a. Request For Actuarial Change**
 - b. Noninsured Crop Disaster Assistance Program (NAP)**
 - c. February 25 – James Johnson**

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Summary

- 2. If You Insure Part Of Your Crop, You Must Insure All Of It**
 - a. However, May Be Under Different Insurance Contracts**
- 3. You Pay Higher Premiums To Insure Smaller Units**
- 4. You Pay Higher Premiums For Higher Price and Yield Elections (Lower Deductibles)**

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Summary

- 5. Why Are You Buying Insurance?**
 - a. How Much Protection Do You Need?**
 - b. Trying To Maximize Indemnities May Not Be An Optimal Strategy**
- 6. Compare Premiums And Protection Across**
 - a. Products (MPCI, IP, CRC)**
 - b. Counties**
 - c. Years**

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Summary

7. **Group Risk Plans Work Well If Your Yields Closely Track NASS County Yields**
8. **RMA Has Dramatically Increased Fraud Monitoring**

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QUESTIONS?

