

Appendix 3: Examples of Various Types of Crop and Revenue Insurance

The accompanying tables illustrate the mechanics of several types of federally-subsidized crop and revenue insurance. These types are:

Catastrophic (CAT) coverage—A type of Federal crop insurance that guarantees 50 percent of the producer's actual production history (APH) yield at 55 percent of the price election under crop insurance reform. Producers pay a processing fee of \$60 per crop. The processing fee is tied to persons who have an interest in the land, not the acreage itself.

“Additional” (or Buy Up) coverage—A type of Federal crop insurance that refers to coverage that equals or exceeds a 50-percent yield guarantee at 100 percent of the price election. Farmers must pay a processing fee and a premium in order to receive added coverage.

Income Protection (IP)—A type of revenue insurance that protects producers against reductions in gross income when a crop's price or yields decline from early-season expectations. Indemnities are paid if the producer's gross income (as measured by the product of the

producer's realized yield and the harvest futures price) falls below a predetermined guarantee. Threshold trigger levels are based on a producer's APH yield and a planting-time price for the harvest futures contract. Coverage is based on enterprise units. Coverage options in most areas range from 50 to 75 percent in 5-percent increments.

Crop Revenue Coverage (CRC)—A type of revenue insurance that provides revenue insurance plus replacement-cost protection to producers. Indemnities are paid if the producer's gross income (as measured by the product of the producer's realized yield and the actual harvest price) falls below a predetermined guarantee (as measured by the product of the producer's APH yield and the higher of the early-season price projection or the actual harvest price). Since CRC uses the higher of the planting-time price for the harvest futures contract or the actual futures contract quote at harvest, the producer's guarantee may increase over the season, allowing the producer to purchase “replacement” bushels if yields are low and prices increase during the season.

Appendix table 6—Example of a Catastrophic Crop Insurance Policy for YIELD Loss
50 percent yield coverage and 55 percent of price election
The producer pays no premium

| Step | Item | Unit | A Yield #1 (30) | B Yield #2 (13) | C Yield #3 (0) |
|------|-----------------------------------|---------|-----------------------|-----------------------|----------------------|
| 1 | Net indemnity to producer | \$/acre | 0 | 15.40 | 44.00 |
| 2 | = Indemnity paid to producer | \$/acre | 0 | 15.40 | 44.00 |
| 3 | = Calculated yield loss | bu/acre | 0 | 7 | 20 |
| 4 | = Yield guarantee | bu/acre | 20 | 20 | 20 |
| 5 | = percent of yield coverage | percent | 50.0 | 50.0 | 50.0 |
| 6 | * APH yield guarantee | bu/acre | 40 | 40 | 40 |
| 7 | - Actual harvested yield | bu/acre | 30 | 13 | 0 |
| 8 | * Producer price election | \$/bu | 2.20 | 2.20 | 2.20 |
| 9 | = percent of price election | percent | 55.0 | 55.0 | 55.0 |
| 10 | * FCIC price election | \$/bu | 4.00 | 4.00 | 4.00 |
| 11 | - Producer premium | \$/acre | 0 | 0 | 0 |
| 12 | = Total premium per acre | \$/acre | 4.50 | 4.50 | 4.50 |
| 13 | - Premium subsidy per acre | \$/acre | 4.50 | 4.50 | 4.50 |
| 14 | = Subsidy percent | percent | 100 | 100 | 100 |
| 15 | * Total premium per acre | \$/acre | 4.50 | 4.50 | 4.50 |

Source: Excerpted from Jagger, Craig, and Joy Harwood. "Module 6: Crop Insurance and Revenue Insurance," *USDA's Crop/Commodity Programs After the 1996 Farm Act*. USDA Graduate School Course, winter quarter, 1999.

Appendix table 7—Example of a Multi-Peril Crop Insurance Policy for YIELD Loss
The producer chooses: percent yield coverage and percent of price election
The producer pays part of the premium

| Step | Item | Unit | A Yield #1 (30) | B Yield #2 (13) | C Yield #3 (0) |
|------|-----------------------------------|---------|-----------------------|-----------------------|----------------------|
| 1 | Net indemnity to producer | \$/acre | -3.50 | 48.50 | 100.50 |
| 2 | = Indemnity paid to producer | \$/acre | 0 | 52.00 | 104.00 |
| 3 | = Calculated yield loss | bu/acre | 0 | 13 | 26 |
| 4 | = Yield guarantee | bu/acre | 26 | 26 | 26 |
| 5 | = percent of yield coverage | percent | 65.0 | 65.0 | 65.0 |
| 6 | * APH yield guarantee | bu/acre | 40 | 40 | 40 |
| 7 | - Actual harvested yield | bu/acre | 30 | 13 | 0 |
| 8 | * Producer price election | \$/bu | 4.00 | 4.00 | 4.00 |
| 9 | = percent of price election | percent | 100 | 100 | 100 |
| 10 | * FCIC price election | \$/bu | 4.00 | 4.00 | 4.00 |
| 11 | - Producer premium | \$/acre | 3.50 | 3.50 | 3.50 |
| 12 | = Total premium per acre | \$/acre | 6.00 | 6.00 | 6.00 |
| 13 | - Premium subsidy per acre | \$/acre | 2.50 | 2.50 | 2.50 |
| 14 | = Subsidy percent | percent | 41.7 | 41.7 | 41.7 |
| 15 | * Total premium per acre | \$/acre | 6.00 | 6.00 | 6.00 |

Source: Excerpted from Jagger, Craig, and Joy Harwood. "Module 6: Crop Insurance and Revenue Insurance," *USDA's Crop/Commodity Programs After the 1996 Farm Act*. USDA Graduate School Course, winter quarter, 1999.

Appendix table 8--Example of an Income Protection Insurance Policy for REVENUE Loss

The producer chooses: percent of revenue coverage
The producer pays part of the premium

| Step | Item | Unit | A Yield #1 Price #1 | B Yield #1 Price #2 | C Yield #1 Price #3 |
|------|---|---------|---------------------------|---------------------------|---------------------------|
| 1 | Net indemnity to producer | \$/acre | 10.68 | -3.32 | -3.32 |
| 2 | = Indemnity paid to producer | \$/acre | 14.00 | 0 | 0 |
| 3 | = Revenue guarantee | | | | |
| | = planting guarantee | \$/acre | 104.00 | 104.00 | 104.00 |
| 4 | = Harvest price as projected at planting time | \$/bu | 4.00 | 4.00 | 4.00 |
| 5 | * APH yield | bu/acre | 40 | 40 | 40 |
| 6 | * Revenue coverage level | percent | 65.0 | 65.0 | 65.0 |
| 7 | - Realized revenue | \$/acre | 90.00 | 120.00 | 150.00 |
| 8 | = Realized harvest price | \$/bu | 3.00 | 4.00 | 5.00 |
| 9 | * Actual yield | bu/acre | 30 | 30 | 30 |
| 10 | - Producer premium | \$/acre | 3.32 | 3.32 | 3.32 |
| 11 | = Total premium per acre | \$/acre | 5.70 | 5.70 | 5.70 |
| 12 | - Premium subsidy per acre | \$/acre | 2.38 | 2.38 | 2.38 |
| 13 | = Subsidy percent | percent | 41.7 | 41.7 | 41.7 |
| 14 | * Total premium per acre | \$/acre | 5.70 | 5.70 | 5.70 |

Source: Excerpted from Jagger, Craig, and Joy Harwood. "Module 6: Crop Insurance and Revenue Insurance," USDA's *Crop/Commodity Programs After the 1996 Farm Act*. USDA Graduate School Course, winter quarter, 1999.

Appendix table 9--Example of a Crop Revenue Coverage Insurance Policy for REVENUE Loss

The producer chooses: percent of revenue coverage
The producer pays part of the premium

| Step | Item | Unit | A Yield #1 Price #1 | B Yield #1 Price #2 | C Yield #1 Price #3 |
|------|---|---------|---------------------------|---------------------------|---------------------------|
| 1 | Net indemnity to producer | \$/acre | 8.35 | -5.66 | -5.66 |
| 2 | = Indemnity paid to producer | \$/acre | 14.00 | 0 | 0 |
| 3 | = Revenue guarantee | | | | |
| | = higher of (a) or (b) | \$/acre | 104.00 | 104.00 | 104.00 |
| 4 | (a) Harvest guarantee | \$/acre | 78.00 | 104.00 | 130.00 |
| 5 | = Realized harvest price | \$/bu | 3.00 | 4.00 | 5.00 |
| 6 | * APH yield | bu/acre | 40 | 40 | 40 |
| 7 | * Revenue coverage level | percent | 65.0 | 65.0 | 65.0 |
| 8 | (b) Planting guarantee | \$/acre | 104.00 | 104.00 | 104.00 |
| 9 | = Harvest price as projected at planting time | \$/bu | 4.00 | 4.00 | 4.00 |
| 10 | * APH yield | bu/acre | 40 | 40 | 40 |
| 11 | * Revenue coverage level | percent | 65.0 | 65.0 | 65.0 |
| 12 | - Realized revenue | \$/acre | 90.00 | 120.00 | 150.00 |
| 13 | = Realized harvest price | \$/bu | 3.00 | 4.00 | 5.00 |
| 14 | * Actual yield | bu/acre | 30 | 30 | 30 |
| 15 | - Producer premium | \$/acre | 5.66 | 5.66 | 5.66 |
| 16 | = Total premium per acre | \$/acre | 7.80 | 7.80 | 7.80 |
| 17 | - Premium subsidy per acre | \$/acre | 2.15 | 2.15 | 2.15 |
| 18 | = Subsidy percent | percent | 27.5 | 27.5 | 27.5 |
| 19 | * Total premium per acre | \$/acre | 7.80 | 7.80 | 7.80 |

Source: Excerpted from Jagger, Craig, and Joy Harwood. "Module 6: Crop Insurance and Revenue Insurance," USDA's *Crop/Commodity Programs After the 1996 Farm Act*. USDA Graduate School Course, winter quarter, 1999.