

Revenue Insurance

Department of Agricultural Economics — www.agmanager.info



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The introduction of revenue insurance contracts began with crop year 1996. The four contracts offered are Income Protection (IP) in selected counties, Crop Revenue Coverage (CRC), Revenue Assurance (RA), and Revenue Assurance with the Harvest Price Option (RA-HPO) that are offered statewide (Table 1).

Premiums are higher for CRC and RA-HPO than MPCl-APH, while in some cases IP and RA premiums are lower than MPCl-APH premiums. IP and RA will often pay lower indemnity payments when market prices increase, causing lower premium costs.

Revenue indemnity payments are based on a calculated harvest price that may increase or decrease during the growing period. If the harvest price is higher, then RA-HPO and CRC

coverages are automatically increased and the revenue to count is subtracted from the higher guarantee to determine indemnity payments.

If harvest prices increase under IP or RA, it will require a larger yield loss to trigger any payments. For example, a \$5.48 harvest price on a 70 percent IP or RA contract would require a 55 percent yield loss to trigger a payment, while MPCl-APH, RA-HPO, and CRC would require a 30 percent yield loss.

No Price Guarantee: None of the revenue products guarantee price. It is possible to have a price decline and still meet the revenue guarantee because of higher yields. A grower's local elevator price is normally lower than the calculated revenue prices that are based on futures prices.

Table 1. Side-by-Side Comparison of MPCl-APH, CRC, RA and RA-HPO

Product	MPCl-APH	CRC	RA	RA-HPO
Coverage Levels	50% -85%	50% -85%	65%-85%	65%-85%
Units	Optional, Basic	Optional, Basic, Enterprise	Optional, Basic, Enterprise, Whole Farm Unit	Optional, Basic, Enterprise Whole Farm Unit
Price Election	Set by RMA	Aug 15-Sep 14 Average closing price of KCBOT July 2006 wheat contract	Aug 15-Sep 14 Average closing price of KCBOT July 2006 wheat contract	Aug 15-Sep 14 Average closing price of KCBOT July 2006 wheat contract
Harvest Price	N/A	June 2006 Average closing price of KCBOT July 2006 wheat contract	Jul 1-14, 2006 Average closing price of KCBOT July 2006 wheat contract	Jul 1-14, 2006 Average closing price of KCBOT July 2006 wheat contract
If Harvest Price Increases, Indemnity Payment Change	NO	INCREASE	DECREASE	INCREASE
APH	SAME	SAME	SAME	SAME
Early Loss Payments	YES	Minimum Payment	Minimum Payment	Minimum Payment
Maximum Price Move	N/A	\$2.00	No Price Limit	No Price Limit
% of Premium Paid ¹	SAME	SAME	SAME	SAME

¹Percent subsidy for coverage levels of 50% is 67%; 55% & 60% is 64%; 65% & 70% is 59%; 75% is 55%; 80% is 48%; and 85% is 38%.

REVENUE INSURANCE WORKSHEET
Analysis of Per Acre Net Cash Flow

Crop: _____
Situation: _____

Insurance Contract (Central Kansas Wheat)										RA				IP		Your Farm	
Harvest Price Scenario										High Price		Low Price		High Price		Low Price	
Projected Crop Sales and Other Cash Inflows										RA-HPO		RA		IP		Your Farm	
1. Enter Yield per Planted Acre										High Price		Low Price		High Price		Low Price	
2. Expected Market Price + LDP										18.0		18.0		18.0			
3. Expected Sales: (Line 1 x Line 2)										\$5.15		\$3.15		\$5.15		\$	
4. Counter Cyclical Payment										\$92.70		\$56.70		\$92.70		\$	
5. Direct FSA Payment & Other Receipts, No LDP ¹										\$0.00		\$8.50		\$0.00		\$	
6. Total Receipts: (Line 3 + Line 4 + line 5)										\$14.14		\$14.14		\$14.14		\$	
\$ of Coverage & Premium										\$106.84		\$79.34		\$106.84		\$	
7. Average Yield for Insurance (APH)										40.0		40.0		40.0			
8. Coverage Level (50% 55% 65% 70% 75% 80% 85%)										70%		70%		70%		%	
9. Bushels per Acre Yield Guarantee (Line 7 X Line 8)										28.0				70%			
10. Price Election/Expected Price ²										\$3.15		\$3.52		\$3.50			
11. Minimum Revenue Guarantee (Line 7 X Line 8 X Line 10)										\$98.56		\$98.56		\$98.00			
12. Liability (Total Coverage)										\$154.56		\$98.56		\$98.00			
13. Premium (Farmer Paid) ³										\$4.49		\$4.45		\$6.79			
Projected Crop Cash Requirements																	
14. Enter Preharvest Cash Operating Expense ⁴										\$56.75		\$56.75		\$56.75			
15. Enter Harvest Cash Expense per Acre										\$13.00		\$13.00		\$13.00			
16. Enter Expenses/Bushel (\$0.26 x Yield) ⁵										\$4.68		\$4.68		\$4.68			
17. Debt Service, Other Fixed Cash Needs ⁶										\$26.25		\$26.25		\$26.25			
18. Family Living ⁷										\$25.63		\$25.63		\$25.63			
19. Total Cash Requirements: (Sum Line 14 to Line 18)										\$124.23		\$126.31		\$126.31			
Indemnity Payment																	
20. Bushel Loss per Acre (bu.)										18.0							
21. Harvest Market Price																	
22. Final Revenue Guarantee										\$98.56		\$98.56		\$98.00			
23. Less Revenue to Count										\$72.00		\$54.00		\$72.00			
24. Indemnity Payment per Acre										\$56.70		\$44.56		\$26.00			
25. Net Insurance Payment Received: (Line 24 - Line 12)										\$53.61		\$40.07		\$19.21			
26. Net Cash Flow: (Line 5 - Line 12 - Line 19 + Line 25) ⁸										-\$16.48		-\$6.86		-\$9.76			

¹Direct payment is not subject to price or yield risk, but the counter cyclical payment is subject to price risk. ²Revenue prices are based on KCBOT wheat prices and IP prices are based on CBOT wheat price. Local insurance agents will have the RMA published prices for their region. ³Premium rates for a specific farm and proven yield can be obtained from insurance agents. ⁴Obtain crop expense estimates from your records or KSU Farm Management Association Summary. Use only cash expenses because this is a cash flow analysis. ⁵With a low yield, cash expenses of some harvest costs, such as trucking and storage, decline. ⁶Debt load, off farm income, and/or livestock enterprises will affect cash requirements. ⁷Assumes \$41,000 for family living cost and 1,600 acres of crop land (Source: KSU Farm Management Association Summary). ⁸Net cash flow was used for the analysis because normally a farm will not be profitable when a crop disaster occurs. The farmer's short-term strategy is to cover cash flow requirements.

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