



Cornhusker Economics

Multi-Peril Crop Insurance Basics

Market Report	Year Ago	4 Wks Ago	8-28-20
Livestock and Products,			
Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.	*	*	*
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.	164.59	166.00	170.10
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	149.86	141.50	149.10
Choice Boxed Beef, 600-750 lb. Carcass.	234.35	202.34	229.91
Western Corn Belt Base Hog Price Carcass, Negotiated	*	*	*
Pork Carcass Cutout, 185 lb. Carcass 51-52% Lean.	72.92	66.81	72.07
Slaughter Lambs, woolled and shorn, 135-165 lb. National.	154.20	104.50	103.03
National Carcass Lamb Cutout FOB.	397.06	*	417.79
Crops,			
Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu.	3.31	4.06	4.06
Corn, No. 2, Yellow Columbus, bu.	3.60	2.86	2.86
Soybeans, No. 1, Yellow Columbus, bu.	7.68	8.21	8.21
Grain Sorghum, No.2, Yellow Dorchester, cwt.	5.51	6.00	6.00
Oats, No. 2, Heavy Minneapolis, Mn, bu.	2.99	2.99	2.96
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton.	*	143.75	*
Alfalfa, Large Rounds, Good Platte Valley, ton.	110.00	*	*
Grass Hay, Large Rounds, Good Nebraska, ton.	105.00	*	*
Dried Distillers Grains, 10% Moisture Nebraska Average.	131.50	120.58	142.50
Wet Distillers Grains, 65-70% Moisture Nebraska Average.	44.00	35.04	37.99
* No Market			

The Federal crop insurance corporation (FCIC) <https://www.rma.usda.gov/Federal-Crop-Insurance-Corporation> and <https://www.everycrsreport.com/reports/R45193.html> offers three types and eight levels of taxpayer subsidized multi-peril crop insurance (MPCI) policies, sold for four different unit types. The unit types are designed to define the nature of the farm area being insured. There are four types of insurable units, optional, basic, enterprise and whole farm. Each of these units has differences in costs per acre and is likely to create variations in indemnities. For example, a highly localized severe hail storm on a single field covered using basic units would likely have an indemnity, versus not likely to have an indemnity for the same storm on the same field when this is field is 1 of 20 other fields covered with enterprise units. Iowa State University Extension has published a brief description of the different unit types and provides some limited examples of how unit differences might affect indemnities. The link to that description is: <https://www.extension.iastate.edu/sites/www.extension.iastate.edu/files/polk/100202FebruaryUpdate.pdf>. It is advisable to talk with your crop insurance agent about which unit type fits the circumstances and operation for which the insurance is being sought. The distance between fields, crop type being grown, inclusion within the same county, land tenure, production history and other factors each play a role in what unit classification may be best for a particular operation or situation.

Unit types affect both costs and risks. Larger unit types make the insurance per acre less expensive than smaller unit types. For example, enterprise units are less expensive per acre than optional or basic units. Generally however, the larger the area a unit covers the less likely a loss is expected. This of course depends

on the triggering event, its size and scope as illustrated in the previous example.

There are three types of MPCCI that will be discussed here. The three types are revenue protection (RP), RP with harvest price exclusion (RP-HPE) and yield protection (YP) policies. Both RP types of insurance are designed to ensure a specific level of revenue based on the selected coverage percent (rate) using average December futures contract prices for the spring (February) and/or fall (October) months and average actual production history (APH) yields. Be aware these averages are based on future contract prices which do not include an adjustment relative to an operator’s local cash market, known as basis. RP insurances may be triggered by a yield loss, a drop in the price or both. YP insurance uses similar information as RP but only insures yield as a percent of APH with indemnities based on the spring projected value or price.

While both types of RP insurance are designed to ensure a specific revenue, RP is the more expensive version and bases its guaranteed revenue on a floating spring or fall price whichever is highest. Whereas RP-HPE is strictly based on the spring price for the revenue guarantee.

These MPCCI products operate on an annual automatically renewing cycle and have coverage levels between 50% and 85% of APH, in 5% increments making eight possible levels of coverage. Table 1 shows the subsidy levels of the four unit types, basic/optional, enterprise and whole farm with the eight corresponding levels of coverage starting at 50% and increasing to 85% in 5% increments. A practice sample illustrating the relative premium differences among insurance types and levels is depicted in Table 2.

Table 1. Premium subsidy rates by level of coverage and units.

Coverage Level	Basic and Optional Units	Enterprise Units	Whole Farm Units
%	%	%	%
50	67	80	80
55	64	80	80
60	64	80	80
65	59	80	80
70	59	80	80
75	55	77	80
80	48	68	71
85	38	53	56

Source: Shields, D. 2015 "Federal Crop Insurance: Background." CRS Report for Congress, Congressional Research Service, 7-5700, R40532. Washington, DC.

Table 2. A practice sample list of extrapolated MPCCI premiums at the various coverage levels for the WCREEC in North Platte, NE.

Coverage	RP Premiums		RP-HPE Premiums		YP Premiums	
	Optional	Enterprise	Optional	Enterprise	Optional	Enterprise
%	\$	\$	\$	\$	\$	\$
50	3.61	3.00	2.61	2.25	3.11	2.60
55	5.30	5.00	3.78	3.33	4.48	4.17
60	7.22	6.00	4.98	3.92	5.93	4.83
65	11.91	9.00	7.96	5.52	9.28	6.80
70	16.50	11.00	10.80	6.52	12.13	7.74
75	24.89	16.00	16.22	9.40	17.59	10.44
80	41.09	23.00	26.91	13.69	28.35	13.90
85	61.67	37.00	40.02	22.04	41.52	20.96

From Table 1, it is easy to see that each unit type is subsidized differently at various coverage levels. Table 2 was constructed using this information and some approximations for insurance quoted for the farm area around the University of Nebraska's West Central Research Extension and Education Center (WCREEC). This table shows the variation in the different premiums with two of the four available unit types, enterprise and optional units. This table does not reflect any actual premium but does represent the differences among premiums by insurance type and level. Each individually insurable farm has unique conditions and locations that affect the premiums that would ultimately be paid.

As discussed, the insurance purchaser does not pay the full value of the policy; for example, the farm manager at WCREEC wishes to buy an 85% RP policy as enterprise units, from Table 2 the premium is listed as \$37.00/ac. The actual cost of the policy, however, is \$78.72/ac with \$41.75/ac subsidized to the insurer by federal taxpayers. Table 1 makes it easy to identify the subsidy rate of this policy as 53%. If the farm manager instead wanted to have identical coverage and insurance type but bought it in optional units it would cost quite a bit more, \$61.67/ac with a lower subsidy rate of 38% making the full value of that policy \$99.47/ac with a smaller \$37.80/ac subsidy. But what if instead the farm manager wished to buy RP-HPE insurance with the same 85% coverage level for either enterprise or optional units, the premiums would be \$22.04/ac and \$41.52/ac respectively. The actual cost of these policies would have been \$46.90/ac for enterprise units and \$64.55/ac for optional units. The subsidy rate for the different insurance types remains the same, but the premiums are different.

The subsidy is used to make using crop insurance more attractive and affordable so that farmers will use it to help them to be more resilient to risks, reduce government intervention, help keep the nation food secure and reduce market interference.

As earlier indicated, multi-peril crop insurances operate on an annual automatically renewing cycle. FCIC is a federally owned corporation that administers this program. The website listed here has more information about the FCIC. <https://www.rma.usda.gov/Federal-Crop-Insurance-Corporation>

The Risk Management Agency (RMA) has a website with a link that includes a diagram and explanation of this cycle. <https://rma.usda.gov/Topics/Insurance-Cycle>.

This representation of the cycle has four parts: 1) The application process, 2) The Coverage and billing process, 3) The claims process and 4) Program changes. These 4 areas have 11 distinct sub-areas represented by numbers printed within the cycle wheel on the website. These sub-areas can be easily accessed by simply placing the cursor

on the desired number and left-clicking the mouse button.

The following is a description of the annual insurance cycle. During a single year's cycle the following events sequentially occur and are listed below. The list was developed from information collected from several sources, the Nebraska Department of Insurance, Farm Credit Services of America website and Iowa State Extension Service, which are listed in the links below: https://doi.nebraska.gov/sites/doi.nebraska.gov/files/doc/out13256_0.pdf

<https://www.fcsamerica.com/products-services/insurance/resources/key-dates>

<https://www.extension.iastate.edu/agdm/crops/html/a1-50.html>

In addition, Iowa State University Extension and PROAG have more information that explains more about crop insurance in further detail. <https://www.extension.iastate.edu/agdm/crops/html/a1-48.html> and <https://www.proag.com/growers/basics-of-crop-insurance/>

The 2020 Multi-peril crop insurance timeline

- Projected Price (defined here as spring price) – For corn. this is the February average December futures price. (Available March 5, 2020, \$3.88 spring price)
- Sales Closing Date – Last day to apply for coverage. (March 15, 2020)
- Initial Planting Date – First day to plant and have insurance coverage (April 10, 2020)
- Production Reporting Date – Last day to report production for Actual Production History, Actual Revenue History, Revenue Protection, and Revenue Protection with Harvest Price Exclusion option. (April 29, 2020)
- Final Planting Date – Last day to plant, unless the crop is insured for late planting. (May 25, 2020)
- Acreage Reporting Date – Last day to report the acreage planted. If not reported, the crop insurance policy will not be in effect. (July 15, 2020)
- Billing Date – When to expect an invoice of what you owe for the crop insurance (August 15, 2020)
- Payment Due Date – You must pay the premium by this date, or else you will be charged interest. (October 2020)
- Harvest Price (defined here as fall price) - For corn this is the October average December corn futures price. (November 5, 2020)

- Date to File Notice of Crop Damage: – Time frame in which you must notify your insurance provider of damage or loss of production. This period will vary depending on the type of crop and loss, so check the RMA's guidelines. (15 days at the end of crop or December 10, 2020)
- End of Insurance Period – Last date of insurance coverage. (December 10, 2020)
- Cancellation Date – Last day to request cancellation of a 322policy for the next year. (March 15, 2021)
- Debt Termination Date – Date the approved insurance provider will terminate a policy for nonpayment of last year's insurance. (March 5, 2021)

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