

Risk Management

The Multiple Peril Crop Insurance Actual Production History (APH) Insurance Plan

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The U.S. Dept. of Agriculture's (USDA) Risk Management Agency (RMA) administers the federal crop insurance program in partnership with private sector insurers known as reinsurance companies. RMA develops and/or approves the premium rate, administers the premium and expense subsidies, approves and supports products, and reinsures the companies. In addition, RMA sponsors educational and outreach programs and seminars on the general topic of risk management. The reinsurance companies sell and service the policies through agents. An agent, who is employed by a company or contracts with one or more companies, can help producers evaluate the numerous crop insurance products that are available and design the coverage that best fits a producer's needs.

A Multiple Peril Crop Insurance (MPCI) policy represents an agreement between the insured and the insurer to insure a specific agricultural commodity. The policy consists of the **accepted application**, the **basic provisions**, the **crop provisions**, the **special provisions**, and any other applicable policy endorsements. The actuarial documents for the insured agricultural commodity list the plan of insurance, crop type, variety and practice that may be insured in a state and county. They also show the available insurance options, levels of coverage, price elections, applicable premium rates and subsidy amounts. The **special provisions** list program calendar dates and contain general and special

statements that may further define, limit or modify coverage.

MPCI's Actual Production History (APH) plan provides comprehensive protection against low yields, poor quality, prevented planting, late planting, replanting costs, and damage from:

- adverse weather
- disease
- fire
- insects
- hail
- earthquake
- wind
- wildlife

MPCI's APH plan is available for more than 20 crops in Texas, 15 crops in Kansas, and 70 crops throughout the U.S.

Coverage Levels

Producers can select **coverage** of 50 to 75 percent (85 percent in some areas) in 5 percent increments of the **approved yield** for the farm. An indemnity **price election** of 55 to 100 percent of the Federal Crop Insurance Corporation's (FCIC) **expected market price** must be made before the **sales closing date**.

Catastrophic risk protection (CAT) coverage is equal to 50 percent of the approved yield, indemnified at 55 percent of the expected market



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price. The premium on CAT coverage is paid by the federal government; however, producers must pay a \$100 administrative fee for each crop insured in each county.

Expected Market Price

The **expected market price** is the price per unit of production anticipated during the period the insured crop is normally marketed by producers. The expected market price will be set by the FCIC before the sales closing date for the crop. The expected market price may be less than the actual price paid by buyers if such price typically includes adjustments for significant amounts of post-production expenses such as conditioning, culling, sorting, packing, etc. The producer makes a price election of 55 to 100 percent of the expected market price.

Approved Yield

The **actual production history** (APH) yield, calculated and approved by the insurance company, is used to determine the production guarantee by summing the yearly actual, assigned, adjusted or unadjusted transitional yields and dividing the sum by the number of yields in the database, which will always contain at least four yields. If producers provide fewer than 4 years of actual yields, transitional (“T”) yields are used to complete the 4-year database. The database may contain up to 10 consecutive crop years of actual or assigned yields. When the **approved yield** is calculated, yield adjustments elected under the Basic Provisions or other limitations according to FCIC approved procedures may be applied.

Production Guarantee

The **production guarantee per acre** is the **approved yield per acre** times the **coverage level** selected by the producer.

Acceptable Records

Good records may reap rewards. Insurance premiums usually decrease as approved yield increases. Acceptable records include:

- Scale tickets
- CCC loan documents

- Summary sheets
- Livestock feeding records
- Farm management records
- Appraisals
- Gin receipts

What Is a Unit?

A unit is the acreage considered when determining the guarantee, premium, and the amount of any indemnity for that acreage.

A **basic unit** is all insurable acreage of the insured crop in the county on the date coverage begins for the crop year. A basic unit is acreage in which the producer has a 100 percent crop share or acreage that is owned by one entity and operated by another person on a share basis. The producer is considered to have a 100 percent crop share if the land is rented for cash, a fixed commodity payment, or a consideration other than a crop share.

For example, consider a producer who farms his own land and land rented from five landlords, three on a crop share basis and two on a cash basis. This producer would be entitled to four basic units, one each for the three crop share leases and one more that combines the two cash leases and the land he owns.

A **basic unit** may be divided into **optional units** under certain conditions. Optional units are determined by section, section equivalents, **FSA Farm Serial Number**, non-contiguous land (for certain perennial crops), irrigated and non-irrigated practices. When the policy allows, optional units may be established if the crop is planted in a way that results in a clear and discernable break in the planting pattern at the boundaries of each optional unit. The producer also has to keep separate, identifiable records of the planted acreage and harvested production for each optional unit. Optional units are not available for crops insured under CAT.

Generally, a 10 percent discount in the premium will be made when a basic unit is not divided into optional units. The reason for the lower premium is that the diversification of keeping everything in the basic unit will reduce

the likelihood of the producer being able to collect on the policy.

What Counts as Production?

All harvested and appraised production for the unit count as production. Appraised production includes, but is not limited to, production lost to uninsured causes and mature, unharvested production (may be adjusted for quality deficiencies and excess moisture).

Coverage Options

Replanting

If allowed by the crop provisions, a replanting payment may be made on an insured crop replanted after the insurance company has given consent. The acreage replanted must be at least the lesser of 20 acres or 20 percent of the insured planted acreage for the unit (as determined on the final planting date or within the late planting period if a late planting period is applicable).

Prevented planting

Unless limited by the **policy**, a **prevented planting** payment may be made if the insured crop was not planted with the proper equipment within the **late planting period**. The producer must have been prevented from planting the insured crop because of a covered circumstance that was general in the surrounding area and that also prevented other producers from planting acreage with similar characteristics. The **actuarial documents** may contain additional levels of prevented planting coverage that may be purchased for the insured crop.

Hail and fire coverage

Hail and fire coverage can be dropped from the covered causes of loss for a crop policy if the producer selected coverage of not less than 65 percent of the approved yield and 100 percent of the price election, and if he has purchased the same or a higher dollar amount of coverage for hail and fire from other sources. One cannot drop the hail and fire coverage if only the minimum catastrophic risk protection is purchased.

Late planting

If allowed in the crop provisions, crops planted after the **final planting date** can be covered by crop insurance. The **yield guarantee** for crops planted after the **final planting date** is reduced by 1 percent per day for each day planted after the **final planting date**.

Contract Changes

MPCI is a continuous policy that remains in effect for each crop year following the acceptance of the original application. Producers may cancel the policy on a crop, a county, or for a specific crop year in a specific county, after the first effective crop year. This is done simply by providing written notice to the insurance provider on or before the **cancellation date** shown in the applicable crop provisions. A producer must request policy changes from his insurance provider on or before the sales closing date for a change of price election or coverage level.

In addition, requests to increase the maximum eligible prevented planting acreage above limitations contained in the crop policy must be made by the sales closing date for the applicable crop. Contract changes involving a successor-in-interest application, or corrections of a producer's name, address, identification number, administrator, etc., may be made at any time.

Report of Acreage

Each crop year, the producer is required to report the number of insurable and uninsurable acres planted or prevented from being planted. Included in the **acreage report** is the planting date, share in the crop, the acreage location, farming practices used, and types or varieties planted by unit for each insured crop in the county. The acreage report must be signed and submitted by the producer on or before the acreage reporting date contained in the special provisions for the county and for the insured crop.

Notice of Damage or Loss

A written notice of damage or loss for each unit is to be filed by the producer within 72 hours of the initial discovery of damage or loss,

	Subsidies and fees									
Coverage level (%)	CAT	50	55	60	65	70	75	80*	85*	90*
Premium subsidy factor	1.00	.67	.64	.64	.59	.59	.55	.48	.38	NA

*Where applicable

but not later than 15 days after the calendar date for the end of the insurance period unless otherwise stated in the individual crop policy. This notification gives the insurance company the opportunity to inspect the crop and determine the extent of damage or potential production before the crop is harvested or otherwise disposed of.

Premiums

The annual premium amount is determined by multiplying the production guarantee per acre times the price election, times the premium rate, times the insured acreage, times the crop share at the time coverage begins, and times any premium adjustment percentages that may apply. The premium adjustment percentage is used to reduce the actual premium cost by the federal subsidy.

Summary of APH Plan Features

- Insures your assets
- Guarantees income in the event of a crop loss
- Government subsidizes premium
- Uses your own farm yield history to establish guarantees
- Loan collateral improves borrowing power
- Has provisions for prevented planting and late planting
- Protects your investments
- Preserves your savings
- Invests in the future of your farm
- Protects cash flow

Reference

Risk Management Agency, USDA. Various documents. Last updated March 2008.
<http://www.rma.usda.gov>

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