

Group Risk Plan and Group Risk Income Protection

Group Risk Plan (GRP) and Group Risk Income Protection (GRIP) are low-cost insurance programs designed to help farmers protect their crops from disastrous losses. GRP and GRIP are alternatives to the traditional Multiple Peril Crop Insurance and revenue insurance products.

Trigger Yield and Trigger Revenue

Under GRP, farmers receive payments any time the **actual county yield** drops below the **trigger yield** that the farmer chooses. The trigger yield can be 90, 85, 80, 75, or 70 percent of the expected county yield, which is based on the county's yield history since 1962.

As shown in Example 1, if the expected county yield for soybeans is 40 bushels per acre and a producer or landowner chooses a coverage level of 90 percent, the trigger yield is 36 bushels. If that year's official county yield as estimated by the National Agricultural Statistics Service (NASS) falls below 36 bushels, a payment is made, regardless of the farmer's own yield.

Example 1. Trigger Yield with GRP

Expected county yield	40 bu.
Coverage level	90 %
Trigger yield	36 bu.

Under GRIP, farmers receive payments any time the **actual county revenue** drops below the **trigger revenue** that the farmer chooses. The trigger revenue is calculated by multiplying the expected price by the expected county yield, then multiplying this by 90, 85, 80, 75, or 70 percent. The expected price is the average futures price for the five business days prior to March 15. For corn the

December futures contract prices are used, while the November futures contract prices are used for soybeans.

As shown in Example 2, if the expected average county yield for soybeans is 40 bushels per acre, the expected price is \$6.00, and a farmer chooses a coverage level of 90 percent, the trigger revenue is \$216 per acre (40 bu. x \$6.00 x 90%). If that year's actual county revenue falls below \$216 per acre a payment is made, regardless of the farmer's own soybean revenue. The actual county revenue is computed by multiplying the actual county yield by the harvest price. The harvest price for soybeans is the average of the November futures contract price during October. For corn it is the average of the December futures contract price during November.

Example 2. Trigger Revenue with GRIP

Expected county yield	40 bu.
Expected price	\$6.00
Coverage level	90 %
Trigger revenue	\$216

Dollar Protection Level

The amount of payment the farmer receives depends on the level of protection selected when the farm is enrolled. The value of protection can be as high as 150 percent of the expected market price multiplied by the expected county yield, or as low as 90 percent. For GRP the expected market price is set each year by the U.S.D.A. Risk Management Agency (RMA). For GRIP the expected market price is the average futures prices for the last five business days prior to March 15, the same as used to set the trigger revenue. For example, assuming a

40 bushel county yield and an expected price of \$6.00, a farmer can buy up to \$360 of coverage per acre (40 bu. x \$6.00 x 150%).

Insurance Payment

With a GRP policy and a coverage level of 90%, a farmer receives an insurance payment if the county average yield drops below the trigger yield of 36 bushels (40 bu. x 90%). As shown in Example 3, if the actual county yield is only 30 bushels, this is a 6 bushel shortfall from the trigger yield, or 16.7 percent. The farmer would receive a payment equal to 16.7 percent of \$360, or \$60 per acre. The amount of payment received does not depend on the yield achieved on the farmer's own acres, only on the county yield.

Example 3. Insurance Payment with GRP

County average yield	40 bu.
Expected price	\$6.00
Dollar protection (150%)	\$360

With a GRIP policy and a coverage level of 90%, a farmer receives an insurance payment if revenue drops below the trigger revenue of \$216 (\$6.00 x 40 bu. x 90%). If the actual county revenue is only \$190, this is a 12 percent shortfall from the trigger revenue. As shown in Example 4, the farmer would receive a payment equal to 12 percent of \$360, or \$43 per acre. The amount of payment received does not depend on the yield achieved on the farmer's own acres or the actual selling price.

Example 4. Insurance Payment with GRIP

County average yield	40 bu.
Expected price	\$6.00
Dollar protection (150%)	\$360

The final payment is not determined until about April 15, when the official NASS county yield estimates are released. Payments will be received within 30 days.

Premiums

The insurance cost depends on the trigger yield (or

trigger revenue) and coverage value selected by the farmer. RMA pays a portion of the premium up to a maximum value per acre in each county. In most cases, the premium cost for GRP and GRIP will be less than the cost for the traditional crop insurance products, for the same dollar level of coverage. All of the operator's or landowner's acres of the insured crop in the same county must be insured together, as an enterprise unit.

Advantages and Disadvantages

Some advantages of the GRP and GRIP programs are:

- no individual yield history is needed
- no actual production data is needed to determine the amount of payment
- there is only one policy per farm for each crop, unless county borders are crossed
- past farm level loss experience does not affect premiums
- higher dollar amounts of coverage are available

However, the GRP and GRIP program protects farmers and landowners only when yields are low all over the county, not when more isolated problems hit their own crops. Crop producers who cannot afford a large loss in one year, or whose yields do not track closely with county yields, may prefer to continue with the traditional crop insurance programs based on the farm's actual production history. Producers cannot carry both GRP (or GRIP) and the actual production history crop insurance products, however.

Farmers who purchase GRP or GRIP insurance may want to supplement it with private hail and fire insurance, to guard against isolated occurrences that could damage their own crops without substantially lowering county yields. There is no reduction in the GRP or GRIP premium when supplemental coverage is purchased, though, as there is with crop insurance products based on the farmer's actual production history.

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