Yield Protection Crop Insurance

Yield Protection (YP) is a broad-based crop insurance program regulated by the United States Department of Agriculture's Risk Management Agency (RMA) and subsidized by the Federal Crop Insurance Corporation (FCIC). Crops eligible for YP coverage in Iowa include corn, soybeans, oats, wheat, popcorn, barley, potatoes, sweet corn, dry beans, forages, grain sorghum, and green peas. Not all of these crops can be insured in all counties.

Causes of Yield Losses

For most crops, YP covers unavoidable production losses caused by drought, excessive moisture, hail, wind, frost/freeze, tornado, lightning, flood, insect infestation, plant disease, excessive temperature during pollination, wildlife damage, fire, and earthquake.

YP does not cover losses resulting from poor farming practices, low commodity prices, theft, chemical drift, and specified perils that are excluded in some policies. There are specific restrictions on some crops based on acceptable farming practices.

Determining Amount of Protection

Your insurance yield is based on your actual production history (APH), which is the average yield obtained on the insured unit for four to ten consecutive crop years in which that crop was produced.

There are two decisions that determine the amount of protection obtained from YP:
- level of yield coverage
- level of price coverage

Example 1. Guaranteed yield

Assume:
175 bushels YP insurance yield
80% level of coverage

Yield guarantee equals:
175 bushels x 80% = 140 bushels per acre

Level of Coverage

You can insure most crops at 50-85% of your APH yield, in increments of 5%. Your yield guarantee per acre is equal to your YP insurance yield multiplied by the level of coverage you choose.

Level of Price

The indemnity price for YP coverage is the average daily futures market price closes during the month of February for December corn and November soybean futures. This is called the projected price or the spring projected price.

You can choose a price from 60-100% of the indemnity price. Most producers choose coverage based on 100% of this projected price.

A low-cost, minimum level disaster policy, called catastrophic coverage (CAT), is also available. It insures your crop for 50% of your APH yield and 55% of the projected price.

Calculating Indemnity Payments

If your actual average yield (adjusted for quality) is equal to or greater than your yield guarantee, no indemnity is paid. If your average yield per acre is less than your yield guarantee, the indemnity paid is equal to the yield difference times the projected price, times the number of acres insured.

Indemnity payments are taxable income. However, the payments can be reported in the tax year following harvest if you normally sell half or more of your crop then.

Example 2. Indemnity payment

Assume:
- 175 bushel yield guarantee x 80% level of coverage = 140 bushels per acre yield guarantee
- $4.00 projected price
- 100 bushel actual yield

Indemnity payment:
140 bushels - 100 bushels = 40 bushels
40 bushels x $4.00 = $160 per insured acre

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Determining Crop Insurance Premium

Premium rates are based on the coverage level chosen, the insurance unit chosen, and the loss history for the county in which you farm. The premium rate, as a percent of the dollar value of protection, also varies with your APH yield.

Your premium per acre is calculated as follows:

farm's APH yield
× percent yield coverage election
× indemnity price election
× premium rate (varies by crop, county)
× subsidy factor

To encourage broader participation, Congress authorized FCIC to subsidize YP premiums. The amount of the subsidy depends on the coverage level and units structure chosen. The percent of the premium that is paid from this subsidy varies from 100% for catastrophic level coverage to 38% or less for the highest levels of coverage under basic and optional units.

Either basic, optional, or enterprise units are available under YP policies. Enterprise units receive a higher level of premium subsidy. For more information on insurance units, see AgDM File A1-55/FM 1860, Proven Yields and Insurance Units for Crop Insurance (www.extension.iastate.edu/agdm/crops/pdf/a1-55.pdf).

There is also a catastrophic risk protection plan to indemnify producers for decreases in yield due to natural causes of loss called the Catastrophic Risk Protection (CAT) Endorsement. This plan has an administrative fee of $655 for each crop in the county and covers losses greater than 50% loss in yield, indemnified at 55% of the expected market price.

You have the option of buying YP with or without hail and fire coverage. However, if you choose to opt out of the hail and fire insurance component, an equivalent dollar amount of hail and fire coverage must be purchased with a separate hail and fire policy. YP premiums will be reduced if hail and fire coverage is excluded.

Example 3. Premium cost

Assume:

- APH yield of 175 bushels per acre
- 80% coverage level
- Projected price of $4.00 per bushel
- Premium rate of 4.4%
- Subsidy rate of 55%

The premium is:
175 bushels per acre × 80% × $4.00 per bushel × .044 × (1 – 0.55) = $11.09 per acre

Premiums are generally billed in August. If the premium is not paid on or before October 1 or arrangements made for payment, interest may be charged for late payment.

If an indemnity payment is to be made, the premium cost will be deducted from the indemnity. Premiums paid are a tax-deductible farm expense.

Estimated premiums for YP and other types of crop insurance policies can be obtained from a crop insurance agent or the following websites:

- USDA RMA, https://ewebapp.rma.usda.gov/apps/costestimator/Estimates/QuickEstimate.aspx
- FarmDoc, https://farmdoc.illinois.edu/crop-insurance

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NORTH CENTRAL EXTENSION RISK MANAGEMENT EDUCATION

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