November 2012
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Fall Harvest Prices and Indemnity Payments

The USDA Risk Management Agency (RMA) released the final fall harvest prices for revenue protection crop insurance policies on Nov.1. Those harvest prices are $7.50 per bushel for corn and $15.39 per bushel for soybeans.

The harvest price numbers are the final piece of information to determine potential indemnity payments for Revenue Protection crop insurance coverage. Iowa farmers chose Revenue Protection on 92 percent of the insured corn acres and 91 percent of the insured soybean acres in 2012.

Many Iowa farms that suffered significant production losses in 2012 will receive indemnity payments over the next few months reflecting these harvest prices. Both the December corn futures price and the November soybean futures price have increased between the projected price (determined in February) and the harvest price (determined in October) periods. Should a production shortfall occur, that loss would be compensated at the higher harvest price. Farms that chose to insure their crops with a Yield Protection policy may also receive an indemnity payment for yield losses, but the loss will be paid at the February price level.

Many farmers use revenue protection coverage along with pre-harvest marketing strategies and commit a portion of their guaranteed bushels to delivery. This harvest price is critical if any lost production must be replaced at higher market prices for on-farm feeding or to fulfill delivery on a forward cash or hedge-to-arrive grain contract.

Shortfall of Contracted Bushels
Once farmers realize that they cannot deliver all the bushels they've contracted, they should work with the grain merchandiser on a strategy to make up the shortfall in bushels or pay the replacement value of those bushels.

To illustrate how indemnity payments are determined an example of Revenue Protection (RP) coverage for corn is featured.

2012 Revenue Protection (RP) Example:
A loss occurs when the bushels of corn produced for the unit fall below the production guarantee as a result of damage from a covered cause loss. This example assumes 175 bushels per acre APH yield, 75-percent coverage level, and basic unit coverage.

175 bushels per acre X .75 = 131.3 bushel guarantee*
100 bushels per acre actually produced
131.3 bushels – 100 bushels = 31.3 per acre loss
31.3 per acre loss X $7.50 per bushel (harvest price determined in October) = $234.75 net indemnity*

** Figures shown on a per acre basis. Guarantees and losses are paid are on a unit basis. See individual policy provisions.*

Summary

As long as the farmer did not commit to delivery of more than the 131.3 bushels per acre, he or she should have adequate fund to make up the shortfall in bushels or pay the replacement value of those bushels.

Delaying settlement beyond early November leaves farmers in a speculative position for those bushels that they were unable to deliver. Should the futures price move even higher beyond this time frame, the replacement cost would increase. Regardless, the need to work with the grain merchandiser is critical should you fall short on contracted bushels.

Adapted from USDA RMA’s 2012 COMMODITY INSURANCE FACT SHEET, Corn—Crop Revenue Coverage, January 2012.