Yield Protection Crop Insurance

Ag Decision Maker

File A1-52

Yield Protection (YP) is a broad-based crop insurance program regulated by the U.S. 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.

What Causes of Yield Losses Are Covered?

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, and specified perils that are excluded in some policies. There are specific restrictions on some crops based on acceptable farming practices.

How Much Coverage Can I Purchase?

There are two decisions that determine the amount of protection obtained from YP:

- level of yield coverage chosen
- level of price coverage chosen

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.

Level of Coverage

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

Example 1. Guaranteed yield

Assume: 160 bu. YP insurance yield
75% level of coverage

Yield guarantee equals:
160 bu. x 75% = 120 bu. per acre

For What Price is my Crop Insured?

The indemnity price for YP is the average futures market price during the month before the sales closing. The February price is used for corn and soybeans.

You can choose a price from 60 to 100 percent of the indemnity price. Most producers choose coverage based on 100 percent of the projected price.

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

How Are Indemnity Payments Calculated?

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, they 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:
120 bu. yield guarantee
$4.00 price election
300 acres insured
100 bu. actual yield

Indemnity payment:
120 bu. - 100 bu. = 20 bu.
20 bu. x $4.00 = $80
$80 x 300 acres = $24,000

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How Much Does Crop Insurance Cost?

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:

insurance APH yield
x percent yield coverage election
x indemnity price election
x premium rate (varies by crop, county)
x 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 percent for catastrophic level coverage to 38 percent 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 *Ag Decision Maker File A1-55/ FM 1860* **Proven Yields and Insurance Units for Crop Insurance**.

There is also an administrative fee of $300 per crop per county for Catastrophic level coverage, 50 percent of APH yield and 55 percent of the RMA price. For higher coverage levels the administrative fee drops to $30 per crop.

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 160 bu./acre
75 percent coverage level
Projected price of $4.00/bu.
Premium rate of 4.4 percent
Subsidy rate of 55%

The premium is:
160 bu./acre x 75% x $4.00/bu. x .044 x .45 = $9.50 per acre

Premiums are generally due during the normal harvest period. If they are not paid within 30 days of billing, interest may be charged for late payment. If an indemnity is paid, the premium cost will be deducted from the indemnity. Premium payments are a tax-deductible expense.

Estimated premiums for YP and other types of crop insurance policies can be obtained from a crop insurance agent or the following website: www.farmdoc.illinois.edu/cropins/index.asp.

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