Insurance Cost and Payment Scenarios

You are a producer in Roosevelt County with 1,000 acres of cropland and a plan to sell 50 calves in October. In 2017, you are farming 200 acres of non-irrigated smooth yellow peas, 300 acres of irrigated alfalfa hay, and 400 acres of continuous cropped spring wheat.

Important info:
Pea yield is 1700 lbs/acre
Wheat yield is 30 bu/acre
Calf sales are expected to be $37,500, and hay sales are expected to be $39,000.
Allowable revenue for the whole operation is $175,460 each year.

Terms:

Liability: The guarantee for revenue or yield that you buy when you purchase an insurance policy.
Premium: What is paid for the policy. For all of the policies we will look at, at least part of the premium will be paid by the government. There may be fees involved as well.
Subsidy: The amount of the premium paid by the government.
Indemnity: The amount paid to you if there is a loss.

We will look at three different ways to insure all or part of your operation. Go to the Crop and Livestock Insurance 101 tab on 1700 to find the decision tools. Use the (detailed) cost estimator from RMA.

1. **NAP**

Use the NAP decision tool to determine if NAP is available for any of your crops or livestock. If not, are other types of insurance available?

NAP is available for grazing land, but in catastrophic coverage (if you suffer more than 50% loss) only. APH insurance (also known as Forage Production, in this case) is available for alfalfa. Note that PRF (also known as Rangeland Insurance) is also available for grazed and hayed forage, but does not show up here.

2. **Revenue Protection**

Use the RMA Cost Estimator to find the liability, producer premium using optional units, and no additional options, and at 70% coverage.

*Expected revenue=acreage * yield * projected price*

	Expected Revenue	Liability	Producer Premium
Crop 1: Peas	$37,400	$26,180	$1,997
Crop 2: Wheat	$61,560	$43,092	$2,763
Calf sales	$37,500		
Hay sales	$39,000		

Total Revenue	175,460		

Now let's find the indemnity if your revenue comes in at 50% of the expected revenue.

Peas--Indemnity = liability – revenue = 26,160 – 0.5*37,400 = **$7,460. Less premium = 5,463**
Wheat—Indemnity = 43,092-0.5*61,560 =$12,312 Less premium = $9,549.

3. **Whole Farm Revenue Protection**

Use the RMA Cost Estimator to find the liability, producer premium at 70% coverage.

	Expected Revenue	Liability	Producer Premium
WFRP	$175,460	$122,822	$2,106

Let's find the indemnity if 50% of everything is lost:

Indemnity = liability – revenue=122,822-0.5*175,460=$35,092. Less premium = $32,986

What if peas alone get completely hailed out?

Indemnity = liability –revenue = 122,822-(175,460-37,400=138,060)= 0 since revenue>liability.