Income Protection (IP) Insurance

IP is revenue insurance protecting against low prices, low yields, or a combination of low prices and low yields. IP insurance makes indemnity payments when gross revenue falls below a revenue guarantee.

Revenue guarantee under IP

The revenue guarantee equals the APH yield times a base price times a coverage level. The coverage level is selected by the farmer and ranges from 50 to 75 percent of expected gross revenue.

Base prices are calculated using Chicago Board of Trade (CBOT) futures contracts. For corn, the base price equals the average of settlement prices of the December corn contract during the month of February. For soybeans, the base price equals the average of settlement prices of November soybean contract during the month of February.

Figure 1. Base Prices for Revenue Insurance.

Corn – the average of December futures contract prices during February

Soybeans – the average of November's futures contract prices during February

Base prices are released in early March prior to the deadline for purchasing crop insurance. These prices reflect estimates of futures prices at harvest-time. Base prices vary from year to year. The base price for corn was $2.84 in 1998 and $2.10 in 1999.

Figure 1 shows information used to calculate an example revenue guarantee. The crop is corn having a 150 bu. APH yield. The base price is the 1999 price of $2.40. A 75% coverage level is selected. The revenue guarantee is $270 per acre (150 bu. APH yield x $2.40 base price x 75% coverage level).

Figure 2. Revenue Guarantee Under IP Insurance.

Situation:	
Crop	Corn
APH yield	150 bu.
Base price	$2.40
Farmer election:	
Coverage level	75%
Revenue guarantee:	$270 = 150 bu. APH yield x $2.40 price x 75% coverage level

Gross revenue under IP

Gross revenue is used to calculate indemnity payments. Gross revenue equals actual yield times the harvest price.

Harvest prices are based on Chicago Board of Trade (CBOT) futures contracts. For corn, the harvest price equals the average of settlement prices of the CBOT December corn contract during the month of November. For soybeans, the harvest price equals the average of settlement prices of the CBOT November soybean contract during the month of October.

Figure 3. Harvest Prices for Revenue Insurance.

Corn – the average of December futures contract prices during November

Soybeans – the average of November's futures contract prices during October

In most cases, gross revenue does not equal the revenue a farmer receives for the crop. Prices used to calculate revenue under IP are based on CBOT futures contracts. In most cases, cash prices at harvest-time do not equal futures prices. Moreover, IP does not require sales of crop at harvest-time. A farmer also could hedge grain production using forward or futures contracts priot to harvest. A farmer also is free to store grain for later sale.

Indemnity payments under IP

An indemnity payment occurs when gross revenue is below the revenue guarantee. For a $270 revenue guarantee, an indemnity payment equal to $50 occurs when actual gross revenue is $220 ($50 = $270 revenue guarantee - $220 gross revenue).

Indemnity payments occur because of low prices, low yields, or a combination of low yields and low prices. Figure 4 shows indemnity payments for different actual yields and harvest prices.

Figure 4. Per Acre IP Indemnity Payments for a $270 Revenue Guarantee[1].

	Low Yield	Low Yield	Low Yield	Avg. Yield	Avg. Yielc
	Low Price	Same Price	High Price	Low Price	Same Price
Actual Yield	100 bu.	100 bu.	100 bu.	150 bu.	150 bu.
Harvest Price	$1.70	$2.40	$3.00	$1.70	$2.40
Gross Revenue[2]	$170	$240	$300	$255	$360
Indemnity Payment[3]	$100	$30	$0	$15	$0

[1] See Figure 2 for thje calculation of the yield guarantee.
[2] Gross revenue equal actual yield x harvest price
[3] Indemnity payments equal the revenue guarantee minus gross revenue when gross revenue is greater than revenue guarantee, zero otherwise.

Choices under IP

The farmer chooses the coverage level. A higher coverage level results in a higher revenue guarantee. Moreover, the indemnity payment will be more with a higher coverage level than a lower coverage level.

Insurable Units under IP

Insurance units available under IP are enterprise units. Enterprise units include all farmland in one crop in a county.

For a complete discussion of units, see Iowa State University Extension, *Actual Production History and Insured Units,* March 1999, http://www.exnet.iastate.edu/Publications/FM1860.pdf.

Premiums under IP

Per acres premiums will depend on the county of the insured crop, the crop's APH yield, and the selected coverage level. Higher coverage levels result in higher premiums.

Similar Revenue Insurance to IP

IP and Revenue Assurance with a base price option (RA-BP) are very similar insurance products. Differences between the products are:

1. IP only allows enterprise units. RA-BP allows basic, optional, enterprise, and whole farm units.
2. Premiums may differ between the two products.

Other information

Iowa State University Extension, *Crop Revenue Insurance*, March 1999, http://www.exnet.iastate.edu/Publications/FM1853.pdf

Revised: April 1999

Information Provided by: Gary Schnitkey

Web Site Maintained by: John Nwoha
