


[About RME](#)
[Press Releases](#)
[Partnerships](#)
[Programs](#)
[Publications](#)
[Summit](#)
[Calendar](#)
[Links](#)
[RME Home](#)

USDA Home
Risk Management Agency

Publications



RME Fact Sheet Managing Risk

The Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994 (1994 Reform Act) and the Agricultural Marketing Transition Act of 1996 eliminated much of the risk protection the Federal Government provided, including deficiency payments. This legislation dramatically changed the Government's role and shifted the responsibility of risk management to producers. USDA's Risk Management Agency (RMA) is the lead agency in providing producers current information on crop insurance programs and the available risk management tools.

Types of Coverage

Comprehensive Protection

- **Multiple Peril Crop Insurance (MPCI)** provides comprehensive protection against weather-related causes of loss and certain other unavoidable perils. Coverage is available on over 60 crops in primary production areas throughout the U.S. at 50 to 75 percent of the actual production history for the farm. An indemnity price election from 60 to 100 percent of the Federal Crop Insurance Corporation (FCIC) expected market price is selected at the time of purchase. Minimum Catastrophic Risk Protection (CAT) coverage is available for an administrative fee of only \$50 per crop per county. MPCI coverage provides protection against low yields, poor quality, late planting, replanting costs and prevented planting.
- **Group Risk Plan (GRP)** insurance is based on the *county expected yield* rather than individual farm yields. A policyholder thus receives an indemnity payment when, and only when, the National Agricultural Statistics Service (NASS) county yield is less than the yield selected.
- **Revenue Products** pilot programs with limited availability provide revenue guarantees instead of MPCI yield guarantees. Revenue policies protect a grower's loss of revenue resulting from low prices, low yields, or a combination of the two.
- **Income Protection (IP)** policy pays when the harvested and

appraised production to count, multiplied by the harvest price, is below the IP guarantee. The harvest price is an average of daily futures market closing prices for the crop during the month of harvest. If a yield loss is offset by a price increase, or vice versa, no indemnity is paid. The insurance unit is the grower's share of all acres of the insured crop in the county.

- **Crop Revenue Coverage (CRC)** was developed by Redland Insurance and is reinsured by FCIC. A loss results when the calculated revenue is less than the final guarantee. The difference between these two figures times the insured's share results in a payable indemnity. Losses are based on the minimum or harvest guarantee (whichever is higher) and the calculated revenue. Additional CRC features include: optional units, quality adjustment and high value replacement protection (insurance guarantee can increase if the harvest price exceeds the base price).
- **Revenue Assurance (RA)** was developed by Farm Bureau Mutual Insurance Company and is reinsured by FCIC. An indemnity is payable when the production to count (any combination of harvested and appraised yield) multiplied by the county harvest price is less than the unit revenue guarantee. Added RA features include basic, optional, enterprise, and whole units; and quality adjustment.

Supplemental Protection to MPCCI

- **Replacement Cost Coverage (RC)** provides for a payable indemnity when the unit has a yield shortfall and the harvest commodity price exceeds the FCIC indemnity price. RC manages risk of forward contracting when the crop is short and the producer has to buy and deliver more expensive grain.
- **Fixed Price Indemnity** provides a producer's election to choose a fixed price increase (e.g., 10¢, 25¢, 50¢) above the FCIC market indemnity price.
- **Increasing Payment Rate** pays after a low yield threshold is reached and carries a reduced deductible.

Named Peril Protection

- **Stand-Alone Policies** provide protection against specifically named perils (e.g., hail, freeze, fire) and are paid based on a percent of damage multiplied by the liability or protection purchased less the deductible.

Detailed Information

This summary is for general illustration purposes only. Please

contact a crop insurance agent for information specific to your operation.

Where to Purchase

All insurance policies are available from private insurance agents. A list of crop insurance agents is available at all county U.S. Department of Agriculture Farm Service Agency offices.

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[Back to Fact Sheet Table of Contents](#)

[About RME](#) | [Press Releases](#) | [Partnerships](#) | [Programs](#) | [Publications](#) | [Summit Calendar](#) | [Links](#) | [RME Home](#) | [USDA Home](#) | [Risk Management Agency](#)