Risk Management Education for American Indian Producers: Train the Trainer Workshop

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MSU Department of Agricultural Economics and Economics

Co-Sponsors: Fort Peck Community College
Risk Management Agency
Bozeman, Montana
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The Workshop Agenda

1. Price, Production, & Business Risk
2. Managing Production and Revenue Risk Through Crop Insurance
   a. Basic Concepts
   b. MPCI
   c. Income Protection
3. Production Risk Management in the Absence of Crop Insurance
4. Specialized Insurance Products: Chickpeas & Forage and Range
5. Risk Management under the 2002 Farm Bill
Production Risk Management Options

For Any Given Crop:

Two Possible Scenarios

- Federally-Subsidized Insurance Products Are Available
- Federally-Subsidized Insurance Products Are Not Available
Production Risk Management Options

Choices When Federally-Subsidized RMA Offerings Are Available

- Self-Insure
- Single-Peril Insurance
- RMA Multiple Peril Offerings

RMA Insurance Categories

Two Broad Categories

1. **Yield Insurance**
   a. Indemnities Paid When Per Acre *Yields* Are Low

2. **Revenue Insurance**
   a. Indemnities Paid When Per Acre *Revenue* Is Low
**RMA Insurance Categories**

<table>
<thead>
<tr>
<th></th>
<th>Individual Farm Plans (APH)</th>
<th>Group Plans (County Yield/Revenue)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Yield Insurance</strong></td>
<td>MPCI</td>
<td>GRP</td>
</tr>
<tr>
<td><strong>Revenue Insurance</strong></td>
<td>IP</td>
<td>GRIP</td>
</tr>
<tr>
<td></td>
<td>CRC, RA, AGR</td>
<td></td>
</tr>
</tbody>
</table>

**OUTLINE**

1. Pre-Test
2. Definitions
3. Insurable Units
4. Actual Production History (APH)
5. Multiple Peril Crop Insurance
6. Income Protection
7. Malting Barley
   a. MPCI
   b. IP
8. General Crop Insurance Issues
Insurable Units

May Be Able To Insure Different Areas Within A County Under Different Contracts

1. Optional Units
   a. Land In Different Sections

2. Basic Units
   a. Land Operated Under Same Cost/Share Arrangements

3. Enterprise Units
   a. All Of Your Land In The County

Insurable Units Pyramid

All four land parcels are in the same county.
A & B are operated under 100% crop share (may be owned or cash leased) but in separate sections.
C is leased from a landlord – 1/3 crop share.
D is leased from a different landlord – 1/3 crop share.
## Comparing Optional And Basic Units (MPCI)

<table>
<thead>
<tr>
<th>Contract Data</th>
<th>Optional Unit A</th>
<th>Optional Unit B</th>
<th>Basic Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit Size</td>
<td>100 acres</td>
<td>100 acres</td>
<td>200 acres</td>
</tr>
<tr>
<td>APH Yield</td>
<td>100 bushels</td>
<td>100 bushels</td>
<td>100 bushels</td>
</tr>
<tr>
<td>Coverage</td>
<td>70%</td>
<td>70%</td>
<td>70%</td>
</tr>
<tr>
<td>Trigger Yield</td>
<td>70 bushels</td>
<td>70 bushels</td>
<td>70 bushels</td>
</tr>
<tr>
<td>Elected Price</td>
<td>$2/bushel</td>
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## Problem 1: Comparing Optional And Basic Units

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<tr>
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<td>100 acres</td>
<td>100 acres</td>
<td>200 acres</td>
</tr>
<tr>
<td>Actual Yield Per Acre</td>
<td>60 bushels</td>
<td>80 bushels</td>
<td></td>
</tr>
<tr>
<td>Per Acre Bushel Indemnity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Dollar Indemnity</td>
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<td>200 acres</td>
</tr>
<tr>
<td>Actual Yield Per Acre</td>
<td>60 bushels</td>
<td>80 bushels</td>
<td>70</td>
</tr>
<tr>
<td>Per Acre Bushel Indemnity</td>
<td>10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total Dollar Indemnity</td>
<td>$2,000</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

OUTLINE

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   b. IP
8. General Crop Insurance Issues
Actual Production History

Producers Must Establish APH For MPCI and IP

1. APH Must Be Established On Each Insurable Unit
2. Based on Historical Proven Yields For The Past 4 to 10 Years
3. This History Must Be For Consecutive Years
4. Must Start With Most Recent Crop Year

Establishing An APH When Records Are Available

<table>
<thead>
<tr>
<th>Year</th>
<th>Producer A</th>
<th>Producer B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>--</td>
<td>104</td>
</tr>
<tr>
<td>1994</td>
<td>--</td>
<td>80</td>
</tr>
<tr>
<td>1995</td>
<td>--</td>
<td>60</td>
</tr>
<tr>
<td>1996</td>
<td>--</td>
<td>86</td>
</tr>
<tr>
<td>1997</td>
<td>--</td>
<td>105</td>
</tr>
<tr>
<td>1998</td>
<td>--</td>
<td>60</td>
</tr>
<tr>
<td>1999</td>
<td>90</td>
<td>90</td>
</tr>
<tr>
<td>2000</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>2001</td>
<td>75</td>
<td>75</td>
</tr>
<tr>
<td>2002</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>APH Yield</td>
<td>69</td>
<td>77</td>
</tr>
</tbody>
</table>
Incomplete APH History

1. If You Have Less Than 4 Years Of Proven Yields
   a. A Transition Yield (T-Yield) Is Established
   b. Similar To The County Average

2. If You Are Unable To Supply Any Proven Production Information
   a. Limited To 65% Of The T-Yield

Incomplete APH History

3. If You Have Proven Yields For Only One Year
   a. Can Use 80% Of The T-Yield For The Other Three Years

4. If You Have Proven Yields For Only Two Years
   a. Can Use 90% Of The T-Yield For The Other Two Years

5. If You Proven Yields For Three Years
   a. Can Use 100% Of The T-Yield For The Missing Year
Establishing An APH When Records Are Not Complete

<table>
<thead>
<tr>
<th>Year</th>
<th>Producer C</th>
<th>Producer C</th>
<th>Producer D</th>
<th>Producer D</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>2000</td>
<td>60</td>
<td>60</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>2001</td>
<td>75</td>
<td>75</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>2002</td>
<td>50</td>
<td>50</td>
<td>N.A.</td>
<td>N.A.</td>
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</tbody>
</table>

APH Yield ?? ??

If The County T-Yield Was 80 Bushels Per Acre For Each Year
## Establishing An APH When Records Are Not Complete

<table>
<thead>
<tr>
<th>Year</th>
<th>Producer C</th>
<th>Producer D</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>N.A.</td>
<td>80</td>
</tr>
<tr>
<td>2000</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>2001</td>
<td>75</td>
<td>75</td>
</tr>
<tr>
<td>2002</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>APH Yield</td>
<td>??</td>
<td>66</td>
</tr>
</tbody>
</table>

*If The County T-Yield Was 80 Bushels Per Acre For Each Year*

Producer C: 100% Of 80 Bushels (1999)

---

## Establishing An APH When Records Are Not Complete

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<tr>
<th>Year</th>
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<th>Producer C</th>
<th>Producer D</th>
<th>Producer D</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>N.A.</td>
<td>80</td>
<td>N.A.</td>
<td>52</td>
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<tr>
<td>2000</td>
<td>60</td>
<td>60</td>
<td>N.A.</td>
<td>52</td>
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<tr>
<td>2001</td>
<td>75</td>
<td>75</td>
<td>N.A.</td>
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<td>2002</td>
<td>50</td>
<td>50</td>
<td>N.A.</td>
<td>52</td>
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<tr>
<td>APH Yield</td>
<td>??</td>
<td>66</td>
<td>??</td>
<td>52</td>
</tr>
</tbody>
</table>

*If The County T-Yield Was 80 Bushels Per Acre For Each Year*

Producer D: 65% Of 80 Bushels (All Years)
APH Yields And Low Yields

1. If You Have Had Some Years With Unusually Low Yields
   a. You Can Replace Those Years With 60% Of The T-Yield

<table>
<thead>
<tr>
<th>Year</th>
<th>Producer E</th>
<th>Producer E</th>
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<tbody>
<tr>
<td>1993</td>
<td>104</td>
<td>104</td>
</tr>
<tr>
<td>1994</td>
<td>80</td>
<td>80</td>
</tr>
<tr>
<td>1995</td>
<td>15*</td>
<td>48</td>
</tr>
<tr>
<td>1996</td>
<td>86</td>
<td>86</td>
</tr>
<tr>
<td>1997</td>
<td>105</td>
<td>105</td>
</tr>
<tr>
<td>1998</td>
<td>25*</td>
<td>48</td>
</tr>
<tr>
<td>1999</td>
<td>90</td>
<td>90</td>
</tr>
<tr>
<td>2000</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>2001</td>
<td>75</td>
<td>75</td>
</tr>
<tr>
<td>2002</td>
<td>20*</td>
<td>48</td>
</tr>
<tr>
<td>APH Yield</td>
<td>66</td>
<td>74</td>
</tr>
</tbody>
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*If The County T-Yield Was 80 Bushels Per Acre*
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MPCI

1. Original FCIC, Subsidized Crop Insurance
2. Producer Establishes An APH
3. Producer Chooses A Yield Election
   a. 50%-75% (Or 85%) Of APH
4. Producer Chooses A Price Election
   a. 55%-100% Of FCIC Forecasted Harvest Price
5. Premium Equals The Maximum Indemnity Multiplied By The Premium Rate
### MPCI Example

<table>
<thead>
<tr>
<th>Contract Data</th>
<th>Value</th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>APH Yield</td>
<td>100 bu.</td>
<td></td>
</tr>
<tr>
<td>Yield Election</td>
<td>70%</td>
<td></td>
</tr>
<tr>
<td>Trigger Yield</td>
<td>70 bu.</td>
<td>0.70 x 100 bu.</td>
</tr>
<tr>
<td>FCIC Price Forecast</td>
<td>$2.50/bu.</td>
<td></td>
</tr>
<tr>
<td>Price Election</td>
<td>80%</td>
<td></td>
</tr>
<tr>
<td>Elected Price</td>
<td>$2.00/bu.</td>
<td>0.80 x $2.50</td>
</tr>
<tr>
<td>Maximum Indemnity</td>
<td>$140</td>
<td>70 bu. x $2.00</td>
</tr>
<tr>
<td>Premium Rate</td>
<td>6%</td>
<td>(Subsidized)</td>
</tr>
<tr>
<td>Premium</td>
<td>$8.40/ac.</td>
<td>0.06 x $140</td>
</tr>
</tbody>
</table>

---

### MPCI Example

1. **Suppose You Actually Harvest 50 Bushels Per Acre**
2. **Will You Receive An Indemnity?**
3. **If So, Calculate The Indemnity In Bushels/Acre**
4. **Calculate The Indemnity In Dollars/Acre**
MPCI Example

1. Suppose You Actually Harvest 50 Bushels Per Acre

2. You Receive An Indemnity Because 50 Bushels Is Less Than Your Trigger Yield of 70 Bushels.

3. You Receive The Difference In Bushels
   a. 70 – 50 = 20 Bushels/Acre

4. Valued At Your Elected Price
   a. 20 x $2.00 = $40/Acre

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**Income Protection (IP)**

1. Can Only Insure Enterprise Units
2. Producer Establishes An APH For Each Unit
3. Producer Chooses A Coverage Election
   a. 50%-75% (or 85%)
4. FCIC Establishes A “Projected Harvest Price”

**Income Protection (IP)**

5. **IP Revenue Insurance Guarantee**
   a. APH Yield x Coverage Election x FCIC Projected Harvest Price
6. “Crop Value” Is Your Actual Harvest Yield Multiplied By The “FCIC Actual Harvest Price”
7. Producer Receives An Indemnity When
   a. “Crop Value” Is Less Than the IP Revenue Insurance Guarantee
### IP Example

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</tr>
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<td>Coverage Election</td>
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<td>N.A.</td>
</tr>
<tr>
<td>FCIC Price Forecast</td>
<td>$2.50/bu.</td>
<td>N.A.</td>
</tr>
<tr>
<td>IP Revenue Guarantee?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Calculation:

\[
100 \text{ bu.} \times 0.70 \times $2.50 = $175/\text{ac}
\]
IP Example 1: Price Constant

1. Suppose You Actually Harvest 50 Bushels Per Acre (Yield Protection)
2. Suppose The Actual FCIC-Determined Harvest Price Is $2.50/bushel
3. What Is Your “Crop Value”? 
   a. 50 bu x $2.50 = $125/Acre
4. Will You Receive An Indemnity?
5. If So, Calculate The Indemnity
   a. $175 - $125 = $50/Acre
IP Example 2: Price Increase

1. Suppose You Actually Harvest 50 Bushels Per Acre

2. But, The Actual FCIC-Determined Harvest Price Increased To $2.75/bushel (Rather Than The Projected Harvest Price of $2.50/bu.)

3. What Is Your “Crop Value”? 
4. Will You Receive An Indemnity? 
5. If So, Calculate The Indemnity

Your “Crop Value” Is
a. \[ 50 \text{ bu} \times $2.75 = $137.50/\text{Acre} \]

You Receive An Indemnity Of $37.50/Acre
a. \[ $175 - $137.50 = $37.50/\text{Acre} \]
**IP Example 3: Price Decrease**

1. Suppose You Actually Harvest 85 Bushels Per Acre (Price Protection)

2. But, The Actual FCIC-Determined Harvest Price Decreased To $2.00/bushel (Rather Than The Expected Harvest Price of $2.50/bu.)

3. Your “Crop Value” Is
   a. $175 - $170 = $5/Acre

4. You Receive An Indemnity Of $5.00/Acre
   a. $175 - $170 = $5/Acre
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Malting Barley: MPCI

1. You First Purchase A Feed Barley Contract
2. You Make Decisions Regarding
   a. Units
   b. Yield Election
   c. Price Election
3. You May Elect To Purchase A Malting Barley Rider
   a. Option A: Non-Contracted Malting Barley
   b. Option B: Contracted Malting Barley
Malting Barley: MPCI

4. Rider Applies To ALL Bushels Contracted For Delivery Regardless Of Selected Units

5. Indemnity Is Paid For Any Undelivered Bushels Below Your Trigger Yield

6. Option B: Indemnities Valued As
   a. The Difference Between Malting Barley Contract Price and The FCIC Feed Barley Price Forecast (Adjusted For Quality)

MPCI Example 1
Malting Barley: Option B

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<td></td>
</tr>
<tr>
<td>Elected Price</td>
<td>$2.00/bu.</td>
<td>0.80 x $2.50</td>
</tr>
<tr>
<td>Option B Rider</td>
<td>10,000 bu.</td>
<td>100 ac x 100 bu.</td>
</tr>
<tr>
<td>Contract Price</td>
<td>$3.50/bu.</td>
<td></td>
</tr>
</tbody>
</table>
MPCI Example 1
Malting Barley: Option B

1. Suppose You Actually Harvest 50 Bushels Per Acre (Makes Malt)

2. You Receive An Indemnity For The Difference In Bushels
   a. $70 - 50 = 20$ Bushels/Acre

3. Valued At Your Feed Barley Price Election
   a. $20 \times \$2.00 = \$40$/Acre
   b. Total = $\$40 \times 100$ Acres = $\$4,000$

MPCI Example 1
Malting Barley: Option B

4. You Were Only Able To Deliver 5,000 Bushels (50 bu/ac \times 100 acres)

5. Malting Barley Indemnity Is Based On Your Yield Election (70% Of 10,000 bu.)
   a. $7,000 - 5,000 = 2,000$ Bushels
   b. Those Bushels Are Valued As The Difference Between The The Malting Barley Contract Price and The FCIC Feed Barley Price Forecast (Quality Adjusted)
**MPCI Example 1**

**Malting Barley: Option B**

6. Your Malting Barley Indemnity Is:
   
a. $3.50-$2.50 = $1.00/bu.
   
b. $1/bu x 2,000 bu. = $2,000

7. Total Indemnity Is:
   
a. $4,000 + $2,000 = $6,000 ($60/ac)

---

**MPCI Example 2**

**Malting Barley: Option B**

1. Suppose You Actually Harvest 100 Bushels Per Acre
   
a. All Rejected For Malt (Thins)

2. Will You Receive A Feed Barley Indemnity?
   
a. If So, Calculate The Indemnity

3. Will You Receive A Malting Barley Indemnity?
   
a. If So, Calculate The Indemnity
MPCI Example 2
Malting Barley: Option B

1. Suppose You Actually Harvest 100 Bushels Per Acre
   a. All Rejected For Malt (Thins)
2. You Receive No Indemnity For Feed Barley (100 bu. > 70 bu.)
3. Your Malting Barley Indemnity Is:
   a. 7,000 Bushels Valued As The Difference Between The Malting Barley Contract Price And The FCIC Feed Barley Price Forecast (Quality Adjusted)

4. Your Malting Barley Indemnity Is:
   a. $3.50-$2.50 = $1.00/bu.
   b. $1/bu x 7,000 bu. = $7,000
5. Total Indemnity Is $7,000
   a. Or $70/Acre
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Malting Barley: IP

1. You First Purchase A Feed Barley Contract
2. You Make Decisions Regarding
   a. Coverage Election
3. You May Elect To Purchase A Malting Barley Rider
   a. Option A: Non-Contracted Malting Barley
   b. Option B: Contracted Malting Barley
Malting Barley: IP

4. Receive Indemnity When Per Acre Revenue Falls Below The Trigger Level

5. Feed Barley Price Is Determined At Harvest As 85% Of The CBOT Corn Price

6. Per Acre Revenues Are Calculated As Combinations Of Values Of Feed and Malting Barley Production

IP Example 1
Malting Barley: Option B

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>APH Yield</td>
<td>100 bu.</td>
<td></td>
</tr>
<tr>
<td>Coverage Election</td>
<td>70%</td>
<td></td>
</tr>
<tr>
<td>Contract Price</td>
<td>$3.50/bu.</td>
<td></td>
</tr>
<tr>
<td>Trigger Revenue</td>
<td>$245/ac.</td>
<td>100 bu x 0.70 x $3.50</td>
</tr>
<tr>
<td>FCIC IP Forecast Feed Barley Price</td>
<td>$2.50 bu.</td>
<td>0.85 x $2.94 (CBOT Corn)</td>
</tr>
</tbody>
</table>
1. Suppose You Actually Harvest 50 Bushels Per Acre (Makes Malt)

2. Calculate Your Crop Value

3. Calculate Your Indemnity

**IP Example 1**

**Malting Barley: Option B**

1. Suppose You Actually Harvest 50 Bushels Per Acre (Makes Malt)

2. Crop Value Is:
   
   a. $50 \times 3.50 = $175/Acre

3. Indemnity Is:
   
   a. $245 - $175 = $70/Acre
IP Example 2
Malting Barley: Option B

1. Suppose You Actually Harvest 80 Bushels Per Acre
   a. Some Hail Damage
   b. Some Crop Is Rejected For Malt
   c. On Average, 30 Bushels Of Malting Barley, 50 Bushels Of Feed Barley

2. Say The Actual FCIC IP Feed Barley Harvest Price Was $2.50

3. Calculate Your Crop Value

4. Calculate Your Indemnity
**IP Example 2**  
**Malting Barley: Option B**

3. Your Crop Value is:
   a. $30 \text{ bu} \times $3.50 = $105/\text{Acre}$
   b. $50 \text{ bu} \times $2.50 = $125/\text{Acre}$

4. Your Indemnity Is:
   a. $245 - $230 = $15/\text{Acre}$

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**IP Example 3**  
**Malting Barley: Option B**

1. Suppose You Actually Harvest 100 Bushels Per Acre
   a. But All Rejected Because Of Thins (You Can Sell It For $1.25/\text{bu}$)

2. The Actual FCIC-Determined Harvest Price Remained At The Expected Harvest Price of $2.50/\text{bu}$
IP Example 3
Malting Barley: Option B

3. What Is Your “Crop Value”?  
   a. 100 bu x $2.50 = $250/Acre

4. Will You Receive An Indemnity?  
   a. No! Because $250 is greater than your IP revenue guarantee of $245/Acre

5. Are You Happy?  
   a. Probably not because you only realized 100 bu x $1.25 = $125/Acre
OUTLINE

1. Pre-Test
2. Definitions
3. Insurable Units
4. Actual Production History (APH)
5. Multiple Peril Crop Insurance
6. Income Protection
7. Malting Barley
   a. MPCI
   b. IP
8. General Crop Insurance Issues

General Crop Insurance Issues

1. If You Insure Irrigated Barley, You Have To Insure Your Dryland Barley
   a. However, They Are Different Contracts
2. IP Only Insures Enterprise Units
3. Usually, Though Not Always, Want to Insure Smaller Units
4. You Pay More For Smaller Units And Lower Deductibles
5. IP Is Generally Less Expensive Than MPCI In Higher-Yielding Areas
General Crop Insurance Issues

6. Consider Local Feed Barley Price Relative To Your Expectations Of The FCIC IP Harvest Feed Barley Price
   a. May Want To Increase Coverage

7. Why Are You Buying Insurance?
   a. How Much Protection Do You Need?
   b. Trying To Maximize Indemnities May Not Be An Optimal Strategy

8. Compare Premiums And Protection Across Products And Counties