USDA RMA

United States Department of Agriculture
Risk Management Agency

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2006 COMMODITY INSURANCE FACT SHEET

Barley Income Protection

Idaho, Oregon, Washington

Income Protection (IP) Program

Barley IP is a **pilot** plan of revenue insurance that protects against a loss of revenue due to low yields, low prices or a combination of both factors.

IP may offer a less costly risk management alternative to other revenue products and is the only one which offers a **CAT** level of coverage. Barley IP is available up to the 85-percent coverage level. Barley IP offers a feed barley guarantee and a malting barley price and quality endorsement (MBPQE). The feed barley guarantee is calculated using the grower's APH yield multiplied by the level election multiplied by the market based barley price. The MBPQE (if selected) is calculated using the grower's APH yield multiplied by the level election multiplied by the malting barley price (additional value price). The multi-peril crop insurance (MPCI) provides the foundation of IP (same yield settings and loss adjustment).

Pacific Northwest Availability

Idaho, Oregon & Washington: All counties where barley MPCI is available.

IP Feed Barley Prices

Although no barley futures contract exists, research has shown the Chicago Board of Trade futures price for corn has been highly correlated with feed barley prices. **The feed barley price** for the pilot program is calculated using 85 percent of the average corn futures price.

IP Malting Barley Prices

Malting barley will be eligible through one of two options. Those who sell malting barley on the open market may insure their malt based on the RMA stated malting barley price premium. Those who contract their malt, may insure their malt based on the malting barley price premium specified in their contract.

IP Barley Premium Calculation Example

Assume: 100-percent share; IP approved APH 70 bushels per acre (10-year average); coverage level 75 percent; county 10-year average yield of 63; projected price $1.90; option A (open market) selection; 200 acres. $0.60 additional value price.

a. Option A Amount of Protection:
APH 70 X $1.90 Projected
Price X 200 Acres = $26600
X 75-percent coverage = $19950

b. Base Premium Rate
(using 63 bushels county average yield = .076

c. Base Premium $19950
X .076 = $1516

d. Option A (Malting Barley)
70 APH X 75 percent X $0.60
Option A additional value price X 200 acres = $6300

e. $6300 X .076 X 1.10 = $527

f. $1516 + $527 = **$2043**

Subsidy:
$2043 X .55 = $1124
$2043 - $1124 = $919 grower paid premium

Loss Indemnity

The income protection dollar guarantee is payable when the harvested and appraised production to count, multiplied by the harvest price, is below the dollar guarantee. Indemnity payments are paid when the harvested and appraised production and harvest price are determined. A yield loss may be offset by a price increase, or a price decrease may be offset by a yield increase. A farm's crop expected revenue is the determining factor.

IP Feed Barley Loss Indemnity Example

Assume: 100-percent share, approved APH:
70 bushels per acre; coverage level of 75 percent
Projected price higher than harvest price
Dollar Guarantee:
70 bushels per acre **X**
75-percent coverage level **X**
1 acre **X**
$1.90 projected price =
$99.75 per acre guarantee
Value of Production (Harvest):
30 bushels per acre **X**
1 acre **X**
$1.85 harvest price =
$55.50 per acre value
Loss Payment (Indemnity):
100-percent share =
$44.25 per acre indemnity

Assume: 100-percent share, approved APH:
70 bushels per acre; coverage level of 75 percent
Harvest price is higher than projected price
Dollar Guarantee:
70 bushels per acre **X**
75-percent coverage level **X**
1 Acre **X**
$1.90 projected price =
$99.75 per acre guarantee
Value of Production (Harvest):
30 bushels per acre **X**
1 Acre **X**
$2.50 harvest price =
$75.00 per acre value
Loss Payment (Indemnity):
100-percent share =
$24.75 per acre indemnity

Additional Factors

- IP coverage at the catastrophic risk protection level is available.
- MPCI acreage and production reporting dates apply to IP.
- Replant payment is not available.
- Prevented planting benefits apply.

Advantages of Risk Management Tools

Risk management tools protect crop investment, borrowed capital and current savings by stabilizing income. This transfers risk and provides an added peace of mind.

Where to Purchase

All MPCI, including CAT coverage insurance policies, are available from private insurance agents. A list of crop insurance agents is available on the RMA website: http://www3.rma.usda.gov/tools/agents/

Regional Contact for RMA

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