



United States Department of Agriculture
Risk Management Agency

July 2006

2007 COMMODITY INSURANCE FACT SHEET

Wheat Income Protection

Idaho, Oregon, Washington

Income Protection (IP) Program

IP protects against reductions in gross income when yields and/or prices fall. The multi-peril crop insurance (MPCI) provides the foundation of IP (same yield settings and loss adjustment). The dollar guarantee is established by multiplying the farmer's historical production average by a projected futures price. IP offers a less costly risk management alternative to other revenue products and is the only one which offers a CAT equivalent level of coverage.

Pacific Northwest Availability

Idaho: Idaho, Latah, Lewis and Nez Perce counties.

Oregon: All counties where wheat MPCI is currently available.

Washington: All counties where wheat MPCI is currently available.

IP Wheat Sales Closing Date

Sales closing date for IP wheat pilot program is **September 30**.

IP Prices

IP uses two prices to measure price fluctuation. **Projected price** to establish the revenue guarantee and **harvest price** to establish the crop value to count against the revenue guarantee.

Projected price (the Portland price) is defined as the average settlement price for the September, of the harvest year's Chicago Board of Trade (CBOT) wheat futures contract during the period August 15 to September 14 of the pre-harvest year, plus a basis adjustment equal to the current five-year average difference between the August average daily settlement price for the nearby CBOT September

wheat futures contract and the August average daily settlement price for the Portland Merchants Exchange soft white wheat contract, and is announced by FCIC by September 20 of the pre-harvest year.

Harvest Price is the average daily settlement price for the Portland Merchants Exchange soft white wheat contract during the month of August, of the harvest crop year, announced by FCIC by September 10 of the harvest crop year.

IP Wheat Premium Calculation Example

Assume: 100-percent share, IP approved APH: 65 bushels per acre (10-year average); coverage level: 75 percent; using Whitman County, WA base premium rates and county 10-year average yield of 65.

A. Producer IP APH 65 X \$3.61 projected price X 1 acre = \$234.65 X 75-percent coverage level = \$175.99

B. Base premium rate (using Whitman county, WA) = .039

C. Base premium \$175.99 X base rate .039 = **\$6.86/acre.**

D. **Subsidy:** \$6.86 X .55 = \$3.77 per acre

E. **Estimated Producer Premium:**
\$6.86 per acre base premium - \$3.77 per acre premium subsidy = **\$3.09 producer premium.**

Loss Indemnity

The Income Protection dollar guarantee is payable when the harvested and appraised production to count as adjusted by policy provisions, 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.

If a yield loss is offset by a price increase (or vice-versa) no indemnity is paid. A farm's expected crop revenue is the determining factor.

IP Wheat Loss Indemnity Example

Assume: 100-percent share, approved APH: 65 bushels per acre; coverage level of 75 percent.

Projected Price higher than Harvest Price

Dollar guarantee:

65 bushels per acre X
75-percent coverage level X
1 acre X

\$3.15 projected price = \$154 per acre guarantee

Value of production (harvest):

30 bushels per acre X
1 acre X

\$2.00 harvest price = \$60 per acre value

Loss payment (indemnity):

100-percent share = \$94 per acre indemnity

Harvest Price is higher than Projected Price

Dollar guarantee:

65 bushels per acre X
75-percent coverage level X
1 acre X

\$3.15 projected price = \$154 per acre guarantee

Value of production (harvest):

30 bushels per acre X
1 acre X

\$4.15 harvest price = \$125 per acre income

Loss payment (indemnity):

100-percent share = \$29 per acre indemnity

Additional Factors

IP provides coverage at the catastrophic risk protection level.

- MPCI acreage and production reporting dates apply to IP.
- Replant payments are provided.
- 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 Web site:

<http://www3.rma.usda.gov/tools/agents/>

Regional Contact for RMA

USDA/Risk Management Agency

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