



United States Department of Agriculture

Farm and Foreign Agricultural Services
Risk Management Agency

November 18, 1998

INFORMATIONAL MEMORANDUM: R&D-98-061

TO: All Reinsured Companies
All Risk Management Agency Field Offices

FROM: Tim B. Witt /s/ Roberta E. Waggoner (for)
Deputy Administrator

SUBJECT: Approved Actual Production History (APH) Yield Procedure for Indexed Income Protection for Corn and Soybeans

BACKGROUND:

The Federal Crop Insurance Corporation Board of Directors approved a new pilot insurance program for corn and soybeans for the 1999 crop year. This pilot program is a modification of the existing Income Protection (IP) pilot program that tests an alternative means of establishing producer yields. This program may result in improved yield guarantees for producers in areas that have experienced low yields in recent years.

The current IP pilot program guarantee is calculated by multiplying the actual production history (APH) yield times the projected price times the selected coverage level times the planted acreage times the share. The APH yield may not reflect the expected yield of the crop. Indexing producer yields alleviates this problem. The Indexed IP pilot program guarantee is calculated by multiplying the Approved Indexed IP Yield times the projected price, times the selected coverage level, times the planted acreage, times the share. The Approved Indexed IP Yield is calculated by subtracting the average of the producer's APH reported yields for all acreage of the insured crop in the county from the average of the county yields for the same years, and subtracting that difference from the county's expected yield for the current crop year.



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The Risk Management Agency Administers and Oversees
All Programs Authorized Under the Federal Crop Insurance Corporation

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The Indexed IP pilot program has been approved as follows:

<u>Program</u>	<u>Areas Available</u>	<u>Sales Closing Date</u>
Indexed IP Corn	All counties in Maryland; all New York counties except Bronx, Hamilton, Kings, Nassau, New York, Putnam, Queens, Richmond, Rockland and Westchester; and all Pennsylvania counties except Philadelphia	March 15
	All counties in North Carolina	February 28
Indexed IP Soybeans	All Maryland counties except Garrett	March 15
	All North Carolina counties except Alleghany, Ashe, Clay, Graham, Haywood, Jackson, Macon, Madison, Mitchell, Swain and Yancey	February 28

ACTION:

Following are instructions and an example for calculating the Approved Indexed IP Yield on the Production and Yield Report, FCI-19-A (APH):

Step 1

- (a) As with APH, complete the FCI-19-A (APH) to calculate the Approved APH Yield, Item 21, per the instructions in Section 9D (Preparation of APH Form) of the Crop Insurance Handbook, FCIC 18010.

Step 2

On the lower half of the FCI-19-A (APH):

- (a) Complete Item 15 for the same crop years as in Step 1;
- (b) From the Indexed IP County Actuarial Table, refer to the IP County Yield Table for the same years and type/practice combination and copy these yields to Item 18;
- (c) In Item 19, enter the total of all entries in Item 18;
- (d) In Item 21, determine the Average County Yield by dividing the total in Item 19 by the number of years in Item 15;
- (e) In Item 20(A), determine the Yield Difference by subtracting the producer’s Approved APH Yield (Step 1) from the Average County Yield for the same years (Item 21); and
- (f) In Item 20(B), determine the Approved Indexed IP Yield by subtracting the Yield Difference in Item 20(A) from the Expected County Yield. The Expected County Yield is equal to the county yield for the most recent crop year from the IP County Yield Table for the appropriate type/practice combination (for example, for the 1999 crop year this would be the 1998 county yield).

STEP 1			
15 Crop Year	16 Total Production	17 Acres	18 Yield
1994	18,400	400	46.0
1995	12,600	420	30.0
1996	18,060	430	42.0
1997	0	410	0.0
1998	22,680	420	54.0
			19 Total 172.0
20(A) Preliminary Yield		21 Approved APH Yield 34.0	
20(B) Prior Yield			
STEP 2			
15 Crop Year	16 Total Production	17 Acres	18 Yield
1994			48.0
1995			26.0
1996			50.0
1997			21.0
1998			49.0
			19 Total 194.0
20(A) Yield Difference 39 - 34 = 5		21 Average County Yield 39.0	
20(B) Approved Indexed IP Yield 49 - 5 = 44			

The 44 bushels is a better estimate of the producer’s 1999 expected yield because the producer’s average of 34 may have been overly influenced by the recent unusually low yield years in 1995 and 1997. Indexed IP uses the 44 bushels to calculate the producer’s guarantee (44 bushels times the projected price, times the selected coverage level, times the planted acreage, times the share).

If the producer’s average yield is greater than the county average yield, the difference between the two is added to the expected county yield. For example, if the producer’s APH was 41 bushels, Step 2(e) would result in $(39 - 41) = (-2)$ bushels and Step 2(f) would result in $(49 - (-2)) = 51$ bushels.

These materials as well as the FCI-35 Coverage and Rate Tables, the Special Provisions of Insurance, and the IP crop provisions for corn and soybeans are available electronically via the Reporting Organization server. If you have any questions about this pilot program, please contact Vondie O'Conner at (816) 926-6343 or by fax at (816) 926-7343.

DISPOSAL:

This Informational Memorandum is for the purpose of transmitting information and the expiration date is March 15, 2001.