



Income Protection (IP) Insurance

Curriculum Guide

I. Goals and Objectives

- A. Learn how Income Protection (IP) crop insurance works.
- B. Learn the advantages and disadvantages of Income Protection (IP) crop insurance.

II. Descriptions/Highlights

- C. Income Protection is an insurance program that guarantees a stated amount of revenue. IP (like CRC) provides comprehensive protection through a dollar guarantee based on commodity futures prices. IP protects a producer from loss of revenue resulting from low yields, low prices, or a combination of the two.
- D. IP is a pilot crop insurance program available only for grain sorghum in selected Texas counties, and wheat in selected Kansas counties.
- E. The IP dollar guarantee per acre is calculated by multiplying the approved APH yield times the projected price times the selected coverage level.
 - 1. The approved APH yield is calculated at the enterprise level (all acreage of crop and the county) using APH rules.
 - 2. The projected and harvest prices are calculated from futures market prices.
 - 3. Coverage levels can be selected from 50-75 percent.
- F. For grain sorghum, the projected and harvest prices are 90 percent of the average of the daily corn futures market closing prices (for a specific contract month, over a certain period) at the Chicago Board of Trade. The contract month and time period will vary depending upon the sales closing date. Review the sales closing date table.
- G. Review examples 1 and 2 from the Income Protection Insurance fact sheet.
- H. Income Protection Insurance has its own set of advantages and disadvantages just like any other insurance plan. Producers have shown far more interest in the CRC insurance policy than the IP insurance policy. While income protection insurance does guarantee revenue, it contains no feature for increasing revenue coverage if prices increase. It also does not have provisions for basic or optional units. The lack of increasing revenue coverage, and inability to cover optional units means that the IP policy may not protect forward contract commitments as well as the CRC policy. Premiums for the IP policy tend to be cheaper than the CRC policy.
- I. If prices and yields are negatively correlated, the farmer could receive less of an indemnity payment from IP than under the current MPCCI program.

III. Potential Speakers

- D. Extension Economists
- E. Crop Insurance Agents

IV. Review Questions

- D. What does IP insurance protect against?
 - a. Yield Loss
 - b. Price decline
 - c. Both yield loss and price decline

Answer: c. Both yield loss and price decline

- E. How is the harvested period price determined?
 - a. The price the elevator paid the farmer
 - b. The average of the specified futures contract price during the predetermined harvest period

Answer: b. The average of the specified futures contract price during the predetermined harvest period

V. For More Details

Schnitkey, Gary. "Income Protection (IP) Insurance." University of Illinois at Urbana-Champaign, April, 1999.

Hofstrand, Don and William Edwards. "Crop Revenue Insurance." Iowa State University Extension, FM-1853, January, 1999.

Stokes, Ken. "Texas Income Protection Facts." Texas Agricultural Extension Service web site: <http://agecoext.tamu.edu/cropins/facts/incpro/incpro.htm>.



● Income Protection (IP) Insurance

Protects against reductions in gross income when yields or prices fall.

Pays when the harvested and appraised production to count, multiplied by harvest price, are below the IP guarantee.

Uses MPCCI (APH Plan) for yields, loss adjustment, etc.

! Income Protection Features

IP dollar guarantee per acre = yield x price x coverage %

Enterprise Unit Yield = average of APH on all acres in county

For sorghum, 90% of CBOT corn in month prior to sales closing

Coverage percentage 50 to 75%

Income Protection (IP) Insurance



! Income Protection Price for Grain Sorghum

| Sales Closing Date | CBOT Corn Futures Contract | Projected Price Period | Harvest Price Period |
|---------------------------|-----------------------------------|-------------------------------|-----------------------------|
| January 15 | September | December | Aug. 15 - Sept. 14 |
| February 15 | September | January | Aug. 15 - Sept. 14 |
| March 15 | December | February | November |



! Income Protection Insurance EXAMPLE 1

Harvest price is higher than the projected price, with a 57% production loss.

| | | |
|---------------------|---|--|
| Approved APH Yield | = | 70 bushels per acre |
| Coverage Level | = | 65% |
| Share | = | 100% |
| Projected Price | = | \$2.20 per bushel |
| Harvest Price | = | \$3.00 per bushel |
| Production to Count | = | 30 bushels per acre |
| Crop Value | = | Production to count x harvest price = \$90.00 |
| Revenue Guarantee | = | Approved APH yield x coverage level x projected price x share = \$100.10 |

Revenue Guarantee (\$100.10) - Crop Value (\$90.00) = IP Indemnity (\$10.10)

In Example 1, the large yield loss is partially offset by the increased price at harvest. The resulting crop value of \$90 is still less than the revenue guarantee by \$10.10, so an indemnity payment is made to the producers.



! Income Protection Insurance EXAMPLE 2

Harvest price is lower than the projected price, with a 34% production loss.

| | | |
|---------------------|---|--|
| Approved APH Yield | = | 70 bushels per acre |
| Coverage Level | = | 65% |
| Share | = | 100% |
| Projected Price | = | \$2.20 per bushel |
| Harvest Price | = | \$1.35 per bushel |
| Production to Count | = | 46 bushels per acre |
| Crop Value | = | Production to count x harvest price = \$62.10 |
| Revenue Guarantee | = | Approved APH yield x coverage level x projected price x share = \$100.10 |

Revenue Guarantee (\$100.10) - Crop Value (\$62.10) = IP Indemnity (\$38.00)

In Example 2, a large drop in price combines with a small production loss to produce a calculated crop value of \$62.10 and an IP indemnity payment of \$38 per acre.



! IP Advantages

Guarantees revenues - like CRC not just yields as CAT and MPCl plan.

Lower premium cost than CRC

! IP Disadvantages

Unlike CRC, revenue guarantee does not increase if price increases.

If prices increase, does not work as well as CRC with forward contracting.

If prices and yields are very negatively correlated, it may not pay as well as MPCl.

! Income Protection Impact of Price Increase

If the yield loss is offset by a price increase, or vice versa, no indemnity is paid.