

Revenue Protection



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Kansas State University Agricultural Experiment Station and Cooperative Extension Service

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The introduction of revenue insurance began with crop year 1996. The new Revenue Protection (RP) policy combines Income Protection (IP), Crop Revenue Coverage (CRC), Revenue Assurance (RA), and Revenue Assurance with the Harvest Price Option (RA-HPO) into a single policy (Table 1).

Premiums are higher for RP than Yield Protection (YP), while in some cases Revenue Protection with the Harvest Price Excluded (RP-HPE) premiums are lower than YP premiums. RP-HPE will often pay lower indemnity payments when market prices increase, causing lower premium costs.

Revenue Protection indemnity payments are based on a calculated harvest price that may increase or decrease during the growing period. If the harvest price is higher, then RP

coverage is automatically increased and the revenue to count is subtracted from the higher guarantee to determine indemnity payments.

If harvest prices increase under RP-HPE, it will require a larger yield loss to trigger any payments. For example, a \$10 harvest price on a 70 percent RP-HPE contract would require a 40 percent yield loss to trigger a payment, while YP and RP would require a 30 percent yield loss.

No Price Guarantee: Neither RP nor RP-HPE guarantee price. It is possible to have a price decline and still meet the revenue guarantee because of higher yields. A grower's local elevator price is normally lower than the calculated revenue prices that are based on futures prices.

Table 1. *Side-by-Side Comparison of YP, RP and RP-HPE*

Product	YP	RP	RP-HPE
Coverage Levels	50% - 85%	50% - 85%	65%-85%
Units	Optional, Basic, Enterprise, Whole Farm Unit	Optional, Basic, Enterprise, Whole Farm Unit	Optional, Basic, Enterprise, Whole Farm Unit
Price Election	Aug 15-Sep 14 Average closing price of CME HRW July 2014 wheat contract	Aug 15-Sep 14 Average closing price of CME HRW July 2014 wheat contract	Aug 15-Sep 14 Average closing price of CME HRW July 2014 wheat contract
Harvest Price	N/A	June 2012 Average closing price of CME HRW July 2014 wheat contract	June 2012 Average closing price of CME HRW July 2014 wheat contract
If Harvest Price Increases, Indemnity Payment Change	NO	INCREASE	DECREASE
APH Approved Yield	SAME	SAME	SAME
Early Loss Payments	YES	Minimum Payment	Minimum Payment
Maximum Price Move	N/A	2 × base price	N/A
% of Premium Paid ¹	SAME	SAME	SAME

¹Percent of premium paid by USDA-RMA for coverage levels of 50% is 67%; 55% and 60% is 64%; 65% and 70% is 59%; 75% is 55%; 80% is 48%; and 85% is 38%. An additional discount is provided for the enterprise unit.

REVENUE PROTECTION WORKSHEET
Analysis of Per Acre Net Cash Flow

Crop: _____
Situation: _____

Insurance Contract (Central Kansas Wheat)	YP	RP		RP-HPE		Your Farm	Your Farm
		Low Price	High Price	Low Price	High Price		
Harvest Price Scenario							
Projected Crop Sales and Other Cash Inflows							
1. Enter Yield per Planted Acre	10.0	10.0	10.0	10.0	10.0	_____	_____
2. Expected Market Price + LDP	\$7.02	\$7.02	\$7.02	\$7.02	\$7.02	\$ _____	\$ _____
3. Expected Sales: (Line 1 × Line 2)	\$70.20	\$70.20	\$70.20	\$70.20	\$70.20	\$ _____	\$ _____
4. Counter Cyclical or ACRE Payment	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	_____	_____
5. Direct FSA Payment, Straw & Other Receipts, No LDP ¹	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$ _____	\$ _____
6. Total Receipts: (Line 3 + Line 4 + Line 5)	\$70.20	\$70.20	\$70.20	\$70.20	\$70.20	\$ _____	\$ _____
\$ of Coverage & Premium							
7. Actual Production History (10 year average farm yield)	50.0	50.0	50.0	50.0	50.0	_____	_____
8. Coverage Level (50% 55% 65% 70% 75% 80% 85%)	70%	70%	70%	70%	70%	_____ %	_____ %
9. Bushels per Acre Yield Guarantee (Line 7 × Line 8)	35.0					_____	_____
10. Price Election/Expected Price ²	\$7.02	\$7.02	\$7.02	\$7.02	\$7.02	\$ _____	\$ _____
11. Liability/Min. Rev. Guarantee (Line 7 × Line 8 × Line 10)	\$245.70	\$245.70	\$245.70	\$245.70	\$245.70	\$ _____	\$ _____
12. Maximum Harvest Price Rev. Guarantee (Line 11 × 2)		\$491.40	\$491.40			\$ _____	\$ _____
13. Premium (Farmer Paid) ³	\$6.63	\$9.07	\$9.07	\$6.95	\$6.95	\$ _____	\$ _____
Projected Crop Cash Requirements							
14. Enter Preharvest Cash Operating Expense ⁴	\$104.54	\$104.54	\$104.54	\$104.54	\$104.54	\$ _____	\$ _____
15. Enter Harvest Cash Expense per Acre	\$22.27	\$22.27	\$22.27	\$22.27	\$22.27	\$ _____	\$ _____
16. Enter Expenses/Bushel (\$0.26 × Line 1) ⁵	\$2.60	\$2.60	\$2.60	\$2.60	\$2.60	\$ _____	\$ _____
17. Debt Service, Other Fixed Cash Needs ⁶	\$118.43	\$118.43	\$118.43	\$118.43	\$118.43	\$ _____	\$ _____
18. Family Living ⁷	\$37.92	\$37.92	\$37.92	\$37.92	\$37.92	\$ _____	\$ _____
19. Total Cash Requirements: (Sum Line 14 to Line 18)	\$285.76	\$285.76	\$285.76	\$285.76	\$285.76	\$ _____	\$ _____
Indemnity Payment							
20. Bushel Loss per Acre (bu.)	25.0					_____	_____
21. Harvest Market Price		\$5.00	\$10.00	\$5.00	\$10.00	\$ _____	\$ _____
22. Final Rev. Cov. (Max Line 10, Line 21 × Line 7 × Line 8)		\$245.70	\$350.00	\$245.70	\$245.70	\$ _____	\$ _____
23. Less Revenue to Count (Line 1 × Line 21)		\$50.00	\$100.00	\$50.00	\$100.00	\$ _____	\$ _____
24. Indemnity Payment per Acre	\$175.50	\$195.70	\$250.00	\$195.70	\$145.70	\$ _____	\$ _____
25. Net Insurance Payment Received: (Line 24 - Line 13)	\$168.87	\$186.63	\$240.93	\$188.75	\$138.75	\$ _____	\$ _____
26. Net Cash Flow: (Line 6 - Line 19 + Line 25) ⁸	(\$ 46.69)	(\$ 28.93)	\$ 25.37	(\$ 26.81)	(\$ 76.81)	\$ _____	\$ _____

¹ Direct payments are expected to be eliminated and the replacement program is unknown at the date of this writing.

² All crop insurance policies have the same Price Elections.

³ Premium rates for a specific farm and proven yield can be obtained from insurance agents.

⁴ Obtain crop expense estimates from your records or KSU Farm Management Association Summary. Use only cash expenses because this is a cash flow analysis.

⁵ With a low yield, some cash expenses per acre decline, such as trucking and storage.

⁶ Debt load, off farm income and/or livestock enterprises will affect cash requirements.

⁷ Assumes \$68,256 for family living cost and 1,800 acres of crop land (Source: KSU Farm Management Association Summary).

⁸ Net cash flow was used for the analysis because normally a farm will not be profitable when a crop disaster occurs. The farmer's short-term strategy is to cover cash flow requirements.

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