

## 1999 Wheat - Crop Revenue Coverage Question and Answer Set

1. **Q: What is Crop Revenue Coverage (CRC)?**

**A:** CRC is an insurance program that guarantees a stated amount of revenue called the Final Guarantee. CRC covers revenue losses due to a low price, low yield, or any combination of the two. Since the protection of grower revenue is the primary objective of CRC, it contains provisions addressing both yield and price risks. Six key variables are Approved Yield, Coverage Level Percentage, Price Percentage, Base Price, Harvest Price, and Production to Count.

2. **Q: What is CRC's Approved Yield?**

**A:** CRC's **Approved Yield** is the historical average amount of production per acre in the insured unit. It uses the farmer's production records or yields assigned by the Federal Crop Insurance Corporation (FCIC). We use at least four crop years of yields to obtain the Approved Yield.

3. **Q: What is CRC's Coverage Level Percentage?**

**A:** The available CRC **Coverage Level Percentages** are 50%, 55%, 60%, 65%, 70%, and 75%. The farmer selects a Coverage Level Percentage and it defines the applicable policy's coverage and deductible.

4. **Q: What is the CRC Price Percentage?**

**A:** The farmer selects a **Price Percentage** that we multiply times the defining averages for the applicable Base and Harvest Prices to calculate the policy's final Base Price and Harvest Price. Under the 1999 Wheat CRC program, farmers may select **100%** or **95%** as the Price Percentage for their policy. If the farmer has never selected a Price Percentage, then his policy's Price Percentage defaults to 95%.

5. **Q: What is CRC's Base Price and how is it defined?**

**A:** CRC defines the **Base Price** for each wheat crop and state using the following methodology:

**Winter Wheat - (Insured as winter wheat), Chicago Board of Trade (CBOT)**

Alabama, Georgia, Illinois, Indiana, Kentucky, Louisiana, Michigan, Mississippi, North Carolina, Ohio, South Carolina, Tennessee, Virginia, and Wisconsin

**Base Price (CBOT)** - The August 15 to September 14 pre-harvest year's average daily settlement price for the harvest year's CBOT July soft red winter wheat futures contract (rounded to the nearest whole cent) multiplied times the selected Price Percentage and rounded to the nearest whole cent. The available Price Percentages and subsequent Base Price will be released as an Actuarial Document Addendum (Special Provisions) by September 20 of the pre-harvest year.

**Winter Wheat - (Insured as winter wheat), Kansas City Board of Trade (KCBOT)**

Arizona, Arkansas, Colorado, Iowa, Kansas, Missouri, Montana, Nebraska, New Mexico, Oklahoma, South Dakota, Texas, and Wyoming

**Base Price (KCBOT)** - The August 15 to September 14 pre-harvest year's average daily settlement price for the harvest year's KCBOT July hard red winter wheat futures contract (rounded to the nearest whole cent) multiplied times the selected Price Percentage and rounded to the nearest whole cent. The available Price Percentages and subsequent Base Price will be released as an Actuarial Document Addendum (Special Provisions) by September 20 of the pre-harvest year.

**Spring Wheat - (Insured as spring wheat in counties with a 3/15 cancellation date, Minneapolis Grain Exchange (MGE)**

Colorado, Iowa, Minnesota, Montana, North Dakota, South Dakota, Wisconsin, and Wyoming

**Base Price (MGE)** - The February harvest year's average daily settlement price for the harvest year's MGE September hard red spring wheat futures contract (rounded to the nearest whole cent) multiplied times the selected Price Percentage and rounded to the nearest whole cent. The available Price Percentages and subsequent Base Price will be released as an Actuarial Document Addendum (Special Provisions) by March 10 of the harvest year.

**Spring Wheat - (Insured as spring wheat in counties with a 9/30 cancellation date), (MGE)**

Colorado, Iowa, Montana, South Dakota, and Wyoming

**Base Price (MGE)** - The August 15 to September 14 pre-harvest year's average daily settlement price for the harvest year's KCBOT July hard red winter wheat futures contract (rounded to the nearest whole cent) multiplied times the selected Price Percentage and rounded to the nearest whole cent. The available Price Percentages and subsequent Base Price will be released as an Actuarial Document Addendum (Special Provisions) by September 20 of the pre-harvest year.

**Wheat - Portland Grain Exchange (PGE)**

California, Idaho, Oregon, Utah, and Washington

**Base Price (PGE)** - The Portland Price multiplied times the selected Price Percentage and rounded to the nearest whole cent. The Portland Price equals the August 15 to September 14 pre-harvest year's average daily settlement price for the harvest year's CBOT September soft red winter wheat futures contract (rounded to the nearest whole cent) **plus an adjustment equal to** the current five-year average difference between the August average daily settlement price for the nearby CBOT September soft red winter wheat futures contract (rounded to the nearest whole cent) and the August average daily settlement price for the PGE soft white wheat contract (rounded to the nearest whole cent). The available Price Percentages and subsequent Base Price will be released as an Actuarial Document Addendum (Special Provisions) by September 20 of the pre-harvest year.

**Durum Wheat - (Insured as durum wheat in counties with a 3/15 cancellation date) (MGE)**

North Dakota and Montana

**Base Price (MGE)** - The Northern Durum Price multiplied times the selected Price Percentage and rounded to the nearest whole cent. The Northern Durum Price equals the February harvest year's average daily settlement price for the harvest year's MGE September hard red spring wheat futures contract (rounded to the nearest whole cent) **plus an adjustment equal to** the current five-year average difference between the August average daily settlement price for top milling durum wheat as reported by the MGE (rounded to the nearest whole cent) and the August average daily settlement price for the nearby MGE September hard red spring wheat futures contract (rounded to the nearest whole cent). The available Price Percentages and subsequent Base Price will be released as an Actuarial Document Addendum (Special Provisions) by March 10 of the harvest year.

**Durum Wheat - (Insured durum wheat in counties with a 10/31 cancellation date)**

Arizona and California

**Base Price (MGE)** - The Southern Durum Price multiplied times the selected Price Percentage and rounded to the nearest whole cent. The Southern Durum Price equals the September 15 to October 14 pre-harvest year's average daily settlement price for the harvest year's CBOT September soft red winter wheat futures contract (rounded to the nearest whole cent) **plus an adjustment equal to** the current five-year average difference between the

August average daily settlement price for top milling durum wheat as reported by the MGE (rounded to the nearest whole cent) and the August average daily settlement price for the nearby CBOT September soft red winter wheat futures contract (rounded to the nearest whole cent). The available Price Percentages and subsequent Base Price will be released as an Actuarial Document Addendum (Special Provisions) by October 20 of the pre-harvest year.

**6. Q: What is CRC's Harvest Price and how is it defined?**

**A:** CRC defines the **Harvest Price** for each wheat crop and state using the following methodology: *(The Harvest Price IS NOT the price a producer receives for his crop at the local elevator.)*

**Winter Wheat - (Insured as winter wheat), (CBOT)**

Illinois, Indiana, Michigan, Ohio, and Wisconsin

**Harvest Price (CBOT)** - The July 15 to August 14 harvest year's average daily settlement price for the harvest year's CBOT September soft red winter wheat futures contract (rounded to the nearest whole cent) multiplied times the selected Price Percentage and rounded to the nearest whole cent. The Harvest Price cannot be less than the Base Price minus two dollars (\$2.00), or greater than the Base Price plus two dollars (\$2.00). The Price Percentage used to calculate the Harvest Price is equal to the selected Price Percentage used to calculate the Base Price. The Harvest Price will be released as an Actuarial Document Addendum (Special Provisions) by August 20 of the harvest year.

**Winter Wheat - (Insured as winter wheat), (CBOT)**

Alabama, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, and Virginia

**Harvest Price (CBOT)** - The June harvest year's average daily settlement price for the harvest year's CBOT July soft red winter wheat futures contract (rounded to the nearest whole cent) multiplied times the selected Price Percentage and rounded to the nearest whole cent. The Harvest Price cannot be less than the Base Price minus two dollars (\$2.00), or greater than the Base Price plus two dollars (\$2.00). The Price Percentage used to calculate the Harvest Price is equal to the selected Price Percentage used to calculate the Base Price. The Harvest Price will be released as an Actuarial Document Addendum (Special Provisions) by July 10 of the harvest year.

**Winter Wheat - (Insured as winter wheat), (KCBOT)**

Iowa, Montana, Nebraska, South Dakota, and Wyoming

**Harvest Price (KCBOT)** - The July 15 to August 14 harvest year's average daily settlement price for the harvest year's KCBOT September hard red winter wheat futures contract (rounded to the nearest whole cent) multiplied times the selected Price Percentage and rounded to the nearest whole cent. The Harvest Price cannot be less than the Base Price minus two dollars (\$2.00), or greater than the Base Price plus two dollars (\$2.00). The Price Percentage used to calculate the Harvest Price is equal to the selected Price Percentage used to calculate the Base Price. The Harvest Price will be released as an Actuarial Document Addendum (Special Provisions) by August 20 of the harvest year.

**Winter Wheat - (Insured as winter wheat), (KCBOT)**

Arizona, Arkansas, Colorado, Kansas, Missouri, New Mexico, Oklahoma, and Texas

**Harvest Price (KCBOT)** - The June harvest year's average daily settlement price for the harvest year's KCBOT July hard red winter wheat futures contract (rounded to the nearest whole cent) multiplied times the selected Price Percentage and rounded to the nearest whole cent. The Harvest Price cannot be less than the Base Price minus two dollars (\$2.00), or greater than the Base Price plus two dollars (\$2.00). The Price Percentage used to calculate

the Harvest Price is equal to the selected Price Percentage used to calculate the Base Price. The Harvest Price will be released as an Actuarial Document Addendum (Special Provisions) by July 10 of the harvest year.

**Spring Wheat - (Insured as spring wheat), (MGE)**

Colorado, Iowa, Minnesota, Montana, North Dakota, South Dakota, Wisconsin, and Wyoming

**Harvest Price (MGE)** - The August harvest year's average daily settlement price for the harvest year's MGE September hard red spring wheat futures contract (rounded to the nearest whole cent) multiplied times the selected Price Percentage and rounded to the nearest whole cent. The Harvest Price cannot be less than the Base Price minus two dollars (\$2.00), or greater than the Base Price plus two dollars (\$2.00). The Price Percentage used to calculate the Harvest Price is equal to the selected Price Percentage used to calculate the Base Price. The Harvest Price will be released as an Actuarial Document Addendum (Special Provisions) by September 10 of the harvest year.

**Wheat - (PGE)**

California, Idaho, Oregon, Utah, and Washington

**Harvest Price (PGE)** - The August harvest year's average daily settlement price for the PGE soft white wheat contract (rounded to the nearest whole cent) multiplied times the selected Price Percentage and rounded to the nearest whole cent. The Harvest Price cannot be less than the Base Price minus two dollars (\$2.00), or greater than the Base Price plus two dollars (\$2.00). The Price Percentage used to calculate the Harvest Price is equal to the selected Price Percentage used to calculate the Base Price. The Harvest Price will be released as an Actuarial Document Addendum (Special Provisions) by September 10 of the harvest year.

**Durum Wheat - (Insured as durum wheat), (MGE)**

Arizona, California, North Dakota, and Montana

**Harvest Price (MGE)** - The August harvest year's average daily settlement price for top milling durum wheat as reported by the MGE (rounded to the nearest whole cent) multiplied times the selected Price Percentage and rounded to the nearest whole cent. The Harvest Price cannot be less than the Base Price minus two dollars (\$2.00), or greater than the Base Price plus two dollars (\$2.00). The Price Percentage used to calculate the Harvest Price is equal to the selected Price Percentage used to calculate the Base Price. The Harvest Price will be released as an Actuarial Document Addendum (Special Provisions) by September 10 of the harvest year.

**7. Q: What is CRC's Final Guarantee?**

**A:** CRC defines the **Final Guarantee** as the number of dollars guaranteed per acre. The Final Guarantee is the greater of the Minimum or Harvest Guarantees, defined as follows:

- (1) **Minimum Guarantee** - The Approved Yield per acre, multiplied by the Base Price, multiplied by the selected coverage level percentage.
- (2) **Harvest Guarantee** - The Approved Yield per acre, multiplied by the Harvest Price, multiplied by the selected coverage level percentage.

**8. Q: Is the Minimum Guarantee a minimum amount of coverage that cannot decrease? (All prices used in the following examples are for illustration purposes only - they ARE NOT the actual prices that CRC might use.)**

**A:** Yes, the following wheat example explains CRC's basic principles.

Let us assume the example wheat policy's Base Price is **\$3.30/bu** and the selected coverage level percentage is **65%**.

A wheat grower with an Approved Yield of **45 bu/acre** has a Minimum Guarantee equal to **\$97/acre** ( $45 \text{ bu/acre} * \$3.30/\text{bu} * .65$ ). The Final Guarantee cannot be less than \$97/acre, but it can be greater if the Harvest Guarantee turns out to be greater than \$97/acre.

**9. Q: What happens if the Harvest Guarantee is greater than the Minimum Guarantee?**

**A:** The Final Guarantee is the greater of the Minimum or Harvest Guarantees.

For example, assume it is determined that our example wheat policy's Harvest Price is **\$3.50/bu**. CRC uses the Harvest Price to calculate a Harvest Guarantee equal to **\$102/acre** ( $45 \text{ bu/acre} * \$3.50/\text{bu} * .65$ ). The \$102/acre Harvest Guarantee is greater than the \$97/acre Minimum Guarantee. As a result, CRC establishes our example's Final Guarantee at **\$102/acre**.

**10. Q: What is CRC's Production to Count?**

**A:** **Production to Count** equals harvested and appraised production from the insured acreage as outlined in the CRC Wheat Crop Provisions. Production to Count may also include quality adjustments described in the CRC Wheat Crop Provisions.

**11. Q: How does CRC determine Calculated Revenue?**

**A:** CRC determines **Calculated Revenue** by multiplying the farmer's Production to Count for the unit times the Harvest Price. Remembering that Calculated Revenue uses the CRC Harvest Price and **not** the price a farmer might receive for the crop at the local elevator is very important. Calculated Revenue counts against the farmer's Final Guarantee in determining indemnity payments.

Let us assume the farmer in our example has a Production to Count equal to **20 bu/acre**. Under these circumstances, the farmer's Calculated Revenue is **\$70/acre** ( $20\text{bu/acre} * \$3.50/\text{bu}$ ).

**12. Q: How does CRC calculate an indemnity payment?**

**A:** If a CRC policy's Calculated Revenue is less than its Final Guarantee, then CRC pays an indemnity equal to the difference. For instance, our example's farmer receives an indemnity payment equal to **\$32/acre** ( $\$102/\text{acre} - \$70/\text{acre}$ ).

**13. Q: What unit structures are available with CRC coverage?**

**A:** Growers may select Basic, Optional, or Enterprise Units based upon their farming operation.

A **Basic Unit** includes all insurable acreage of the insured crop in the county in which the grower has a 100% share **OR** that is owned by one entity and farmed by the grower on a share basis. For example, a grower may farm owned land in addition to rented land owned by five different landlords. Three of the renting arrangements are on a crop share basis. The other two renting arrangements are on a cash basis. Under these conditions, our example grower would have four Basic Units. One unit includes all acreage that the grower owns and rents on a cash basis. In addition, each of the three crop share renting arrangements forms a separate Basic Unit that includes the applicable acreage. Each of these Basic Units has its own Final Guarantee per acre and the grower must keep separate production records for each Basic Unit as a result.

A Basic Unit may be separated into **Optional Units** if the resulting Optional Units are found in different sections, section equivalents, or FSA farm serial numbers. Also, a Basic Unit may be

separated into Optional Units by irrigated or non-irrigated practices. Any Optional Unit must have separate and verifiable production records because each Optional Unit has its own Final Guarantee per acre.

An **Enterprise Unit** consists of all insurable acreage of the insured crop in which the grower has a share in the county. The following restrictions apply to Enterprise Units:

1. The Enterprise Unit must contain 50 or more acres.
2. The acreage that comprises the Enterprise Unit must also qualify:
  - (a) For two or more Basic Units of the same insured crop that are located in two or more separate sections, section equivalents, or FSA farm serial numbers;
  - OR**
  - (b) For two or more Optional Units of the same insured crop established by separate sections, section equivalents, or FSA farm serial numbers.
3. The qualifying Basic Units or Optional Units that comprise the Enterprise Unit must each have insurable acreage of the same crop in the crop year insured.
4. The grower must comply with all reporting requirements and regulations for the Basic Units and/or Optional Units comprising the Enterprise Unit. More specifically, the grower may maintain and submit the same records as in the past. Those records must show that the grower qualifies for at least two Basic or Optional Units of the same insured crop as outlined above.
5. The grower must select the Enterprise Unit structure in writing by the sales closing date. Growers may do this in the "options" section of the CRC application or on a policy change form.
6. If a grower does not qualify for an Enterprise Unit when he reports the acreage, then we will assign him the Basic Unit structure.
7. If a grower selects and qualifies for an Enterprise Unit, then he will qualify for a premium discount based on the insured crop and number of acres in the Enterprise Unit. The 1999 Wheat CRC Enterprise Unit Discount Factors are as follows:

Acres	Enterprise Unit Discount Factor
50 - 499	0.93
500 - 999	0.87
1000+	0.83

***These factors must be used in conjunction with a BUD (Basic Unit Discount) option factor to calculate the correct enterprise unit premium.***

8. If a grower selects the Enterprise Unit structure, then the Basic or Optional Units comprising the Enterprise Unit will retain separate Final Guarantees. Each acre within the Enterprise Unit will have the same Final Guarantee as it would have had under the Basic or Optional Unit structure. However, CRC pays losses at the Enterprise Unit level. For example, an Optional Unit within the Enterprise Unit may have a Calculated Revenue that is less than its Final Guarantee. CRC would pay this loss under the Optional Unit structure. However, under the Enterprise Unit structure, Calculated Revenue surpluses from the other Optional or Basic Units within the Enterprise Unit may offset this loss. The following example illustrates this fact:

## Enterprise Unit 0100

Line	APH	Base Price	Harvest Price	Acres	Cov. Lev.	Final Guar.	Prod. To Count	Calc. Rev.	Share	Share Adj. Loss (+/-)
1	50 bu	\$3.98/bu	\$3.46/bu	240	.65	\$31,044	25 bu	\$20,760	1.00	+\$10,284
2	55 bu	\$3.98/bu	\$3.46/bu	180	.65	\$25,611	58 bu	\$36,122	1.00	-\$10,511
3	48 bu	\$3.98/bu	\$3.46/bu	200	.65	\$24,835	50 bu	\$34,600	0.50	-\$4,883

Enterprise Unit 0100 is composed of two Optional Units (Lines 1 and 2) and one Basic Unit (Line 3) in the above example. As shown, Line 1 (Optional Unit 0101) has a share adjusted loss that equals **\$10,284**. Also, Lines 2 and 3 (Optional Unit 0102 and Basic Unit 0200 respectively) have shares adjusted losses that equal **-\$10,511** and **-\$4,883** respectively. More precisely, Lines 2 and 3 have *negative losses* or surpluses. Under the Optional Unit structure, CRC would have paid Optional Unit 0101 \$10,284. The other two units would have received no payment.

The two Optional Units and one Basic Unit become lines 1, 2, and 3 respectively within Enterprise Unit 0100. As stated before, those Lines retain the Final Guarantees that would have applied under the Optional or Basic Unit structure. However, CRC combines the share adjusted losses under the Enterprise Unit structure. As a result, Enterprise Unit 0100 has a net share adjusted loss that equals **-\$5,110** (+\$10,284 + -\$10,511 + -\$4,883). A negative net share adjusted loss means that there would be no indemnity payment in this example. The farmer would receive no indemnity for Line 1's loss because of the offsetting surplus Calculated Revenues from Lines 2 and 3 applied under Enterprise Units.

**14. Q: When does CRC make indemnity payments?**

**A:** If an indemnity payment is due under a *Crop Revenue Coverage* policy, CRC will pay as follows:

If we do not know the Harvest Guarantee at the time a loss is determined, then CRC pays adjusted losses in two segments.

- (1) First, CRC pays an initial indemnity based upon the Minimum Guarantee.
- (2) Second, once we know the Harvest Guarantee and if it is greater than the Minimum Guarantee, CRC recalculates the indemnity payment and pays the additional indemnity due.

If we know the Harvest Guarantee at the time a loss is determined, then CRC will pay adjusted losses based upon the Final Guarantee. The Final Guarantee is the greater of the Minimum or Harvest Guarantees.

We can only complete losses after the Harvest Price and Production to Count have been determined according to the policy and loss adjustment procedures established or approved by FCIC.

Once FCIC publishes a Harvest Price, the company may set a crop yield point for each insured unit that will trigger a revenue loss payment. The company may publish the methodology that calculates the *Trigger Yield* with an explanation of the proper procedures to follow for claim payment.

**15. Q: How does CRC pay Late Planting, Prevented Planting, and Replanting losses?**

**A:** CRC's **Late Planting** provisions cover acres of the insured crop that the grower plants during the late planting period. The late planting period begins the day after the final planting date for the insured crop and ends 25 days after the final planting date. We will reduce the Final Guarantee for each acre planted during the late planting period by 1 percent per day for each day planted after the final planting date.

CRC's basic **Prevented Planting** coverage for prevented planting acreage equals 60 percent of the Final Guarantee for the acreage if the grower timely planted the crop. However, in return for an additional premium, the farmer may increase his prevented planting coverage to 65% or 70% of the Final Guarantee as specified in the actuarial documents.

CRC offers **Replanting** Coverage if the replanted acreage includes at least the lesser of 20 acres or 20 percent of the insured planted acreage for the entire unit. Also, the damage must show that the remaining stand will not produce at least 90 percent of the Minimum Guarantee for the affected acreage. The maximum replant payment per acre is the lesser of 20 percent of the Minimum Guarantee for the affected acreage, or 3 bushels multiplied by the Base Price, multiplied by the grower's insured share.

**16. Q: Who is eligible for CRC coverage?**

**A:** Any grower eligible for MPCl coverage is eligible for CRC coverage subject to the additional items below:

- (1) The crop must be eligible for CRC coverage.
- (2) The insured crop must be found in states that we have included in our FCIC-approved Standard Reinsurance Agreement (SRA) for the Crop *Revenue* Coverage program.

**17. Q: How is the CRC premium calculated and when is the premium due?**

**A:** CRC uses the following worksheets to calculate its Producer-Paid Premium:

CRC High Risk Classification Premium Calculation Worksheet - CRC uses this worksheet to calculate the producer-paid premium for CRC crop insurable acreage with a high risk classification rate that references the Supplemental Rate Differential (as displayed on the FCI-35 Coverage and Rate Table) to determine the MPCl Base Rate.

CRC FCI-35 R-Span Base Rate Premium Calculation Worksheet - This worksheet is used to calculate the producer-paid premium for all other CRC crop insurable acreage.

CRC bases premiums upon the Base Price and subsequent Minimum Guarantee. These premiums can only change if the company makes APH or acreage corrections.

Premiums for CRC are due when coverage begins. The company bills premiums for CRC on dates contained in the Actuarial Documents.

**18. Q: Does the grower need to submit a separate CRC application for each county?**

**A:** Yes. A grower must submit a separate CRC application for each county.

**19. Q: Is CRC a continuous policy?**

**A:** CRC is continuous and provides coverage for each succeeding crop year, unless canceled by a time specified in the CRC policy.

**20. Q: Is Option A and Option B available with the 1999 Wheat CRC policy?**

**A:** Option A and Option B are available in the applicable states with counties using both fall and spring final planting dates.

21. **Q: Does CRC use written agreements?**

**A:** Written agreements may apply to CRC for **rating purposes only**. CRC may use a written agreement authorized by FCIC that allows standard R-span rates for a specific crop grown on a specific high risk classification. Additionally, CRC may use a written agreement authorized by FCIC that includes a reduced rate for the crop acreage on a specific high risk classification. When the written agreement specifies a high risk classification rate using a rate differential, we use the High Risk Classification Formula Worksheet to calculate the producer paid premium. If the written agreement specifies a standard R-span rate or reduced rate map area adjustment factor, we use the FCI-35 R-Span Base Rate Formula Worksheet to calculate the producer paid premium. The applicable crop specified in the written agreement must be eligible for CRC coverage.