Revenue Assurance
Common Questions and Answers

1. Q: What is Revenue Assurance?

A: Revenue Assurance (RA) provides coverage to protect against loss of revenue caused by low prices or low yields or a combination of both.

2. Q: Where did Revenue Assurance originate?

A: RA was first proposed by the Iowa Farm Bill Study Team in 1995 as an alternative to the Federal farm programs that were then in place. The idea was further developed by the Iowa Farm Bureau Federation and Farm Bureau Mutual Insurance Company at the request of the Iowa Farm Bureau membership. RA is now owned and administered by American Farm Bureau Insurance Services, Inc.

3. Q: What is the objective of Revenue Assurance?

A: The objective of RA is to provide a flexible and efficient risk management tool to crop producers. RA protects against low *revenue* - the risk most important to producers. RA recognizes that revenue risk is less than the sum of price and yield risk considered separately. Thus, RA premiums will be less than the combined cost of yield and price insurance. RA recognizes that producers who operate in different locations in a county face lower total yield risk than a farmer who farms in only one location. Thus, RA premiums are adjusted as the number of legally defined sections insured under a single policy increases. RA recognizes that farmers who plant multiple crops face lower revenue risk than a farmer who grows a single crop. Thus, RA premiums are adjusted if farmers insure two or more crops as one unit. RA recognizes that some farmers forward contract their crop and others do not. Therefore, RA has an option that increases revenue protection if fall harvest prices are higher than the projected harvest prices. These options allow each individual farmer to design an RA policy that meets their particular needs and risk management objectives.

4. Q: How are RA revenue guarantees established?

A: RA revenue guarantees are based on a farmer's expected per-acre revenue, which depends on approved yields (established using standard APH rules), and projected harvest prices. Coverage levels from 65 percent through 75 percent are available for basic and optional units. With whole farm and enterprise units the maximum coverage level increases to 85 percent. The procedures used to calculate available revenue guarantees vary by the selected unit structure.

5. Q: What crops are covered under RA?

A: Farmers in South Dakota and Minnesota can insure corn, soybeans and spring wheat. Farmers in Iowa, Indiana and Illinois can insure corn and soybeans. Farmers in North Dakota can insure corn, soybeans, spring wheat, feed barley, canola and sunflowers. Farmers in Idaho can insure canola, spring wheat and feed barley.

6. **Q: What is the projected harvest price?**

A: The projected harvest price is the price used to determine the expected per-acre revenue and the per-acre revenue guarantee at the time of sale.

- For corn, the projected harvest price is the simple average of the final daily settlement prices in February for the Chicago Board of Trade (CBOT) December corn futures contract.
- For soybeans, the projected harvest price is the simple average of the final daily settlement prices in February for the CBOT November soybean futures contract.
- For spring wheat, the projected harvest price is the simple average of the final daily settlement prices in February for the Minneapolis Grain Exchange (MGE) September hard red spring wheat futures contract. Note that durum wheat can be insured as hard red spring wheat.
- For sunflowers, the projected harvest price is the simple average of the final daily settlement prices in February for the CBOT October soybean oil futures contract divided by two, then subtract one.
- For feed barley, the projected harvest price is the simple average of the final daily settlement prices in February for the Winnipeg Commodity Exchange (WCE) October feed barley futures contract multiplied by 0.02177. This factor converts the WCE price from Canadian dollars per metric ton to Canadian dollars per bushel. To convert into U.S. dollars, multiply the price in Canadian dollars per bushel by the simple average of the final daily settlement prices in February on the September Canadian dollar futures contract on the Chicago Mercantile Exchange (MERC), using the current U.S./Canadian exchange rate.
- For canola, the projected harvest price is the simple average of the final daily settlement prices in February for the WCE November canola futures contract divided by 2,205. This factor converts the WCE price from Canadian dollars per metric ton to Canadian dollars per pound. To convert into U.S. dollars, multiply the price in Canadian dollars per pound by the simple average of the final daily settlement prices in February on the September Canadian dollar futures contract on the MERC, using the current U.S./Canadian exchange rate.

7. **Q: What unit structures are available for RA?**

A: The unit structures available under RA are basic, optional, enterprise, and whole-farm. The definitions of basic and optional units are identical to those used with the standard APH program. An enterprise unit includes all insurable acres of a single RA crop in a county. A whole-farm unit includes all insurable acres of all RA crops in a county. However, a producer who plants winter and spring wheat in a winter and spring wheat county (dual county) and insures the winter wheat under MPCI will not qualify for a whole farm unit under RA.

8. **Q: How is a farmer's expected per-acre revenue determined?**

A: For basic and optional units, the expected per-acre revenue equals the approved APH yield times the projected harvest price. Expected per-acre revenue for an enterprise unit is the weighted average of expected per-acre revenues for each of the optional or basic units in a county. The weighted average depends on the number of acres on each basic or optional unit, adjusted for share. Expected per-acre revenue for a whole-farm unit is the weighted average of expected per-acre revenues for each optional or basic unit for all insured crops in the county. The weighted average depends on the number of acres on each basic or optional unit, adjusted for share. A worked example will show how these weighted averages are calculated. The data for the worked example are shown in the table below.

In the example, projected harvest prices are $2.50/bu for corn and $6.50/bu for soybeans and $3.70 for wheat. There are two corn basic units and one soybean basic unit, and one wheat basic unit, each with 100 acres. The APH yields, acres, shares and expected per-acre revenues for each unit are shown in the table below. For each basic unit, the expected per-acre revenue equals the projected harvest price times the approved APH yield.

				Expected Per-Acre Revenue		
	Acres	APH Yield	Share	Basic Unit *	Enterprise Unit **	Whole Farm Unit **
Corn unit 1	100	150	0.50	$375	$291.67	$226.17
Corn unit 2	100	100	1.00	$250	$291.67	$226.17
Soybean unit	100	40	0.50	$260	$260.00	$226.17
Wheat unit	100	30	1.00	$111	$111.00	$226.17

* Without share.
** With share.

The expected per-acre revenue guarantee for the corn enterprise unit equals $291.67/acre (291.67 = (375*100*0.5 + 250*100*1.0)/(100*0.5 + 100*1.0)). The expected per-acre revenue guarantee for the soybean enterprise unit equals $260/acre, because there is only one soybean unit. The expected per-acre revenue guarantee for the wheat enterprise unit is only $111/acre. The expected per-acre revenue guarantee for the whole-farm unit equals $226.17/acre (226.17 = (375*100*0.5 + 250*100*1.0 + 260*100*0.5 + 111*100*1.00)/(100*0.5 + 100*1.0 + 100*0.5 + 100*1.0)).

9. Q: How is the per-acre revenue guarantee calculated?

A: The farmer's per-acre revenue guarantee on a basic or optional unit is determined by multiplying the selected coverage level by the approved APH yield by the projected harvest price. If the fall harvest price option is selected, the per-acre revenue guarantee equals the coverage level percent, times the approved yield, times the greater of the projected harvest price or the fall harvest price. The selected coverage level for basic and optional units must be from 65% through 75%. For enterprise and whole-farm units, a coverage level from 65% through 85% is selected by the farmer.

10. Q: How is the unit revenue guarantee calculated?

A: The unit revenue guarantee for a basic or optional unit equals the per-acre revenue guarantee, multiplied by acres on the unit, multiplied by share. The unit revenue guarantee on an enterprise unit or a whole-farm unit equals the per-acre revenue guarantee times the total number of acres adjusted for share. Using the example presented above in Question 7 with a coverage level of 75%, the unit revenue guarantees for the four basic units are $14,063, $18,750, $9,750, and $8,325 (expected per-acre revenue times coverage percent, times acres, and times share). The corn enterprise unit revenue guarantee equals $32,813 (32,813 = 291.67 * .75 * (100*0.5 + 100*1.0)). The soybean enterprise unit revenue guarantee equals $9,750.00. The wheat enterprise unit revenue guarantee equals $8,325. The whole-farm unit revenue guarantee equals $50,888.25 (50,888.25 = (226.17 * .75 * (100*0.5 +100*1.0 +100*0.5 + 100*1.0)).

11. Q: When is the final unit revenue guarantee computed for the insured?

A: Because expected per-acre revenue for enterprise and whole farm units depend on insured acres rather than estimated acres, the final unit revenue guarantee can only be computed after the insured's acreage report is completed. The preliminary unit revenue guarantee and premium, based on estimated acreage at the sales closing date, can vary from the final unit revenue guarantee and premium based on the completed acreage report data.

12. **Q: How are RA indemnities triggered?**

A: RA indemnities will be paid if all of the production to count times the fall harvest price is less than the per-acre revenue guarantee times the number of acres.

13. **Q: How are harvest revenues measured?**

A: Harvest revenue equals all of the production to count (calculated using the same procedures as the APH program) times the fall harvest price.

- For corn, the fall harvest price is the simple average of the final daily settlement prices in November for the Chicago Board of Trade (CBOT) December corn futures contract.
- For soybeans, the fall harvest price is the simple average of the final daily settlement prices in October for the CBOT November soybean futures contract.
- For spring wheat, the fall harvest price is the simple average of the final daily settlement prices in August for the Minneapolis Grain Exchange (MGE) September hard red spring wheat futures contract.
- For sunflowers, the fall harvest price is the simple average of the final daily settlement prices in September for the CBOT October soybean oil futures contract divided by two, then subtract one.
- For feed barley, the fall harvest price is the simple average of the final daily settlement prices in August for the Winnipeg Commodity Exchange (WCE) October feed barley futures contract multiplied by 0.02177. This factor converts the WCE price from Canadian dollars per metric ton to Canadian dollars per bushel. To convert into U.S. dollars multiply the price in Canadian dollars per bushel by the simple average of the final daily settlement prices in August on the September Canadian dollar futures contract on the Chicago Mercantile Exchange (MERC), using the current U.S./Canadian exchange rate.
- For canola, the fall harvest price is the simple average of the final daily settlement prices in September for the WCE November canola futures contract divided by 2,205. This factor converts the WCE price from Canadian dollars per metric ton to Canadian dollars per pound. To convert into U.S. dollars multiply the price in Canadian dollars per pound by the simple average of the final daily settlement prices in September on the September Canadian dollar futures contract on the MERC, using the current U.S./Canadian exchange rate.

14. **Q: Will my revenue guarantee increase if the fall harvest price is greater than the projected harvest price?**

A: Yes, if you purchase the RA fall harvest price option, your revenue guarantee will be based on the fall harvest price if the fall harvest price is higher than the projected harvest price. Producers must choose the fall harvest price option by the sales closing date. The option is continuous unless canceled by the crop sales closing date.

15. **Q: When is the coverage level percentage selected?**

A: The coverage level percentage must be selected by the sales closing date.

16. **Q: What are the benefits of the fall harvest price option?**

A: The RA **fall harvest price option** is designed to provide additional assurance to those producers who market their crop before harvest. These producers take on the additional risk that harvested bushels will not be sufficient to meet their contractual obligation. Such a production shortfall can have severe consequences if fall harvest prices are greater than projected harvest prices, because the producer will be forced to purchase bushels to meet his obligations at the higher price. The RA harvest price option provides additional coverage when the harvest price is greater than the projected harvest price, allowing this type of producer to fulfill his contractual obligations from RA indemnities. The fall harvest price option allows you to use the greater of the fall harvest price or the projected harvest price to determine your revenue guarantee. For basic, optional and enterprise units, this option applies to all insurable acres of a crop in the county. For the whole-farm unit, this option will apply to all insurable acres of the applicable crops in the county.

17. Q: Can I elect optional units under an RA contract?

A: Yes, if you have APH data for each optional unit and the optional units are located in legally identifiable sections. A 10% surcharge on the unsubsidized premium for each optional unit will be assessed.

18. Q: Does the RA per-acre revenue guarantee or coverage level vary by unit structure or crop?

A: The per-acre revenue guarantee is a stated amount of revenue and may vary by unit structure.

1. For basic and optional units the crop per-acre revenue guarantee may vary; however, the coverage level percent will be the same for each crop unit.

2. For an enterprise unit, the per-acre revenue guarantee and coverage level will be the same for all crop acres as identified in the enterprise unit.

3. For the whole farm unit the per-acre revenue guarantee will be the same for all insured acres as identified in the whole-farm unit.

19. Q: How does the volatility of price affect the premium?

A: A variable required to calculate RA premiums is the implicit volatility of prices. It measures the risk of price changes. A preliminary estimate of this value is used in the premium quotation software. Therefore, the final premium may vary from the quote based on the final estimate of the volatility value.

20. Q: Will I receive a premium adjustment if I enroll all my RA crop acreage in a county under enterprise units?

A: Yes. The size of the adjustment increases with the number of different sections in which your RA crop acreage is located, up to a maximum of 10 or more sections. (In geographic locations where Spanish, French or military surveys exist, sections are defined as total insured acres divided by 640 acres). The determination of the number of sections will be based on your acreage report.

21. Q: Will I receive a premium adjustment if I enroll all my RA crop acreage in a county under a whole-farm unit?

A: Yes. There will be a premium discount for a whole-farm unit. The adjustment you receive is in addition to the enterprise unit discount. The additional discount for the whole-farm unit depends upon 1) the ratio of insured acres of the crops listed on the acreage report for the unit, 2) coverage level, 3) APH yields, and 4) projected harvest prices. **Note:** You must enroll all insurable acres of all RA crops to obtain this whole-farm adjustment. If you do not have insurable acres of one of these crops in the county then you can obtain the whole-farm adjustment on the remaining insurable crops (if there is at least two crops.). However, a producer who plants winter and spring wheat in a winter and spring wheat county (dual county) and insures the winter wheat under MPCI will not qualify for a whole farm unit under RA.

22. Q: Are RA premiums eligible for a government premium subsidy?

A: Yes. The producer premium subsidy cannot exceed that available had you purchased a comparable MPCI policy.

23. Q: When is the premium due?

A: Premium for RA is due on the same date as an MPCI policy. The premium billing dates will be contained in the crop special provisions.

24. Q: How do the reporting requirements for RA differ from MPCI?

A: RA uses the same acreage reporting requirements as the APH program. You must report your APH information by the earlier of acreage reporting or forty-five (45) days after the cancellation date (March 15). The acreage reporting date is established in the actuarial documents for each county for the current crop year.

25. Q: How is the enterprise and the whole farm unit APH yield established?

A:

1. The enterprise unit yield will be established from the APH basic and/or optional unit(s) using a weighted average of the yield(s) for those units having planted acres for the crop year.

2. The whole farm unit yield will be established for each crop using the procedure outlined above for the enterprise unit.

26. Q: Are written agreements allowed under RA?

A: Yes, for land risks only, not practice and types of crops.

27. Q: Will RA be offered for high risk land?

A: Yes, high risk land can be insured under the RA policy. It is insurable using the high risk map area factors shown in the actuarial documents. If you choose a high risk land exclusion option endorsement, you may insure the high risk land under an MPCI policy with the Catastrophic Risk Protection Endorsement (CAT). If you choose both an RA and a CAT policy for a crop, the acres insured under each policy will be considered as a separate crop policy. The administrative fee for each policy is applicable. The application for this endorsement must be completed by the sales closing date and submitted to the company not later than twenty (20) days after the sales closing date.

28. Q: Is corn silage an insurable crop under RA?

A: RA policy provisions provide coverage for grain varieties of insured corn acres. Any acreage that is planted to a silage variety is not insurable under the RA policy. If you later decide to harvest a grain variety as silage, you must notify your crop insurance provider of your decision before harvest begins.

29. Q: How is production to count determined?

A: Production to count is the measurement (crop unit measurement such as bushels for corn) of the crop harvested and/or unharvested appraised production from the acreage in the unit.

30. Q: When does RA make indemnity payments for a loss of revenue?

A: If a revenue payment is due under RA, it is paid after the production to count has been determined and the fall harvest prices have been released. The production information would need to be provided immediately after harvest to calculate the actual crop unit revenue, if a loss was anticipated.

31. Q: Does RA require the insured to have different responsibilities than other products in the event of a loss?

A: Farmers' responsibilities are the same as under standard MPCI coverage with one exception. If the insured's production to count multiplied by the crop fall harvest price is less than the unit revenue guarantee, the insured must give the company notice of an expected loss of revenue not later than 45 days after the date the crop fall harvest price is released.

32. Q: What price is used to calculate the replanting payment?

A: If replanting is authorized and the policy provisions have been met, the crop projected harvest price will be used in calculating the replant payment.

33. Q: How does RA handle prevented planting?

A: The rules governing prevented planting are based on MPCI rules with one exception. Prevented planting payments under MPCI are based on a guaranteed yield level whereas RA payments are based on a per acre revenue guarantee. The applicable RA price used to compute the per-acre revenue guarantee is used to determine the prevented planting payment. MPCI, RA, CRC, and IP provide a 60% prevented planting guarantee with an option to purchase 65% or 70%.

34. Q: How does prevented planting coverage work under RA if a farmer selects a whole-farm unit?

A: An example will best illustrate how prevented planting coverage works under a whole-farm unit. Suppose a farmer has two 500-acre basic units. One of the units is to be planted to corn and one to soybeans and the farmer purchases a whole-farm unit for the 1000 acres. Now suppose a farmer is prevented from planting his corn by the final plant date. The farmer may proceed in several ways depending upon weather conditions, availability of seed, etc.

Option 1 -- He may plant his corn after the final planting date and take a reduction in his per-acre revenue guarantee of 1% per day, up to but not exceeding 25 days, for a 25% reduction to his per-acre revenue guarantee. A prevented planting payment would not be allowed.

Option 2 -- He may plant soybeans on the intended corn acres but there would be no prevented planting payment. If soybeans are planted in all of the 1000 crop acres the insured would not receive the whole-farm unit discount but may qualify for an enterprise unit discount if the acres are located in additional sections (in geographic locations where Spanish, French, or military surveys exist, sections are defined as total insured acres divided by 640 acres).

Option 3 -- He may choose not to plant any corn.

a. If he chooses the prevented planting payment that is included in the policy he would receive 60% of his per-acre revenue guarantee as a prevented planting payment on the 500 acres that was prevented from being planted to corn.

b. If he chose a buy-up prevented planting payment option of 65% or 70% of his per-acre revenue guarantee, he would receive a prevented planting payment based on the selected buy-up.

c. To receive any prevented planting payment, the ground must remain black or planted to an approved cover crop.

d. To qualify for a prevented planting payment you must meet the qualifications as outlined in the RA policy provisions. Once the qualifications have been met, payment will be made regardless of what any planted acreage produces. The crop projected harvest price (see question 6) will be used in calculating the prevented planting payment.

35. Q: Is an RA application required for each county?

A: An application must be submitted for each county or all counties may be insured on one application if so designated.

36. Q: Does RA require an acreage report?

A: An acreage report similar to that required for MPCI is required for the premium and per-acre revenue guarantee to be determined.

37. Q: Is RA a continuous policy?

A: The RA policy is a continuous policy and provides coverage for succeeding years unless canceled by the insured or us at a time specified in the crop provisions.

38. Q: What is the latest sales closing date for which an insured may make an application for RA?

A: The latest date to submit an RA application is the sales closing date (March 15th of the current crop year).

39. Q: Is Durum wheat insured under RA?

A: Yes, as hard red spring wheat. The price per bushel guarantee for durum is the same as the price per bushel guarantee for hard red spring wheat.