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The Common Crop (COMBO) Policy

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Introduction

Beginning with the 2011 crop year, the United States Department of Agriculture's (USDA) Risk Management Agency (RMA) introduced an initiative to combine and simplify crop insurance. RMA released the Common Crop Insurance Policy Basic Provisions and related Crop Provisions as the insurance policy basis for crop insurance coverage. The new policy is widely described as the COMBO Policy because it explicitly combines APH revenue and APH yield insurance in one general policy and creates a single APH revenue program for each of the commodities that are eligible for APH-based revenue coverage.

The COMBO Policy combines the Actual Production History (APH), Crop Revenue Coverage (CRC), Revenue Assurance (RA), Income Protection (IP), and Indexed Income Protection (IIP) polices into one policy structure.

Price discovery is required for APH revenue protection and in several cases is based on futures market contracts for the subject commodity (as with corn, wheat and canola). For a commodity such as barley which does not have a futures contract, price discovery is based on the futures market contracts for a commodity whose price is sufficiently closely linked to the price of the crop of interest; for example, corn futures contracts form the basis for price discovery for feed barley in the barley APH revenue contract.

Crops covered by APH Plans and Dollar Plans that do not have revenue protection are not included in the COMBO Policy.

Any person at risk of in crop production may purchase crop insurance to protect themselves against loss. Landlords with crop share leases may purchase insurance for their share of a crop, as can the tenants. An owner-operator with a 100 percent share in a crop can purchase insurance for an entire crop. For simplicity, in this policy paper an owner-operator, referred to as the farmer, is assumed to be purchasing insurance for his crop.

The Structure of the Common Crop (COMBO) Policy

The Common Crop or COMBO Policy has one set of basic provisions that supports the following plans of insurance for crops for which a commodity futures market exchange price discovery mechanism is used:

1. **Yield Protection Plan**: This is an APH policy in which the farmer selects a yield coverage level for a crop which establishes a ***payment yield*** (the ***coverage level*** multiplied by the farmer's APH yield) and receives an indemnity when the current year's yield for the crop falls below the ***payment yield***. The price used to value the yield shortfall for indemnity purposes is the same price (based on price discovery through futures contracts in the relevant commodity exchange) used in the revenue protection plans to establish the expected revenue per acre at the time insurance under those plans is obtained (that is, when the farmer signs up for coverage). The Yield Protection Plan provides protection against yield shortfalls.

2. **Revenue Protection with the Harvest Price Exclusion:** This is the basic revenue insurance plan in the COMBO Policy in which insurance coverage is not increased if the harvest time based futures contract price for the crop rises between the time the insurance coverage is purchased and harvest time (as defined in the policy). Producers have to opt out of having their insurance increased when the ***harvest time price*** exceeds the ***projected harvest price***.

3. **Revenue Protection Plan:** This is the basic revenue insurance plan in the COMBO Policy in which, if commodity exchange prices (associated with the relevant futures contract) increase over the period between when the policy is purchased and harvest time (as defined

in the policy), the amount of insurance coverage is also increased. Therefore, the Revenue Protection Plan includes the Harvest Price Endorsement. Under the Revenue Protection plan, the farmer receives protection against either yield losses or price declines, or combinations of yield and price changes that cause per acre revenues to decline sufficiently to trigger indemnity payments.

Nationally, the Common Crop or COMBO Policy is available for the following crops: **barley, canola/rapeseed, corn, cotton, grain sorghum, malting barley, rice, soybeans, sunflowers, and wheat.**

The links between APH revenue and yield policies offered before 2011 and the revenue and yield protection plans now available under the COMBO Policy are shown (Table 1).

Separate APH and Dollar plans are available for crops for which revenue protection plans are not available.

Price Discovery and Price Determination in the COMBO Policy

The COMBO Policy revenue and yield protection plans all use Commodity Exchange Price Provisions. For each covered commodity, in each plan, a regional commodity exchange futures contract is used to determine the ***projected harvest price*** for each crop at the time the policy purchased by the farmer comes into effect (typically prior to planting time for each crop). The result is that all yield and revenue insurance coverage offered through a COMBO Policy for a specific crop will use the same ***projected harvest price***. Therefore, the yield and revenue protection plans are consistent with respect to the amount of insurance protection (or liability) at the time the policy is purchased by a farmer.

For each crop, the ***projected harvest price*** is used to establish the ***insurance guarantee*** and the premium for the crop insurance protection purchased by the farmer. The ***harvest price*** is used is used to value the ***production-to-count*** under the revenue

Table 1: Links Between Revenue/Yield APH Programs Prior to 2011 and the COMBO Policy

Historical (pre 2011) Policies			**COMBO Policy Plans**
a	APH Yield (with CAT coverage endorsement)	→	Yield Protection (with CAT coverage available)
b	Revenue Protection with no Harvest Price Endorsement	→	Revenue Protection with Harvest Price Exclusion (replaces b, c, d, and e)
c	Income Protection		
d	Indexed Income Protection		
e	Catastrophic Income Risk Protection		
f	Crop Revenue Coverage	→	Revenue Protection (with Harvest Price Endorsement) replaces f and g
g	Revenue Assurance with Fall Harvest Price Option		

protection plans. This pricing approach is new for policies that have been converted from an APH plan to a Yield Protection Plan (for example, an APH plan for spring wheat in Wyoming that has been converted to a Yield Protection plan for spring wheat). Previously, under the APH plan, ***established prices*** and ***additional prices*** used to establish the insurance guarantees, calculate premiums, and value losses were established by RMA on the basis of several different sources of information and often differed from the projected price used in the APH-based revenue plan for the same commodity.

APH insurance plans for crops not covered by the COMBO Policy continue to use ***established prices*** and ***additional prices*** developed ***by RMA*** to value losses in conjunction with ***price elections*** chosen by farmers that range from 30 percent to 100 percent of the ***established price*** or ***additional price***. For instance, forage production for alfalfa harvested mechanically in Wyoming has an ***established price*** or ***additional price*** because alfalfa hay is not covered by the COMBO Policy. Dollar Plans continue to have dollar amounts of insurance on a per acre basis established by RMA that are reported in the actuarial documents for the crop year to which the insurance coverage applies. For example, a Dollar Plan is available for insuring alfalfa stand establishment in Wyoming.

In Wyoming, three major crops covered by COMBO Policy Plans are wheat, corn and barley. Wheat can be insured as winter wheat or spring wheat. For the 2013 crop year, projected harvest prices and harvest time prices will be determined as follows for each of these crops.

Winter wheat:

The September futures contract for hard red winter (HRW) wheat for the year the farmer will harvest his winter wheat crop that is offered on the Kansas City Board of Trade (KCBT) commodity exchange is used for price discovery and to determine the ***harvest time price*** for winter wheat.

For COMBO Policy plans to insure winter wheat planted in ***the fall of 2012*** that is to be harvested in ***2013***, the contract used for price discovery and harvest price determination is the futures contract for ***September 2013*** delivery of HRW wheat.

The ***projected harvest price*** for winter wheat to be harvest in Wyoming in 2013 is the ***average daily settlement price*** for the contract over the period August 15, 2012 – September 14, 2012 (rounded to the nearest cent). This is the thirty day period two weeks prior to the final sign up date of September 30 for coverage of winter wheat under COMBO Policy plans.

The ***harvest time price*** for winter wheat in Wyoming is the ***average daily settlement price*** for the KCBT winter wheat contract over the period August 1, 2013 – August 31, 2013 (rounded to the nearest cent).

Spring Wheat:

The September futures contract for hard red spring (HRS) wheat for the year the farmer will plant and harvest his spring wheat crop that is offered on the Minneapolis Grain Exchange (MGE) is used for price discovery and to determine the ***harvest time price*** for winter wheat.

For COMBO Policy plans to insure spring wheat planted in ***the spring of 2013*** that is also to be harvested in ***2013***, the contract used for price discovery and harvest price determination is the MGE futures contract for ***September 2013*** delivery of HRS wheat.

The ***projected harvest price*** for spring wheat to be planted and harvested in Wyoming in 2013 is the ***average daily settlement price*** for the contract over the period February 1, 2013 – February 28, 2013 (rounded to the nearest cent). This is a one month period that ends two weeks prior to the final sign up date of March 15 for coverage of spring wheat in Wyoming under COMBO Policy plans.

The ***harvest time price*** for spring wheat in Wyoming is the ***average daily settlement price*** for the MGE September 2013 HRS wheat contract over the period August 1, 2013 – August 31, 2013 (rounded to the nearest cent).

Corn:

The December futures contract for corn for the year the farmer will plant and harvest his corn crop that is offered on the Chicago Board of Trade (CBOT) commodity exchange is used for price discovery and to determine the ***harvest time price*** for corn.

For COMBO Policy plans to insure ***corn planted and harvested in 2013***, the contract used for price discovery and harvest price determination is the CBOT corn futures contract for December 2013 delivery of corn.

The **projected harvest price** for corn to be planted and harvested in Wyoming in 2013 is the ***average daily settlement price*** for the contract over the period February 1, 2013 – February 28, 2013 (rounded to the nearest cent). This is the one full month period two weeks prior to the final sign up date of March 15 for coverage of corn in Wyoming under the COMBO Policy Plans.

The ***harvest time price*** for corn in Wyoming is the ***average daily settlement price*** for the CBOT December 2013 corn contract over the period October 1, 2013 – October 31, 2013 (rounded to the nearest cent).

Barley:

There is no commodity exchange futures market contract for barley in the United States. However, barley prices are closely linked to corn prices. RMA computes the barley ***projected harvest price*** and ***harvest time price*** using prices from CBOT corn futures contracts. For Wyoming, the contract used to calculate these prices is the CBOT September corn futures contract for the year in which the barley crop is planted and harvested.

The ***projected harvest price*** for barley to be planted and harvested in Wyoming in 2013 is based on the ***average daily settlement price*** for the CBOT September corn contract over the period February 1, 2013 – February 28, 2013 (rounded to the nearest cent). This is the one full month period two weeks prior to the final sign up date of March 15 for coverage of corn in Wyoming under the COMBO Policy plans. This average corn contract price is then adjusted by an ***adjustment factor determined by RMA*** to establish the ***projected price*** for barley. This adjustment factor is also used in computing the ***barley harvest time price***.

An annual adjustment factor is computed by RMA using the ratio of the annual marketing year average price for feed barley, as reported by the USDA's National Agricultural Statistical Service, to the ***average daily settlement price*** in August for the CBOT September corn futures contract. This ratio is computed for each of the 10 most recent previous years, and the RMA annual adjustment factor for barley is the average of that ratio over those 10 years.

For example, the RMA ***projected harvest price*** for corn in 2012 was $5.68 per bushel, the 2012 adjustment factor for barley was 0.9454 (because barley prices have been just over 5 percent lower than corn prices over the past 10 years), and the RMA ***projected harvest price*** for barley in 2012 was $5.37 per bushel ($5.68 per bushel x 0.9454).

The ***harvest time price*** for barley in Wyoming in 2013 is based on the ***average daily settlement price*** for the CBOT December 2013 corn contract over the period August 1, 2013 – August 31, 2013 (rounded to the nearest cent. This average corn contract price is then adjusted by the ***same adjustment factor determined annually by RMA*** (to be determined for 2013) to establish the ***projected harvest price*** for barley.

How Common Crop (COMBO) Policy Plans Work

The three COMBO Policy plans – yield protection, revenue protection with the harvest price exclusion and revenue protection are illustrated using a spring wheat example. The example farm is assumed to have an APH yield for spring wheat on dryland of 40 bushels per acre and to plant 1,000 acres to the crop.

Yield Protection

The Yield Protection Plan uses the RMA ***projected harvest price*** for spring wheat to determine insurance coverage, as described above. The farmer has to make two important insurance coverage decisions. One is to select the ***coverage level***, defined as the proportion of the APH yield that will be covered for losses, which ranges from 55 percent to 75 percent (in 5 percent increments) for dryland wheat in Wyoming counties but, depending on the crop and the farming practices used, may range from 55 percent to 85 percent. The second is to choose the proportion of the projected price at which losses will be valued. This ***price election*** ranges from 59 percent to 100 percent. These choices determine the farm's ***insurance guarantee*** (the farm's insurance liability) on a per acre basis.

Suppose the farm selects a 70 percent ***coverage level*** and a 100 percent ***price election*** and that the RMA ***projected harvest price*** is $7.15 per bushel.

The farm's ***payment yield*** is then 28 bushels (40 bushel APH yield x 70 percent coverage level) and the farmer will only receive an indemnity if the farm's per acre yield is lower than its ***payment yield*** of 28 bushels per acre.

The ***insurance guarantee*** per acre will be $200.20 [= ($7.15 per bushel x 100 percent) x (40 bushels per acre x 0.70)].

The insured only receives an indemnity when the yield falls below 28 bushels per acre, (40 bushels per acre APH x 0.70 coverage level) and the price at which any losses are valued is locked in at the ***projected harvest price*** of $7.15 per bushel.

If the farm realizes an actual yield of 24 bushels per acre, the farmer will receive an indemnity. The amount of the indemnity on a per acre basis will be the difference between the per acre ***payment yield*** and the actual yield (28 bushels – 24 bushels) multiplied by the elected price, in this example, $7.15 per bushels.

To compute the farmer's total indemnity, we calculate the difference between the farm's ***insurance guarantee*** on each planted acre and its ***revenue-to-count*** on each acre and multiply the difference by the farm's planted acres: that is,

The ***revenue-to-count*** per acre = $7.15 per bushel x 24 bushels per acre = $171.60

The total indemnity = 1,000 acres x [$200.20 per acre - $171.60 per acre] = $28,600.

Revenue Protection with Harvest Price Exclusion

The ***Revenue Protection Plan with Harvest Price Exclusion*** uses the RMA ***projected harvest price*** to determine insurance coverage in exactly the same way as the ***Yield Protection Plan***.

The farmer again selects a 70 percent ***coverage level*** and values production for insurance purposes at the RMA ***projected harvest price*** of $7.15 per bushel. The ***insurance guarantee*** is again $200.20 [= $7.15 per bushel x (40 bushels per acre x 0.70)].

However, under a Revenue Protection Plan with Harvest Price Exclusion, the insured farmer will receive an indemnity when the farm's actual production yield multiplied by the RMA harvest time price, called the farm's ***revenue-to-count,*** is less than the ***insurance guarantee***. The cause of the shortfall could be relatively low yields, a RMA ***harvest time price*** that is lower than the RMA ***projected harvest price***, or any other combination of

price changes and realized yields that results in per acre ***revenues-to-count*** that are lower than the farm's ***insurance guarantees***.

For example, suppose the farm's realized yield is 28 bushels per acre (70 percent of the farm's APH yield) but that the ***harvest time price*** is $6 per bushel (substantially lower than the RMA ***projected harvest price*** of $7.15). The farm's per acre ***revenue-to-count*** is then $168 (28 bushels per acre x $6 per bushel). The farm will therefore receive a per acre indemnity of $32.20, equal to the difference between the farm's ***insurance guarantee*** of $200.20 and the farm's per acre revenue-to-count of $168. Given the farm planted 1,000 acres of dryland spring wheat, the farmer will receive an indemnity payment of $32,200 = 1,000 acres x [$200.20 per acre - $168.00 per acre].

Revenue Protection

The Revenue Protection Plan uses the RMA ***projected harvest price*** to determine the initial level of insurance coverage. However, if the RMA ***harvest time price*** is higher than the RMA ***projected harvest price*** for a crop, then subject to a ***cap***, the ***insurance guarantee*** will be increased by revaluing the farm's APH yield for the crop at the ***harvest time price***. The ***cap*** is set at ***200 percent*** of the ***RMA projected harvest price.***

The insured selects a 70 percent ***coverage level*** and values the crop at the RMA ***projected harvest price*** of $7.15 per bushel. The initial ***insurance guarantee*** is again $200.20 = [$7.15 per bushel x (40 bushels per acre x 0.70)] but in this case it is also the ***minimum revenue guarantee***. The ***maximum revenue guarantee*** is capped at 200 percent of the projected harvest price and, in this example. $400.40 = [($7.15 per bushel x 2) x (40 bushels per acre x0.70)]. As discussed above, in the Revenue Protection Plan, the revenue guarantee increases if the ***harvest price***, as defined through RMA procedures, is higher than the ***projected harvest price.***

Under the Revenue Protection Plan, the insured farmer will receive an indemnity when the farm's actual production yield multiplied by the RMA ***harvest time price*** is less than the ***insurance guarantee***. The cause of the shortfall could be relative low yields, an RMA ***harvest time price*** that is lower than the RMA ***projected harvest price***, or any other combination of price changes and realized yields that results in per acre revenues-to-count that are lower than the farm's ***insurance guarantee***.

It is important to understand the implications of the fact that, in the Revenue Protection Plan, the ***insurance guarantee*** increases when the ***harvest time price*** is higher than the ***projected harvest price***. In that case, the farmer will only receive an indemnity when the actual crop yield is sufficiently lower than the farm's APH yield. However, without the harvest time protection provision, either the farmer would not be eligible for an indemnity (because the ***harvest time price*** multiplied by the farm's actual yield is bigger than the ***minimum insurance guarantee***) or would receive a smaller indemnity.

Farmers will therefore receive indemnities more often under the ***Revenue Protection Plan*** than under the ***Revenue Protection with Harvest Price Exclusion Plan*** and on average indemnities will be larger. So the premium charged for coverage for a Revenue Protection Plan will be higher than for a Revenue Protection with Harvest Price Exclusion Plan with the same ***coverage level*** and price election.

To illustrate these issues, suppose that the farm elects a 70 percent coverage level and the RMA projected price is $7.15. Under the ***Revenue Protection Plan***, the farm's ***minimum insurance guarantee*** is $200.20, the same amount as the farm's ***insurance guarantee*** under the ***Revenue Plan with Harvest Price Exclusion***.

As in the previous example, the farm realizes a yield of 28 bushels per acre (70 percent of the farm's APH yield) but that the ***harvest time price*** is $6 per bushel (substantially lower than the RMA projected price of $7.15 per bushel). Under the Revenue Protection Plan, the farm's ***insurance guarantee*** remains its ***minimum insurance guarantee*** of $200.20 because the ***harvest time price*** is lower than the ***projected harvest price*** for the crop**.** The farm's estimated per acre revenue is again $168 and the farm therefore receive a per acre indemnity of $32.20, as it would under the ***Revenue Plan with Harvest Price Exclusion Plan***.

But suppose that the ***harvest time price*** for wheat is $9 per bushel and, therefore, the farm's ***insurance guarantee*** increases to $252 (***harvest time price*** of $9 per bushel x APH yield of 40 bushels per acre x 70 percent ***coverage level***). No cap applies as the ***harvest time price*** is not twice the ***projected harvest price*** for the crop. If the farm's actual yield is 28 bushels per acre, as in the previous example, then the farm's ***revenue-to-count*** against its ***insurance guarantee*** is also $252 (28 bushels per acre x $9 per bushel) and no indemnity would be paid.

Suppose, however, that the farm's actual yield is 24 bushels per acre (less than the farm's ***payment yield*** of 28 bushels per acre) and the ***harvest time price*** is $9 per bushel. Then the farm's ***insurance guarantee*** will again be $252, its ***revenue-to-count*** will be $216 (24 bushels per acre x $9 per bushel), and the farmer will receive an indemnity of $32 per acre ($252 per acre - $216 per acre).

Other Issues

Farmers will be required to establish actual production history yields for all crops covered by COMBO policy plans using RMA-specified procedures, as they were required to do so for APH yield and revenue policies in the past.

Farmers will also still be able to obtain Catastrophic Coverage through a CAT endorsement for crops covered by a COMBO Policy plan (a 50 percent yield coverage level with losses valued at 55 percent of the projected price available for a fixed fee of $300 per crop each year).

As with all crop insurance products, farmers will purchase coverage under COMBO Policy plans from their agricultural insurance agents and each policy will receive a premium subsidy from the federal government. The structure of those subsidies remains unchanged.