Cotton Insurance Choices

Joe Outlaw
Professor and Extension Economist
Co-Director, AFPC

National Association for Agriculture and Food Policy
Farm Bill Decision Aid Training
with funding provided by FSA and co-sponsored with NCPE

October 27, 2014
Stacked Income Protection Plan (STAX)

• Will be available beginning 2015 crop year – so no more CTAP
• An area-wide insurance program only available to upland cotton producers to purchase beginning in 2015
• Covers from 90% of revenue guarantee down to 70% or insurance coverage level (whichever is higher) in 5% increments. 80% premium subsidy and includes protection factor up to 120%
• Revenue guarantee established based off of expected insurance price * expected county yield
• Can be in addition to individual buy-up coverage or used as a stand alone policy
• Differentiates between irrigated and non-irrigated
• Will need to make Commodity Program Choices on Generic Base
Choice of STAX with or without crop insurance or SCO with crop insurance
Can’t have both on same acres

STAX
County plan alone or on top of individual or area plan, coverage ≥ 70% to 90%, 1.2 multiplier

Crop insurance: Underlying individual or area plan coverage determines STAX lower bound

SCO
County plan on top of individual plan only, coverage ≤ 86%

Crop insurance: Underlying individual plan coverage level determines SCO lower bound
Crop Insurance

Expected Revenue

APH = 1000 lbs
Crop Insurance Price = $1/lb

Example:

Expected Yield = 500 lbs
Crop Insurance Price = $1/lb

SCO

Expected Yield = 500 lbs
Crop Insurance Price = $1/lb

STAX

Deductible 10%

Revenue Coverage

Actual Revenue $365

SCO Coverage

SCO Payment

$260 * 50% = $130

Revenue Coverage

$430-$365
$430-$300
= 65/130
= 50%
100 Acre Farm – Base Acres: 5 each of Sorghum, Wheat, Corn, Peanuts and 80 Generic Base

- Sorghum – 5 acres
- Wheat – 5 acres
- Corn – 5 acres
- Peanuts – 5 acres

Was Cotton - Now Generic Base – 80 acres
If farmer plants 50 acres of wheat and 50 acres of sorghum

Sorghum - 45 acres
Original 5 acres plus 40

Wheat – 45 acres
Original 5 acres plus 40

Farmers has protection on 45 acres of sorghum and wheat and 5 acres each of corn and peanuts

80 generic
40 and 40
100 Acre Farm – Base Acres: 5 each of Sorghum, Wheat, Corn, Peanuts and 80 Generic

If farmer plants 100 acres of sorghum

Sorghum - 85 acres
Original 5 acres plus 80

Wheat – 5 acres
Corn – 5 acres
Peanuts – 5 acres

80 generic
100% to sorghum

Farmer has protection on 85 acres of sorghum and 5 acres each of wheat, corn and peanuts
Generic Base

100 Acre Farm – Base Acres: 5 each of Sorghum, Wheat, Corn, Peanuts and 80 Generic

If farmer plants 100 acres of cotton

Generic Base – 80 acres idled for the year

Farmer has protection on 5 acres each of sorghum, wheat, corn and peanuts
Generic Base

100 Acre Farm – Base Acres: 5 each of Sorghum, Wheat, Corn, Peanuts and 80 Generic

If farmer plants 50 acres of sorghum and 50 acres of cotton

- Sorghum - 55 acres
  - Original 5 acres plus 50
- Idled Generic Base - 30 acres
- Wheat - 5 acres
- Corn - 5 acres
- Peanuts - 5 acres

80 generic

Allocated To Sorghum
On a acre for acre Basis
So 50 added To Sorghum and 30 idled

Farmer has protection on 55 acres of sorghum and 5 acres each of wheat, corn and peanuts
NAAFP Decision Aid Tools

**Your Farm Units**

<table>
<thead>
<tr>
<th>FSA #</th>
<th>Farm Name</th>
<th>Crop Practice</th>
<th>Edit</th>
<th>Yields</th>
</tr>
</thead>
<tbody>
<tr>
<td>1234</td>
<td>Jones Place</td>
<td>Grain sorghum</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Non-Irrigated</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1234</td>
<td>Jones Place</td>
<td>Grain Corn</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Non-Irrigated</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1234</td>
<td>Jones Place</td>
<td>Long Grain Rice</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Irrigated</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2468</td>
<td>Smith Farm</td>
<td>Long Grain Rice</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Irrigated</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Available Tools**

**Yield Update**

This tool calculates values for PLC yields using yield histories for your units listed on the left.

**Base Acre Reallocation & PLC/ARC Decision Aid**

This tool helps you decide whether to reallocate your base acres and whether to choose PLC, ARC-C, or ARC-I for each farm unit based on your data.

**Farm Bill 2014 Insurance**

This tool calculates net revenue for alternative insurance choices available through the 2014 Farm Bill and RMA.

**Generic Base Election Assistance**

This tool calculates net returns for alternative crops under PLC and ARC which you could allocate generic base.