Margin Protection FAQs

Sections

General Information Questions

Q: What is Margin Protection?
A: Margin Protection (MP) is a new insurance plan that provides you with coverage against an unexpected decrease in your operating margin (revenue less input costs). MP is area-based, using county-level estimates of average revenue and input costs to establish the amount of coverage and indemnity payments. Because MP is area-based (average for a county), it may not reflect your individual experience.

Q: Can I buy MP with another Federal crop insurance policy for the same crop?
A: Yes. You can buy MP by itself, with a Yield Protection policy, or a Revenue Protection policy (a base policy). However, if you buy another policy, it must be from the same Approved Insurance Provider that issued the MP policy. If you buy a Yield Protection or Revenue protection policy, you will receive an MP premium credit because indemnity payments from one policy can offset payments from the other. You may buy any endorsements available for the base policy, except the High-Risk Alternate Coverage Endorsement and the Supplemental Coverage Endorsement.

Q: Where is MP available?
A: MP is available, starting in the 2016 crop year, for corn, rice, soybeans, and wheat in select states and counties. MP is available for rice in select counties in Arkansas, California, Louisiana, Mississippi, Missouri, and Texas. MP is available for corn and soybeans in all counties in Iowa. MP is available for wheat in select counties in Minnesota, Montana, North Dakota, and South Dakota

Q: How does MP work?
A: MP provides coverage that is based on an expected margin for each applicable crop, type, and practice.

Expected Margin = Expected Revenue – Expected Costs, where:

- The expected revenue per acre is the expected county yield multiplied by a projected commodity price; and
- The expected cost per acre is the dollar amount determined by multiplying the quantity of each allowed input by the input's projected price.

You may choose coverage from 70 percent to 90 percent of your expected margin. A higher coverage level has a higher premium rate. The Catastrophic Risk Protection (CAT) coverage level is not available with MP.

Q: How do I buy MP?
A: You can buy MP by contacting an authorized crop insurance agent. Go to the Risk Management Agency's Website to find a crop insurance agent.

Purchase Decision Questions

Q: What are the sales closing dates for MP?
A: The MP sales closing date for corn, soybeans, and spring wheat is September 30, 2015. The MP sales closing date for rice is January 31, 2016, in some areas, and February 28, 2016, in other areas. The sales closing date for MP is generally the same as the sales closing date for other rice policies. Check with your crop insurance agent for the sales closing date for rice in your area.

Q: Can I buy MP and still buy other private crop insurance policies not reinsured by the Federal Crop Insurance Corporation (FCIC)?
A: Yes. You can buy any private crop insurance policy that FCIC does not reinsure such as crop-hail, a non-reinsured supplemental policy or similar, in addition to your MP and base policy.

Q: Can I buy a base policy at the CAT coverage level if I buy MP?
A: Yes.

Q: Can the coverage levels vary by type and practice?
A: Yes, you may choose any coverage level shown on the actuarial documents for each crop, type, and practice.

Premium and Subsidy Questions and Answers

Q: If I have a base policy and MP, will I owe the full premium for both policies?
A: If you buy a yield protection or revenue protection policy, you will receive an MP premium credit because indemnity payments from the base policy can offset payments from the MP policy. This reduces the expected payments from the MP policy and is the basis for the premium credit. The premium credit is determined when all information needed to establish liability under the base policy is known.

Q: Do I have to pay a separate administrative fee for MP and for the base policy?
A: Yes. An administrative fee applies to MP even if you have a base policy.

Q: What are the premium subsidies for MP?
A: MP offers the same premium subsidy as for other existing area-based plans. The subsidy factor for 70 percent coverage is 0.59. The subsidy factor for 75 percent and 80 percent coverage is 0.55. The subsidy factor for 85 percent coverage is 0.49. The subsidy factor for 90 percent coverage is 0.44.

Q: As a beginning farmer or rancher, am I eligible for an additional subsidy under MP?
A: Yes. The beginning farmer or rancher subsidy, which provides an additional 10 percent of premium subsidy, applies to all additional coverage level policies, including MP. For more information on the beginning farmer and rancher program, go to the Risk Management Agency's Website.

Q: Does the penalty for breaking native sod apply to an MP policy?
A: Yes, the subsidy decrease for those planting on native sod applies to MP. For more information on native sod guidelines go to the Risk Management Agency's Website.

Program Features Questions

Q: If I buy an MP policy will I have to provide a production report?
A: Yes. The policy's basic provisions requires a production report. If you have a base policy, the production report you submit for the base policy will also be used for MP so you do not have to submit two reports.

Q: Does MP provide coverage for acres prevented from being planted?
A: No. MP does not provide prevented planting coverage.

Q: Does MP provide coverage for replanting?
A: No. MP does not provide coverage for replanting.

Q: Are written agreements allowed for MP?
A: No. Written agreements are not allowed under MP.

Allowable Inputs and Projected and Harvest Price Questions

Q: What are the inputs used to determine MP coverage and losses? How are they determined?
A: Two types of production inputs are specified, those subject to price change and those that are fixed.

Inputs subject to price change are, for example, diesel fuel, , interest, and certain fertilizers for which projected and harvest prices can be obtained from private, third-party markets. Price changes for these inputs help determine whether an indemnity is paid. Inputs subject to price change by crop are:

- Corn Diesel, interest, diammonium phosphate price, urea, potash;
- Soybeans Diesel, interest, diammonium phosphate price, potash;
- Rice Diesel, interest, urea, diammonium phosphate price, potash; and
- Wheat Diesel, interest, urea, monoammonium phosphate, potash.

Fixed-price inputs are seed, machinery operating costs (other than fuel), and similar expenses. These inputs affect the amount of insurance coverage, but do not directly determine whether an indemnity is paid. Fixed-price inputs by crop are:

- Corn — Pre-harvest machinery, seed, lime, herbicide, and insecticide costs;
- Soybeans — Pre-harvest machinery, seed, lime, and herbicide costs;
- Rice — Maintenance, chemicals, and application; and
- Wheat — Seed, maintenance, chemicals, and lubrication.

Q: How are MP Projected and Harvest Prices determined?
A: The MP projected and harvest prices are determined by futures contract or spot market prices from commodity exchange markets. The specific contract, market, and time period used are listed in the Margin Price Provisions. For more information on the Margin Price Provisions go to the Risk Management Agency's Website.

MP Coverage and Liability Questions

Q: What is the basis for coverage under MP? Could you give an example of how a producer's MP coverage is determined?
A: The basis of coverage under MP is the trigger margin, which is the expected margin times the coverage level. The expected margin (per acre) is the result of subtracting the expected cost (per acre) from the expected revenue (per acre). (Expected Margin = Expected Revenue – Expected Costs).

The expected margin is determined on an area basis (generally county), and not an individual producer level. Therefore, all acres in a county have the same expected margin for a given type and practice (i.e., same expected county yield).

Example of how MP coverage is determined.

Allowed Inputs	
Diesel Fuel	7.5 gallon per acre
Nitrogen	150.0 pounds per acre
Other inputs	$300.0 per acre

First, let's determine the expected revenue. Assume the MP projected price for corn is $4.00 per bushel and the MP harvest price is $4.25 per bushel. The area corn yield is 150 bushels per acre.

The expected revenue per acre.

150 bushels x $4.00 = $600.00 per acre

Second, let's calculate the expected costs. Projected input prices are $3.50 per gallon for diesel fuel and $1.00 per pound for nitrogen. The estimated input requirements are 7.5 gallons of diesel and 150 pounds of nitrogen.

The expected costs per acre are:

Diesel	7.5 gallon x $3.50 = $ 26.25
Nitrogen	150 pounds x $1.00 = $150.00
Other inputs	$300.00
Expected costs	$476.25 per acre

The expected margin per acre.

$600.00 - $476.25 = $123.75 per acre

The trigger margin is multiplied by the chosen MP coverage level. Assuming a 90-percent MP coverage level, Expected Margin x Coverage Level = Trigger Margin.

$123.75 x 0.90 = $111.38 per acre

Q: What happens if the trigger margin is zero or negative?
A: If the trigger margin per acre is zero or negative, MP will not be available for the applicable county, crop, type, and practice. RMA will provide a notice by the date specified in the applicable margin projected price definition. If MP is not available for a county, crop, type, or practice, no premium will be due on such acreage and no indemnity will be paid. You can buy other Federal crop insurance policies as usual.

Q: How is the liability calculated and how is it used in MP?
A: The liability establishes an upper limit on the MP indemnity payments using your approved actual production history and a maximum coverage level of 85 percent.

Example: Assume a 500 acre unit with an actual production history (APH) approved yield of 160 bushels per acre at a 100-percent share. The liability is:

160	Bushel approved yield
x 0.85	Coverage level
x $4.00	Margin projected price
+ $111.38	Trigger margin
$655.38	Insurance amount per acre

$655.38	Insurance amount per acre
x 500	Acres
x 1.00	Share
$327,690	**Liability**

MP Loss and Payment Questions

Q: What effect does a loss under the base policy have on MP?
A: Generally any indemnity payments made for the base policy will occur first, with the MP indemnity payments occurring later (the following spring) after final area yields become available. The indemnity from the base policy, and any endorsement, is subtracted from the MP indemnity.

If the MP indemnity is larger than the base policy indemnity, the amount of the MP indemnity paid will be the difference between the MP indemnity and the base policy indemnity, but not to exceed the total liability under MP. If the MP indemnity is smaller than the indemnity for the base policy, then no additional indemnity will be paid for the MP policy. Payments received for replanting or prevented planting from an underlying policy will not be considered.

Q: Could you give an example of how to calculate a loss under MP?
A: Assume the following outcomes occur for the crop year:

Acres planted	= 500
Final county yield	= 140 bushels
Margin harvest price	= $4.25 per bushel
Diesel fuel price	= $4.00 per gallon
Nitrogen price	= $1.25 per pound
Other inputs	= $300.00
Base policy loss	= $11,000

The **harvest revenue** is 140 bushels (final county yield) x $4.25 per bushel = $595 per acre. The **harvest cost** is:

7.5 gallon x $4.00	=	$30.00 (subject to price change)
150 pounds x $1.25	=	$187.50 (subject to price change)
Other inputs	=	$300.00 (not subject to price change)
Harvest costs	=	**$517.50 total harvest cost** (total allowed inputs subject and not subject to price change)

The harvest margin is:
$595.00 - $517.50 = $77.50 per acre

The indemnity is calculated as (see MP Provisions):

	$111.38	Trigger margin
–	$77.50	Harvest margin
x	500	Insured acres
x	1.000	Share
	$16,940	MP indemnity (assume no base policy)
–	$11,000	Assume base policy indemnity
	$5,940	MP Indemnity after base policy applied

The liability for MP coverage is $655.38 x 500 acres = $327,690. The indemnity calculated with or without a base policy is less than this amount; so the amount calculated is payable. If the calculated indemnity amounts were greater than $327,690, the indemnity would be limited to that amount.

Q: When are losses paid?
A: MP losses are paid when final area yields are available, in the spring of the following year.

For wheat, the final county revenues and final county yields are determined generally around April 1 following the crop year. If an indemnity is due, the Approved Insurance Provider issues any payment around May 1 of the following the crop year.

For corn, rice, and soybeans, the final county revenues and final county yields are determined before April 16 following the crop year. If an indemnity is due, the Approved Insurance Provider issues any payment before May 16 following the crop year.

Q: What happens if a margin projected price cannot be calculated according to the Margin Price Provisions?
A: If the margin projected price cannot be calculated by the procedures outlined in the Margin Price Provisions, the margin projected price will be determined by RMA and released by the date specified in the applicable projected price definition in the Margin Price Provisions. The margin harvest price is set equal to the margin projected price RMA establishes. The expected revenue is then calculated by multiplying the expected county yield (by crop, unit, type, and practice) by RMA's determined projected price. The harvest revenue would be calculated by multiplying the final county yield (by crop, unit, type, and practice) by the same RMA determined price.