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Cornhusker Economics

Agricultural Economics Department

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## Year 2001 Multiple-Peril Crop Insurance for Nebraska Corn, Grain Sorghum, Soybeans and Wheat

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# Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources  
Department of Agricultural Economics  
University of Nebraska – Lincoln

## Year 2001 Multiple-Peril Crop Insurance for Nebraska Corn, Grain Sorghum, Soybeans and Wheat

Market Report	Yr Ago	4 Wks Ago	2/9/01
<b><u>Livestock and Products,</u></b>			
<b><u>Average Prices for Week Ending</u></b>			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	\$68.88	\$78.55	\$77.92
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	93.44	94.83	92.58
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	97.97	96.50	95.51
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	106.44	121.04	118.04
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	37.50	37.00	*
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	53.00	*	49.34
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	109.65	110.20	108.56
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	68.25	72.00	*
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	153.00	154.00	162.50
<b><u>Crops,</u></b>			
<b><u>Cash Truck Prices for Date Shown</u></b>			
Wheat, No. 1, H.W. Omaha, bu	3.04	3.44	3.15
Corn, No. 2, Yellow Omaha, bu	2.00	1.93	1.87
Soybeans, No. 1, Yellow Omaha, bu	4.80	4.55	4.33
Grain Sorghum, No. 2, Yellow Kansas City, cwt	3.37	3.65	3.54
Oats, No. 2, Heavy Sioux City, IA, bu	1.24	1.27	1.27
<b><u>Hay,</u></b>			
<b><u>First Day of Week Pile Prices</u></b>			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	97.50	115.00	115.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	32.50	67.50	70.00
Prairie, Sm. Square, Good Northeast Nebraska, ton	45.00	100.00	105.00
* No market.			

The deadline for sign-up for Multiple-Peril Crop Insurance for spring crops in Nebraska is March 15. Winter wheat sign-up deadline is September 30. Premium subsidies have changed, particularly for higher coverage levels and CRC. In 2001 the administrative fee for CAT is \$100 per crop per county, and for all policies above CAT the fee is \$30 per crop per year.

### Insurance Alternatives

1. **Catastrophic Coverage (CAT)**– Provides coverage at 50% of the Actual Production History (APH) yield, with insurance payments based on 55% of the established price.
2. **Additional APH Insurance**– Up to 85% yield coverage and 100% price elections can be purchased under the APH plan. Typically called multi-peril insurance by insurance agents, although all alternatives listed here are multiple-peril. In Nebraska, 80-85% coverage is available for corn, grain sorghum, soybean and wheat.
3. **Group Risk Plan (GRP)** coverage which is based on county yields is available in some counties.
4. **Crop Revenue Coverage (CRC)** provides a revenue guarantee and is available for corn, grain sorghum, soybeans and winter wheat in Nebraska.

### APH Yields

If there are actual records, the guarantee is based on producer records of actual yields for up to 10 consecutive years. If less than four years' records are provided a FCIC transitional yield is used for the missing years. In 2001, yields equivalent to 60% of the T-yield can be substituted for each of the actual yields below that level.



## Multiple-Peril Established Price Levels for 2001

CRC			
APH & GRP		Base Price*	
Harvest Price**			
Corn	\$2.05	TBA November Average of CBT Corn	December 2001
Grain Sorghum	\$1.80	TBA 95% of November Average of CBT Corn	December 2001
Soybean	\$5.26	TBA October Average of CBT Beans	November 2001
Wheat	\$2.80	\$3.31 July 15 - August 14 Average of KCBT Wheat	September 2001

\* Determined using February average of same contracts used for harvest price except for wheat which uses Aug 15-Sep14 KCBT Jul 01 average for the base price.

\*\* But no more than \$1.50 above and no less than \$1.50 below the base price for corn and grain sorghum. Maximum range for soybeans is \$3 and for wheat \$2.

TBA = to be announced by March 10, 2001

### How Does the APH Program Work?

#### APH Example for Grain Sorghum

Example yield guarantee = coverage level/100 x APH yield

Example coverage level = 65%

Example APH = 100 bu/acre

APH yield guarantee = 65% of 100bu = 65 bu/acre

Indemnity bushels = Yield guarantee - harvested yield if below guarantee

Example harvested yield = 55 bu/acre

Indemnity bushels = 65 - 55 = 10 bu/acre

Indemnity per bushel = Price election/100 x APH price

Example price election = 100%

2001 crop sorghum APH price = \$1.80 /bu

Indemnity per bushel = 100% of \$1.80 = \$1.80/bu

Indemnity payment = Indemnity bushels x price = 10 bu x \$1.80 = \$18.00/acre

### Additional Insurance

**APH** - If a grower wishes to have insurance above the 50/55 CAT level, the following alternatives are available under the APH program:

Coverage Levels As % of APH Yield	Price Elections As % of Maximum Price
50	100
55	91-100
60	84-100
65	77-100
70	72-100
75	67-100
80	63-100

**GRP** - Additional insurance options available under the GRP program are:

GRP Coverage Levels as % of County Yield	Protection Levels as % of Maximum \$ Protection
70, 75, 80, 85, 90	60 - 100

The maximum dollar protection under GRP is the expected county yield times the GRP price x 1.5.

Indemnity payments are based upon the percentage short fall of the NASS (Nebraska Agricultural Statistical Service) county yield compared to the trigger yield. The trigger yield is the coverage level chosen by the producer times the expected county yield.

## GRP Example for Grain Sorghum

Trigger Yield =

(Coverage level/100) x Expected county yield  
Example coverage level = 90%  
Example expected county yield = 80 bu/acre  
Trigger yield = 90% of 80 bu = 72 bu/acre

Maximum protection per acre =

Expected county yield x GRP price x 1.5  
2001 crop sorghum GRP Price = \$1.80/bu  
Maximum \$ protection =  
80 bu x \$1.80 x 1.5 = \$216/acre

Policy protection =

60 to 100% of the Maximum \$ protection/acre  
Example protection level = 100%  
Policy protection = 100% of \$216 = \$216/ac

Payment factor =

(Trigger yield - actual county yield) / Trigger yield if  
actual county yield is below trigger yield  
Example actual county yield = 66 bu/acre  
Payment factor = (72 - 66)/72 = 0.833

Indemnity payment = Policy protection x payment  
factor = \$216 x .0833 = \$17.99/acre

Note that the GRP indemnity payment does not depend on the producer's yield. Thus, GRP insurance will provide protection from a low producer yield only if the county yield is below the expected county yield at the same time the producer's yield is low.

## CRC

CRC provides a minimum revenue guarantee based upon a base (planting time) price. The revenue guarantee will increase with any increase in the harvest market price above the base price.

### CRC Provisions:

*Revenue Guarantee* = (coverage level/100) x APH  
yield x (larger of base or harvest price).

Coverage level alternatives under CRC are 50, 55, 60, 65, 70, 75, 80 and 85%, for corn, grain sorghum, soybeans and wheat in Nebraska.

### CRC Example for Grain Sorghum:

Minimum revenue guarantee =

Coverage level/100 x APH x Base Price  
APH = 100 bu/acre  
Coverage level = 65%  
Base price = TBA, example \$2.28

Minimum revenue guarantee =

65% of 100 bu/ac x \$2.28 /bu = \$148.20/acre.

Final revenue guarantee =

Coverage level/100 x APH x (larger of base or  
harvest price)

Assume a CRC Harvest Price = \$2.25/bushel

Revenue guarantee = 65% of 100 bu/ac x  
\$2.28/bu = \$148.20/acre (using larger of base  
and harvest price)

Calculated revenue =

Harvest yield x CRC harvest price

Harvest Yield: 55 bushels/acre

Calculated revenue =

55 bu/acre x \$2.25/bu = \$123.75

Indemnity payment = revenue guarantee - calculated  
revenue if below guarantee

Indemnity payment =

\$148.20 - \$123.75 = \$24.45/acre.

In the above example, an indemnity payment was triggered due to a low price and low yield. If prices had risen resulting in a CRC harvest price of \$2.50 per bushel and the same 55 bushels were produced, the calculated revenue would be \$137.50 and an indemnity of \$25 paid because of falling short of the final revenue guarantee of 65% of 100 bu/acre x \$2.50 = \$162.50.

The increase in the revenue guarantee with higher harvest prices is a particularly attractive feature when forward pricing grain. This increased protection will help purchase any production short fall of forward-priced grain at the prevailing market price.

## Other Crops

Check with your insurance agent for other crops that are covered by MPC. For crops that are not covered by an MPC program, the Non-insured Assistance Program (NAP) provides catastrophic coverage similar to past disaster programs.

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