



United States
Department of
Agriculture



Federal Crop
Insurance
Corporation

FCIC 20260U
(June 2018)

FCIC 20260U-01
(September 2018)

MARGIN PROTECTION PLAN OF INSURANCE STANDARDS HANDBOOK

2019 and Succeeding Crop Years

**UNITED STATES DEPARTMENT OF AGRICULTURE
WASHINGTON, D.C. 20250**

TITLE: MARGIN PROTECTION PLAN INSURANCE STANDARDS HANDBOOK	NUMBER: FCIC-20260U-01
EFFECTIVE DATE: 2019 and Succeeding Crop Years	ISSUE DATE: September 06, 2018
SUBJECT: Provides the procedures and instructions for administering the Margin Protection Plan of Insurance	OPI: Product Administration & Standards Division
	APPROVED: /s/ Richard H. Flourney Deputy Administrator for Product Management

Reason for Issuance

This handbook provides FCIC-approved standards for administering the Margin Protection Plan of Insurance (MP) for the 2019 and succeeding crop years.

Handbook FCIC-20260U-1 has been revised as indicated below. Minor changes and corrections are not included in this listing. See changes or additions in text which have been **highlighted**. Three stars (***) identify where information has been removed.

Changes for Crop year 2019 (FCIC-20260U-1):

1. Paragraph 34 “Entity Change” has been modified to be more specific on the interaction of MP policy with a base policy in the case where a policyholder died, disappeared, or was judicially declared incompetent

**MARGIN PROTECTION PLAN OF
INSURANCE STANDARDS HANDBOOK**

CONTROL CHART

Control Chart For: Margin Protection Insurance Standards Handbook							
	TP Page(s)	TC Page(s)	Text Page(s)	Exhibit Numbers	Exhibit Page(s)	Date	Directive Number
Insert	Entire Handbook						
Current Index	1-2	1-2	1-22	1-2	23-26	06-2018	20260U
Insert	1-2		12			09-2018	20260U-1

FILING INSTRUCTIONS

This handbook is effective for the 2019 and succeeding crop years.

MARGIN PROTECTION PLAN INSURANCE STANDARDS HANDBOOK

TABLE OF CONTENTS

Page No.

I. PART 1 GENERAL INFORMATION AND RESPONSIBILITIES

1	General Information.....	1
2	Responsibilities.....	3

3-20 (Reserved)

Part 2 Insurability

21	MP Insurability Requirements.....	4
22	Insurable Types and Practices	7
23	Units.....	7
24	Causes of Loss	7
25	Premiums and Administrative Fees	7
26	MP Coverage and Trigger Margin.....	8
27	Margin Projected Prices and Margin Harvest Prices.....	8
28	Quality Adjustment.....	10
29	Transfer of Policy	10
30	Production Inputs.....	11
31	Replanting and Prevented Planting Payments	11
32	Written Agreements.....	11
33	Landlord-Tenant.....	11
34	Entity Change	11

35-39 (Reserved)

40	Trigger Margin Calculation.....	12
----	---------------------------------	----

MARGIN PROTECTION PLAN INSURANCE STANDARDS HANDBOOK

TABLE OF CONTENTS

41 Dollar Amount of Insurance (per acre) and Liability Calculations14

42-43 (Reserved)

44 Premium Calculation 16

45-47 (Reserved)

48 Indemnity Calculations 17

49-50 (Reserved)

Part 3 Applicability of Handbooks

51 General Overview 21

52 Crop Insurance Handbook (CIH)..... 21

53 Loss Adjustment Manual (LAM) 21

54 Loss Adjustment Standards Handbook (LASH)..... 21

55 General Standards Handbook (GSH)..... 21

56-99 (Reserved)

Exhibits

1 Acronyms.....22

2 Definitions.....23

PART 1 GENERAL INFORMATION AND RESPONSIBILITIES

1 General Information

A. Purpose

This handbook provides procedure for administering the MP plan of insurance in accordance with the Common Crop Insurance Policy Basic Provisions (Basic Provisions), the MP Policy Provisions, the MP Crop Provisions and the Margin Price Provisions.

If there is a conflict between this handbook and the CIH or other FCIC approved handbook, this handbook controls. If there is a conflict between this handbook and the policy, the policy controls.

B. Source of Authority

The MP is a privately-developed product submitted and approved by the FCIC Board of Directors in accordance with section 508(h) of the Federal Crop Insurance Act.

C. Duration

MP (plan code 016) was available beginning with the 2016 crop year. MP-HPO (plan code 017) was added effective with the 2018 crop year. Unless separate designation is needed for clarity, these plans of insurance will be designated collectively as MP in this document.

D. Approved Insurance Provider (AIP) Option to Offer

In accordance with Section II. (a) (3) of the Standard Reinsurance Agreement (SRA), AIPs are not required to offer MP to producers. Accordingly, each AIP must determine whether it will offer the MP in the approved pilot area. AIPs that elect to offer the MP must offer it to all eligible producers in the approved pilot area, and must administer the program according to the policies approved and issued by FCIC, procedures in this handbook and the provisions of Section II. (a) (3) of the SRA.

1 General Information (Continued)

E. Approved Area

MP is available in select counties for corn, rice, soybeans, and wheat in the following states:

Rice (select counties)	Corn (select counties)	Soybeans (select counties)	Wheat (select counties)
Arkansas	Iowa	Iowa	Minnesota
California	Illinois	Illinois	Montana
Louisiana	Indiana	Indiana	North Dakota
Mississippi	Kansas	Kansas	South Dakota
Missouri	Michigan	Michigan	
Texas	Minnesota	Minnesota	
	Missouri	Missouri	
	Nebraska	Nebraska	
	North Dakota	North Dakota	
	Ohio	Ohio	
	South Dakota	South Dakota	
	Wisconsin	Wisconsin	

F. Applying for MP Coverage

AIPs shall use the standard application for MP. The application must indicate the insured has selected MP or MP-HPO along with other required information. Use the standard application or policy change form to add MP coverage to a base policy or to transfer the MP policy from another AIP.

MP or MP-HPO coverage can be purchased in one of two forms.

- (1) One form includes the Basic Provisions, a base policy (as defined by the MP Policy Provisions, 19-MP), MP Policy Provisions, and the applicable MP Crop Provisions.

All policies must be insured with the same AIP. On or before the MP SCD, the insured and the AIP must confirm the base policy is transferred if the base policy is currently with another AIP. The insured must complete and submit to the assuming AIP (with the MP application) a Policy Transfer/Application, or the assuming AIP must complete and sign, and have the insured sign, a Request to Transfer a Policy with the ceding AIP's policy number(s) for the base policy being transferred.

- (2) The other form is a stand-alone policy that includes the Basic Provisions, MP Policy Provisions, and the applicable MP Crop Provisions.

No base policy may be in effect on the MP insured crop if this option is elected.

1 General Information (Continued)

F. Applying for MP Coverage (Continued)

If the insured has a crop insurance policy that is not a base policy in effect on the crop on the sales closing date for MP, the insured must cancel said policy for the crop year to be covered by the MP policy for that crop. The notice of cancellation must be submitted on or before the MP SCD. Failure to execute cancellation as specified will result in an incomplete application for MP and it will not be accepted.

2 Responsibilities

A. AIP's Responsibilities

AIPs must use standards, procedures, methods and instructions as authorized by FCIC in the sale and service of crop insurance contracts. Each AIP is responsible for using RMA approved procedure. AIPs should report any program issues or concerns to the Product Administration and Standards Division (PASD) of RMA.

B. Insured's Responsibilities

To be eligible for MP, the insured must comply with all terms and conditions of the Basic Provisions, MP Policy Provisions, and the applicable MP Crop Provisions.

3-20 (Reserved)

PART 2 INSURABILITY

21 MP Insurability Requirements

A. Base Policy

MP can be purchased by itself, or in conjunction with a Yield Protection or Revenue Protection base policy. The base policy, if purchased, must be purchased from the same AIP as the issuer of MP policy. On or before the MP SCD, the insured and the AIP must confirm the base policy is transferred if the base policy is currently with another AIP. Only Yield Protection, Revenue Protection, or Revenue Protection with HPE (plans 01, 02 and 03) can be a base policy. No other policy qualifies as a base policy. The base policy and the MP policy must exercise the same optional coverage choices such as coverage level by irrigated practice.

There is no restriction with regards to the agent or agency. One agency can have the base policy and a different agency may carry the MP coverage if they are both with the same AIP.

Purchase of any other insurance policy not authorized by the Margin Protection Plan Provisions will be subject to the terms of Section 22 of the Basic Provisions. These provisions do not preclude purchase of any crop insurance policy that is not reinsured by the FCIC (crop-hail, a non-reinsured supplemental policy, or similar). Whole Farm Revenue Protection Policy cannot be purchased with MP.

An insured who elects SCO on the base policy is not eligible for MP. However, the base policy may include other available endorsements. For example, for rice the base policy could include the Downed Rice Endorsement.

The beginning farmer or rancher subsidy applies for additional coverage policies (buy-up) that have premium subsidy including MP. The native sod subsidy decrease also applies to MP.

A base policy issued under the Basic Provisions provides the producer with coverage for individual losses, replanting payments and prevented planting payments as authorized by the various crop provisions, and coverage for quality losses. Individual losses under the base policy are paid near the time the loss occurred whereas losses under MP are similar to Area Risk Protection Insurance (ARPI) where indemnities are not paid until final area yields are available.

If there is a loss paid under the insured's base policy, the indemnity amount from that policy will be subtracted from any loss under the MP policy. The indemnity to be included for this purpose will not include any payment received for replanting or prevented planting from the base policy. If the MP indemnity is larger than the base policy indemnity, the amount of indemnity paid will be the difference between the total base policy indemnity and the total MP indemnity as long as the difference is

21 MP Insurability Requirements (Continued)

A. Base Policy (continued)

less than the total Liability. If the MP indemnity is smaller, no indemnity is due under MP.

B. County Yields

The Expected County Yield is the yield, established for each insured crop, type, and practice, used to determine the Expected Revenue. The Expected County Yield generally will be the same as the Expected County Yield for ARPI. If ARPI is not available in the county, the yield will be based on available data and determined by FCIC. The Expected County Yield is also used for standalone policies by type and practice for the purpose of determining the Dollar Amount of Insurance and the Liability under MP.

Final County Yield is the yield established for each insured crop, type, and practice, used to determine the final revenue (per acre). The Final County Yield will be the same as that released for ARPI for the crop year. If ARPI is not available in the county, the yield will be based on available data and determined by FCIC.

The data source used for the county yields will be based on the best available data and will be specified in the actuarial documents. The data source used to establish the Expected County Yield will be the data source used to establish the Final County Yield, except as otherwise provided in the MP Policy Provisions.

C. Production Reporting

(1) Insureds with a Base Policy

An insured that has a base policy under the Basic Provisions is not required to file a separate production report for MP. The production report for the base policy will be used as the production report for MP. **It is due on the date specified in the actuarial documents for the base policy.**

(2) Standalone Policies – Insureds without a Base Policy

An insured that does not have a base policy is required to file a Margin Production Report for MP in accordance with the terms of section 6(e) of the MP Provisions. The Margin Production Reporting date for standalone policies **is the date specified** in the actuarial documents.

21 MP Insurability Requirements (Continued)

C. Production Reporting (continued)

An insured who fails to submit a Margin Production Report by the production reporting date specified in the actuarial documents will be limited to the lowest MP coverage level available for the next crop year. Since the production reporting date for corn, soybeans and wheat is after the sales closing date for the next crop year, this determination will be retroactive to the sales closing date for the next crop year.

D. Acreage Insured and Acreage Reporting

All acreage in the county planted to a crop type and practice that is insurable under the MP Crop Provisions must be insured. Acreage must be planted to the insured crop on or before the final planting date shown in the actuarial documents and must be reported to the AIP by the acreage reporting date. Acreage initially planted after the MP final planting date must be reported as uninsurable. The late planting provisions of the Basic Provisions are not applicable to MP. The final planting dates for MP shown in the actuarial documents **are the final planting date for a base policy on the crop plus the 25-day** late planting period under the base policy.

If the AIP denies liability for unreported acreage, no premium will be due on such acreage and no indemnity will be paid.

If the insured has a base policy, the insurable planted acres of each insurable unit, type and practice reported for that policy will be used as the acreage report for MP. If the insured does not have a base policy, all insurable planted acres must be reported in accordance with the terms of section 6 of the Basic Provisions.

Insurance is not provided by MP on acreage that is or would be eligible for a prevented planting payment under a base policy issued under the Basic Provisions whether or not the insured elects a base policy on the crop.

F. Eligibility Requirements

To be eligible for the MP, the insured must comply with all terms and conditions of MP and the MP Crop Provisions in addition to the terms of the Basic Provisions (if applicable) that are not in conflict with MP. If a conflict exists, the MP Policy and MP Crop Provisions are applied. See the insurance documents for other terms and conditions for an insured crop and insured acreage.

G. MP Program Dates

The applicable sales closing, cancellation, termination and contract change dates are depicted in the applicable MP Crop Provisions.

21 MP Insurability Requirements (Continued)

G. MP Program Dates (Continued)

Important: The Sales Closing Date (SCD) for Corn, Soybeans, and Spring Wheat is September 30 of the calendar year preceding the crop year, which is well ahead of the base policy SCD. The SCD for rice is the same as plan codes 01, 02, and 03.

22 Insurable Types and Practices

Insurable types and practices are identified in the actuarial documents.

MP Corn Crop Provisions state hybrid seed corn is insurable if identified as a T/P in the county actuarial documents. If seed is shown as an insurable type in the county it is insurable at the same expected and harvest margin as grain.

MP Corn Crop Provisions state silage type is insurable if identified as a T/P in the county actuarial documents. If silage is shown as an insurable type in the county it is insurable at the same expected and harvest margin as grain and all information will be shown in bushels, not tons.

23 Units

The provisions of the Basic Provisions (section 34) regarding units and unit division are applicable to MP with a base policy with the exception that whole farm units are not available under MP. The base policy may be under a whole farm unit but separate records of acreage and production for the MP crop must be maintained by type and practice in accordance with the CIH and the LAM. In the case of a loss under the whole farm unit base policy, the amount of the indemnity associated with the base policy crop must be identified and subtracted from any MP indemnity in accordance with para. 48. MP with a base policy will have the same unit structure as the base policy.

All planted acreage of each type and practice is a unit if MP is a stand-alone policy.

24 Causes of Loss

Any natural event that causes the Harvest Margin to be less than the Trigger Margin will result in an insurable cause of loss unless FCIC can prove that the reason for any price change was due to an uninsurable cause of loss. An indemnity could result from a Final County Yield that differs from the Expected County Yield, a Margin Harvest Price that differs from the Margin Projected Price, or one or more harvest prices for inputs subject to price change differ from the applicable projected prices for those inputs, or any combination of these events.

The MP portion of the coverage protects against increases in production costs, decreases in the national price of the insured commodity, or reductions in yield at the county level.

24 Causes of Loss (Continued)

Failure to follow good farming practices, or planting or producing a crop using a practice that has not been widely recognized as used to establish the Expected County Yield, is not an insurable cause of loss.

25 Premiums and Administrative Fees

The base rate (dollar amount of premium per acre) will be included in the actuarial documents once price discovery is completed. The premium amount for MP coverage will be determined for each margin unit by multiplying the reported acres by the base rate (per acre) and by the insured's share at the time coverage begins. Those premium amounts apply to MP as stand-alone coverage; a credit will be given if the producer elects a base policy. The amount of the credit is based on the expected reduction in MP indemnities that instead will be paid under the base policy. The insured will owe a separate administrative fee for MP even if they have a base policy.

26 MP Coverage and Trigger Margin

Coverage is based on the Expected Margin which is calculated by subtracting the Expected Cost (per acre) from the Expected Revenue (per acre) by crop, **type, and practice**. The MP Trigger Margin is the Expected Margin less the deductible implied by the Margin Coverage Level and the Expected Revenue. **It is calculated as Expected Margin – Expected Revenue x (1.00 – the Margin coverage level selected by the insured).**

Margin Coverage Levels **are elected by crop, type, and practice** in five percent (5%) increments from 70 percent to 95 percent unless specified otherwise on the actuarial documents. The catastrophic (CAT) level of coverage is not available **as a base policy** under MP but may be chosen in accordance with the Basic Provisions **for high risk land**. **CAT acres are not insurable under MP and do not receive a premium credit. The base policy must have the same type and practices as the MP policy. If it does not the premium credit for MP may be reduced or eliminated. The HR-ACE may be chosen on a base policy, but those acres are not insurable under MP.** The insured may select any Margin Coverage Level shown on the actuarial documents for each crop, type, and practice.

27 Margin Projected Prices and Margin Harvest Prices

In addition to the Trigger Margin, MP incorporates a defined Liability which establishes an upper limit on the MP indemnity and is used to calculate premium. See Para. 41 for the details and procedures for determining the Liability.

Three sets of projected and harvest prices are used under MP. All applicable prices will be available through the MP link on RMA's website.

- (1) Margin Projected Price and Margin Harvest Price for the insured crop.

27 Margin Projected Prices and Margin Harvest Prices (continued)

Similar to the CEPP, the Margin Price Provisions specifies how and when the Margin Projected Price and the Margin Harvest Price will be determined by crop.

The price discovery periods for the Margin Projected Prices for corn, rice, soybeans, and spring wheat, together with the Projected Price discovery periods established under the Basic Provisions **for each crop**, are shown in the following table:

Commodity	Discovery Period (Margin Price Provisions)	Discovery Period (CEPP)
Corn	August 15 – September 14	February 1 – February 28
Rice	Varies by State; same as CEPP	Varies by State
Soybeans	August 15 – September 14	February 1 – February 28
Spring Wheat	August 15 – September 14	February 1 – February 28

Most price discovery periods for Margin Projected Prices for MP occur earlier than under the CEPP because producers are making production plans and arranging for the purchase of inputs late in the preceding calendar year and early in the year the crops will be planted. Changes in prices during this period can affect profitability. MP allows the producer to “lock” a margin based on current expectations of commodity and input prices.

The Margin Harvest Price discovery periods for the commodities are the same as those specified in the CEPP. The Margin Harvest Price will not be greater than the Margin Projected Price multiplied by 2.00.

- (2) Projected Input Price and the Harvest Input Price for inputs subject to price change.

The Margin Price Provisions specify how the Projected Input Price and Harvest Input Price for the inputs subject to price change will be determined by crop.

The price discovery periods for projected prices of inputs subject to price change are the same as the margin price discovery periods for the commodities. This allows the Expected Margin to be calculated on the basis of current market expectations for both the commodity prices and the input prices.

The price discovery periods for harvest prices of inputs subject to price change occur earlier than the Margin Harvest Price discovery periods for the commodities because a high percentage of the quantity of inputs needed to produce a crop are associated with planting and the few weeks immediately following.

- (3) Projected Input Prices and the Harvest Input Price s for inputs not subject to price changes.

Inputs not subject to price change are identified as a specific dollar amount per acre.

27 Margin Projected Prices and Margin Harvest Prices (continued)

The Margin Price Provisions are a part of the policy for all crops for which margin protection is available. If the insured has a base policy, the Margin Price Provisions do not apply and the Commodity Exchange Price Provisions (CEPP) will apply to that base policy.

The insured must elect 100 percent of all prices under MP.

28 Quality Adjustment

As is the case with all area plans of insurance, no quality adjustment is offered.

29 Transfer of Policy

If the policy is transferred to a different AIP, the MP policy and MP Crop Provisions must be included on the Policy Transfer/Application or Application form submitted to the AIP to which the transfer is effective on or before the applicable SCD.

Any crop insurance policy that is not a base policy that is in effect on the insured crop on the sales closing date for MP must be cancelled for the subsequent crop year. The cancellation must be effective not later than the sales closing date for MP.

Example: You have an ARPI policy in effect for the 2018 corn crop. This is not a base policy. It must be cancelled for the 2019 crop year and the notice of cancellation must be provided to the AIP no later than September 30, 2018.

A crop insurance policy that is a base policy and is in effect on the insured crop on the sales closing date for MP but that is currently issued by a different AIP must be transferred to the AIP that issued the MP policy for the same crop year covered by the MP policy. The transfer must be effective not later than the sales closing date for MP.

Example: You have a Revenue Protection policy in effect for the 2018 crop of corn, but that policy is not with the AIP from which you purchased MP coverage. This is a base policy. The policy must be transferred to the AIP who has the MP policy for the 2019 crop year (or cancelled if you do not wish to have a base policy) and the notice of the transfer (or cancellation) must be provided to the AIP with the MP policy not later than September 30, 2018.

The base policy must be assigned to the AIP that holds the MP policy on or before the SCD for MP. This provision does not affect any of the insured's rights under the base policy (with the exception of buying SCO) that may be exercised up to and including the sales closing date for the base policy. Those rights include changes in coverage level, yield substitution, and others including the right to cancel the base coverage for the crop year.

Failure to cancel or transfer a base policy that is currently issued by a different AIP on or before the SCD for the MP policy results in no coverage for MP.

30 Production Inputs

Production inputs are defined in the MP Provisions as Allowed Inputs. These resources, found on the MP link on RMA's website, are those typically used to produce the insured crop in the county where the insured acreage is located. Two types of production inputs are specified: those subject to price change and those that are not subject to price change. Inputs subject to price change are, for example, diesel fuel, interest, and fertilizers, and other inputs for which projected and harvest prices can be obtained from markets.

Inputs not subject to price change are, for example, seed, machinery operating costs (other than fuel), and similar expenses.

Inputs subject to price change are identified with an average quantity used per acre. Inputs not subject to price change are identified as a specific dollar amount per acre and are not specifically identified. Only the dollar amount for all such inputs is specified.

31 Replanting and Prevented Planting Payments

Replanting payments and prevented planting payments are not available under MP. A base policy must be purchased if a producer wishes to obtain this coverage.

32 Written Agreements

Written agreements are not allowed under MP.

33 Landlord – Tenant

The terms of section 10(a)(2)(ii) of the Basic Provisions that allow a tenant to insure the insurable interest of the landlord (or vice-versa) apply for a stand-alone MP policy. However, whenever there is a base policy, those terms apply only if the interests of each party are insured under both the MP policy and the base policy. If one party does not want to insure under the base policy or the MP policy, each then must separately apply for the desired coverage. Example: the tenant wants coverage under MP and a base policy but the landlord wants coverage only under the base policy. Each must make separate application for insurance.

34 Entity Change

General Standards Handbook (GSH) Paragraph "231 Death, Disappearance or Judicial Declaration of Incompetence"

Modifications for MP:

Add the following to the end of this section as new section D:

D. Margin Protection Policies

- (1) If the named insured of a MP policy dies, disappears, or is judicially declared incompetent, the policy will default to the spouse if all the following are met:
 - (a) The surviving spouse was included on the MP policy as having a SBI in the named insured;
 - (b) The surviving spouse has a share in the crop.
 - (c) The named insured's share does not convert to an estate or is not otherwise legally transferred to a person other than a spouse.
- (2) If any of these events occur prior to the cancellation date for the base policy and a base policy does not exist, the surviving spouse of the named insured on the MP policy can apply in their name for a base policy and be eligible for a premium credit.
- (3) A surviving spouse who does not have a SBI in the named insured on the MP policy and who has a share in the crop may purchase a base policy for that share. However, this base policy cannot be linked to the MP policy since that policy is subject to the terms of section 2(g)(3) of the Basic Provisions and will not default to the surviving spouse.

In the case of all other persons, including a surviving spouse whose circumstances do not satisfy all the conditions stated in the first paragraph of subsection D(1), if the death, disappearance, or judicial declaration of incompetence occurred later than 30 days prior to the MP cancellation date but more than 30 days prior to the base policy cancellation date and a base policy exists, the base policy is automatically cancelled. No application for a base policy may be accepted because the MP policy continues in force subject to the terms of section 2(g)(3)(ii) of the Basic Provisions.

40 Trigger Margin Calculation

The Trigger Margin (per acre) is the Expected Margin (per acre) less the deductible implied by the Expected Revenue and the Margin Coverage Level.

Trigger Margin (calculated on a per acre basis) is:

Trigger Margin = Expected Margin – (Expected Revenue x (1.00 – Coverage Level));
where:

Expected Revenue (per acre) is the Expected County Yield multiplied by the Margin Projected Price.

The Expected Margin is the result of subtracting the Expected Costs from the Expected Revenue. This same calculation is used when the Final County Yield s and harvest prices are known to determine the Harvest Margin.

The Expected Revenue is the Expected County Yield multiplied by the Margin Projected Price by crop, practice and type. The Harvest Revenue is the Final County Yield multiplied by the harvest price by crop, **type, and practice**, the same as ARPI. The only change from ARPI is there is a different discovery period for the projected price for most commodities.

The Expected Margin (calculated on a per acre basis) is:

Expected Margin = Expected Revenue – Expected Costs; where:

Expected Revenue (per acre) is the Expected County Yield multiplied by the Margin Projected Price.

If the insured elects MP-HPO, the Expected Revenue (per acre) is the Expected County Yield multiplied by the greater of the Margin Projected Price and the margin harvest price.

Expected Revenue = Expected County Yield x max(Margin Projected Price,
Margin Harvest Price)

The Expected County Yield is the area yield for each insured crop, type, and practice, contained in the actuarial documents for the purpose of determining the Expected Revenue. The Margin Projected Price and Margin Harvest Price are established as determined by the Margin Price Provisions.

Expected Cost (per acre) is the dollar amount determined by multiplying the quantity of each Allowed Input (subject to price change) by the Projected Input Price for that input, **summing those results, and adding to that sum the total dollar value of the inputs not subject to price change.**

40 Trigger Margin Calculation (continued)

Example

Assume a crop has two inputs subject to price change specified on the actuarial table, as follows:

Diesel Fuel	7.5 gallon/acre
Nitrogen	150.0 lbs/acre

These data indicate that each acre requires an average of 7.5 gallons of diesel fuel and 150.0 pound of nitrogen to produce the expected yield. These estimates are applicable to very large areas and will not be precise for any particular farming operation. The actuarial table will specify a dollar amount per acre to represent inputs not subject to price change (seed, farmer labor, others). Assume this amount is \$300 per acre.

The first step to calculating the Expected Margin is to determine the Expected Revenue. Assume the Expected County Yield is 150 bushels per acre and the Margin Projected Price for corn is \$4.00 per bushel.

The Expected Revenue per acre is:

$$150 \text{ bu.} \times \$4.00 = \$600.00 \text{ per acre}$$

The second step to calculating the Expected Margin is calculating the Expected Costs. Margin Projected Input Prices are \$3.50 per gallon for diesel fuel and \$1.00 per pound for nitrogen.

The Expected Costs per acre are:

$$\begin{aligned} & \text{Diesel (7.5 gallon} \times \$3.50 = \$26.25) + \text{Nitrogen (150 pounds} \times \$1.00 = \$150.00) \\ & + \\ & \text{Other inputs (\$300.00)} = \text{Expected Costs of } \$476.25 \text{ per acre.} \end{aligned}$$

The Expected Margin per acre is:

$$\$600.00 - \$476.25 = \$123.75$$

The Expected Margin is expressed on an area level, not an individual producer level. All acres in a county have the same Expected Margin for a type and practice (i.e., same Expected County Yield). MP then incorporates the Margin Coverage Level to determine the Trigger Margin. Assuming a 90 percent Margin Coverage Level:

$$\text{Expected Margin} - \{\text{Expected Revenue} \times (1.00 - \text{Margin Coverage Level})\} = \text{Trigger Margin}$$

$$\$123.75 - \{\$600 \times (1.00 - 0.90)\} = \$63.75 \text{ per acre}$$

41 Dollar Amount of Insurance (per acre) and Liability Calculations

Unexpectedly high costs or unexpectedly low revenue can result in a drastically impaired margin. For example, assume a total crop loss. The financial impact on the producer would be equal to the foregone income from crop sales plus the costs incurred to date to produce the crop. The above amount, \$63.75 per acre represents only a portion of the potential loss of expected net revenue.

To account for this possibility for policies with a base policy, MP establishes a maximum possible indemnity payment, designated as the Liability, which is calculated as follows:

MP: (County Expected Yield x Projected Price) x Coverage Level x Protection Factor = Dollar Amount of Insurance (per acre).

MP-HPO: County Expected Yield x max (Margin Projected Price or Margin Harvest Price) x Coverage Level x Protection Factor = Dollar Amount of Insurance (per acre).

Dollar Amount of Insurance (per acre) x acres x share = Liability

The MP indemnity payment is limited to the Liability amount regardless of the outcome of the county yield, commodity price change, and input price change.

MP Protection Factor ranges from 80% to 120% in 1% increments. A different protection factor is allowed by insured crop, type, and practice.

Assume a 500 acre unit with an Expected County Yield of 150 bushels per acre, a Margin Projected Price of \$4.00/bu, 90% coverage level and 1.00 Protection Factor at a 100 percent share without MP-HPO. The Liability is (for this example)

$150 \text{ bu.} \times \$4.00 \times 90\% \times 1.00 = \$540 \text{ Dollar Amount of Insurance (per acre)}$

$\$540 \times 500 \text{ acres} \times 1.00 \text{ share} = \$270,000 \text{ Liability}$

Example (Negative Expected Margin)

Margin Protection offers may be extended when the Expected Margin is negative. Assume all of the same variables used in the previous example, except the Margin Projected Price is \$3.00/bu.

The Expected Revenue per acre is:

$150 \text{ bu.} \times \$3.00 = \450.00 per acre

Expected Margin per acre is:

$\$450.00 - \$476.25 = -26.25/\text{ac}$

Trigger Margin is:

41 Dollar Amount of Insurance (per acre) and Liability Calculations (continued)

$$-\$26.25 - \{\$450 \times (1.00 - 0.90)\} = -71.25/\text{ac}$$

MP Dollar Amount of Insurance is:

$$150 \text{ bu.} \times \$3.00 \times 90\% \times 1.00 = \$405 \text{ Dollar Amount of Insurance (per acre)}$$

$$\$405 \times 500 \text{ acres} \times 1.00 \text{ share} = \$202,500 \text{ Liability}$$

42-43 (Reserved)

44 Premium Calculation

MP Premium = Reported acres x Premium Amount (per acre) x Protection Factor x Share.

Assume that the premium amount for MP as a stand-alone policy for the 90 percent Margin Coverage Level selected by the producer is \$30.00 per acre.¹ There are 500.0 reported acres and the producer elects a 1.00 Protection Factor.

Continuing the above example, the premium for MP as a stand-alone policy would be:

$$500.0 \text{ acres} \times \$30 \times 1.00 \text{ share} \times 1.00 \text{ Protection Factor} = \$15,000$$

The subsidy rate for MP is the same as the rate established for ARPI policies. The subsidy factor for a 90 percent ARPI policy is 44 percent. Hence, the producer in this example would have an out-of-pocket premium equal to:

$$\$15,000 \times (1.00 - 0.44) = \$8,400 \text{ } (\$16.80 \text{ per acre})$$

An insured who elects a base policy will receive a premium credit to recognize the potential losses that are estimated to be paid by that policy (i.e., deducted from the MP indemnity).

The credit on the MP premium when a producer purchases a base policy is based on the reduction in expected MP indemnity due to the base policy purchase decision. The amount of the credit for the base policy will depend on the producer's **historical unit yields relative to the county yields for the same years** and the coverage level elected for the base policy. The premium credit will be determined when all information needed to establish Liability under the base policy is known.

Assume that the amount of the credit is equivalent to \$5.00 per acre. In this case, the MP premium would be reduced to:

$$\$15,000 - (500.0 \text{ acres} \times \$5.00) \times 1.000 \text{ share} = \$12,500$$

The subsidized premium with the premium credit would be:

$$\$12,500 \times (1.00 - 0.44) = \$7,000$$

45-47 (Reserved)

¹ Premium rates are intended to be illustrative and not indicative of the actual level of the premium rate for any crop or county.

48 Indemnity Calculations

In the event of loss covered by MP, the indemnity is calculated by subtracting the Harvest Margin (per acre) from the Trigger Margin (per acre) and then multiplying this difference by the insured acres, and the share.

$$\text{Harvest Margin (per acre)} = \text{Harvest Revenue (per acre)} - \text{Harvest Cost (per acre)}$$

Harvest Revenue (per acre) is determined by multiplying the Final County Yield by the Margin Harvest Price. This functions the same as ARPI.

Harvest Cost (per acre) is a Dollar Amount determined by multiplying the quantity of each Allowed Input (subject to price change) by its Harvest Input Price, **summing those results**, and adding to this amount the dollar amount of approved inputs (not subject to price change). This final result is the Harvest Cost.

If there is no base policy, the indemnity, not to exceed the Liability, equals
(Trigger Margin – Harvest Margin) x **insured acres x share x** Protection Factor

If there is a base policy, the amount of any indemnity (note: this does not include replanting payments or prevented planting payment) received from the base policy is subtracted from the MP indemnity. If that result is positive, the lesser of that result or the total Liability will be the indemnity.

Example 1:

Assume the following outcomes occur for the crop year:

Acres Planted	= 500
Final County Yield	= 130 bu.
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
Protection Factor	= 1.00
MP-HPO:	No

The **Harvest Revenue** is 130 bu. (Final County Yield) x \$4.25 per bushel = \$552.50 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	= <u>\$ 300.00</u> (not subject to price change)
Harvest Costs	= \$ 517.50 total Harvest Cost (total Allowed Inputs subject and not subject to price change)

48 Indemnity Calculations (continued)

The Harvest Margin is

$$\$552.50 - \$517.50 = \$35.00 \text{ per acre}$$

The indemnity is calculated as follows (see MP Provisions):

Trigger Margin – Harvest Margin	= \$63.75 – \$35.00 = \$28.75
(a) Result (a) x insured acres	= \$ 28.75 x 500.0
	= \$14,375.00
(b) Result (b) x share (assume 1.000)	= \$14,375
(c) Result (c) x Protection Factor (assume 1.00)	= \$14,375
(d) Assume no base policy, MP indemnity	= \$14,375
(e) <u>Assume base policy indemnity</u>	<u>= \$11,000</u>
(f) MP Indemnity after base policy applied	= \$ 3,375

The total Liability for the MP coverage is \$270,000. The indemnity calculated with or without a base policy is less than this amount; hence, the calculated amount is payable. If the calculated amount were to be greater than \$270,000, the indemnity would be limited to that amount.

Example 2:

Assume the following outcomes occur for the crop year:

Final County Yield	= 120 bu.
Margin Harvest Price	= \$4.25 per bushel
Diesel fuel price	= \$4.00 per gallon
Nitrogen price	= \$1.25 per pound
Other inputs	= \$300.00
Protection Factor	= 1.00
MP-HPO:	No

The Harvest Revenue is 120 bu. (Final County Yield) x \$4.25 per bushel = \$510 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	= <u>\$ 300.00</u> (not subject to price change)
Harvest Costs	= \$ 517.50 total Harvest Cost (total Allowed Inputs subject and not subject to price change)

48 Indemnity Calculations (continued)

The **Harvest Margin** is

$$\$510.00 - \$517.50 = - \$ 7.50 \text{ per acre (margin per acre is negative)}$$

The indemnity is calculated as follows (see MP Provisions):

(a) Trigger Margin – Harvest Margin	= \$63.75 – (-\$7.50) = \$71.25
(b) Result (a) x insured acres	= \$71.25 x 500.0 = \$35,625
(c) Result (b) x share (assume 1.000)	= \$35,625
(d) Result of (c) x Protection Factor (1.00)	= \$35,625
(e) Assume no base policy, MP indemnity	= \$35,625
(f) <u>Assume base policy indemnity,</u>	<u>= \$11,000</u>
(g) MP Indemnity after base policy applied	= \$24,625

The Liability is \$270,000. The indemnity calculated with or without a base policy is less than this amount so the calculated amount is payable. If the calculated amount was greater than \$270,000, the indemnity would be limited to that amount. Note: a negative margin is expected to be a rare event. This example is intended to illustrate the possibility, not to suggest it could be a common occurrence.

Example 3:

Assume the following outcomes occur for the crop year:

Acres Planted	= 500
Expected County Yield	= 150 bu
Final County Yield	= 140 bu.
Margin Projected Price	= \$4.00 per bushel
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
Protection Factor	= 1.00
MP-HPO:	Yes

The Margin Harvest Price is greater than the Margin Projected Price, so the Trigger Margin is re-calculated

The Expected Revenue per acre is:

$$150 \text{ bu.} \times \max(\$4.00, \$4.25) = \$637.50 \text{ per acre}$$

Expected Costs remain at \$476.25 per acre.

The Expected Margin per acre is:

48 Indemnity Calculations (continued)

$$\$637.50 - \$476.25 = \$161.25$$

Expected Margin – {Expected Revenue x (1.000 - coverage level)} = Trigger Margin

$$\$161.25 - \{637.50 (1.000 - 0.90)\} = \$97.50 \text{ per acre}$$

The Harvest Revenue is 140 bu. (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)
<u>Other inputs</u>	= \$ 300.00 (not subject to price change)
Harvest Costs	= \$ 517.50 total Harvest Cost (total of Allowed Inputs subject and not subject to price change)

The **Harvest Margin** is

$$\$595.00 - \$517.50 = \$77.50 \text{ per acre}$$

The indemnity is calculated as follows (see MP Provisions):

- | | |
|--|-------------------------------|
| (a) Trigger Margin – Harvest Margin | = \$97.50 – \$77.50 = \$20.00 |
| (b) Result (a) x insured acres | = \$ 20.00 x 500.0 = \$10,000 |
| (c) Result (b) x share (assume 1.000) | = \$10,000 |
| (d) Result (c) x Protection Factor (1.00) | = \$10,000 |
| (e) Assume no base policy, MP indemnity | = \$10,000 |
| (f) <u>Assume base policy indemnity</u> | = \$ 0,000 |
| (g) MP Indemnity after base policy applied | = \$10,000 |

49-50 (Reserved)

PART 3 APPLICABILITY OF HANDBOOKS

51 General Overview

This part identifies information specific to the applicability of the CIH, LAM and any other procedural issuance that may require supplemental information with regard to a crop insured under the MP.

52 Specific Information – CIH

The duties and responsibilities identified in Parts 12, 13, 14, 15, and 17 of the CIH apply only when the insured has NOT elected a base policy.

53 Loss Adjustment Manual (LAM)

The duties and responsibilities identified in the LAM DO NOT apply to MP.

54 Loss Adjustment Standards Handbook (LASH)

The Loss Adjustment Standards Handbooks for the crops included under the MP DO NOT APPLY to MP loss determinations.

Since all information needed to calculate a MP indemnity is available from the records maintained by the AIP or from the Actuarial Documents Master, an indemnity can be calculated without requiring information from the insured.

55 General Standards Handbook (GSH)

The General Standards Handbook applies to MP. Specific exceptions to the GSH are included in this document.

56-99 (Reserved)

Acronyms

- The following table provides approved acronyms used in this handbook.

Approved Acronym/Abbreviation	Term
AIP	Approved Insurance Provider
APH	Actual Production History
ARPI	Area Risk Protection Insurance
CAT	Catastrophic Risk protection
CEPP	Commodity Exchange Price Provisions
CIH	Crop Insurance Handbook
FCIC	Federal Crop Insurance Corporation
GSH	General Standards Handbook
HPO	Harvest Price Option
LASH	Loss Adjustment Standards Handbook
LAM	Loss Adjustment Manual
MP	Margin Protection
MP – HPO	Margin Protection with Harvest Price Option
MPCI	Multiple Peril Crop Insurance
PASD	Product Administration and Standards Division
RMA	Risk Management Agency
SCD	Sales Closing Date
SCO	Supplemental Coverage Option
SRA	Standard Reinsurance Agreement

Definitions

The following are definitions of terms used in this handbook.

Allowed Input means a resource identified in the **actuarial documents** as typically used to produce the insured crop in the county where the insured acreage is located. Certain Allowed Inputs will be specified in dollars per acre and are not subject to price change; others will be specified in a quantity per acre and are subject to price change.

Approved Insurance Provider has the same meaning as the term “approved insurance provider” in the Federal Crop Insurance Act. For the purposes of this handbook, Approved Insurance Provider is the same as defined in the Standard Reinsurance Agreement.

Base policy means a policy of insurance **at an additional coverage level** issued under the Basic Provisions that includes any of the following: the Coarse Grains Crop Provisions (7 C.F.R. § 457.113), the Rice Crop Provisions (7 C.F.R. § 457.141), and the Small Grains Crop Provisions (7 C.F.R. § 457.101) or other Crop Provision or plan of insurance designated in the Special Provisions, as applicable.

Dollar Amount of Insurance (per acre) is the amount we determine for a crop, type, and practice insured under MP by multiplying the Expected Revenue by the coverage level and Protection Factor. Following release of the margin harvest price, the Dollar Amount of Insurance may increase if the insured elected MP-HPO and the Margin Harvest Price is greater than the Margin Projected Price.

Expected Cost (per acre) is the dollar amount determined by multiplying the quantity of each Allowed Input subject to price change by the Projected Input Price for that input, summing the dollar values so determined, and adding to this amount the dollar amount for Allowed Inputs not subject to price change.

Expected County Yield is the yield, established in accordance with section 14, for each insured crop, type, and practice, contained in the actuarial documents for the purpose of determining the Expected Revenue.

Expected Margin (per acre) is the result obtained by subtracting the Expected Cost (per acre) from the Expected Revenue (per acre). Following release of the margin harvest price, the Expected Margin may increase if the insured elected MP-HPO and the Margin Harvest Price is greater than the Margin Projected Price.

Expected Revenue (per acre) is the value determined by multiplying the Expected County Yield by the Margin Projected Price. Following release of the Margin Harvest Price, the Expected Revenue may increase if the insured elected MP-HPO and the Margin Harvest Price is greater than the Margin Projected Price.

Final County Yield is the yield, established in accordance with section 14 of the MP, for each

insured crop, type, and practice, used to determine the Harvest Revenue (per acre), and released by RMA at a time specified in the actuarial documents.

Harvest Cost (per acre) is the dollar amount determined by multiplying the quantity of each Allowed Input subject to price change by the Harvest Input Price for that input, summing the dollar values so determined, adding to this amount the sum of the dollar per acre amounts of Allowed Inputs not subject to price change.

Harvest Input Price is a dollar amount per unit of an Allowed Input subject to price change, determined as specified in the Margin Price Provisions, used to determine the Harvest Cost.

Harvest Margin (per acre) is the result of subtracting the Harvest Cost (per acre) from the Harvest Revenue (per acre).

Harvest Price Option refers to MP with Harvest Price Option, an insurance plan which uses the harvest price when determining the insured's Expected Revenue, Expected Margin, and the Trigger Margin.

Harvest Revenue (per acre) is the result obtained by multiplying the Final County Yield by the margin harvest price.

Liability is the amount we determine by multiplying the Dollar Amount of Insurance per acre by the number of acres of the insured crop, unit, type and practice; and, multiplying the result by the insured's share. The Liability establishes the upper limit on the MP indemnity regardless of the outcome of the county yield, commodity price change, and input price change. Following release of the margin harvest price, the Liability may increase if the insured elected MP-HPO and the Margin Harvest Price is greater than the Margin Projected Price.

Margin Harvest Price is a price determined in accordance with the Margin Price Provisions and used to determine the Harvest Revenue of the insured crop.

Margin Price Provisions means the part of the policy that contains the information needed to determine the Margin Projected Price and the Margin Harvest Price for the insured commodity and to determine the Projected Input Prices and the Harvest Input Prices.

Margin Projected Price is the price for each crop determined in accordance with the Margin Price Provisions and used to determine the Expected Revenue of the insured crop.

Margin Protection Price Provisions are MP policy materials containing specific terms of insurance for individual crops.

Margin Coverage Level means a percentage factor the insured elects, for each type and practice, from among those offered in the actuarial documents that is multiplied by the Expected Revenue with this result subtracted from the Expected Margin to determine the Trigger Margin (per acre).

Margin Production Report means a written record showing your annual production in accordance

with section 6 of the MP Provisions. The report contains yield information for the current year, including acreage and production. This report must be supported by written verifiable records from a warehouseman or buyer of the insured crop, by measurement of farm-stored production, or by other records of production approved by us in accordance with FCIC approved procedures.

Margin Unit is the structure we use to determine the amount of Liability and indemnity, as follows:

- (a) For MP with no base policy, all the planted acreage in the county in which you have a share of each unit, type and practice identified as insurable in the actuarial documents; and
- (b) For Margin Protection with a base policy, all the planted acreage in the county in which you have a share of each unit identified on your acreage report.

Projected Input Price is a dollar amount per unit of an Allowed Input subject to price change, determined as specified in the Margin Price Provisions, used to determine the expected value of an Allowed Input.

RMA means the Risk Management Agency, a USDA agency that manages insurance programs for FCIC.

Trigger Margin (per acre) is the Expected Margin (per acre) less the result obtained by subtracting the Expected Revenue multiplied by (one minus the coverage level). Following release of the margin harvest price, the Trigger Margin may increase if the insured elected the MP-HPO and the Margin Harvest Price is greater than the Margin Projected Price.