16-STAX-0021

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UNITED STATES DEPARTMENT OF AGRICULTURE
FEDERAL CROP INSURANCE CORPORATION
COMMON CROP INSURANCE POLICY
STACKED INCOME PROTECTION PLAN
COTTON CROP PROVISIONS

The Stacked Income Protection Plan (STAX) provides protection against loss of revenue due to an area level production loss, a price decline, or a combination of both. STAX is available as a Crop Provision offered under the Common Crop Insurance Policy Basic Provisions (CCIP Basic Provisions) (7 C.F.R. § 457.8). STAX may be purchased in conjunction with the Cotton Crop Provisions offered under the CCIP Basic Provisions or the Cotton Crop Provisions under Area Risk Protection Insurance Basic Provisions (ARPI Basic Provisions) as long as both policies are purchased through us, or it may be purchased as the sole coverage for your cotton crop. STAX does not provide payments for replanting or prevented planting. Late planting is not available for STAX.

STAX is a revenue plan of insurance, and your projected price and harvest price will be determined in accordance with the provisions of the Commodity Exchange Price Provisions (CEPP).

Terms and Conditions

1. Definitions

Companion policy - A cotton policy issued under the CCIP Basic Provisions or ARPI Basic Provisions purchased from us in addition to your STAX policy.

Area loss trigger - The percentage of expected area revenue you choose, ranging from 90 percent to 75 percent, below which an indemnity is paid and which is contained in the actuarial documents.

Coverage range - A percentage of not less than 0 percent and not more than 20 percent, which represents the amount of the expected area revenue covered by STAX and which is contained in the actuarial documents.

Expected area revenue - The expected area yield multiplied by the projected price.

Expected area yield - The yield contained in the actuarial documents for each type and practice.

Final area revenue - The revenue determined by multiplying the final area yield by the harvest price. The final area revenue is used to determine whether an indemnity will be due.

Final area yield - The yield for each insured type and practice, released by FCIC at a time specified in the actuarial documents.

Liability - In lieu of the definition contained in the CCIP Basic Provisions, the liability of this policy will be the amount used to calculate your premium.

NASS - The National Agricultural Statistics Service, an agency within USDA, or its successor.

Payment factor - A factor that represents the production area wide loss as compared to your coverage range.

Planted acreage - In addition to the definition contained in the CCIP Basic Provisions, cotton seed broadcast and subsequently mechanically incorporated will not be considered planted.

Policy protection - The dollar amount of insurance provided by this policy for each type and practice.

Production area - The geographical area that the expected and final area yields are based on, designated generally as a county, but may be a smaller or larger geographical area as specified in the actuarial documents.

Protection factor - The percentage you choose for each type and practice. The protection factor is used to calculate your policy protection.

STAX production report - A written record showing your annual production in accordance with section 4. The report contains yield information for the current year, including all planted acreage and crop 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.

STAX production reporting date - The date contained in the actuarial documents by which you are required to submit your STAX production report.

2. Insured Crop

(a) In addition to the provisions contained in section 8 of the CCIP Basic Provisions, the insured crop will be all upland cotton, in the county for which premium rates are provided in the actuarial documents in which you have a share; and

(b) STAX will only insure upland cotton that is not (unless allowed by the Special Provisions):

(1) Colored cotton lint;

(2) Planted into an established grass or legume; or

(3) Interplanted with another spring planted crop.

3. Insurable Acreage and Unit Division

(a) In addition to section 9 of the CCIP Basic Provisions, STAX will only insure acreage that is:

(1) Planted to the insured crop on or before the final planting date;

(2) Reported to us by the acreage reporting date; and

(3) Physically located in the county shown on the application accepted by us.

(b) In addition to section 9(a)(2) of the CCIP Basic Provisions, STAX will not insure any acreage:

(1) Where the crop was destroyed or put to another use during the crop year for the purpose of conforming with, or obtaining a payment under, any other program administered by the USDA;

(2) Where we determine you have failed to follow good farming practices for the insured crop;

(3) Where the conditions under which the crop is planted are not generally recognized for the area;

(4) Which is insured by a companion policy and:

(i) The type and practice is determined to be

ineligible for STAX coverage, in accordance with section 10(b); or
(ii) Is insured under the Supplemental Coverage Option, in accordance with section 10(c); or
(5) Physically located in a county for which STAX actuarial documents are unavailable, unless insurance is allowed by a written agreement.
(c) The provisions regarding units and unit division in section 34 of the CCIP Basic Provisions are not applicable to STAX.

4. Report of Acreage and Production

(a) In addition to the provisions of section 6 of the CCIP Basic Provisions, if you have submitted an estimated acreage report in accordance with section 6(d)(3) of the CCIP Basic Provisions and an acreage measurement is not provided to us by the time the final area revenue is calculated, we may apply the provisions contained in sections 6(d)(3)(ii)(A) or (B) of the CCIP Basic Provisions to finalize your claim.
(b) In addition to the provisions in section 6(f) of the CCIP Basic Provisions, if we deny liability for unreported acreage, no premium will be due on such acreage and no indemnity will be paid.
(c) In lieu of section 3(f) of the CCIP Basic Provisions, you must submit a STAX production report to us on our form, by type and practice in the county, by the STAX production reporting date specified in the actuarial documents:
(1) If you have submitted an acceptable production report to us for a companion policy prior to the STAX production reporting date specified in the actuarial documents, we will consider that production report to be your STAX production report; and
(2) Except as provided by paragraph (1), if you do not submit a STAX production report to us by the STAX production reporting date, your protection factor for your policy in the following crop year will be limited to the lowest protection factor available.
(d) You must certify the accuracy of the information on your STAX production report.
(1) If you fail to accurately report your production you will be subject to the provisions in section 4(c)(2) unless:
(i) You correct the information on or before the STAX production reporting date; or
(ii) The incorrect information was the result of our error or the error of someone representing USDA.
(2) If you do not have records to support the information on your STAX production report, you will be subject to the provisions in section 4(c)(2).
(e) If you do not submit a STAX production report, or another production report in accordance with (c)(1), or you misreported your STAX production report and you switch to another plan of insurance in the following year:
(1) If you switch to an individual plan, you will be subject to having a yield assigned in accordance with FCIC procedures; or
(2) If you switch to an area plan, your protection factor for that area plan will be limited to the lowest protection factor available.

5. Protection Factors, Coverage Ranges, and Policy Protection

(a) You must choose a protection factor:
(1) From a range of 80 percent to 120 percent, unless otherwise specified in the Special Provisions;
(2) As a whole percentage from the range specified in paragraph (1); and
(3) You may choose a different protection factor for each type and practice shown on the actuarial documents.
(b) In lieu of section 3(b) of the CCIP Basic Provisions, you must select an area loss trigger and coverage range from those offered in the actuarial documents for each type and practice shown on the actuarial documents subject to the limitations contained in section 10(b), as applicable.
(c) You may change the protection factor, area loss trigger, or coverage range for the following crop year by giving written notice to us not later than the sales closing date for the insured crop.
(d) If you do not select a new protection factor and coverage range on or before the sales closing date we will assign the same protection factor and coverage range as the previous year.
(e) Your policy protection for each type and practice is calculated as follows:
(1) For revenue protection:
(i) Multiply the expected area yield by the higher of the projected price or harvest price;
(ii) Multiply the result of clause (i) by your coverage range;
(iii) Multiply the result of clause (ii) by your protection factor;
(iv) Multiply the result of clause (iii) by the number of acres; and
(v) Multiply the result of clause (iv) by your share in such acres.
(2) For revenue protection with the Harvest Price Exclusion:
(i) Multiply the expected area yield by the projected price;
(ii) Multiply the result of clause (i) by your coverage range;
(iii) Multiply the result of clause (ii) by your protection factor;
(iv) Multiply the result of clause (iii) by the number of acres; and
(v) Multiply the result of clause (iv) by your share in such acres.
(f) In lieu of section 3(c)(5)(i) of the CCIP Basic Provisions, if the projected price cannot be calculated for the current crop year under the provisions contained in the CEPP:
(1) STAX coverage will not be provided;
(2) Notice will be provided on RMA's website by the date specified in the applicable projected price definition contained in the CEPP; and
(3) Your coverage will automatically resume the next crop year that STAX is available unless you cancel your coverage by the cancellation date although you may change your coverage range, protection factor, or area loss trigger by the sales closing date.

6. Annual Premium and Administrative Fee

(a) In lieu of section 7(c) of the CCIP Basic Provisions, the annual premium amount is calculated by:

(1) Multiplying the expected area revenue by your coverage range;

(2) Multiplying the result of paragraph (1) by your protection factor;

(3) Multiplying the result of paragraph (2) by the number of acres;

(4) Multiplying the result of paragraph (3) by your share in such acres to determine the liability; and

(5) Multiplying the liability by the premium rate and any premium adjustment factors that may apply.

(b) A separate administrative fee will be owed for this policy and any other policy issued under the authority of the Act for the insured crop.

7. Causes of Loss

(a) In lieu of section 12 of the CCIP Basic Provisions, STAX provides protection against widespread loss of revenue in a production area due to unavoidable naturally occurring events.

(b) 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 area yield, is not an insurable cause of loss under STAX.

8. Area Loss Trigger, Payment Factor, and Indemnity Calculations

(a) In lieu of section 14 of the CCIP Basic Provisions, individual farm revenues are not considered when calculating losses under STAX. It is possible that your individual farm may experience reduced revenue and you do not receive an indemnity under STAX.

(b) An indemnity is due if:

(1) For revenue protection with the harvest price exclusion, the final area revenue is less than the expected area revenue multiplied by the area loss trigger; or

(2) For revenue protection, the final area revenue is less than the expected area yield multiplied by the higher of the projected price or harvest price and by the area loss trigger.

(c) If an indemnity is due, the payment factor is calculated by:

(1) For revenue protection with the harvest price exclusion:

(i) Dividing the final area revenue by the expected area revenue;

(ii) Subtracting clause (i) from the area loss trigger; and

(iii) Dividing clause (ii) by the coverage range to determine the payment factor.

(2) For revenue protection:

(i) Multiplying the expected area yield by the higher of the projected price or harvest price;

(ii) Dividing the final area revenue by the result of (i);

(iii) Subtracting clause (ii) from the area loss trigger; and

(iv) Dividing clause (iii) by the coverage range to determine the payment factor.

(3) The payment factor is limited to a maximum of 1.000.

(d) Indemnities are calculated by multiplying the policy protection by the payment factor.

(e) Indemnities are calculated following release of the final area yield and harvest price as specified in the actuarial documents.

(f) If an indemnity is due, we issue any payment to you not later than 30 days after release of the final area revenue.

9. Expected and Final Area Yields

(a) The data source used for the expected and final area yields will be based on the best available data and will be specified in the actuarial documents.

(b) Except as otherwise provided in this section, the data source used to establish the expected area yield will be used to establish the final area yield.

(c) If the data source used to establish the expected area yield is not able to provide sufficient data to establish the final area yield because the data is no longer available, credible, or reflects changes that may have occurred after the expected area yield was established;

(1) FCIC will determine the final area yield based on the most accurate data available from subsection (g), as determined by FCIC; or

(2) To the extent that practices used during the crop year change from those upon which the expected area yield is based, the final area yield may be adjusted to reflect the yield that would have resulted but for the change in practice. For example, if the production area is traditionally 90 percent irrigated and 10 percent non-irrigated, but this year the production area is now 50 percent irrigated and 50 percent non-irrigated, the final area yield will be adjusted to an amount as if the production area had 90 percent irrigated acreage.

(d) If the final area yield is established from a data source other than that used to establish the expected area yield, FCIC will provide notice of the data source and the reason for the change at the time the final area yield is published.

(e) If expected and final area yields are based on NASS data, the final area yield will be the most current NASS yield at the time FCIC determines the final area yield in accordance with the actuarial documents.

(f) The final area yield determined by FCIC is considered final for the purposes of establishing whether an indemnity is due and will not be revised for any reason.

(g) Expected and final area yields used under this insurance program for a type and practice may be based on:

(1) Data collected by NASS, regardless of whether such data is published or unpublished; or

(2) Crop insurance data, other USDA data, or other data sources, if elected by FCIC.

(h) All expected and final area yields are established by FCIC and are matters of general applicability. Refer to section 20(k) of the CCIP Basic Provisions.

10. Other Insurance

(a) In lieu of section 22 of the CCIP Basic Provisions, you may obtain a companion policy for the insured crop provided the companion policy is obtained through us.

(b) For a type and practice to be eligible for STAX coverage when you have a companion policy:

(1) The coverage range you elect for the type and practice added to the coverage level you have

elected for the companion policy must not exceed the area loss trigger you elect for the type and practice; and

(2) If the companion policy provides coverage on an area yield or revenue basis, the coverage range you elect for the type and practice must not exceed the limit contained in the actuarial documents for the the protection factor you have elected for the companion policy.

(3) If we determine that the area loss trigger and coverage range you have elected for a type and practice exceeds the limits in paragraphs (1) or (2):

(i) We will reduce the coverage range for that type or practice, in 5 percent increments, until the limits in paragraphs (1) and (2) are satisfied; and

(ii) If this reduction would result in a coverage range of less than 5 percent, no STAX coverage will be provided for that type or practice for the crop year.

(c) If you have a companion policy that provides coverage on an individual basis for the crop insured by STAX, and you have elected the Supplemental Coverage Option (SCO) for that policy:

(1) You must designate which acres of the crop in the county will be covered by STAX and which acres will be covered by SCO on or before the sales closing date (the same acreagxe cannot be covered by both STAX and SCO), as follows:

(i) You must provide a production report for the companion policy by the sales closing date;

(ii) You must designate your acres for STAX and SCO coverage for each approved APH yield for the companion policy; and

(iii) You may designate whether STAX or SCO coverage applies for any acres added to your operation after the sales closing date.

(2) Any acres insured by the companion policy that are not designated for STAX coverage will be covered by SCO.

(d) If you have obtained other insurance issued under the authority of the Act not specifically authorized by section 10(a), this policy will be void and you may be subject to the consequences authorized under this policy, the Act, or any other applicable statute.

(e) Nothing in this section prevents you from obtaining other insurance not authorized under the Act.

11. Program Dates

(a) In addition to the definitions contained in the CCIP Basic Provisions, the cancellation and termination dates for this policy are specified in the actuarial documents.

(b) In accordance with section 4 of the CCIP Basic Provisions, the contract change date is November 30 preceeding the cancellation date.

12. Written Agreements

(a) Written agreements are available for STAX policies only for determining insurable acreage in accordance with section 9 of the CCIP Basic Provisions and section 3 of this policy.

(b) If the written agreement is for a county in which STAX is otherwise unavailable, all variable terms of the contract must match those of the county used to establish the terms of the written agreement.

13. Examples

The following are examples of the calculation of the premium, policy protection and indemnity of STAX for each plan of insurance. Your information will likely be different and you should consult the actuarial documents in your county and the policy information. The following facts are for illustration purposes only and apply to each of the examples.

Producer A farms 100 acres in county X and has a 100 percent share in those acres. The actuarial documents in county X show that the expected area yield is 525 pounds per acre, the projected price is $0.72, and the expected area revenue is $378.00. From the actuarial documents in county X, Producer A elects a 90 percent area loss trigger and a 20 percent coverage range. Producer A selects a protection factor of 110 percent.

The premium rate is based on the published volatility factor and for this example is 0.3584 for revenue protection, and 0.2816 for revenue protection with the Harvest Price Exclusion. The subsidy factor for STAX is 0.80.

At the end of the insurance period, for county X, FCIC releases a harvest price of $0.77, a final area yield for county X of 399 pounds, and a final area revenue for county X of $307.23.

<u>Examples for revenue protection:</u>

Step 1: Calculate the Policy Protection

Formula: Expected area yield times the higher of the projected price or harvest price times coverage range times protection factor times acres times share equals policy protection

525 pounds x $0.77 x 0.20 x 1.10 x 100 x 1.00 = $8,894 policy protection

Step 2: Calculate the Total Premium

Formula: Expected area revenue times coverage range times protection factor times acres times share times premium rate equals total premium

$378.00 x 0.20 x 1.10 x 100 x 1.00 x 0.3584 = $2,980 total premium

Step 3: Calculate the Subsidy amount

Formula: Total premium times subsidy factor equals subsidy

$2,980 x 0.80 = $2,384 subsidy

Step 4: Calculate the Producer Premium

Formula: Total premium minus subsidy equals producer premium

$2,980 - $2,384 = $596 producer premium

Step 5: Calculate the Payment Factor

Formula: (Area loss trigger minus (final area revenue divided by (expected area yield times the higher of the projected price or harvest price))) divided by coverage range equals payment factor

(0.90 – ($307.23 ÷ (525 x $0.77))) ÷ 0.20 = 0.700

Step 6: Calculate the Indemnity

Formula: Policy protection times payment factor equals indemnity

$8,894 times 0.700 = $6,226 indemnity

<u>Examples for revenue protection with the Harvest Price Exclusion:</u>

Step 1: Calculate the Policy Protection

Formula: Expected area yield times projected price times coverage range times protection factor times acres times share equals policy protection

525 pounds x $0.72 x 0.20 x 1.10 x 100 x 1.00 =

$8,316 policy protection

Step 2: Calculate the Total Premium

Formula: Expected area revenue times coverage range times protection factor times acres times share times premium rate equals total premium

$378.00 x 0.20 x 1.10 x 100 x 1.00 x 0.2816 = $2,342 total premium

Step 3: Calculate the Subsidy amount

Formula: Total premium times subsidy factor equals subsidy

$2,342 x 0.80 = $1,874

Step 4: Calculate the Producer Premium

Formula: Total premium minus subsidy equals producer premium

$2,342 - $1,874 = $468

Step 5: Calculate the Payment Factor

Formula: (Area loss trigger minus (final area revenue divided by expected area revenue)) divided by coverage range equals payment factor

(0.90 – ($307.23 ÷ $378.00)) ÷ 0.20 = 0.436

Step 6: Calculate the Indemnity

Formula: Policy protection times payment factor equals indemnity

$8,316 times 0.436 = $3,626 indemnity