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# Margin Protection Overview

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Margin Protection

Crop Year 2021



# Topics

- Margin Protection
  - The Margin Concept
  - Background and Overview
  - Margin Protection Basics
  - A few MP Examples
  - Recent Changes to MP
  - MP sales for 2020 CY



# What is Margin Protection?

- MP provides growers with an insurance product that protects their expected operating margin, i.e., the difference between expected revenue and specific expected costs.
- MP takes into consideration changes in crop prices, reductions of yields, **and changes in the prices of inputs used to grow the crop.**



## The Margin Concept

- Crop insurance is designed to transfer risk from farmers to insurance companies. Crop insurance is designed to assure that at the end of the year farmers' potential losses are limited.
  - Yield Risk (bu/ac)
  - Price Risk (\$/bu)
  - Revenue Risk (bu/ac x \$/bu = \$/ac)
  - Cost risk (Cost expended \$/ac)
- The money that a farmer has left after harvesting bushels, selling them, and paying operating costs is the margin. This is the money the farmer has to cover land costs, pay for management labor, and support their family.
- Margin, not bushels, prices, or costs, is the number a farmer has been looking to insure.

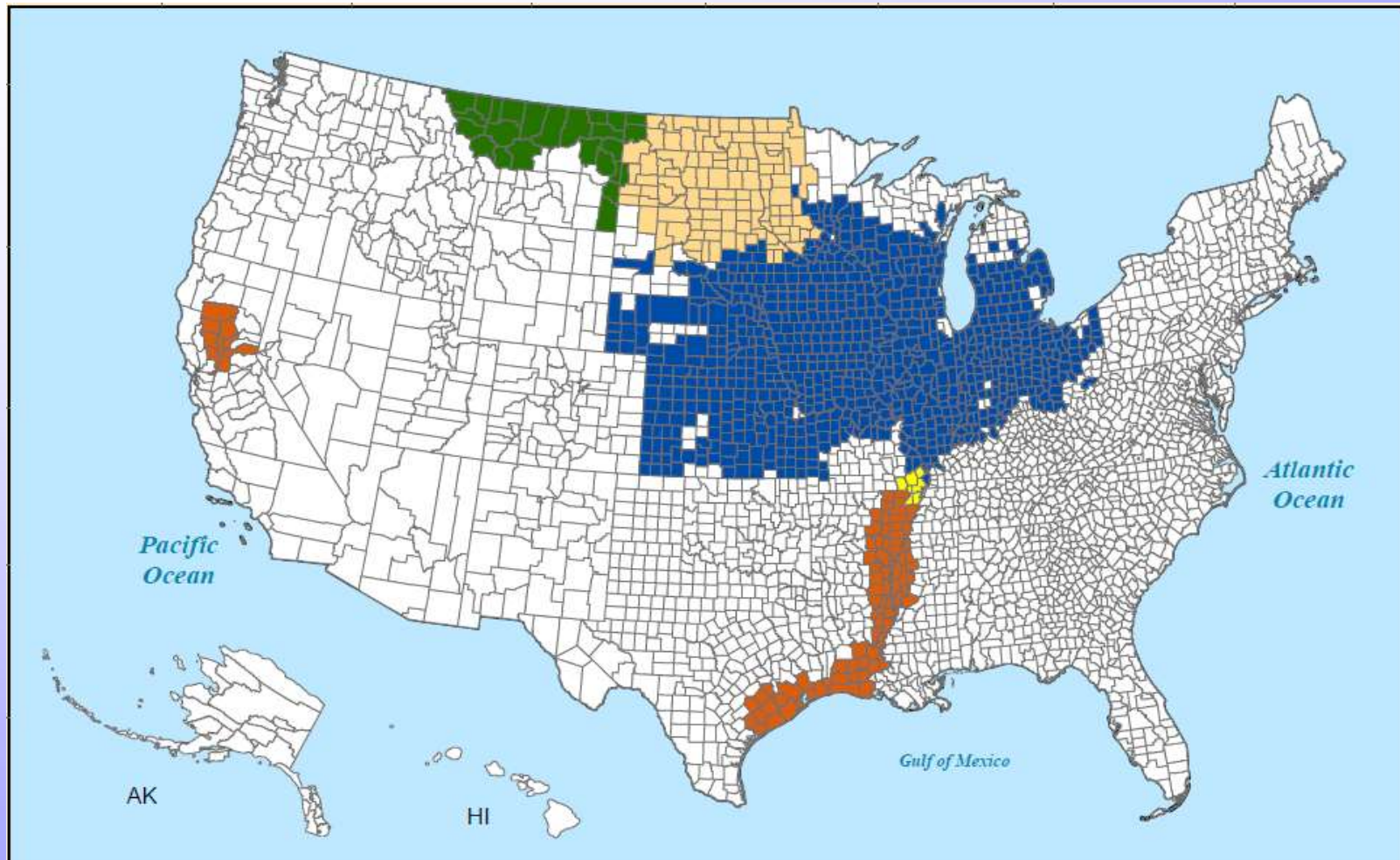


## Background

- The Original Concept paper for Margin Protection was provided to RMA staff in 2007.
- The 2008 Farm bill included the “Concept” 508(h) process.
- Farm Risk and Watts & Associates submitted concepts under these provisions in 2009.
- The Agricultural Act of 2014 amended the Federal Crop Insurance Act to authorize MP.
- MP was offered for the first time in 2016 in select areas, only Iowa for Corn and Soybeans.
- For the 2018 Crop Year, FCIC approved a major expansion of MP throughout the Midwest.
- FCIC is considering Nationwide expansion for 2022.



# Overview



- Corn, Rice, and Soybean Margin Protection Available
- Corn, Soybean, and Wheat Margin Protection Available
- Corn and Soybean Margin Protection Available
- Rice Margin Protection Available
- Wheat Margin Protection Available
- No Margin Protection Available

**Margin Protection Plan**  
**Corn, Rice, Soybeans, and Wheat**  
**2018**



**Coordinate System: Albers**  
 Central Meridian: 96°00'00"W  
 1st Std Parallel: 20°00'00"N  
 2nd Std Parallel: 60°00'00"N  
 Latitude of Origin: 40°00'00"N  
**Metadata:**  
 County Files - US Census Tiger  
 Files 2016  
 Margin Protection Availability  
 USDA - RMA - June 2017

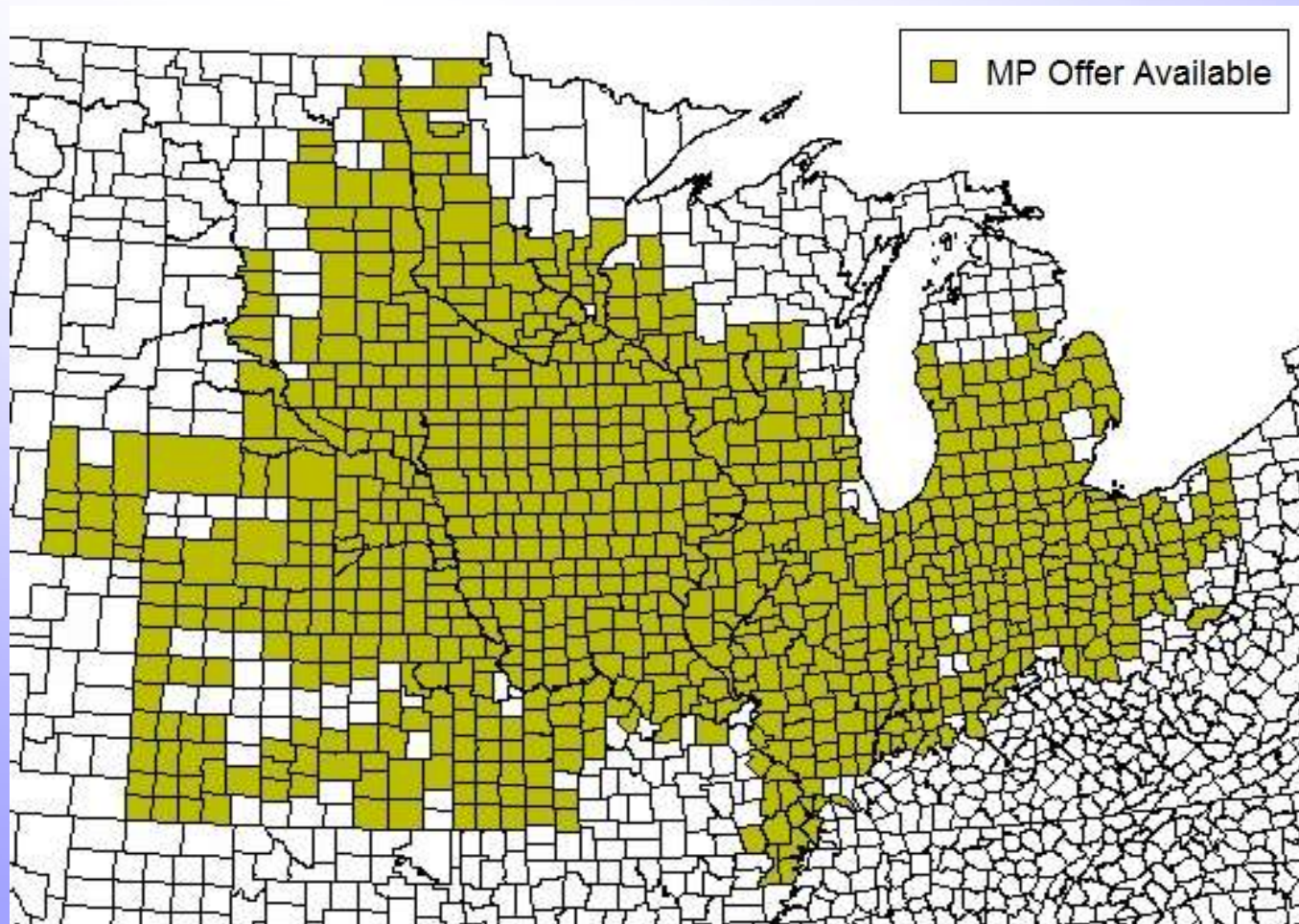
**STATEMENT**  
 The Map represents  
 the availability of Margin  
 Protection offerings from  
 the Risk Management Agency





# Overview

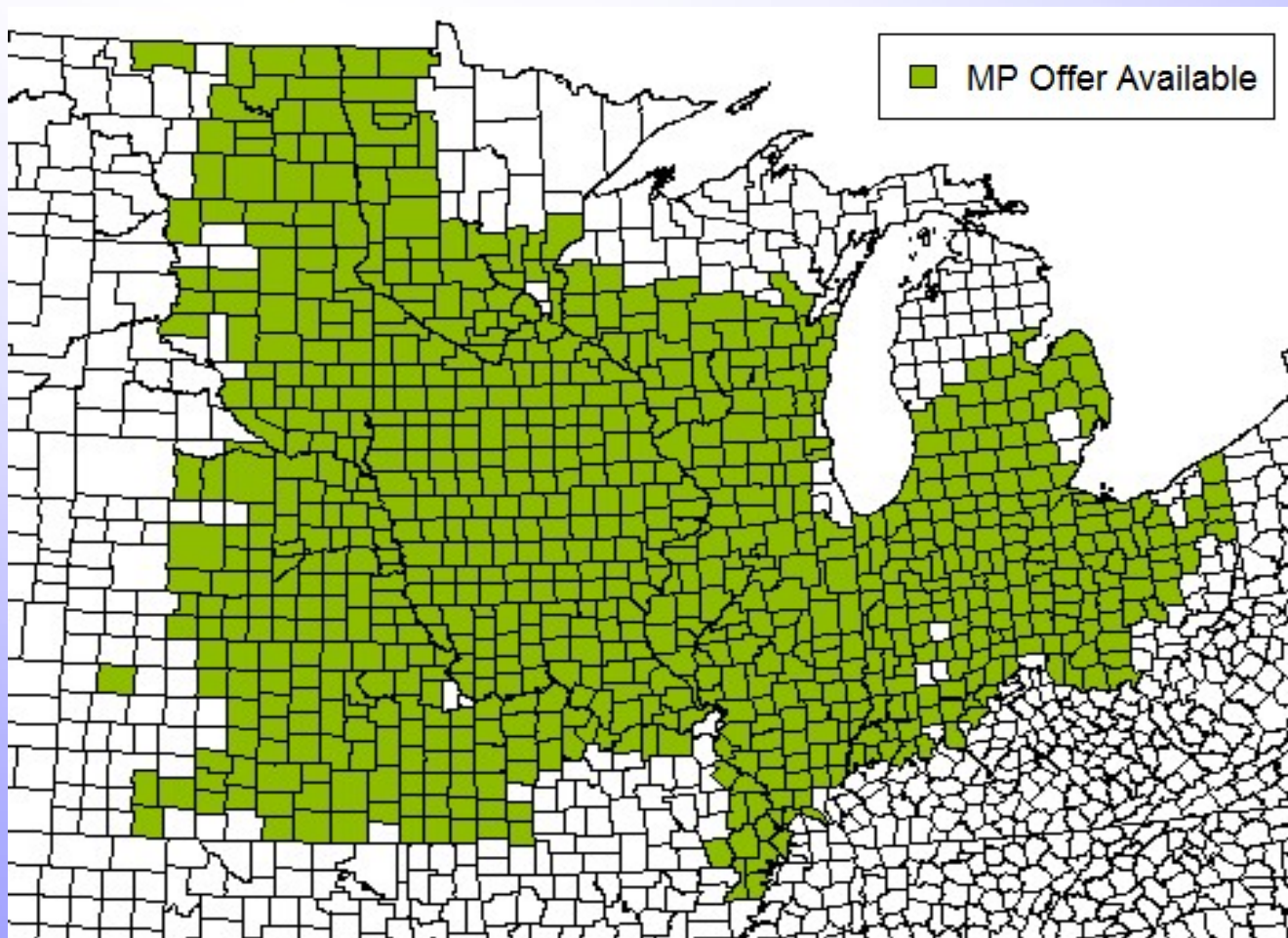
- 2021 Crop Year Corn MP





# Overview

- 2021 Crop Year Soybean MP

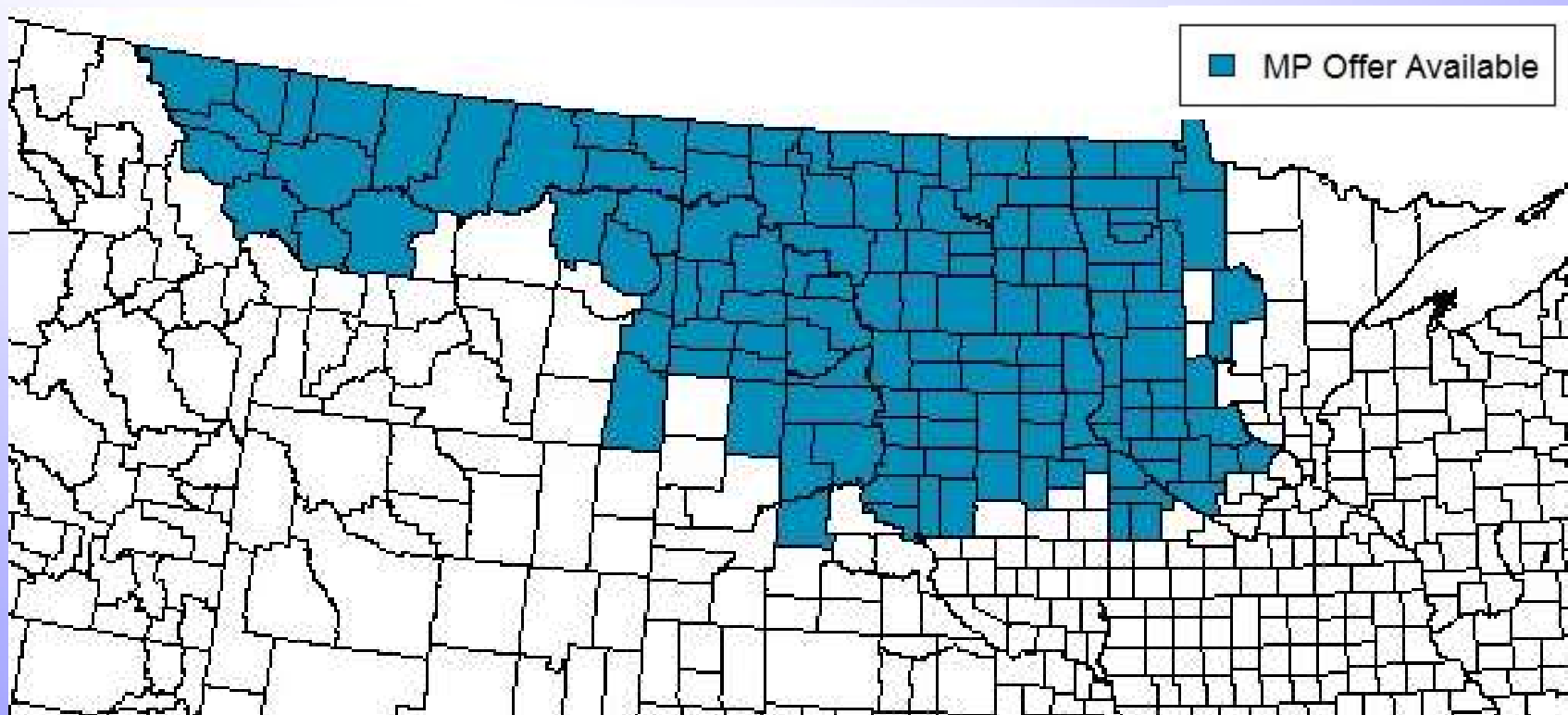






# Overview

- 2021 Crop Year Wheat MP





# Why Margin Protection?

- 1<sup>st</sup> Generation of Crop Insurance – Yield
  - GYC, APH, and YP
  - Insures against: reduction in yield
- 2<sup>nd</sup> Generation of Crop Insurance – Revenue
  - RA, CRC, IP, GRIP, RP, and ARP
  - Insures against: reduction in yield or price
  - Revenue = Price x Yield
- 3<sup>rd</sup> Generation of Crop Insurance – Margin
  - Margin Protection
  - Insures against: reduction in margin
  - Margin = (Price x Yield) - Cost



# Margin Protection Basics

- Margin Protection for corn, soybeans and wheat has a September 30 SCD
  - Price discovery for Projected Prices is August 16 to September 15.
  - MP and RP use the same harvest prices.
- Margin Protection is Area-Based
  - The same expected county yields used for ARP are used for MP
  - MP offers coverage levels from 95% to 70% and protection factors from 0.8 to 1.2
- Margin Protection is Unique
  - Growers can choose to also buy (RP) in the spring. Growers who do so get a premium credit on the MP premium and receive the greater of the MP or RP indemnity in the fall.



## Margin Protection Basics

- Margin Protection makes no effort to measure any individual grower's actual costs incurred.
- Instead, assumptions are made based on the local agronomic conditions to establish the quantity of key inputs. These are based on the relationship between expected county yield and the volume of an input needed to grow a bushel
- Costs included:
  - Diesel
  - Nitrogen (Urea)
  - Phosphorus (DAP)
  - Interest
  - Potassium (Potash)
  - Seed and other costs



# Margin Protection Basics

- Prior to SCD, RMA releases

- County Expected Yield (ECY)
- Projected Price
- Expected Cost

- Expected Margin is calculated

Expected Margin = (ECY x Projected Price) – Expected Cost

- After Harvest, RMA releases

- Final County Yield (FCY)
- Harvest Price
- Harvest Cost

- Harvest Margin is calculated

Harvest Margin = (final Yld x Harvest Price) – Harvest Cost



## Simple Example: MP

### Calculating an MP Trigger

- Expected Margin  
(Expected Yield x Projected Price) – Expected Cost  
 $(200 \text{ bu/ac} \times \$3.60) - \$260/\text{ac} = \$460/\text{ac}$
- Margin Deductible  
Expected Revenue x (1-Coverage Level)  
 $(200 \text{ bu/ac} \times \$3.60 \times (1-95\%)) = \$36/\text{ac}$
- Trigger Margin  
Expected Margin – Margin Deductible  
 $\$460/\text{ac} - \$36/\text{ac} = \$424/\text{ac}$



## Simple Example: MP

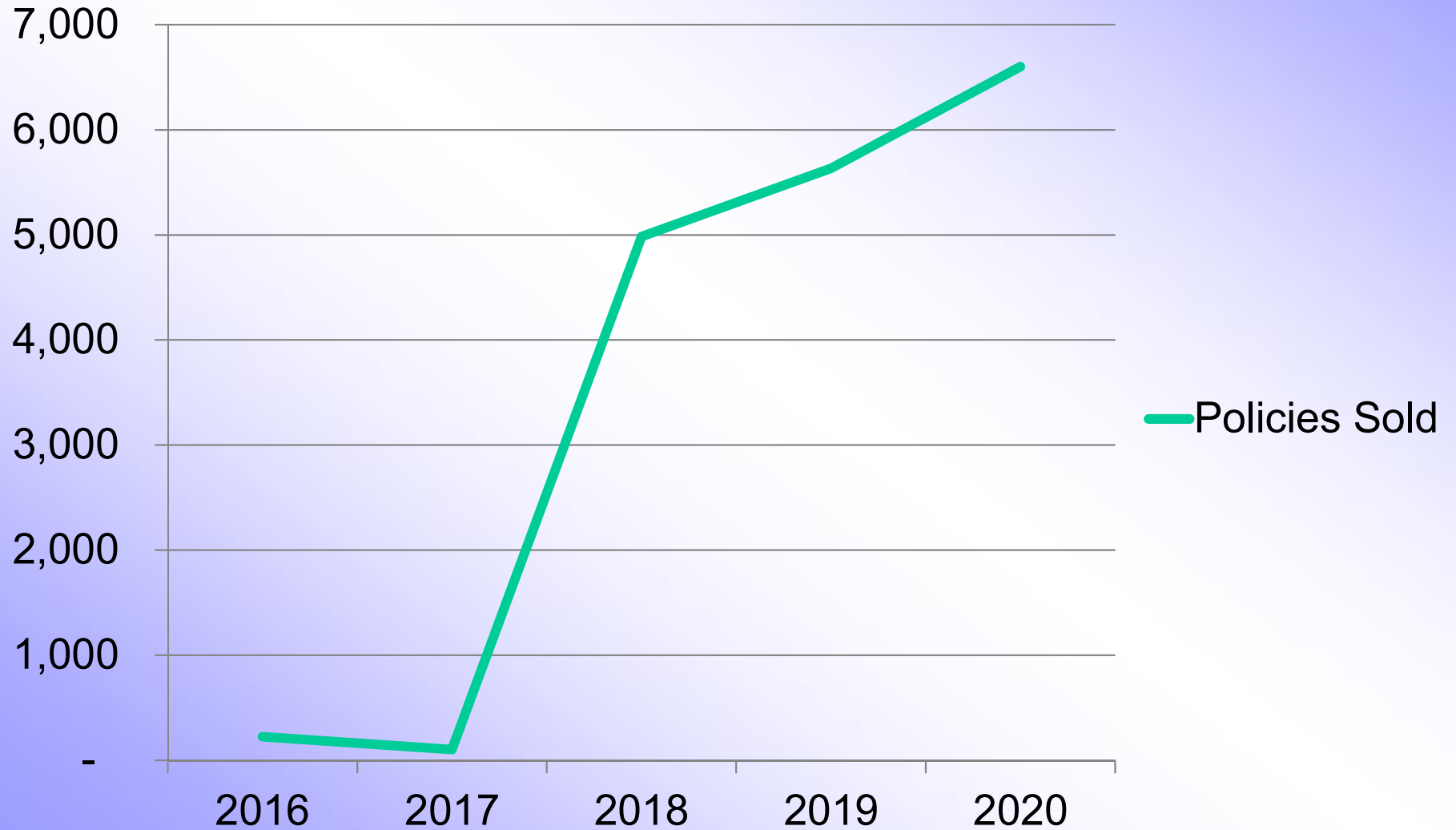
### Calculating an MP Indemnity

- Harvest Margin  
(Harvest Yield x Harvest Price) – Harvest Cost  
 $(160 \text{ bu/ac} \times \$3.30) - \$260/\text{ac} = \$268/\text{ac}$
- Margin Loss  
Trigger Margin – Harvest Margin  
 $\$424 - \$268 = \$156/\text{ac}$
- Margin Indemnity  
Margin Loss x Protection Factor  
 $\$156/\text{ac} \times 1.20 = \$187.20/\text{ac}$



# MP Sales Statistics

## Margin Policies Sold

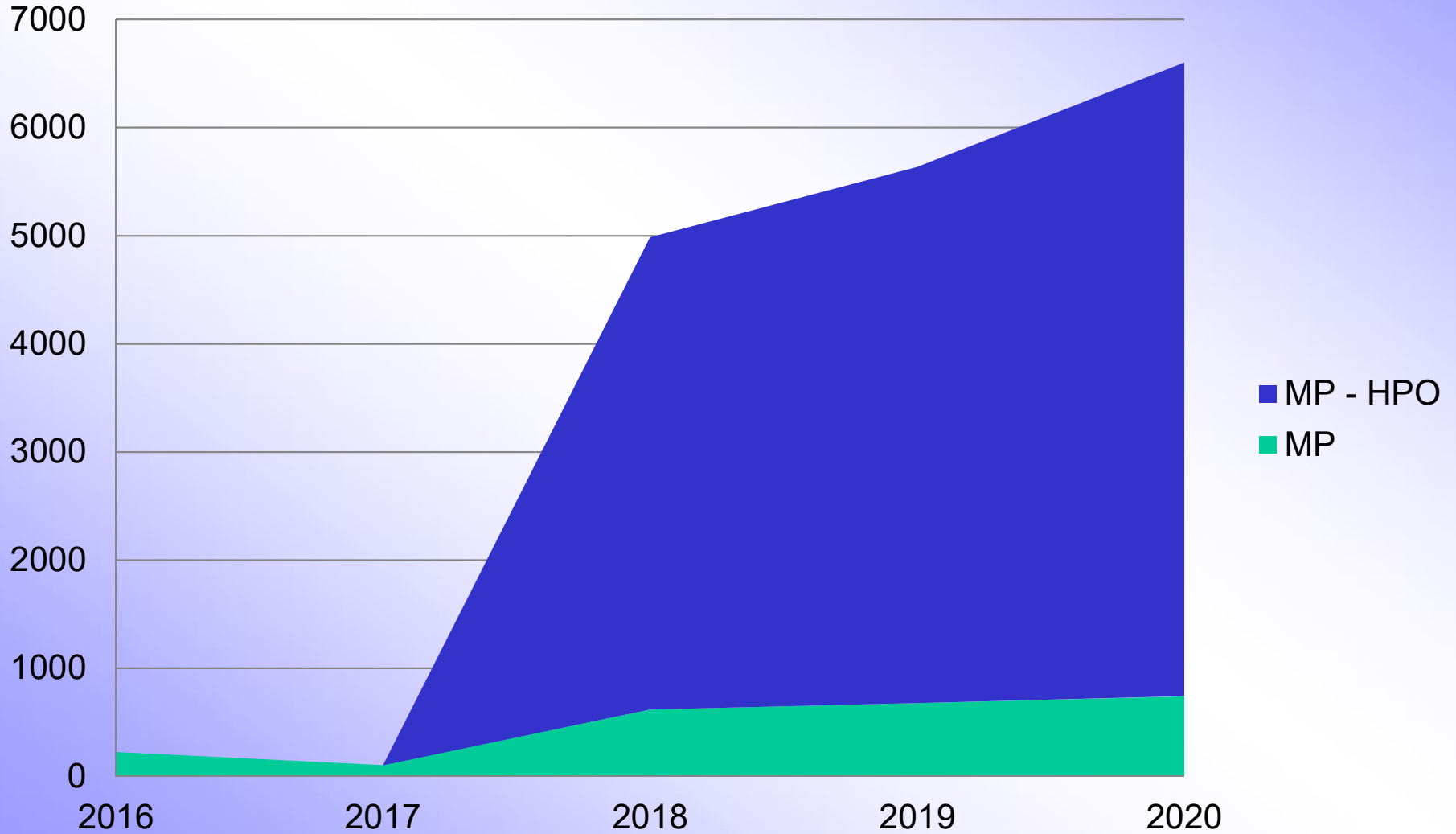






# MP Sales Statistics

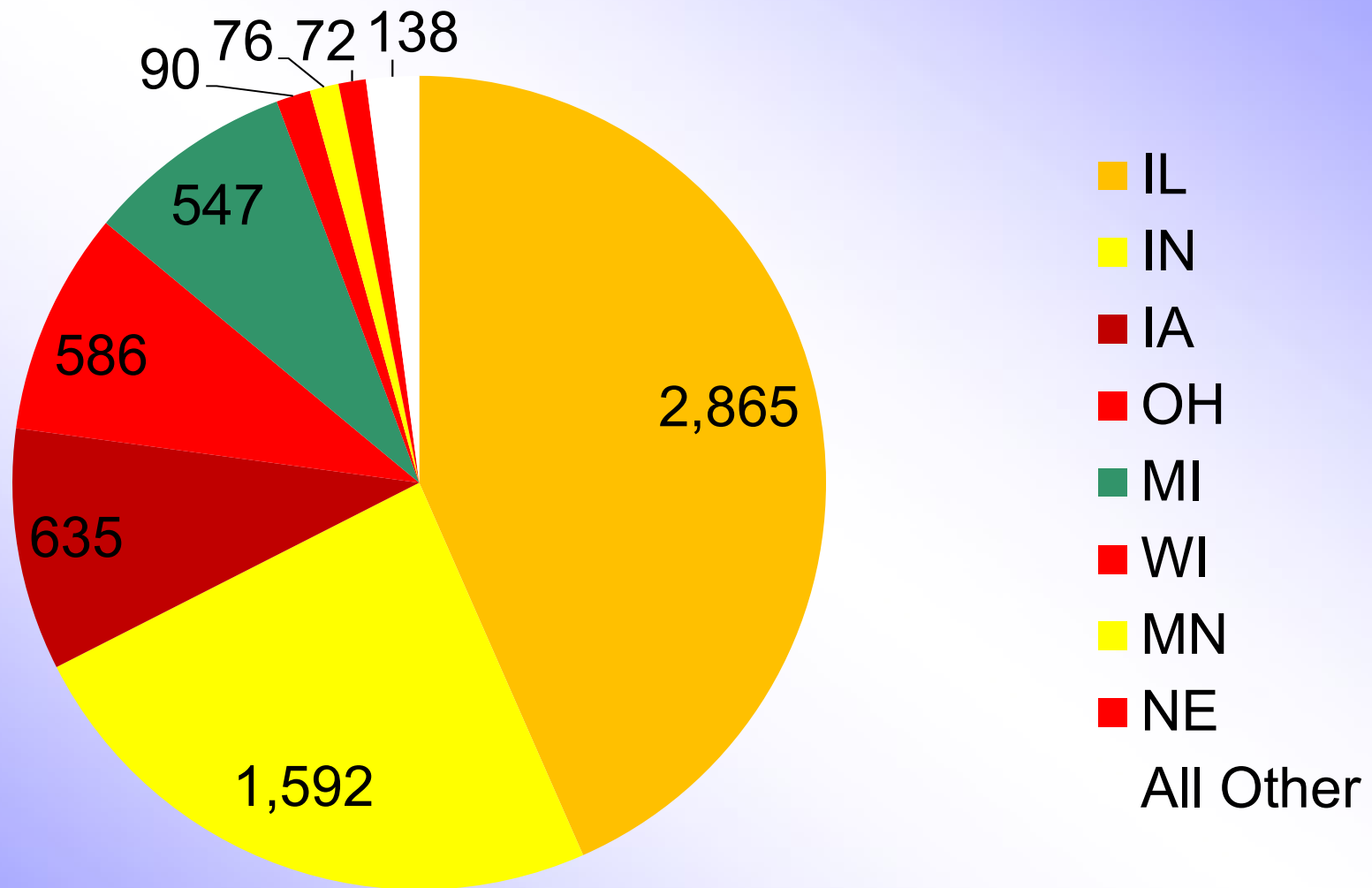
## Margin Policy Sales by Year by Plan





# MP Sales Statistics

## MP Policies Sold 2020





## Recent Changes to MP

- There were no meaningful changes for 2021, but starting in 2020:
  - Margin Protection Expected County Yields are based on data collected by RMA from production reports, instead of using NASS county yield estimates.
  - As a result of the change, farmers can expect more accurate county yields and more effective coverage.
  - The change will push back indemnity dates to match the SCO indemnities (final yields are expected to be released in June of 2021 for 2020 CY.)



## **Margin Protection Area Plan Disclaimer:**

Your actual harvest yields do not affect a claim on Area Plans.

MP Harvest Revenue will be based on Production from Planted Acres reported to Crop Insurance Agents.



## **Margin Protection Area Plan Disclaimer:**

Claims are delayed until RMA County Harvest yields are published.

RMA does not report County Harvest Yields for corn or soybeans until on or before June 16<sup>th</sup> of the year following harvest and they do not report County Harvest Yields for wheat until on or before April 16<sup>th</sup> of the year following harvest.

Claims will be paid by July 16, 2022 for the 2021 crop year for corn and soybeans (by May 16<sup>th</sup> for wheat).



## **Margin Protection Area Plan Disclaimer:**

Premium bill is due same time as the individual plans (Sept 30<sup>th</sup>)

No Replant

No Prevent Plant

No Quality Adjustment

For corn and soybeans, you must turn in your harvest yields by Feb 15<sup>th</sup> if you do not buy a base policy.



# Margin Protection Contacts

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