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### **Will the 95% Per Acre Payment Cap Eliminate Insured Farmers' 2007 Disaster Payments?<sup>1</sup>**

Many insured farmers have raised the concern about receiving payments under the 2007 Ad Hoc Disaster Assistance program. The concern is that their combined crop insurance indemnity payments plus production will exceed the 95% per payment acre cap. The cap is 95% times the higher of the farmer's aph or county yield set by the state committee times the "market price". The market price is defined as the higher of the Marketing Year Average (MYA) price or the APH price election.

If a farmer has a 2005 or 2006 loss, the MYA price is known for the crops. Therefore, FSA will pay the loss on the year with the highest payment. If later the 2007 year generates a bigger loss then FSA will pay the additional amount.

If a farmer has no loss in 2005 or 2006 but has a loss on 2007 wheat, then the 95% per acre payment cap is based on the APH price of \$3.90 because the MYA price will not be complete until July 1, 2008. Currently FSA is using the \$3.90 APH price until the end of the marketing year causing many revenue insured wheat farmers to be over the payment cap for 2007. Currently the USDA is forecasting the 2007/08 MYA price for wheat at \$5.80-6.40 and that "market price" would put farmers under the payment cap. Assuming the forecast is close then there will be almost no situation where the insured wheat farmer will not receive a full disaster payment. But if the farmer's indemnity payment puts him over the 95% per acre payment cap based on the \$3.90 APH price, then he will have a delay in his disaster payment until after the marketing year, next July.

It is always possible the Secretary, assuming he has the authority, will set the "market price" at the forecasted MYA price and make the 2007 wheat disaster payments now. Then at the end of the

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marketing year in July 2008 after the MYA price is announced farmers would have to refund any over payments (more likely deducted from other government payments). Most insured farmers will not be over the 95% per acre payment cap based on a \$5.80 MYA price that is at the low end of the USDA price forecast.

**An Example Farm.** Below are the acres, aph by unit, 65% coverage Revenue Assurance with Harvest Price Option (RA-HPO) indemnity payments, RA-HPO premium paid, and the calculated disaster payments. This farmer did have some production but only unit 8 made the RA-HPO guarantee however, that unit is right at the indemnity trigger point. The net of premium indemnity payment for this farmer was \$66,985. FSA counts the production at the “market price” that is currently defined at the APH price of \$3.90. The production is multiplied by the APH price to value the crop to count against the 95% per acre payment cap. FSA will value this farmer’s production at \$11,778. The farmer’s 95% per acre payment cap is equal to his acres times crop share times aph (his aph is higher than the county) times \$3.90 APH price times 95%, for an \$83,773 cap. The net insurance payment (\$66,985) plus the value of production (\$11,711) plus disaster payment (\$16,855) equals \$95,551 and is over the 95% per acre payment cap. So this farmer will only receive \$5,077 of the calculated \$16,855 disaster payment (Table 1).

If this farmer had purchased the higher 75% coverage RA-HPO that would have likely doubled his premium but the net of premium indemnity payment would have been \$77,183. The net insurance payment (\$77,183) plus the value of production (\$11,711) plus disaster payment (\$16,855) equals \$105,749 and is over the 95% per acre payment cap. So this farmer will receive none of the calculated \$16,855 disaster payment, unless the MYA price is higher (Table 2).

If the MYA price is higher when it is released next summer, then FSA will recalculate the disaster payment using the MYA price as the “market price”. If the MYA price is higher than \$4.54, the FSA will value the production at \$13,633 but it will also raise the 95% per acre payment cap to \$97,521 from \$83,773. That will put this farmer under the cap and he will be paid the balance of his \$16,855 disaster payment or \$11,778 (Table 3). However the balance of the disaster payment will probably not be received until August of 2008.

If this farmer had purchased the higher 75% coverage RA-HPO then he will need a higher MYA price to avoid the 95% per acre payment cap. If the MYA price is higher than \$5.09, the FSA will value the production at \$15,285 but it will also raise the 95% per acre payment cap to \$109,335 from \$83,773. That will put this farmer under the cap and he will be paid the full \$16,855 disaster payment (Table 4). However, assuming 75% RA-HPO coverage, he will not receive any of the disaster payment until next summer after the MYA price is published. Payment will likely be received in August of 2008.

This should explain the confusion on why some insured wheat farmers are thinking they will receive no disaster payments. In almost all cases wheat farmers will receive a full disaster payment but unless there is a policy change, many farmers will not receive the check until next summer.

**Table 1. 65% RA-HPO Coverage Combined with Net Ad Hoc Disaster Aid for 2007 Wheat Losses and 95% Per Payment Cap based on APH Price of \$3.90**

units*	acres	Crop share	Total Production	aph	Ad Hoc Disaster Coverage	Disaster guaranteed	District Bushels	Aid Payment	RA Coverage Level	RA Plant Price
1	156.0	71%	1,408	47.0	65%	3,374	1,967	65%	4.52	
2	128.7	71%	0	48.0	65%	2,843	2,843	65%	4.52	
3	126.0	71%	2,621	54.0	65%	3,131	510	65%	4.52	
4	142.0	4%	3,415	55.0	65%	213	0	65%	4.52	
5	134.0	4%	80	45.0	65%	165	84	65%	4.52	
6	141.0	4%	85	42.0	65%	162	77	65%	4.52	
7	151.0	100%	0	49.0	65%	4,809	4,809	65%	4.52	
8	114.0	100%	3,112	42.0	65%	3,112	0	65%	4.52	

  

RA-HPO Minimum Revenue	Final Harvest Price	Final Revenue Guarantee/per	Final Revenue Guarantee/unit	Final Revenue to Count	Final Revenue	Final Indemnity	Final Price	Final Calculated Sales	Final District Aid Payment (Dollars)	Final 95% Per Acre Payment
138.09	6.02	183.92	20,313	6,000	14,313	3.90	3,887	3,221	19,233	
141.02	6.02	187.82	17,114	0	17,114	3.90	0	4,657	16,204	
158.65	6.02	211.30	18,850	11,172	7,677	3.90	7,238	835	17,848	
161.59	6.02	215.22	1,284	863	420	3.90	559	0	1,215	
132.21	6.02	176.09	991	20	971	3.90	13	138	938	
123.40	6.02	164.35	973	21	952	3.90	14	126	922	
143.96	6.02	191.73	28,952	0	28,952	3.90	0	7,878	27,413	
123.40	6.02	164.35	18,735	18,735	0	3.90	12,138	0	17,740	
Gross Indemnity					70,399					
Less Premium and fees					3,414					
Net Indemnity					66,985					
Value of Wheat Production							11,711			
Gross Disaster Aid								16,855		
Total Per Acre Payment Cap									83,773	
Total Revenue							95,551			
Amount Over the Cap									-11,778	
Net Amount of Disaster Aid										<b>\$5,077</b>

\*The FSA office will make disaster payments based on farm serial numbers so some of the crop insurance units might be combined together when calculating the disaster payments and lower the disaster payment. Because all of the yields are at or below the 65% yield trigger on disaster aid, combining units on this farm will have no effect.

**Table 2. 75% RA-HPO Coverage Combined with Net Ad Hoc Disaster Aid for 2007 Wheat Losses and 95% Per Payment Cap based on APH Price of \$3.90**

units*	acres	Crop share	Total Production	aph	Ad Hoc Disaster Coverage	Disaster guaranteed	Duster Aid Payment Bushels	RA Coverage Level	RA Plant Price
1	156.0	71%	1,408	47.0	65%	3,374	1,967	75%	4.52
2	128.7	71%	0	48.0	65%	2,843	2,843	75%	4.52
3	126.0	71%	2,621	54.0	65%	3,131	510	75%	4.52
4	142.0	4%	3,415	55.0	65%	213	0	75%	4.52
5	134.0	4%	80	45.0	65%	165	84	75%	4.52
6	141.0	4%	85	42.0	65%	162	77	75%	4.52
7	151.0	100%	0	49.0	65%	4,809	4,809	75%	4.52
8	114.0	100%	3,112	42.0	65%	3,112	0	75%	4.52

  

RA-HPO Minimum Revenue	Final Harvest Price	Final Revenue Guarantee/per	Final Revenue Guarantee/unit	Final Revenue to Count	Final Revenue	Final Indemnity	Final Price	Duster Aid Payment Calculated Sales	Duster Aid Payment (Dollars)	95% Per Acre Payment
159.33	6.02	212.21	23,438	6,000	17,438	3.90	3,887	3,221	19,233	
162.72	6.02	216.71	19,747	0	19,747	3.90	0	4,657	16,204	
183.06	6.02	243.81	21,750	11,172	10,577	3.90	7,238	835	17,848	
186.45	6.02	248.33	1,481	863	618	3.90	559	0	1,215	
152.55	6.02	203.18	1,143	20	1,123	3.90	13	138	938	
142.38	6.02	189.64	1,123	21	1,102	3.90	14	126	922	
166.11	6.02	221.23	33,406	0	33,406	3.90	0	7,878	27,413	
142.38	6.02	189.63	21,618	18,735	2,882	3.90	12,138	0	17,740	
Gross Indemnity					84,011					
Less Premium and fees					6,828					
Net Indemnity					77,183					
Value of Wheat Production							11,711			
Gross Disaster Aid								16,855		
Total Per Acre Payment Cap									83,773	
Total Revenue							105,749			
Amount Over the Cap									-21,976	
Net Amount of Disaster Aid										<b>\$0</b>

\*The FSA office will make disaster payments based on farm serial numbers so some of the crop insurance units might be combined together when calculating the disaster payments and lower the disaster payment. Because all of the yields are at or below the 65% yield trigger on disaster aid, combining units on this farm will have no effect.

**Table 3. 65% RA-HPO Coverage Combined with Net Ad Hoc Disaster Aid for 2007 Wheat Losses and 95% Per Payment Cap based on MYA Price of \$4.54**

units*	acres	Crop share	Total Production	aph	Ad Hoc Disaster Coverage	Disas-ter Bu. guaran-teeed	Dister Aid Pay-ment Bushels	RA Cov-erage Level	RA Plant Price
1	156.0	71%	1,408	47.0	65%	3,374	1,967	65%	4.52
2	128.7	71%	0	48.0	65%	2,843	2,843	65%	4.52
3	126.0	71%	2,621	54.0	65%	3,131	510	65%	4.52
4	142.0	4%	3,415	55.0	65%	213	0	65%	4.52
5	134.0	4%	80	45.0	65%	165	84	65%	4.52
6	141.0	4%	85	42.0	65%	162	77	65%	4.52
7	151.0	100%	0	49.0	65%	4,809	4,809	65%	4.52
8	114.0	100%	3,112	42.0	65%	3,112	0	65%	4.52

  

RA-HPO Minimum Revenue	Harvest Price	Final Revenue Guarantee/acre	Final Revenue (crop "field")	Revenue to Count	Indemnity	aph Price	Calculated Sales	Dister Aid Pay-ment (Dollars)	95% Per Acre Pay-ment Cap
138.09	6.02	183.92	20,313	6,000	14,313	3.90	4,525	3,221	22,390
141.02	6.02	187.82	17,114	0	17,114	3.90	0	4,657	18,863
158.65	6.02	211.30	18,850	11,172	7,677	3.90	8,426	835	20,776
161.59	6.02	215.22	1,284	863	420	3.90	651	0	1,415
132.21	6.02	176.09	991	20	971	3.90	15	138	1,092
123.40	6.02	164.35	973	21	952	3.90	16	126	1,073
143.96	6.02	191.73	28,952	0	28,952	3.90	0	7,878	31,911
123.40	6.02	164.35	18,735	18,735	0	3.90	14,129	0	20,651
					Gross Indemnity	70,399			
					Less Premium and fees	3,414			
					Net Indemnity	66,985			
					Value of Wheat Production		13,633		
					Gross Disaster Aid			16,855	
					Total Per Acre Payment Cap				97,521
					Total Revenue		97,473		
					Amount Over the Cap			0	
					Net Amount of Disaster Aid			16,855	
					<b>Dollar Balance Paid at the end of the MYA</b>			<b>\$11,778</b>	

\*The FSA office will make disaster payments based on farm serial numbers so some of the crop insurance units might be combined together when calculating the disaster payments and lower the disaster payment. Because all of the yields are at or below the 65% yield trigger on disaster aid, combining units on this farm will have no effect.

**Table 4. 75% RA-HPO Coverage Combined with Net Ad Hoc Disaster Aid for 2007 Wheat Losses and 95% Per Payment Cap based on MYA Price of \$5.09**

units*	acres	Crop share	Total Production	aph	Ad Hoc Disaster Coverage	Disaster Bu. guaranteed	Disaster Aid Payment Bushels	RA Coverage Level	RA Plant Price
1	156.0	71%	1,408	47.0	65%	3,374	1,967	75%	4.52
2	128.7	71%	0	48.0	65%	2,843	2,843	75%	4.52
3	126.0	71%	2,621	54.0	65%	3,131	510	75%	4.52
4	142.0	4%	3,415	55.0	65%	213	0	75%	4.52
5	134.0	4%	80	45.0	65%	165	84	75%	4.52
6	141.0	4%	85	42.0	65%	162	77	75%	4.52
7	151.0	100%	0	49.0	65%	4,809	4,809	75%	4.52
8	114.0	100%	3,112	42.0	65%	3,112	0	75%	4.52

  

RA-HPO Minimum Revenue Guarantee	Harvest Price	Final Revenue Guarantee/acre	Final Revenue (crop "field")	Revenue to Count	Indemnity	aph Price	Calculated Sales	District Aid Payment (Dollars)	95% Per Acre Payment Cap
159.33	6.02	212.21	23,438	6,000	17,438	3.90	5,073	3,221	25,102
162.72	6.02	216.71	19,747	0	19,747	3.90	0	4,657	21,149
183.06	6.02	243.81	21,750	11,172	10,577	3.90	9,446	835	23,293
186.45	6.02	248.33	1,481	863	618	3.90	730	0	1,586
152.55	6.02	203.18	1,143	20	1,123	3.90	17	138	1,225
142.38	6.02	189.64	1,123	21	1,102	3.90	18	126	1,203
166.11	6.02	221.23	33,406	0	33,406	3.90	0	7,878	35,777
142.38	6.02	189.63	21,618	18,735	2,882	3.90	15,841	0	23,152
Gross Indemnity					84,011				
Less Premium and fees					6,828				
Net Indemnity					77,183				
Value of Wheat Production							15,285		
Gross Disaster Aid							16,855		
Total Per Acre Payment Cap									109,335
Total Revenue							109,322		
Amount Over the Cap									0
Net Amount of Disaster Aid									16,855
<b>Dollar Balance Paid at the end of the MYA</b>									<b>\$16,855</b>

\*The FSA office will make disaster payments based on farm serial numbers so some of the crop insurance units might be combined together when calculating the disaster payments and lower the disaster payment. Because all of the yields are at or below the 65% yield trigger on disaster aid, combining units on this farm will have no effect.