Margin Protection: AIPs Question and Answer Log
Last updated: 09/13/2017

Q: I've had a few questions regarding the Category B Added County Option as it pertains to Margin Protection. If an insured signs a RP application for county A prior to 3/15/18 and elected the Statewide Added County option. After the SCD, he picks up ground in County B. Per the Added County election, he now has coverage on his new ground in county B equal to the coverage level and options/endorsements that he elected for County A. The question is – can you elect the Added County option on a MP application and be covered for new ground you add to your operation after the SCD?

A: The Category B Added County Option does apply to Margin Protection at the option of the AIP. Pursuant to the terms of section 3 of the GSH, the election for MP must be made on or before the MP sales closing date. The election for the base policy must be made on or before the sales closing date for that policy.

Q: When I buy MP for Rice and buy the Downed Rice Endorsement on my base policy, does any payment I get for the endorsement count as a base policy indemnity when calculating the MP indemnity?

A: The Downed Rice Endorsement provides for additional payment if an insurable cause damages standing rice and increases the cost of harvest. For the purposes of the MP final indemnity, this payment is treated like a replant payment, and does not count against any potential MP indemnity.

Q: How are units established under MP?

A: If you have a base policy, the unit structure will be the same as the unit structure you established under that base policy. If you do not have a base policy, all planted acres of a specific type and practice included on the actuarial tables will be insured in a single unit.

> Follow up Q: Therefore, if a base policy is in effect with EU structure elected as the unit coverage, how is the situation in the initial question above, indemnified?
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> A: MP insures at the same unit structure as the base policy. If the grower is insuring at an enterprise level on the base policy, all MP indemnities for each type and practice are summed and considered relative to the sum of all base policy indemnities. In the example, the grower triggered an indemnity of $40/ac on the NI acres. Say there are 200 NI acres and 600 IR acres. Say the base policy had an indemnity of $3,000 for the enterprise unit. The MP indemnity would be $5,000, which is the total MP indemnity ($8,000) minus the base policy indemnity previously paid ($3,000), or an additional $5,000.

Q: An insured has an RP policy with no MP policy on Corn and MP with no base policy on Soybeans in the same county. If the corn gets wiped out by hail and the insured plants the same acreage to Soybeans, does the 1st/2nd provisions apply to the corn indemnity?

A: Under this scenario, the grower would be eligible to receive their full RP corn indemnity for their failed crop subject to the 1st and 2nd provision. Assuming the catch-crop soybeans are planted on an insurable timeline, the MP coverage applies to all soybeans acres planted. The premium on the RP corn would be subject to the 1st and 2nd provision. The producer would still owe full premium on the soybeans and there would be no premium credit to the MP soybeans because there was no soybeans base policy, and the grower's potential MP soybeans indemnities are not offset by any indemnities from RP corn policy. The RP corn policy would receive 35% indemnities if the elect to insure the second and they will be responsible for 35% of the premium. If there is no claim for the MP policy, the grower may receive 100% of the RP indemnity due for their corn.

> Follow up Q: Insured has both RP & MP on both corn and soybeans. One unit of corn got wiped out and replanted to soybeans. The soybeans on this unit also had damage and insured ended up with 35% on RP Corn and a 100% RP on soybeans. The question is if there is a loss on MP corn will these acres only qualify for 35% of payment or 100%
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> A: The soybeans planted on the unit after the corn was wiped out would be considered a second crop. The First crop / second crop rules apply to that unit. As we understand the question, another unit planted to corn had MP with a RP base policy and also had a loss but was not planted to a second crop. That unit qualifies for 100% indemnity payment on the corn since it is the first insured crop on those acres unless he plants and insures a second crop. First crop / second crop rules apply to specific acres.

Q. How do RP indemnity off-sets work for a grower who has multiple optional units and buys an MP policy? For example, what if a producer has 1,000 acres, split evenly into 10 RP optional units. He has an indemnity of $200/ac for one of the RP units, but no claim for the others. The county has a $100/ac indemnity for MP. Does the full $200/ac get counted against the MP indemnity?

A. Losses are settled independently for each MP unit that has been established. Since the producer has a base policy, each unit established under that policy is a MP unit. In your example, a grower has 10 units of 100 acres each, for a total of 1,000 acres. The grower triggers a $100/ac indemnity on MP and an indemnity in only one of your 10 RP units, but that is for $200/ac. The grower receives the indemnity for the base policy in the fall for that unit of $20,000. The following spring, when county yields are available, an MP payment is made for each unit. There are ten losses of $10,000 each. For one of the units, however, the prior base policy indemnity of $20,000 exceeds the MP indemnity. An MP indemnity is made only on the nine units where the RP indemnity ($0) is less than the MP indemnity ($10,000). The grower receives an additional MP indemnity payment of $90,000. When summed with the RP indemnity, the grower receives a total of $110,000.

Q. At a glance, the price series MP uses for Diesel appears to be substantially different than the price growers are paying. Can you explain?

A. The input cost measures depend on market prices discovered through commodity markets. These markets trade contracts based on wholesale delivery of commodities to terminals designated in the contracts. For many years, crop insurance has utilized the Chicago Board of Trade and other markets for discovery of commodity prices, despite the fact that local basis conditions in many regions may result in local retail prices that can differ substantially from the futures market prices. A similar phenomenon is implicit in the markets for diesel and other inputs. The MYMEX ultra low sulfur diesel market measures the price of wholesale diesel, and does not incorporate adjustments for factors (local taxes, delivery, marketing and distribution costs, local supply and demand factors) that may cause the price at the market to differ from the local price. In general, these markets offer a useful measure of the potential changes in prices between the time of MP purchase (in the fall) and the time when these input costs are incurred (in the spring), even if the actual values reported are consistently lower (or higher) than the local retail prices.

Q. The MP premium credit estimates in a few counties and for a few scenarios strike me as unusual. In particular there appear to be instances where the premium credit for MP is roughly equal to the RP premium at an enterprise unit level. Can this be right?

A. Estimating premium credits is inherently challenging. Although the MP price, volatility, and premium are known and the user can be asked to provide actual historical yields and estimate anticipated prices, there are a number of variables that are very important to the final premium credit that cannot be known in the fall. In particular, we cannot know what units will be planted, what the current crop year yield will be, and what the volatility (or actual RP projected price) will be at the time of price discovery. Any of these variables can be very important in determining the premium credit, which is why the amount of the final credit cannot be determined until acreage reporting is complete. The credit estimates are fully accurate based on the information available, but are only as good as the assumptions upon which they are based. Markets can and will change between now and acreage reporting and thus the amount of credit applied to the growers' actual MP premiums can be expected to differ materially from the values estimated today.

The premium credits are determined on a unit basis, based on the interaction of expected MP indemnities and base policy indemnities. Put simply, we simulate the expected RP indemnities that would offset potential MP indemnities, and we provide a credit that is equal to the expected offset (the amount of MP payment you would not receive, in the long run, because you had already received a base policy indemnity). It is possible that the MP premium credit may exceed the amount of the base policy premium, but this would be a very unusual circumstance and it must be noted that the amount of base policy premium is completely unaffected by the growers decision to purchase MP.

Q. I see no offers for organic practices under MP. Is organic insurable under MP?

A. The AIB lists only one organic practice for all insurable types (997 No Organic Practice). As such, any acreage planted to organic practices are not insurable under MP.

Q: If I plant my crop in the late planting period, is my MP coverage affected? What about if I plant after the final planting date?

A: Late planting does not affect your MP coverage, *so long as the crop is planted prior to the final planting date*. The MP final planting date is the final planting date for a base policy plus 25 days. Any acreage planted during this period retains the same MP guarantee as acreage planted prior to that date. *However, any acreage planted after the MP final planting date must be reported as uninsurable. These are the same terms that apply to ARPI.*
** Update to a previous FAQ posted on RMA website: (RMA is working on getting this question updated on the RMA website)**

Margin Protection: AIPs Question and Answer Log
Last updated: 09/06/2017

Q: Can producers elect different coverage levels by Practice on Margin Protection?

A: Yes, producers may elect separate MP coverage levels by practice. This also applies by type. This provision is the same as ARPI.

Q: If so, how will indemnities interact? Will irrigated indemnities interact / offset with non-irrigated indemnities?

> Example: in County A—the NI practice triggered an MP indemnity payment of say $40/A; however the IR practice does not trigger an indemnity payment and the margin could actually end up being +$50 from the trigger. Would the result of the Irrigated practice offset any potential indemnity; or would be the insured still received the $40/A indemnity triggered on the NI ground because of separate indemnities by practice.

A: Pursuant to section 17(b) of the MP policy, losses are determined by margin unit. The margin unit is the same as the RP unit if a base policy exists or it is all acres of the same type and practice if there is no base policy. The Basic Provisions (section 34) allow separate optional units by IR and NI practice. If the IR acres and the NI acres are in separate units under the RP policy, those acres also will be in separate margin units. Since the units are separate, no offset of indemnities can occur. In some counties, seed is an insurable type and has both IR and NI practices. It is not reportable under the base policy but instead must be reported as illustrated in the 2018 Crop Margin Coverage White Paper updated in August of 2017. Since seed is a separate type, it will form a separate margin unit. Any indemnities on such acres will be separately calculated.

Q: Taking it one step further… assuming the producer has an RP base policy in conjunction with a Margin Protection policy. It is known that only the higher of the Margin Protection indemnity or the base RP indemnity will be paid. Therefore, if a producer elects Margin Protection by practice with different coverage levels, how will that scenario interact with the base RP policy's indemnity? Does RP base policy have to match the elections made on Margin Protection regarding coverage elections?

> Example:
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> > Margin Protection – irrigated 95% - $10 per acre of loss;
> > Margin Protection – non-irrigated 90% - $15 per acre of loss;
> > RP Base policy:

A: Elections under RP do not have to match elections under MP, in fact, as MP offers coverage levels up to 95% and RP offers coverage levels up to only 75% and in some areas 85%, the coverage elections will generally not match. The premium credit will be calculated based on the

RP coverage level choice(s) made at the time of RP sign up and the acreage planted from the acreage report. No premium credit will be calculated for seed acres.

Q: Will the payment amounts be summed up on Margin Protection in order to determine the "higher payout"?

A: MP follows the unit structure established for the base policy. The total indemnity for each RP unit will be determined and subtracted from the MP indemnity for that unit. If the RP indemnity exceeds the MP indemnity for the given unit, no MP indemnity will be paid for that unit. As stated in the answer above, seed will be in a separate margin unit and the indemnity on such acres will be determined independently.

Q: What if insurable acres differ from Margin Protection to RP base policy insurable acres?

A: Only acres that are planted, eligible, and insured for a given type and practice under both MP and the base policy will be considered in determining the final MP indemnity and crediting back the base policy indemnity. Any replant or prevented planting payments will not be considered in determining MP final indemnities.

The acreage report for the base policy is accepted as the acreage report for MP. Only two differences can exist: 1) acres prevented from planting that are included on the acreage report for the base policy are not insured under MP and 2) acres planted after the MP final planting date (which equals the base policy final planting date for the crop plus 25 days) are uninsurable under MP. As discussed in the answer above any acres planted to seed must be reported separately with the proper entries in the types P14 and P11 records.

Q: Can I buy WFRP if I buy MP?

A: No. Under Section 13 of the MP provisions, the language reads:
13. Other Insurance.
(a) In lieu of section 22 of the Basic Provisions, you may obtain a base policy for the insured crop provided such policy is obtained through us.
(b) If you have obtained other insurance issued under the authority of the Act not specifically authorized by section 13(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.
As such, you may not buy WFRP if you buy an MP policy. If you have an existing WFRP policy, it must be canceled by September 30, or the MP policy will be void. Based on the questions received regarding this issue, additional language will be added to clarify this section for the 2019 MP policy.

Q: If a producer has both commercial and seed corn, can he buy MP on just the commercial corn and buy CAT on the seed corn like ARP, or do they have to have the seed corn insured under MP?

A: If a producer plants both commodity and seed corn in a county and both are offered coverage, per the policy all acres in the county of the commodity of a type and practice for which premium rates are provided by the actuarial documents is insurable under MP. So they take out MP they have to insure the seed under MP and CAT is not available under the MP. If the farmer buy's MP, the seed corn in that county may not be insured under ARP, FDO, or WFRP.

Q. If an insured has ARPI policy in CY 2017, do they have to change it to an RP/YP by 9/30 if they purchase MP or can they wait until 3/15 to change the policy to RP/YP?

A: RMA indicated that the systems check in PASS will identify another insurance policy and will require that ARPI policy to be cancelled to make MP eligible.
PASS Standards:
MP P14 submitted with a base policy that is not one of the following plans of insurance: YP (01), RP (02), or RPHP (03).
a. If the insurance plan is an area plan: '04', '05' or '06' the policy will reject.
b. If the insurance plan is PRF: '13' or '14' the policy will reject.
c. If the insurance plan is APH: '90' the policy will reject.
d. If the insurance plan is a dollar plan: '55' the policy will reject.
As such, the farmer must cancel their ARPI policy by 9/30 to purchase their MP policy. The farmer may then elect any base policy offered under MP from the same AIP up to the base policy SCD.

Q: If an insured has an RP policy in CY 2017, if they decide they don't want that coverage for CY 2018 but would like MP can they wait to decide to cancel the RP policy by 3/15? What choices are available to a farmer who has purchased MP concerning the purchase of another policy?

A: The farmer has many options regarding the base policy and these are all available up to the base policy SCD (3/15) if the MPCI policy is with the same AIP when MP is purchased. The only restriction MP places on a base policy (plan 01, 02, and 03) is that it must be purchased from the same AIP that is selling the MP and if it is not already with that same AIP, a transfer must be executed by 9/30. Once that is done (or if the base policy is already with the same AIP that is selling the MP), the grower has until the base policy SCD (3/15) to modify the base policy. This means that the grower may choose any eligible base policy plan (YP, RP, or RP-HRE) or coverage level. The grower may not elect ARPI, WFRP, or SCO. The grower may not purchase the base policy from another AIP.

Q: If an insured has an RP policy with another agent within the same AIP, can they end up cancelling the RP/YP policy with the other agent by 3/15, but keep the MP policy?

A: Yes, if the MPCI policy is with the same AIP when MP is purchased, the MP and RP policies may be sold by differing agents. The base policy may be canceled.

Q: The insured can buy the MP as a stand-alone. If the insured adds a base policy with the same AIP at a later date is the MP policy eligible for a premium credit?

A: They will receive the premium credit as there is no requirement to have the base policy purchased at the MP SCD, only that it be purchased by the base policy SCD. The premium credit itself is not calculated until acreage report information is processed.

Q: What options are available for Protection Factors?

A: For MP, Protection Factors are offered from 0.80 to 1.20 in single percentage (0.01) increments; these are the same choices available under other area plans.

Q: If MP is an area plan – why is the producer's individual APH used in the quote?

A: You do not need any individual producer APH information for a stand-alone MP policy. The producer information is used only if the grower also buys a base plan, and from MP's perspective only to estimate a premium credit for the base policy.

Q: What is the relationship between the RP coverage level and the MP coverage level for premium credit purposes?

A: The coverage levels for each plan are important for understanding the interaction in expected potential indemnities and determining the premium credit. The final premium credit is determined through a simulation based on the coverage elected for MP and for the base policy, the growers' historical actual yields' relationship to county historical yields. In general, the higher the base policy coverage level, the greater the credit.

Q: Liability – what is the relationship between the RP liability and the MP liability? Is the RP liability a consideration in the quote MP?

A: There is no interaction in MP and RP liability. The MP payment cannot exceed the MP liability. The RP payment cannot exceed the RP liability. There is, however, an interaction in the indemnity calculations. If a grower buys an MP policy in the fall and then also buys an RP policy in the spring, the grower may only receive the greater of the MP or RP indemnity as it may be incurred (that is why there is a premium credit).

Say a grower files a claim in October and has a $30/ac RP indemnity. Then say in February (when county yields come out, the grower has an MP loss of $70/ac. The grower has already received $30/ac, so a payment of an additional $40/ac is made to the grower, giving him/her a total of $70/ac and thus effectively the greater of the two indemnities that would have been due.

Q: The Insurance Standards Handbook 2(21)A states: An insured who elects SCO and/or the High-Risk Alternate Coverage Endorsement on the base policy is not eligible for MP. However, the base policy may include other available endorsements. Does the grower have to cancel the SCO policy. Does the grower have to modify their base policy to remove the HR-ACE endorsement? How, specifically is this done and what happens if the grower does not complete the necessary cancelation process?

A: Growers who elect HR-ACE or SCO on a base policy are not eligible for MP. An insured who has an existing policy with such coverage in force and who wishes to purchase MP must complete a form that complies with the terms of paragraph 413 of the Document and Supplemental Standards Handbook (Application, Policy Change, or similar form) to remove the coverage. This is the same form that would be used if the insured elected to include or delete any other optional coverage such as YA, LP, TA, etc., from the base policy. If the grower does not complete the required paperwork, the MP policy is void and no coverage will be provided. The base policy continues in effect.

Q: I understand that if a grower has a base policy with another AIP, it must be transferred or canceled at the time of MP sign up. Following the transfer, can that base policy be modified in any way? Is this treated any differently if the policy is not transferred?

A: The base policy must be transferred by the MP SCD If the transferred base policy has SCO or HR-ACE as optional coverages, those must be cancelled. The grower may not add HR-ACE or SCO. The grower may not buy the base policy from another AIP. The grower may elect authorized changes in the base policy coverage (choose any of the available plans, choose any available coverage level, cancel the base policy altogether) until the sales closing date for that policy.

Q: If a farmer plants high risk land, and does not insure it either under a written agreement or with HR-ACE, how is this treated under MP? Is this land covered under the MP policy?

A: All planted acres in which the insured has a share in a county must be insured under the terms of both the base policy provisions and the MP provisions. With respect to high risk land as designated on the actuarial documents for the base policy, the insured may choose to insure those acres under the terms specified by RMA in the actuarial documents for such acreage or to exclude the acreage from the additional coverage level base policy and insure it under the Catastrophic Risk Protection Endorsement. The MP policy (section 2(c)) allows the CAT level of coverage to be associated with the base policy. Regardless of which approach of these two approaches the insured chooses for such acres, those acres are reportable as insured under the MP policy. The HR-ACE is not permitted for the base policy (MP Provisions, section 2(i)). Written agreements are not allowed to affect the terms of the MP policy (MP Provisions, section 12). However, the MP Provisions do not change the terms of the base policy with respect to written agreements. A written agreement issued under the terms of section 3(k) of the Basic Provisions is allowed (authorize a change in transitional yield or premium rate).

Q: Can I insure different types at different coverage levels?

A: The MP provisions state:
2. Eligibility, Insurance Guarantees, Coverage Levels, and Prices.
(c) You may select any Margin coverage level shown on the actuarial documents for the insured crop, type, and practice.
Therefore, Coverage levels may be elected for each crop by type and practice. Irrigated and non-irrigated may have different coverage levels. Seed and grain may have different coverage levels.

Updates from 7/18/2017

Q: Paragraph 21 A of the 2018 MP Handbook reads: “Purchase of any other MPCI insurance policy will render the MP policy void…” For the 2018 CY, MP has a 9/30/2017 SCD and CD. ARPI, a plan not allowed to be written with MP, has a 3-15-2018 SCD and CD for most areas. As such, it appears that a producer could elect MP but not cancel his base ARPI policy until 3-15-2018. Is that correct?

A: No. The action described is not a purchase; it is a renewal. When accepting the application for the MP policy, the agent must assure that the proper documents to cancel the ARPI policy are executed on or before the SCD for MP. The cancellation is effective for the crop year insured by the MP policy but the ARPI policy would continue in effect until its insured crop year is completed (e.g., cancellation is effective for the 2018 crop year; the coverage for the 2017 crop year continues until the 2017 crop year ends).

Q: In addition, a producer that elects MP on this early date may decide, after reviewing either no movement or downward movement in the inputs that are nearing the announcement of the Harvest Input price (i.e. corn diesel, DAP, Urea all end on Apr 30), may decide he no longer wants MP and purposefully takes out an ARPI policy before the SCD, thereby voiding his MP policy.

A: The complete text of Paragraph 21A continues to state that "… and the producer may be subject to the consequences authorized under the Basic Provisions…" Section 22(a) of the Basic Provisions states, in part, "… you must not obtain any other crop insurance authorized under the Act on your share of the insured crop." Section 22(a) further states that the producer may be subject to consequences authorized under this policy, the Act, or any other applicable statute if it is determined that the action was intentional. If the MP policy is in force and the insured takes action to purchase any other crop insurance policy after the MP SCD, this provision applies.

Q: Paragraph 21 The MP Handbook reads: "An insured who elects SCO and/or HRACE on the base policy is not eligible for MP" Since the SCD and CCD for RP/YP is 3/15, do we allow a producer, who elected the MP at an earlier date, the ability to keep the SCO or HRACE policy endorsements all the way up to the SCD or do we have to immediately take these off of the policy when the MP application comes in? Obviously we may not be aware of these options if the YP/RP is in place with another AIP.

A: The other policy continues unchanged for the current crop year, which is the crop currently growing on the SCD for MP or which was most recently harvested prior to planting of the MP crop. Any authorized crop insurance policy, including all endorsements, in effect on that crop remains in effect until that crop year is completed. Transfer or cancellation must be executed by the MP SCD but the action is effective for the same crop year that the MP policy will cover. The agent should ask the applicant about any crop insurance policies currently in effect and assist the producer to transfer or cancel policies and endorsements on or before the SCD for the MP policy.

Q: In addition, what do we do when the producer purposefully elects these endorsements on the YP/RP by the (again a later SCD)? Do we cancel or void the MP policy (currently language does not allow for voidance and the associated fee in this situation…like it did with a non-qualified plan of insurance)? Do we cancel the YP/RP policy or just remove the options on the YP/RP policy?

A: This situation is not unique. For example, the Supplemental Coverage Option (SCO) may not be combined with Stacked Income Protection Plan (STAX) or the Agriculture Risk Coverage (ARC) program. The agent must advise the producer that SCO and HRACE are not allowed on a base policy. This is the same responsibility that exists with the SCO, STAX, and ARC.

Q: What about this situation: For 2018, a producer elects to insure corn under both the Margin Protection (MP) and Revenue Protection (RP) plans. On or before the MP SCD of 9/30/2017, he elects to insure both the irrigated and non-irrigated acreage at the same level (i.e.- 75%). Is it acceptable to just have one line of coverage for the corn - 75% level on the application or will we be required to have two lines of coverage (Corn, NI, 75% level and Corn, Irr., 75% level)? I pose this question because the current PASS requirements indicate that we must submit 4 separate P14 records when an insured elects to exercise the LP option on the underlying RP policy (2 P14's for the RP and 2 P14's for the MP).

A: The insured has the right under the Common Crop Insurance Policy Basic Provisions and the Crop Provisions to include available optional coverages on the RP (or YP or RP-HPO) policy until the SCD for that base policy. Thus, to cover the bases, so to speak, a P14 should be submitted for each practice the insured might elect to plant.

Q: On or before the SCD for the RP (3/15/2018), the insured would like to exercise the LP option. Is he is afforded the LP option and can elect any available coverage level, by practice, on the RP plan (i.e.- elect 80% level for NI and 70% level for I?.

A: MP does not deny the insured person any rights that exist under the terms of the Common Crop Insurance Policy Basic Provisions and the Crop Provisions. That includes the right to establish coverage levels and the choice of LP or other insurance options until the SCD for the base policy. Those choices will affect the amount of credit that is calculated for the MP premium.

Q: What are the PASS requirements for a situation with multiple practices and differing coverage levels by practice? On the MP plan, we would obviously send a separate P14 for the 70% Irrigated line and one P14 for the 95% NI line. For the RP, do we just sent 2 P14's with the exact same coverage level…one for Irr @ 75% and one NI @ 75%?

A: The rules for field 12 "Practice Code" of the P14 record (2018 Comment Version, released 5/10/2017) state: "Practice code is required on the Insurance in Force, "P14" record to elect separate coverage levels by irrigation practice when the Insurance Option Code List contains "LP" … " Thus, if LP is not specified in the Insurance Option Code List, the practice code is not required. This does not indicate there is no need to send two P14 records because some other parameter may require a second P14.