

UofA

DIVISION OF AGRICULTURE

RESEARCH & EXTENSION

University of Arkansas System

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STAX - Crop Insurance for Cotton

**University of Arkansas System Division of Agriculture
Cooperative Extension Service
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I. 2014 Farm Bill

Quick Summary

- Contains target prices or insured revenues for covered commodities
 - 1) Price Loss Coverage: PLC, reference price (fixed)
 - 2) Agricultural Risk Coverage: ARC, revenue guarantee floats with national price & county yield

Potential payments are based on 85% of base acres
- Retains marketing loan rates
- Increased availability of subsidized crop insurance (Supplemental Coverage Option – SCO)
- Cotton is not a covered commodity - has a separate area crop insurance program (STAX) available in 2015
- PLC and ARC selection are relevant to cotton base acreage

II. Stacked Income Protection Plan (STAX)

- STAX is a revenue insurance product available for purchase on upland cotton acreage.
- STAX indemnities are triggered by county revenue experience.
- STAX indemnities are not based on individual farm experience.
- STAX can not be purchased in combination with SCO.

STAX Features

- Premium subsidy is 80%
- May be purchased as the only insurance policy
- May be purchased in addition to CAT coverage
- May be purchased in addition to a buy-up product
 - Lower band of STAX coverage may not overlap the coverage level of an underlying policy
- Offered by irrigated/non-irrigated practices to the greatest extent possible
- County Indemnity Protection Factor is available as an option (scales indemnity down/up between 80% and 120%)

STAX Concept

- If actual county revenue is greater than 90% of expected county revenue, there is no STAX indemnity – this is the deductible
- STAX pays indemnities for actual county revenue levels between 90% and 70% of expected county revenue
- STAX indemnities reach a maximum when actual county revenue is 70% of expected county revenue
- Other insurance products are needed when actual county revenue is less than 70% of expected county income
- STAX can be purchased with coverage bands in 5% increments (Example: 90% to 70%, 90% to 75%, 85% to 70%, 90% to 80%, and other similar bands)



Insurance Projected and Harvest Prices Vary by State (Region)

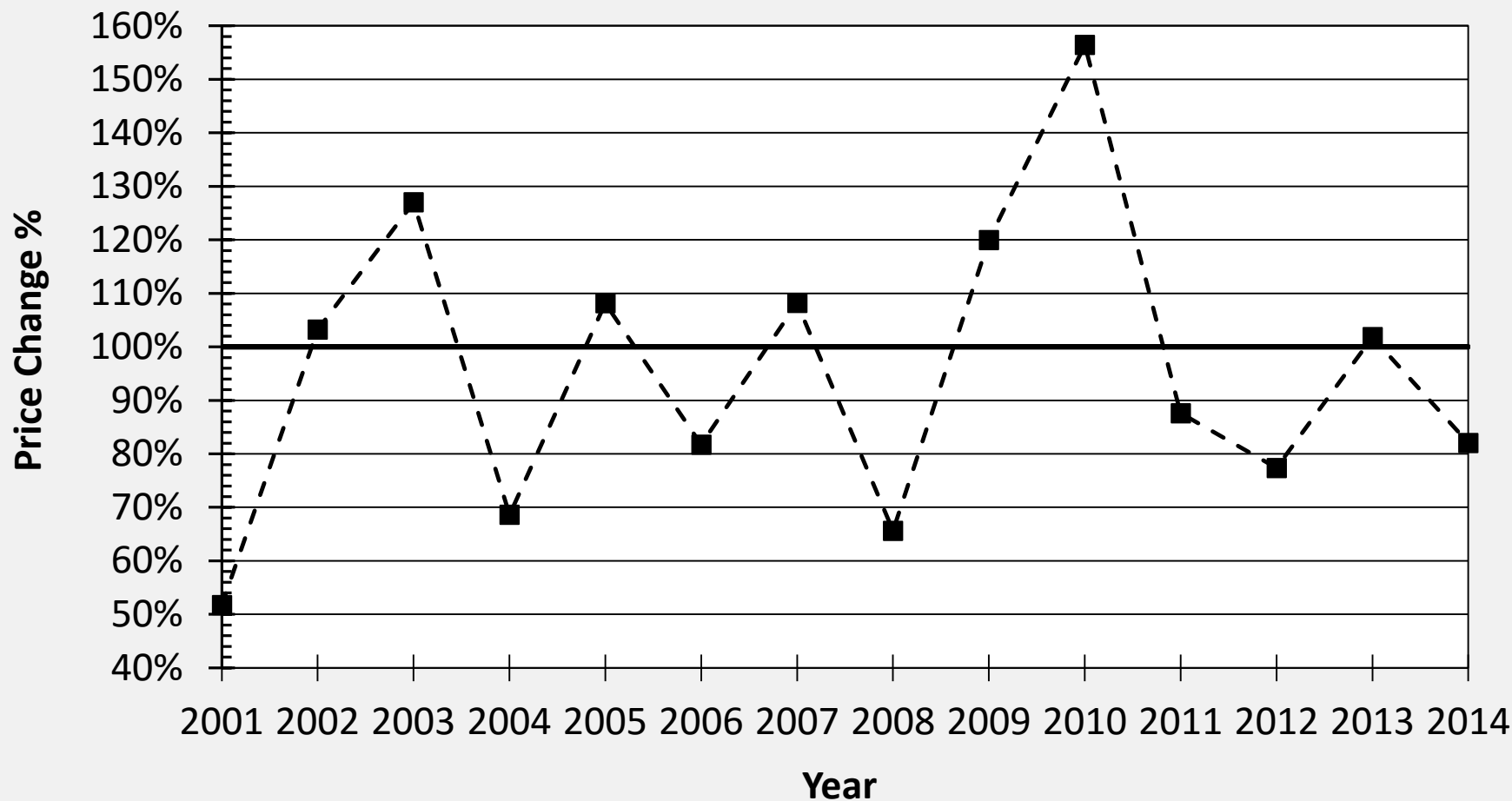
Crop	Contract Month	Projected Price Dates		Harvest Price Dates	
		Beginning	End	Beginning	End
Corn	DEC	15-Jan	14-Feb	15-Aug	14-Sep
Cotton	DEC	15-Jan	14-Feb	1-Oct	31-Oct
G Sorghum	DEC	15-Jan	14-Feb	1-Sep	30-Sep
Rice	NOV	15-Jan	14-Feb	1-Sep	30-Sep
Soybean	NOV	15-Jan	14-Feb	1-Oct	31-Oct
Wheat	JULY	15-Aug	14-Sep	1-Jun	30-Jun

STAX Calculations

Insurance Projected Price	\$0.78	Futures Average
Expected County Yield	690	County History
Expected County Revenue	\$538.20	$\$0.78 \times 690$
STAX Upper Coverage Level	90%	Selected, 90% to 70%
STAX Lower Coverage Level	75%	Selected, 90% to 70%
Revenue Indemnity Trigger	\$484.38	$\$538.20 \times 90\%$
Revenue Minimum Coverage	\$403.65	$\$538.20 \times 75\%$
Maximum County Indemnity	\$80.73	$\$484.38 - \403.65
Protection Factor	1.20	Select between 0.80 and 1.20
Amount of STAX Protection	\$96.88	$1.20 \times \$80.73$

STAX, Cotton Price Characteristics

<90%, 7/14=50%, Avg.=28% Decrease



STAX Example 1

Insurance Projected Price	\$0.80	Futures Average
Expected County Yield	1,050	County History
Expected County Revenue	\$840	\$0.80 x 1050
STAX Upper Coverage Level	90%	Selected: 90% to 70%
STAX Lower Coverage Level	70%	Selected: 90% to 70%
Revenue Indemnity Trigger	\$756	\$840 x 90%
Revenue Minimum Coverage	\$588	\$840 x 70%
Insurance Harvest Price	\$0.80	Futures Average
Actual County Yield	910	County Report
Actual County Revenue	\$728	\$0.80 x 910
County Indemnity	\$28	\$756 - \$728
Protection Factor	100%	Selected: 80% - 120%
County Indemnity	\$28	\$28 x 100%

STAX Example 2

Insurance Projected Price	\$0.73	Futures Average
Expected County Yield	1,080	County History
Expected County Revenue	\$788	\$0.73 x 1080
STAX Upper Coverage Level	90%	Selected: 90% to 70%
STAX Lower Coverage Level	70%	Selected: 90% to 70%
Revenue Indemnity Trigger	\$710	\$788 x 90%
Revenue Minimum Coverage	\$552	\$788 x 70%
Insurance Harvest Price	\$0.63	Futures Average
Actual County Yield	1,090	County Report
Actual County Revenue	\$687	\$0.63 x 1090
County Indemnity	\$22.86	\$710 - \$687
Protection Factor	120%	Selected: 80% - 120%
County Indemnity	\$27.43	\$23.86 x 120%

STAX Example 3

Insurance Projected Price	\$0.80	Futures Average
Expected County Yield	1,000	County History
Expected County Revenue	\$800	\$0.80 x 1000
STAX Upper Coverage Level	90%	Selected: 90% to 70%
STAX Lower Coverage Level	70%	Selected: 90% to 70%
Revenue Indemnity Trigger	\$720	\$800 x 90%
Revenue Minimum Coverage	\$560	\$800 x 70%
Insurance Harvest Price	\$0.68	Futures Average
Actual County Yield	1,060	County Report
Actual County Revenue	\$721	\$0.68 x 1060
County Indemnity	\$0	\$720 - \$721
Protection Factor	120%	Selected: 80% - 120%
County Indemnity	\$0	\$0 x 120%



Harvest Price Exclusion	STAX	
Insurance Projected Price	\$0.72	Futures Average
Expected County Yield	1,050	County History
Expected County Revenue	\$756	\$0.72 x 1050
STAX Upper Coverage Level	90%	Selected: 90% to 70%
STAX Lower Coverage Level	70%	Selected: 90% to 70%
Revenue Indemnity Trigger	\$680	\$756 x 90%
Revenue Minimum Coverage	\$529	\$756 x 70%
Insurance Harvest Price	\$0.77	Futures Average
Actual County Yield	930	County Report
Actual County Revenue	\$716	\$0.77 x 930
County Indemnity	\$0.00	\$680 - \$716
Protection Factor	110%	Selected: 80% - 120%
County Indemnity	\$0.00	\$0 x 110%

No Harvest Price Exclusion

STAX

Insurance Projected Price	\$0.72	Futures Average
Expected County Yield	1,050	County History
Expected County Revenue	\$809	\$0.77 x 1050
STAX Upper Coverage Level	90%	Selected: 90% to 70%
STAX Lower Coverage Level	70%	Selected: 90% to 70%
Revenue Indemnity Trigger	\$728	\$809 x 90%
Revenue Minimum Coverage	\$566	\$809 x 70%
Insurance Harvest Price	\$0.77	Futures Average
Actual County Yield	930	County Report
Actual County Revenue	\$716	\$0.77 x 930
County Indemnity	\$11.55	\$728 - \$716
Protection Factor	110%	Selected: 80% - 120%
County Indemnity	\$12.71	\$12 x 110%

Conclusion

- Questions?

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- Comments?