2014 Farm Bill: Cotton - STAX

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Stacked Income Protection Plan (STAX)

- Crop insurance policy that provides area-based coverage for a portion of expected area revenue
- May be purchased with an individual or area crop policy (companion policy) or can be stand alone
  - YP, RP, RP-HPE, ARPI
  - By itself
- Coverage is based on planted acres, not cotton base (generic base)
- Provides only revenue coverage & is not tied to a companion policy
- Premiums are supported with an 80% government cost share
- Premiums & administrative fees are separate from those charged for the companion policy
Overview of STAX

• Coverage depends on expected area yield and the higher of projected or harvest price (except for harvest price exclusion)
  • May start at 90% of area revenue (or lower, if selected)
  • Ends at 70% of area revenue (or higher if selected; can’t overlap companion policy)
  • Maximum range is 20%
• If there are multiple types or practices for the insured crop in the county, the policy protection for STAX will be determined separately for each level, type, and practice
• Protection Factor – May choose from 80% - 120%
STAX: Sales Closing/Cancellation/Termination Dates

- Insurance applications to add STAX must be completed and signed no later than the applicable crop insurance sales closing date
- The policyholder can elect STAX as a stand-alone policy for cotton or can have a companion policy under the Common Crop Insurance Provisions or Area Risk Protection Insurance (the companion policy and STAX must be with the same AIP)
- If the companion policy has the Supplemental Coverage Option (SCO) it can’t be for the same cotton acres as STAX.
  - Must designate STAX acres and SCO acres by sales closing date
    - Done by providing production reports
- The STAX coverage is continuous
  - Can be cancelled by providing a written notice no later than the cancellation date
  - Any changes a policyholder wishes to make to STAX coverage must be made by the applicable crop sales closing date
- STAX may be terminated by the insurance provider for the following crop year for nonpayment of outstanding debt by the termination date
STAX: Coverage Choices

- Insurance choices
  - Select a protection factor:
    - 80 to 120 percent for each cotton production type and practice
- Select an area loss trigger and coverage range
  - The area loss trigger may be 90%, 85%, 80%, or 75%
    - This is the percent of expected revenue at which a loss is triggered
  - The coverage can be from 5%, 10%, 15%, or 20%
    - The range is limited by the difference between area loss trigger and 70% (or the coverage level of the companion policy if greater than 70%)
    - Example: Area loss trigger selected is 90%, and a 75% companion policy is purchased. In this case the maximum coverage range is 90% - 75% = 15%
- Available values will be shown in the actuarial documents
- Selected for each cotton production type and practice
STAX: Example

• Assumptions:
  • Farm’s APH – 900 lbs/acre
  • Expected County Average 850 lbs/acre
  • Projected price $0.72 pound
  • County Benchmark - $612/acre (850 lbs/acre x $0.72/lb)

• If the producer selects:
  • An area loss trigger of 90%
    • Can range from 75% - 90%
  • Coverage level of 90%
    • Can range from 70% to 90% and cannot overlay companion policy.
  • Protection Factor 120%
    • Can range from 80% - 120%

• Max STAX Protection per Acre = $146.88/acre
  • (Protection factor X County Benchmark) x Coverage Range
    • (1.2 x $612/acre) x .2
STAX Example (Continued)

- If the following occurs:
  - Harvest price - $0.65/lb
  - Farm yield 750 lbs/acre
  - County yield 700 lbs/acre
- Will there be a STAX payment? Yes
- Actual county revenue of $455/acre ($0.65/lb x 700 lbs/ac) is less than $551/acre expected county revenue (90% x $612/acre)
- Area Performance - $455/acre divided by $612/acre = 74.35%
  - Actual revenue divided by expected revenue
- Payment Factor
  - \((0.90 - 0.7435) / (0.90 - 0.70) = 78.25\%\)
  - Capped at 1.00
- STAX Indemnity = \(0.7825 \times \$146.88/acre = \$114.93/acre\)
- In this example a companion
  - RP policy at 70% would not have had an indemnity payment
  - RP policy of 85% would have had an indemnity payment of $63.60/acre + STAX payment of $36.72/acre for total of $100.02/acre