STAX – Stacked Income Protection Plan

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Disclaimer

All analysis is based on my interpretation of the bill language.

Some information is unknown since USDA has not published the regulations for implementation of new farm bill programs.

The information provided in this presentation is subject to change prior to implementation.

The information provided in this presentation is designed to provide further understanding of STAX.

STAX

- New supplemental crop insurance product only available to upland cotton producers
- Similar to a Group Risk Income Protection (GRIP) policy
  - Producers would pay a premium and receive indemnity payments
  - Designed to cover county-wide revenue losses and complement a producer's individual insurance policy

STAX

- STAX allows a producer to purchase two crop insurance policies on the same acre of a crop
  - New concept because producers have not previously been allowed to stack insurance policies for the same crop
- Allows a portion of that deductible to be covered by a county triggered program
- Does not provide double coverage but allows a producer to stack layers of insurance protection to provide greater risk protection

STAX

- An individual policy is not required for STAX
- If the producer does have an individual policy, STAX would sit on top and cover losses ranging between 10% - 30% of expected county revenue
- Range of coverage = minimum (90% - individual policy coverage level, 30%)

STAX

- Overlap is not allowed
  - Producers with 80% coverage on their individual policy could only get up to 10% coverage under STAX
  - Producers with 70% coverage on their individual policy could get up to 20% coverage under STAX
  - STAX coverage available in 5% increments
  - STAX is subsidized at 80%, so producers would pay 20% of the premium

STAX

- Producers could also select a payment rate multiplier up to 120%
- The multiplier concept would work the same as in GRIP or GRP insurance programs.

According to RMA[1], the multiplier has two purposes:

1. Account for the increased variability of individual farm yields as compared to county-average yields
2. Allow producers with above average farm yields to purchase a higher level of coverage

[1]USDA Risk Management Agency (RMA). *Group Risk Income Protection: Frequently Asked Questions*, June 5, 2008. Available at: http://www.rma.usda.gov/help/faq/grip.html

STAX

- Any producer with below-or above-average yields could choose a coverage level above the county average if he/she is willing to pay a higher premium
- Multiplier would increase the maximum protection per acre but would not impact the trigger revenue required to receive a STAX indemnity
- Producers would be able to choose a multiplier that allows them to obtain a closer match between their individual loss expectations and their county-level STAX coverage

STAX Example

County trend yield = 300, 5 yr avg yield = 350, Actual county yield = 250
Projected price = $0.80, Harvest price = $0.90

Expected County Revenue		Range of Coverage		Multiplier		Max Payment
Max (300, 350) * Max ($0.80, $0.90) = $315	x	Min (0.90 – 0.70) or 0.30 = 0.20 or 20%	x	(0.8 – 1.2) = 1.0	=	= $63

Payment Triggered if:

Actual County Revenue		Expected County Revenue x 90%
250 * $0.90 = $225	<	$315 * .90 = $283.50

Payment Loss Calculation	Payment per Acre
Max (0, 0.90 * 225/315) = 64.29%	Min ($63, 0.6429 * 315 * 1.0) = $63

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