



Crop Division

Stacked Income Protection Plan (STAX)

Extra income protection for growers of upland cotton



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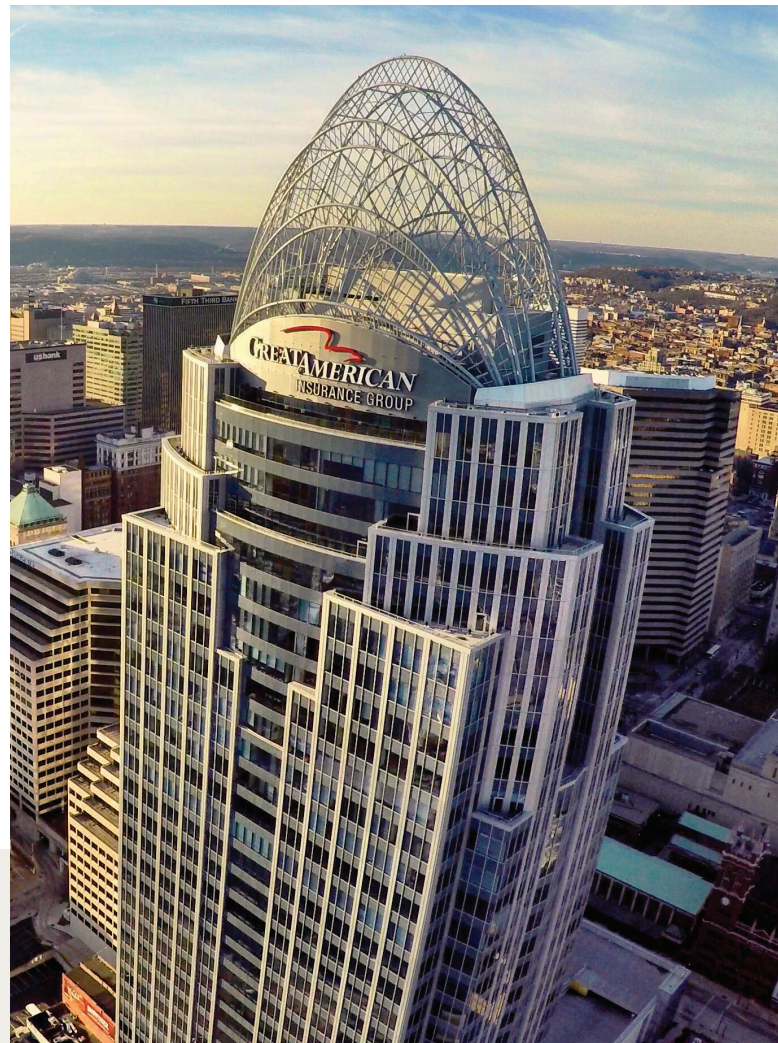
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Overview

STAX is a crop insurance product for upland cotton that provides coverage for a portion of the expected revenue for a producer's area. Most often the area will be the producer's county but may include other counties or even practices as necessary to obtain a credible amount of data to establish an expected yield and premium rate.



Stacked Income Protection Plan (STAX) for Upland Cotton

How is STAX sold?

STAX may be purchased the same way as for any crop insurance policy, through a crop insurance agent. Producers must also decide if they want to purchase STAX alone or with another crop insurance policy: Yield Protection, Revenue Protection, Revenue Protection with the Harvest Price Exclusion, or any of the Area Risk Protection Insurance policies. We refer to this as a companion policy. If STAX is purchased with a companion policy, it must be done by the sales closing date with the same insurance company. The coverage level of the companion policy can affect the amount of coverage that STAX provides.

How does STAX work?

STAX provides coverage for up to 20% of the expected area revenue. Loss payments begin when cotton area revenue falls below 90% of its expected level – although a lower loss trigger may be selected. Producers may select a coverage range of 5, 10, 15 or 20%.

The coverage range selected depends on the coverage level of the companion policy, as applicable. The total coverage between the companion policy and STAX cannot exceed 90%, which means if a 75% coverage level is selected under the companion policy, no more than a 15% coverage range can be selected under STAX. If there is no companion policy, the maximum coverage range is 20%. The amount of coverage may also be increased or decreased by the selection of a protection factor, common to area coverage policies, that allows coverage to be tailored more closely to the farming operation.



STAX is available for cotton crops in counties where federal crop insurance coverage for upland cotton is currently offered.

The amount of STAX coverage depends on the expected yield, projected price, coverage range, and protection factor. The expected yield for the county for STAX will be based on the historical average of yields reported to RMA by insured cotton growers in that county. In areas where the yield data are thin, counties will be combined in order to accumulate enough data to determine expected yields and premium rates. Similar to individual and other area cotton plans, projected prices will be determined using procedures outlined for cotton in the Commodity Exchange Price Provisions.

STAX pays a loss on an area wide basis, and an indemnity is triggered when area revenue is less than 90% of its expected level. STAX payments are determined only by area average revenue, and are not affected by whether a grower receives a payment on their companion policy, if purchased. Therefore, it is possible for a grower to experience an individual loss on his or her companion policy, but not trigger an area-based STAX payment (i.e. grower does poorly but the overall area does well), or vice-versa.

STAX Coverage Example

In this example, we'll use cotton with an expected crop value for the area of \$538.20 per acre (690 pounds at \$0.78 per pound).

| Area Expected Revenue Per Acre | | |
|--------------------------------|----------------------------------|-----------------|
| A | Area Expected Yield (Lbs/Acre) | 690 |
| B | Area Expected Price (Lbs/Bu) | x \$.78 |
| C | Area Expected Crop Value (A x B) | \$538.20 |

Assume the grower also purchases a Revenue Protection policy with a 75% coverage level – this is the **companion policy**. The purchase of the Revenue Protection policy is not necessary to purchase STAX.

At this point, the grower has the option to buy STAX coverage.

The calculation of STAX coverage is described in the following table:

| STAX Coverage Calculation | | |
|---------------------------|---|------------|
| D | STAX begins to pay when area revenue falls below this percent of its expected level (grower may select from 90% down to 75%) | 90% |
| E | STAX Endorsement pays out its full amount (liability) when area revenue falls to this percent of its expected level (equal to the higher of 70% or the coverage level percentage of the companion policy. In this case the companion revenue policy brings this to 75%) | - 75% |
| F | Coverage Range of STAX (D – E) | 15% |

\$538.20
x .15

\$80.73

In this example, the STAX Endorsement begins to pay when area revenue for cotton falls below 90% of its expected level. The full amount of the STAX coverage is paid out when the area average revenue falls to 75%.

STAX Coverage Calculation

| | | |
|---|---|----------------|
| G | Protection factor (grower may change the amount of coverage by selecting a protection factor from 0.80 to 1.20) | 1.20 |
| H | Amount of STAX Protection (F x G x C) | \$96.88 |

\$538.20
x .15

\$80.73

x 1.20

\$96.88

The dollar amount of STAX coverage is based on the coverage range and protection factor selected. In this example there are 15 percentage points of coverage – from 90% down to 75% -- and the protection factor selected is 1.20. Fifteen percent of the expected area revenue, times the selected protection factor of 1.20, is \$96.88 (or 15% x 1.20 x \$538.20). Thus, the STAX policy can cover up to \$96.88 **in addition to** what is covered by the companion policy.

See next page for STAX indemnity calculation...

STAX Indemnity Calculation

\$80.73 As we determined on the previous
 x 1.20 page, **the STAX policy can cover
 up to \$96.88** in addition to what is
 covered by the companion policy.

\$96.88 A payment is triggered if the area
 / 3 revenue falls below 90% of its
 expected level. **Suppose, for
 instance, that the area revenue
 falls to 85%.** This is five percentage
 points below the 90% trigger. Since
 the five percentage points account
 for one third of the 15% coverage
 range, one third of the value of the
 STAX policy is paid to the producer.



If the area revenue had fallen to a level at or below 75%, the full \$96.88 value of the STAX coverage would be paid to the producer.



The coverage level of the companion policy can affect the amount of coverage that STAX provides.

| STAX Coverage Calculation | | | |
|---------------------------|---|--------------|-----|
| D | STAX begins to pay when area revenue falls below this percent of its expected level (grower may select from 90% down to 75%) | 90% | 15% |
| | | (85%) | |
| E | STAX Endorsement pays out its full amount (liability) when area revenue falls to this percent of its expected level (equal to the higher of 70% or the coverage level percentage of the companion policy. In this case the companion revenue policy brings this to 75%) | 75% | |
| F | Coverage Range of STAX (D – E) | 15% | |
| G | Protection factor (grower may change the amount of coverage by selecting a protection factor from 0.80 to 1.20) | 1.20 | |
| H | Amount of STAX Protection (F x G x C) | \$96.88 | |

Where will STAX be available?

STAX is available in all counties where federal crop insurance coverage for upland cotton is currently offered. It will also be offered by practice (irrigated or nonirrigated) where possible.

How much does STAX cost?

The Federal Government will pay 80% of the premium associated with the STAX coverage. The exact premium cost will depend on the area, coverage range selected, and protection factor selected.





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