Northern Pulse Growers Association

October 18, 2018

Greetings NPGA Members:

The office has received numerous calls about the calculation of harvest prices of revenue insurance policies for pulse crops, so here is a brief overview of the program. This is informational only; please talk to your agent about your particular circumstances and if you have further questions. The pulse crop revenue insurance option available from RMA for peas, lentils, and chickpeas is calculated somewhat differently than similar programs available for wheat and durum.

With wheat and durum, the projected price established in the winter is the average of the daily closing price of the September contract on the Chicago Board of Trade (hard red winter and soft red winter) and Minneapolis Grain Exchange (hard red spring and, using a factor, durum) during the month of February. This price is used along with the producer's Actual Production History (APH) and coverage level to calculate the per acre revenue guarantee.

With pulse crops, the formula is the same; but the calculation that underlies the price component is different. With wheat revenue insurance, if you are willing to record the average daily closing price in the months of February and August, you can get pretty close to the final price since it is easily visible on the futures exchanges. With pulse crops, the projected price is determined by RMA from analysis of contract prices offered by regional processors during the winter, and is released by the third business day in March. These prices are not generally available to the public. This is multiplied by the producer's APH and coverage level to determine the per acre guarantee.

Pulse Crop Basic Formula

Projected Price X APH X Coverage Level=Revenue Guarantee per Acre

Example: $0.20/lb X 1500 lbs/acre X 70% =$210.00 per acre guarantee

The yield component of the formula does not change. Unless you have the *Harvest Price Exclusion* option on your policy (unlikely); the harvest price can differ from the projected price. Below are examples of higher ($0.25/lb) and lower ($0.15/lb) harvest price scenarios that modify the basic formula above:

Higher Harvest Price

$0.25 X 1500 lbs/acre X 70% =$262.50 per acre guarantee

Lower Harvest Price

$0.20 X 1500 lbs/acre X 70%=$210 per acre guarantee

With the harvest price option, standard on revenue policies, if the harvest price is *higher* than the projected price, the new per acre revenue guarantee is:

Harvest Price X APH X Coverage Level=Revenue Guarantee per Acre

If the harvest price is *lower* than the projected price, the projected price remains in the formula. Thus, the per acre guarantee established in the winter using the projected price is the minimum level you will be covered for. The wheat harvest price is established by using the average daily close of the September contract in the month of August for the appropriate contract. The pulse crop harvest price is established by settlements recorded between the first business day in September through the last business day in November. This price is released no later than January 15th of the following year. A "settlement" is a check issued to a grower, and can reflect sales made earlier in the year (new crop contracts) or cash sales made during or after harvest; so long as settlement is made during the reporting period. If unable to determine either a projected or a harvest price using these methods, RMA can establish a price.

Calculating an Indemnity

For example, if you have a 1,500 lb APH and harvest 1,000 lbs/acre; with a $0.25 harvest price, the indemnity is calculated as follows:

$0.25 X 1500 lbs/acre X 70% =$262.50 per acre guarantee

$0.25 X 1000 lbs/acre =$250.00 revenue per acre

$262.50-$250.00= $12.50 per acre indemnity

In periods of declining prices, producers holding crop in the bin rather than selling would have settlements reflecting predominantly new crop sales made the previous winter. This would result in a harvest price higher than the current cash market since the volume of sales is weighted towards the earlier, higher price. More sales settled during the reporting period at the lower current market price would lower the harvest price and make it more reflective of current conditions.

In periods of rising prices, more sales at harvest (when cash prices are higher) and settled during the harvest price reporting period would result in a harvest price more weighted towards the higher current price. It would still be lower than the cash market price due to influence of any settlements made at earlier, lower prices.

Both the projected and harvest prices are calculated using weighted averages (for example, a higher volume of bushels at a given price increases the influence of that particular transaction on the final price); and in any case the harvest price cannot be more than 150% of the projected price.

Many thanks to Frank French at Michel's Agency, Plentywood, MT; and Mark Hardy (NPGA Vice President) at Agri Insurance in Beach, ND; for their feedback.

It's a lot to chew on, but hopefully this is helpful!

Chris Westergard

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A summary sheet available from RMA for Montana and North Dakota is here:

https://www.rma.usda.gov/Fact-Sheets/Billings-Regional-Office-Fact-Sheets/Dry-Peas-2018-MT-ND

The Dry Pea Revenue Insurance Standards Handbook is available at this link:
https://www.rma.usda.gov/Procedural-Handbooks/Privately-Developed-Products---20000