

# 2007 Adjusted Gross Revenue

November 2006

The Adjusted Gross Revenue (AGR) product provides protection against low revenue due to unavoidable natural disasters and market fluctuations that occur during the insurance year. Covered farm revenue consists of income from agricultural commodities, including incidental amounts of income from animals and animal products and aquaculture reared in a controlled environment.

## **The AGR concept:**

- Uses a producer's historical IRS tax form (Schedule F or equivalent forms) information and an annual farm report as a base to provide a level of guaranteed revenue for the insurance period;
- Provides insurance coverage for multiple agricultural commodities in one insurance product;
- Establishes revenue as a common denominator for the production of all agricultural commodities; and
- Reinforces program credibility by using IRS tax forms and regulations to alleviate compliance concerns.

## **AGR Timeline**

**Sales Closing Date:** January 31 (cancellation and termination date also).

**Beginning of Insurance:** January 1 (For the year of application, the beginning of insurance is 10 days after a properly completed application is received.)

**Contract Change Date:** November 30 (changing to August 31, beginning with the 2008 insurance year).

**Insurance Year:** Defined as a calendar year in which the sales closing date occurs and includes both calendar year and fiscal year filings (corresponding to the producer's IRS tax period).

**Claims:** Claims are settled after taxes are filed for the insurance year.

## **Availability**

AGR is available in: California (selected counties), Connecticut, Delaware, Florida (selected counties), Idaho (selected counties), Maine, Maryland (selected counties), Massachusetts, Michigan (selected counties), New Hampshire, New Jersey, New York (selected counties), Oregon (selected counties), Pennsylvania (selected counties), Rhode Island, Vermont, Virginia (selected counties), Washington (selected counties).

## **Producer Eligibility**

A producer must meet these criteria to be eligible for AGR coverage:

- Be a U.S. citizen or resident;
- File a calendar year or fiscal year farm tax return;
- Produce agricultural commodities primarily in pilot counties (may include income from contiguous non-pilot counties);
- Have liability not exceeding \$6.5 million;
- Have had same tax entity for 7 years (filed 5 consecutive years of Schedule F tax forms, plus previous year and insurance year) unless a change in tax entity is reviewed and approved by the insurance provider;
- Purchase traditional Federal crop insurance, if available, when more than 50 percent of expected income is from insurable commodities (when producers purchase both AGR and other crop insurance plans, the AGR premium will be reduced); and
- Earn no more than 35 percent of expected allowable income from animals and animal products.

## **Insured Causes of Loss**

Insurance is provided against loss of revenue due to any unavoidable natural occurrences during the current or previous insurance year or due to market fluctuations that cause a loss in revenue during the current insurance year. No payment will be made for losses due to negligence, mismanagement, or wrongdoing by the insured, the insured's family, members of the household, tenants, employees, or contractors; crop abandonment; bypassing of acreage; or other causes listed in the insurance policy.

## **AGR Application Information**

Producers must submit the following information when completing an AGR application:

- History calculation worksheet, including 5 years of allowable income and expense data from IRS tax returns (Schedule F or equivalent forms);
- An annual farm report for the insurance year listing each commodity to be produced, the expected quantity of the commodity to be produced, and the expected price for the commodity;
- A commodity profile report for the previous 2 years

- for producers selecting higher coverage levels;
- Beginning inventories, if applicable; and
- Indication of changes that will result in lower income for the insurance year than the historical average.

### Choosing a Revenue Guarantee

AGR liability (protection) is calculated by multiplying the approved adjusted gross revenue by the coverage level and payment rate percentage selected by the producer. Coverage levels and payment rate eligibility vary with the number of commodities produced and are selected by the producer (see table below) from the county actuarial document (Special Provisions of Insurance). A producer selects one amount of coverage.

### Available Protection Amounts

Coverage Payment		Minimum # of Commodities*	Maximum Annual Income**
Level	Rate		
65	75	1	\$13,333,333
65	90	1	\$11,111,111
75	75	1	\$11,555,555
75	90	1	\$9,629,629
80	75	3	\$10,833,333
80	90	3	\$9,027,777

\*Must meet minimum income requirements.

\*\*The Maximum Annual Income represents the maximum approved farm revenue at each coverage level and payment rate to be eligible for AGR due to the \$6.5 million maximum liability allowed.

### Loss Payments

Loss payments are triggered when the adjusted income for the insured year is less than the loss inception point. The loss inception point is calculated by multiplying the approved adjusted gross revenue times the selected coverage level. Once a revenue loss is triggered, the insured is paid based on the payment rate selected, either 75 cents or 90 cents for each dollar lost.

### Loss Payment Example

#### Assumptions:

- 80 percent coverage level and 90 percent payment rate chosen;
- Approved adjusted gross revenue of \$94,900 and actual revenue from the farm for the year was \$21,000;
- Liability:  $\$94,900 \times 0.80 \times 0.90 = \$68,328$ ; then
- Loss Inception Point:  $\$94,900 \times 0.80 = \$75,920$ .

### Loss Scenario:

\$75,920 - \$21,000 revenue to count = \$54,920 loss of revenue; then  
 $\$54,920 \times 0.90$  payment rate = \$49,428 indemnity payment.

**Note:** If the insured's allowable expenses for the current crop year fall below 70 percent of the approved expenses, the approved AGR payments will be reduced.

This summary is for general illustration purposes only. Please contact a private crop insurance agent to learn more about AGR.

### Contact Information

AGR insurance policies are available from private insurance agents. A list of crop insurance agents is available at all USDA Service Centers throughout the United States, or visit RMA's online agent locator at: <http://www3.rma.usda.gov/tools/agents>.

To view additional information, visit the following RMA online resources:

<http://www.rma.usda.gov/policies/2007policy.html> for policy and forms and <http://www3.rma.usda.gov/apps/premcalc> for premium calculation.

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