2014 Farm Bill—Farm Program Decisions

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- Michigan State University
- Delaware State University
- University of Arkansas-Pine Bluff
- North Carolina A&T University
- Montana State University
Seven steps to help with the decisions required by the 2014 Farm Bill

One-stop resource available:  [http://farmbilltoolbox.farmdoc.illinois.edu](http://farmbilltoolbox.farmdoc.illinois.edu)

Or search:  “Farm Bill Toolbox”
1. Retain or update payment yields (Feb. 27, 2015)

2. Retain or reallocate base acres (Feb. 27, 2015)

3. Programs: ARC-CO; PLC; ARC-IC (Mar. 31, 2015)

Each decision made by FSA farm; one-time and irrevocable
Collect Information.—

✓ FSA Letter from August: existing payment yields and base acres for each FSA farm

✓ FSA letter also provides record of acres planted on the FSA farm for 2008 to 2013 crop years

✓ Also need crop yield history for 2008 to 2012; crop insurance records will be accepted
Keep or Update Yields.—

- Keep current payment (CC) yields as listed on FSA letter

- Update to 90% of the average yields from 2008 to 2012 crop years

- Payment yields only used for PLC; independent of program choice; decision for landowners only
Retain or Reallocate Base Acres.—

- Keep current base acre distribution as listed on FSA letter

- Reallocate base to ratio of planted acres for program crops in 2009 to 2012 crop years; FSA letter determines

- All programs pay on base acres; decision covers all program crops; decision for landowners only
Compare ARC-CO and PLC.—

- Decision for all **producers** on the farm (not landowners in a cash lease); a crop-by-crop decision; 85% of base

- ARC-CO: **revenue-based** assistance using county average yields and national average prices

- PLC: **fixed-price**, deficiency payment program when national average price is below statutory reference price
### Operational Comparison

<table>
<thead>
<tr>
<th>ARC-CO</th>
<th>PLC</th>
</tr>
</thead>
<tbody>
<tr>
<td>5-year Olympic moving average marketing year average (MYA) price</td>
<td>Reference price fixed in statute; does not change</td>
</tr>
<tr>
<td>(reference price plug)</td>
<td></td>
</tr>
<tr>
<td>5-year Olympic moving average of county yields (70% of T-yield plug)</td>
<td>Payment yield used to calculate payments; does not change (after</td>
</tr>
<tr>
<td></td>
<td>update)—no yield coverage provided</td>
</tr>
<tr>
<td>Coverage is from 86% down to 76% of county revenue (i.e. a 10%</td>
<td>Coverage is for prices below the reference price and down to the loan rate</td>
</tr>
<tr>
<td>maximum)</td>
<td></td>
</tr>
</tbody>
</table>
## Operational Comparison: Prices Used

<table>
<thead>
<tr>
<th>Year</th>
<th>MYA Price &amp; 5-year Olympic</th>
<th>Corn</th>
<th>Soybeans</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Corn</td>
<td>Soybeans</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>$3.55 ($3.70)</td>
<td>$9.59</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>$5.18*</td>
<td>$11.30*</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>$6.22*</td>
<td>$12.50*</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>$6.89</td>
<td>$14.40</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>$4.46*</td>
<td>$13.00*</td>
<td></td>
</tr>
<tr>
<td>Olympic</td>
<td>$5.29</td>
<td>$12.27</td>
<td></td>
</tr>
</tbody>
</table>

(Ref. price replaces MYA below it)
(*Used in the Olympic calculation)
Compare ARC-CO and PLC.—

- Download ARC-CO/ PLC Comparison tool on farmdoc: farmdoc.illinois.edu

- Go to Agriculture Policy Analysis System (APAS): fsa.usapas.com
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ARC-PLC Decision Steps

The following 7 steps are designed to help guide you through the decisions required for each FSA farm.

1. Collect Information
2. Keep or Update Yields
3. Retain or Reallocate Base Acres
4. Enroll in ARC-PLC
5. Consider ARC-IC
6. Consider SOI
7. Signup

Corn Price Forecasts ($ per Bushel)

Soybean Price Forecasts ($ per Bushel)
ARC-PLC Decision Steps

The following 7 steps are designed to help guide you through the decisions required for each FSA farm:

1. Collect Information
2. Keep or Update Yields
3. Retain or Reallocate Base Acres
4. Consider ARC-IC
5. Consider SSO
6. Consider SOQ
7. Signup

Wheat Price Forecasts ($ per Bushel)

Sorghum Price Forecasts ($ per Bushel)
Compare ARC-CO and PLC.—

- Much of this decision depends on your price expectations for 2014 through 2018

- Type of risk coverage factors in as well: ARC-CO for lower prices and yields; PLC for very low prices

- Other considerations include the 10% maximum payment on ARC-CO and availability of SCO for PLC
Compare ARC-CO and PLC.—

- **Soybeans:** all forecasts have prices above reference; difficult for PLC to be effective

- **Corn:** close call, how low on price expectations (USDA?); keep in mind impact of big yields in 2014

- **Wheat:** even closer call on price expectations; SCO may also be a significant factor
Consider ARC-IC.—

- Uses the sum of all program crops on the farm weighted by actual planted acres

- All farms in the state enrolled in ARC-IC; producer’s share

- Payments made on 65% of total base acres for the farm (all program crop base)
## ARC-IC Example Calculations

<table>
<thead>
<tr>
<th>Year</th>
<th>Yield</th>
<th>Price</th>
<th>Revenue</th>
<th>Yield</th>
<th>Price</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>173</td>
<td>$3.55 ($3.70)</td>
<td>$640</td>
<td>51</td>
<td>$9.59</td>
<td>$489</td>
</tr>
<tr>
<td>2010</td>
<td>157</td>
<td>$5.18</td>
<td>$813*</td>
<td>46</td>
<td>$11.30</td>
<td>$520*</td>
</tr>
<tr>
<td>2011</td>
<td>143</td>
<td>$6.22</td>
<td>$889</td>
<td>47</td>
<td>$12.50</td>
<td>$588*</td>
</tr>
<tr>
<td>2012</td>
<td>104</td>
<td>$6.89</td>
<td>$717*</td>
<td>47</td>
<td>$14.40</td>
<td>$677</td>
</tr>
<tr>
<td>2013</td>
<td>171</td>
<td>$4.46</td>
<td>$763*</td>
<td>51</td>
<td>$13.00</td>
<td>$663*</td>
</tr>
<tr>
<td>5-year Olympic Average Revenue</td>
<td></td>
<td>$764</td>
<td></td>
<td></td>
<td></td>
<td>$590</td>
</tr>
</tbody>
</table>

(*Used in the Olympic calculation)
## ARC-IC Example Calculations

<table>
<thead>
<tr>
<th>Year</th>
<th>Corn Yield</th>
<th>Corn Price</th>
<th>Corn Revenue</th>
<th>Soybeans Yield</th>
<th>Soybeans Price</th>
<th>Soybeans Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>180</td>
<td>$3.50</td>
<td>$630</td>
<td>51</td>
<td>$10.00</td>
<td>$510</td>
</tr>
</tbody>
</table>

### Benchmark (Max.)

\[
(0.6 \times \$764) + (0.4 \times \$590) = \$695 \quad (\times 10\% = \$69.50)
\]

### Guarantee

86% of $695 = $597

### Actual

\[
(0.6 \times \$630) + (0.4 \times \$510) = \$582
\]

### Difference

$597 - $582 = $15

### Estimated Payment

$15 \times 100 \times 65\% = $995 \quad ($9.95 per base acre)
Consider Supplemental Coverage Option (SCO).—

- **A Crop Insurance Policy:** planted acres, APH and actual yields, RMA prices, premium (65% subsidy)

- Uses a county-based trigger at 86%; coverage down to underlying COMBO insurance trigger

- Applied to deductible range of your underlying policy; cannot be mixed with ARC-CO or ARC-IC
Consider Supplemental Coverage Option (SCO).

- Example with 75% Revenue Protection (RP) individual policy

- SCO covers 86% down to 75%; county trigger applied to RP deductible

- Available in 2015; only those counties RMA has enough data to rate it
## Consider SCO: Wheat Example (75% RP)

### County Calculations

<table>
<thead>
<tr>
<th>Base Price</th>
<th>County Trend Yield</th>
<th>Revenue</th>
<th>County Trigger</th>
<th>Revenue Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>$6.00</td>
<td>65</td>
<td>$390</td>
<td>86% x $390 = $335</td>
<td>75% x $390 = $293</td>
</tr>
</tbody>
</table>

### Farm Calculations

<table>
<thead>
<tr>
<th>Base Price</th>
<th>Farm APH</th>
<th>Revenue</th>
<th>RP Trigger</th>
<th>Max. Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>$6.00</td>
<td>60</td>
<td>$360</td>
<td>75% x $360 = $270</td>
<td>(86%-75%) x $360 = $40</td>
</tr>
</tbody>
</table>

### SCO Coverage and Expected Payment

<table>
<thead>
<tr>
<th>Harvest Price</th>
<th>County Yield</th>
<th>County Rev.</th>
<th>Shortfall Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5.50</td>
<td>55</td>
<td>$303</td>
<td>($335-$303)/($335-$293) = 0.76</td>
</tr>
</tbody>
</table>

Expected Payment: 0.76 x $40 = $30.48
Consider Supplemental Coverage Option (SCO).—

- A **Crop Insurance Policy**: planted acres, APH and within year prices; no payment limits or AGI requirements

- Purchasing a **county-based trigger** using farm yields; effectiveness compared to individual buy-up

- Comparing PLC + SCO + COMBO vs. ARC-CO + COMBO vs. ARC-IC + COMBO
**ARC-PLC Decision Steps**

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<table>
<thead>
<tr>
<th>Start</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overview</td>
<td>Collect Information</td>
<td>Keep or Update Yields</td>
<td>Retain or Reallocate Base Acres</td>
<td>Compare ARC-CC and PLC</td>
<td>Consider ARC-IC</td>
<td>Consider SCS</td>
<td>Signup</td>
</tr>
</tbody>
</table>

**Make Your Decisions.**—

- **Update Payment Yields (Landowner):** February 27, 2015
- **Reallocate Base Acres (Landowner):** February 27, 2015
- **Program Election (Producers):** March 31, 2015
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The following 7 steps are designed to help guide you through the decisions required for each FSA farm.

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<tr>
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<th>5: Consider ARC-IC</th>
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Make Your Decisions.—

- **Agriculture Policy Analysis System (APAS):** [http://fsa.usapas.com](http://fsa.usapas.com) for program payment estimates
- **Farm Bill Toolbox** for decision steps, background information, analysis, webinars and more
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QUESTIONS?

Thank you,

Jonathan Coppess
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