FARM PROGRAM DECISION TOOL

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University of Illinois

http://farmbilltoolbox.farmdoc.illinois.edu/
DEVELOPMENT & OUTREACH COALITION

• University of Illinois
• Watts & Associates
• The Ohio State University
• Michigan State University
• Delaware State University
• University of Arkansas-Pine Bluff
• North Carolina A&T University
• Montana State University

http://farmbilltoolbox.farmdoc.illinois.edu/
Decision Assistance

Farm Bill Toolbox on farmdoc:

http://farmbilltoolbox.farmdoc.illinois.edu/

Web-based decision tool, Agriculture Policy Analysis System (APAS):

http://fsa.usapas.com/
One-time, irrevocable per FSA farm:

Deadline (February 27)
1) Update payment yields
2) Retain or reallocate base acres

Deadline (March 31)
3) Program Election decision:
   ✓ Agriculture Risk Coverage, County Option (ARC-CO)
   ✓ Agriculture Risk Coverage, Individual Farm Coverage Option (ARC-IC)
   ✓ Price Loss Coverage (PLC)
   (+ Supplemental Cover Option (SCO) in crop insurance)

http://farmbilltoolbox.farmdoc.illinois.edu/
**Step One:**

**Collect Information**

- For each FSA farm
- FSA August letter: base, yields, acres planted
- Yield history for 2008 to 2012; crop insurance records accepted
STEP TWO: RETAIN OR UPDATE YIELDS

✓ Landowner decision; keep current (FSA letter) or update to 90% of 2008-2012

✓ Need cropping history; Crop Insurance records accepted

✓ Crop-by-crop decision; generally, choose the one that results in highest yield
STEP THREE: RETAIN OR REALLOCATE BASE

- Landowner decision; all program crops on farm; will not increase or decrease total
- Keep current or reallocate to the ratio of 2009-2012 plantings
- Generally look to increase base for crops with larger potential payments
STEP FOUR: COMPARE ARC-CO & PLC

✓ All producers on the farm; crop-by-crop decision

✓ ARC-CO: county revenue program

✓ PLC: deficiency payment when MYA is below reference price
**Step Five: Consider ARC-IC**

- All producers on the farm; all farms in state enrolled in ARC-IC

- Individual, farm-level revenue (yields), sum of all crops with base

- 5-year Olympic average; planted acres determine weights

- 65% of base acres
STEP SIX: CONSIDER SCO

- Supplemental Coverage Option; crop insurance policy
- Available starting in 2015, expanded in future years
- Only available for crops in PLC (or no program)
- Requires purchase of an individual insurance plan (YP, RP, RP-HPE)
STEP SIX: CONSIDER SCO

✓ County-based trigger

✓ 86% coverage level

✓ Coverage band extends down to coverage level on individual plan

✓ County triggers payment, determines relative payment size

✓ County loss applied to underlying policy deductible range - determines individual farm-level payment
STEP SIX: CONSIDER SCO

✓ Example with 75% RP

✓ SCO range from 86% to 75%

✓ County trigger applied to individual deductible
STEP SIX: CONSIDER SCO

✓ Yield component
  - Same trend/expected yields used for existing area plans (i.e. GRIP/GRP or ARPI)

✓ Price component
  - Same futures prices used for existing insurance programs
STEP SIX: CONSIDER SCO

✓ Guarantee
  - 86% of county trend yield when coupled with YP
  - 86% of county expected revenue (insurance price x trend yield) when coupled with RP or RP-HPE

✓ Premiums
  - Set by RMA
  - Flat subsidy rate of 65%
STEP SIX:
CONSIDER SCO

✓ Indemnity Payments
  - Product of:
    1. County-level payment factor

\[
\left[ 86\% - \frac{\text{Actual County Revenue/Yield}}{\text{Expected County Revenue/Yield}} \right] \\
86\% - \text{Individual Coverage Level}
\]

2. Maximum Farm Payment ($/acre)

\[(0.86 - \text{Coverage Level}) \times \text{Farm Liability}\]
STEP SIX: CONSIDER SCO

✓ Example: County Calculations

- $4.62 base corn price
- 180 bu county trend yield
- $4.62 x 185 = $832/acre
- Guarantee = 0.86 x $832 = $716

✓ SCO with 75% RP

Payments triggered if county revenue falls below $716
Max payment reached if county revenues fall below $624
(0.75 x $832 = $624)
STEP SIX: CONSIDER SCO

✓ Example: Max Farm Payment
  - $4.62 base corn price
  - 185 bu APH yield
  - Liability = 4.62 x 180 = $855/acre

✓ SCO with 75% RP
  Max Payment:
  \[(0.86-0.75) \times $855 = $94/\text{acre}\]
STEP SIX: CONSIDER SCO

✓ SCO considerations
  - Covers revenue/yield risk *within* a crop year
    • Timing of indemnity payments vs commodity program payments
  - Insurance (futures) vs MYA prices
  - Planted vs base acreage
  - No payment limits on SCO indemnities
  - Premium cost

✓ What are available individual coverage levels in your area?
**STEP SIX:**

**CONSIDER SCO**

### Quote input -->

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<tr>
<th>Coverage Level</th>
<th>APH Yield: 63.0</th>
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<th>TA Yield: 66.6</th>
<th>Rate yield: 63.0</th>
<th>Risk class: None</th>
<th>Acres: 100</th>
<th>Type: No Type Specified</th>
<th>Practice: Non-Irrigated</th>
<th>Prevented planting: Standard</th>
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<td>Optional</td>
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### Parameters

- Projected Price: $6.00
- Volatility (revenue): 0.21
- Volatility (rev with exclusion): 0.21

### County Level Products

<table>
<thead>
<tr>
<th>Coverage Level</th>
<th>Area Revenue Protection</th>
<th>Minimum Revenue</th>
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<td>Protection Factor</td>
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<td>$/acre</td>
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### Parameters

- Exp. Yield: 61.7
- Proj Price: $6.00
- Vol: 0.21

### Notes

- The iFARM Premium Calculations developed at the University of Illinois and is available for download at farmdoc (www.farmdoc.illinois.edu. Updated: August 30, 2014.)
## Supplemental Coverage Option (SCO)

**Type:** No type specified  
**Practice:** Non-irrigated

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### STEP SIX: CONSIDER SCO

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<table>
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**Type:** No type specified  
**Practice:** Non-irrigated
STEP SEVEN: DECISIONS & DEADLINES

✓ Base acre reallocation and yield updates:
   Sept. 29, 2014 to Feb. 27, 2015

✓ ARC/PLC Election:
   Nov. 17, 2014 to at least March 31, 2015

✓ Sign contracts:
   mid-April through June 1, 2015