

Making the ARC/PLC Decision Under the 2018 Farm Bill

Presented by Gary Schnitkey, Jonathan Coppess, Nick Paulson, and Doug Yoder

February 24, 2020

Impact of Updated Yield and Price Information on ARC/PLC Decisions
farmdoc.illinois.edu/2018-farm-bill

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Speakers: Gary Schnitkey, Jonathan Coppess, Nick Paulson, Doug Yoder

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Housekeeping

- Handout is available via GoToWebinar control panel
- Webinar will be archived and available on farmdoc
- Submit questions during the webinar and we will answer them at the end of the webinar

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2018 Farm Bill Online and Spreadsheet Tools
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Gardner Program Payment Calculator (ARC/PLC)
The Gardner Payment Calculator provides estimates of expected payments and likelihood of payments for ARC-CO and PLC. Payment estimates are provided for the program years from 2019 to 2023. Users can select the state, county, and crop combination that they wish to consider.
If you are having trouble registering please view the [FAQ](#) or watch the video below.

2018 Farm Bill What-If Tool
This program calculates Agricultural Risk Coverage for County Coverage (ARC-CO), Price Loss Coverage (PLC) payments, and ARC at the Individual Level (ARC-IL). County yields and market year average (MYA) prices are brought in for a user specified state-county-crop combination. Users then can change 2018 through 2020 county yields and prices to see ARC-CO and PLC payments under those yields and prices.
As an alternative to the executable tool you can [download the spreadsheet here](#).

[Go to Payment Calculator](#) [Download FAST Tool](#)

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	Decision
March 15, 2020	1. Make the choice between ARC and PLC for 2019 & 2020 year 2. Enroll for 2019 program year
June 30, 2020	Enrolling for 2020 program year
September 30, 2020	Deadline for updating farm PLC yields for 2020 and future program years (Can do this now)
March 15, 2021	Enroll and change ARC/PLC for 2021 year
March 15, 2022	Enroll and change ARC/PLC for 2022 year
March 15, 2023	Enroll and change ARC/PLC for 2023 year

Spend most of our time today on ARC/PLC choice due March 15

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New Price Information for 2019 MYA Price
February WASDE report had projections

Corn	Soybeans	Wheat
\$3.85 per bushel	\$8.75 per bushel	\$4.55 per bushel
Above the effective reference price of \$3.70	<ul style="list-style-type: none"> • Down from \$9.00 per bushel in January • Makes ARC-CO more likely to pay (\$9.63 benchmark price for ARC-CO) 	<ul style="list-style-type: none"> • No change for January • Well below \$5.50 effective reference price

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Yield Information - Corn

- NASS released county yields on February 20th
- FSA will use RMA data, not NASS yields
- Adjusted yields used to project 2019 ARC-CO payments
- Still uncertainty about projections

Corn Bu / Acre

Map of Illinois showing county-level corn yields. Legend: 129 to 206 Bu/Acre.

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ARC-CO Payments

ARC payments occur when county revenue is below
.86 x benchmark revenue (benchmark yield x benchmark price)

Not eligible for Supplemental Coverage Option (SCO) insurance

Both ARC-CO and PLC make payments on base acres in crop which will not change.

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Corn in Henry County Calculation of PLC and ARC-CO Payments

Year	County Yield ¹ Bu	MYA Price ² \$/bu	Payment ^{3,4}		ARC-CO Calculations			County Revenue ⁸
			PLC	ARC-CO	Benchmark Yield ⁵	Benchmark Price ⁶	Guarantee ⁷	
2018	224				Bu	\$/Bu	\$ per base acre	
2019	177	3.85	\$0	\$3	215.2	3.70	684.67	681.45
2020	218	3.85	\$0	\$0	224.2	3.70	713.28	840.80

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Not many County With Projected Payment for Corn in Illinois

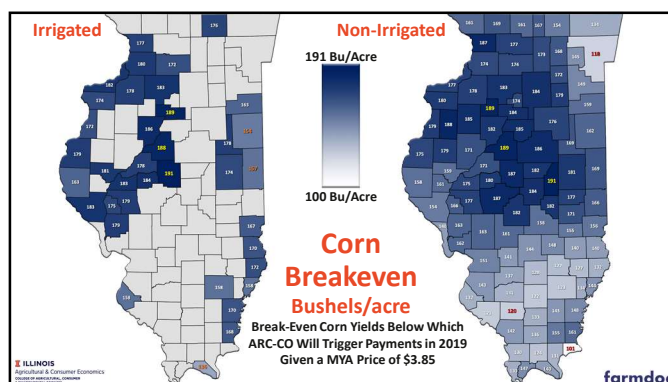
- Few counties with projected payments
- Still uncertainty, particularly for irrigated series and areas with failed acres

Projected Payments per base acre		
County	All or Non-irrigated	Irrigated
Grundy	\$34	
Iroquois	\$13	\$21
Lake	\$5	
Mason		\$8
Union	\$9	
Wabash		\$15

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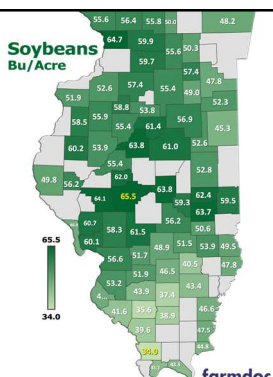
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Yield Information - Soybeans

- NASS released county yields on February 20th (see Figure)
- FSA will use RMA data, not NASS yields
- Adjusted yields used to project 2019 ARC-CO payments
- Still uncertainty about projections



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Soybeans in Henry County, Illinois Calculation of PLC and ARC-CO Payments

Year	County Yield ¹	MYA Price ²	Payment ^{3,4}		ARC-CO Calculations			County Revenue ⁸
			PLC	ARC-CO	Benchmark Yield ⁵	Benchmark Price ⁶	Guarantee ⁷	
2018	67				Bu.	\$/Bu	\$ per base acre	
2019	57	9.00	\$0	\$4	62.5	9.63	517.53	513.00
2020	63	9.00	\$0	\$0	64.2	9.25	510.63	565.83

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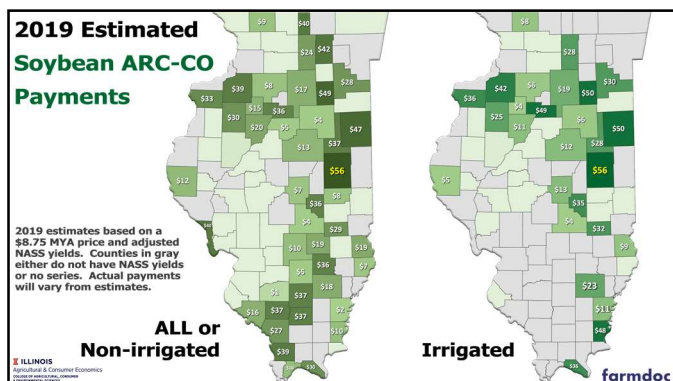
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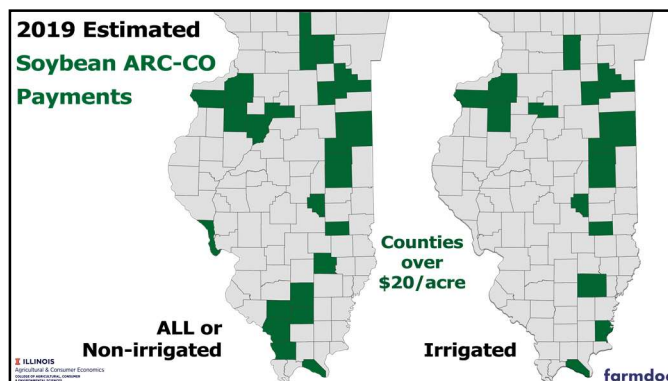
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Soybeans

- Very sensitive to yields
One-bushel change in yield can change payment by **\$7.40 per base acre**
- Lowering 2019 price will increase payments

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Suggestions

<p>Corn</p> <p>Lean toward PLC, unless in county with large 2019 ARC-CO payment</p>	<p>Soybeans</p> <p>Lean to ARC-CO, particularly if in county with large payment</p>	<p>Wheat</p> <p>Lean to PLC</p>
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ARC/PLC Choice

- On a FSA farm basis, allows a choice between:
 - Price Loss Coverage (PLC)
 - Agricultural Risk Coverage – County Level (ARC-CO)
 - ARC – Individual Coverage (ARC-IC) ← All FSA farm, whole farm guarantee
- Can vary decisions by FSA farm
- Choice will initially be made for 2019 and 2020 (**March 15, 2020**)
- Make a yearly choice after that: 2021, 2022, 2023
- Base acres will not change, PLC and ARC-CO will pay on base acres

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PLC

PLC makes payments of

$$.85 \times \left(\text{effective reference price} - \text{higher of MYA price or loan rate} \right) \times \text{PLC yield}$$

(National loan rate: Corn: \$2.20, SB: \$6.20, Wheat: \$3.38)

MYA (market year average) price

- This is a national, cash price
- Sept to August for corn and soybeans
- June to May for wheat

Eligible for Supplemental Coverage Option (SCO) insurance

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Effective Reference Price

Higher of

- 85% of 5-year Olympic moving average
- Reference price

Reference Prices	
Corn	\$3.70
Soybeans	\$8.40
Wheat	\$5.50

Addition of 85% of 5-year Olympic average not likely come into play
5-year Olympic average must be **above**

- \$4.35 for corn
- \$9.88 for soybeans
- \$6.47 for wheat

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Corn

Table 1. Calculation of PLC Payments

2019 Payment		2020 Payment	
Year	MYA Price \$/Bu	Year	MYA Price \$/Bu
2013	4.46	2014	3.70
2014	3.70	2015	3.61
2015	3.61	2016	3.36
2016	3.36	2017	3.36
2017	3.36	2018	3.61
85% of Olympic average ¹		85% of Olympic average ¹	
3.02		3.00	
Statutory reference price		Statutory reference price	
3.70		3.70	
Effective reference price ²		Effective reference price ²	
3.70		3.70	
2019 MYA price		2020 MYA price	
3.85		3.85	
Loan rate		Loan rate	
2.20		2.20	
Payment rate ³		Payment rate ³	
0.00		0.00	
2019 payment per base acre ⁴		2020 payment per base acre ⁴	
\$0		\$0	

\$3.85 is USDA Jan forecast of 2019 MYA price

History suggests a 13% chance that the 2019 MYA will be below \$3.70

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Soybeans

Table 1. Calculation of PLC Payments

2019 Payment		2020 Payment	
Year	MYA Price \$/Bu	Year	MYA Price \$/Bu
2013	13.00	2014	10.10
2014	10.10	2015	8.95
2015	8.95	2016	9.47
2016	9.47	2017	9.33
2017	9.33	2018	8.48
85% of Olympic average ¹		85% of Olympic average ¹	
8.19		7.86	
Statutory reference price		Statutory reference price	
8.40		8.40	
Effective reference price ²		Effective reference price ²	
8.40		8.40	
2019 MYA price		2020 MYA price	
9.00		9.00	
Loan rate		Loan rate	
6.20		6.20	
Payment rate ³		Payment rate ³	
0.00		0.00	
2019 payment per base acre ⁴		2020 payment per base acre ⁴	
\$0		\$0	

\$9.00 is USDA Jan forecast of 2019 MYA price

History suggests a 4% chance that the 2019 MYA will be below \$9.00

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Wheat

Table 1. Calculation of PLC Payments

2019 Payment		2020 Payment	
Year	MYA Price \$/Bu	Year	MYA Price \$/Bu
2013	6.87	2014	5.99
2014	5.99	2015	4.89
2015	4.89	2016	3.89
2016	3.89	2017	4.72
2017	4.72	2018	5.16
85% of Olympic average ¹		85% of Olympic average ¹	
4.42		4.18	
Statutory reference price		Statutory reference price	
5.50		5.50	
Effective reference price ²		Effective reference price ²	
5.50		5.50	
2019 MYA price		2020 MYA price	
4.55		4.55	
Loan rate		Loan rate	
3.38		3.38	
Payment rate ³		Payment rate ³	
0.95		0.95	
2019 payment per base acre ⁴		2020 payment per base acre ⁴	
\$40		\$40	

\$4.55 is USDA Jan forecast of 2019 MYA price

History suggests a 4% chance that the 2019 MYA will be below \$9.00

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Suggestion

1. See if FSA farm will make ARC-IC payment.
2. If not enroll in ARC-IC, enroll by program crop:

Corn Lean to PLC, except in high ARC-CO payment county	Soybeans Lean to ARC-CO	Wheat Lean to PLC
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Gardner ARC/PLC Tool Updating with county yields

fd-tools.ncsa.illinois.edu

State:

County:

Crop: Reference Price:

Practice Type: ☐ Irrigated ☒ Non-irrigated

Forecast Model:

PLC Payment Yield: bushels/acre

ARC Yield Yield: bushels/acre

ARC/PLC Program Inputs

ARC Coverage Level:

ARC Coverage Range:

Payment Acres:

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ARC-IC

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ARC-IC

- Is a FSA farm by farm choice
- ARC-IC farm equals the sum of a producer's share in all FSA farms enrolled in ARC-IC in a state
- Combines all program crops
- Based on farm yields
- Pays on 65% of base acres rather than 85%
- Will pay maximum payment (10% of benchmark) if all acres on FSA farm are prevent plant
- ARC-IC calculator for one farm in 2018 Farm Bill Tool

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Corn Benchmark Calculation

Yield Calculation					Price Calculation		
Year	Planted	Farm Yield	80% of T-Yield	County Yield	Used Yield ¹	MYA Price	Effective Price
2013	Yes	226.0	140.8	221.0	226.0	4.46	3.70
2014	No		140.8	219.6	219.6	3.70	3.70
2015	Yes	192.0	140.8	190.6	192.0	3.61	3.70
2016	No		140.8	230.3	230.3	3.36	3.70
2017	Yes	247.0	150.4	228.9	247.0	3.36	3.70

Benchmark Revenue Calculation				Effective Reference Price	
Year	Yield ¹	Price ²	Revenue	Price	MYA Price
2013	226.0	4.46	1007.96		2013 4.46
2014	219.6	3.70	812.56		2014 3.70
2015	192.0	3.70	710.40		2015 3.61
2016	230.3	3.70	852.15		2016 3.36
2017	247.0	3.70	913.90		2017 3.36
85% of Olympic Average					3.02
Statutory Reference Price					3.70
Effective Reference Price ³					3.70
Benchmark Revenue ⁴			859.53		

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Soybeans Benchmark Calculation

Yield Calculation					Price Calculation		
Year	Planted	Farm Yield	80% of T-Yield	County Yield	Used Yield ¹	MYA Price	Effective Price
2013	No		38.4	62.7	62.7	13.00	8.40
2014	Yes	65.0	38.4	64.9	65.0	10.10	8.40
2015	No		38.4	61.2	61.2	8.95	8.40
2016	Yes	67.0	38.4	65.5	67.0	9.47	8.40
2017	No		38.4	62.0	62.0	9.33	8.40

Benchmark Revenue Calculation				Effective Reference Price	
Year	Yield ¹	Price ²	Revenue	Price	MYA Price
2013	62.7	13.00	815.49		2013 13.00
2014	65.0	10.10	656.50		2014 10.10
2015	61.2	8.95	548.10		2015 8.95
2016	67.0	9.47	634.49		2016 9.47
2017	62.0	9.33	577.99		2017 9.33
85% of Olympic Average					8.19
Statutory Reference Price					8.40
Effective Reference Price ³					8.40
Benchmark Revenue ⁴			622.99		

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2019 ARC-IC Payment (all prevent plant)

Payment Assumes One FSA Farm Enrolled in ARC

Crop	2019 Acres		Farm Yield	MYA Price	Loan Rate	Revenue ¹	Benchmark Revenue
	Planted	Prevent Plant					
Corn	80				2.20	0.00	859.53
Soybeans	20				6.20	0.00	622.99
Total	0	100					

Benchmarks	
Item	Value (\$ per base acre)
Benchmark Revenue ²	812.22
Guarantee ³	698.51
Farm Revenue ⁴	0.00
ARC-IC Payment ⁵	52.79

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2019 ARC-IC Payment (low yields)

Payment Assumes One FSA Farm Enrolled in ARC

Crop	2019 Acres		Farm Yield	MYA Price	Loan Rate	Revenue ¹	Benchmark Revenue
	Planted	Prevent Plant					
Corn	50		190	3.85	2.20	731.50	859.53
Soybeans	50		55	8.75	6.20	481.25	622.99
Total	100	0					

Benchmarks	
Item	Value (\$ per base acre)
Benchmark Revenue ²	741.26
Guarantee ³	637.48
Farm Revenue ⁴	606.38
ARC-IC Payment ⁵	20.22

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2019 ARC-IC Payment (Higher yields) Payment Assumes One FSA Farm Enrolled in ARC

Crop	2019 Acres		2019		Loan Rate	Revenue ¹	Benchmark Revenue
	Prevent	Plant	Farm Yield	MYA Price			
Corn	50		220	3.85	2.20	847.00	859.53
Soybeans	50		65	8.75	6.20	568.75	622.99
Total	100	0					

Benchmark Revenue ²	741.26	(\$ per base acre)
Guarantee ³	637.48	(\$ per base acre)
Farm Revenue ⁴	707.88	(\$ per base acre)
ARC-IC Payment ⁵	0.00	(\$ per base acre)

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ARC-IC general rule

- Consider taking in 2019 if there is a FSA farm with
 - Low yields
 - All prevent plant
- Remember all FSA farms in a state in ARC-IC are combined. Does not seem wise to have all FSA farms in ARC-IC
- Rank FSA farms from highest to lowest payment and see how many farms to add

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Combining farms

- Be careful
- Adding a non-paying farm with a max ARC-IC paying farm can increase payments
- But, adding too many non-paying farms can **eliminate** payments
- USE ARC-IC Tool (2018 Farm Bill What-If tool) with date **after 2/21/20** to evaluate

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Estimated 2019 Payments for All Farms Enrolled in ARC-IC				
Farm 1: Prevent Plant	Yes	Yes	Yes	
Farm 2: Good Yields, No Pay	No	Yes	Yes	
Farm 2a: No Payment	No	No	yes	
Total Base Acres ¹	100	400	700	acres (weighted by share of production)
Benchmark Revenue ²	\$813	\$734	\$723	per base acre
Guarantee ³	\$699	\$631	\$621	
2019 Revenue ⁴	\$0	\$531	\$607	
2019 ARC-IC Payment ⁵	\$53	\$48	\$9	
2019 ARC-IC Payment ⁶	\$5,300	\$19,200	\$6,300	total all farms enrolled in ARC-IC

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Summary

Be aware of deadlines

Advice:

ARC-IC for FSA farms with all prevent plant acres or low yields	Corn Lean to PLC, except in county where ARC-CO has large projected payment	Soybeans Lean to ARC-CO, particularly in counties with high 2019 projected payments	Wheat Both will likely make payments, PLC larger in most cases, lean to PLC
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2018 Farm Bill Resources

- FSA Website**
https://www.fsa.usda.gov/programs-and-services/arclplc_program/
- Farm Bill Toolbox (Including 2018 Farm Bill What if Tool)**
<https://farmdoc.illinois.edu/2018-farm-bill>
- Gardner ARC/PLC tool**
<https://fd-tools.ncsa.illinois.edu/>
- FarmdocDaily**
 - PLC Description, farmdocDaily, September 24, 2019
 - ARC-CO Description, farmdocDaily, September 17, 2019
 - Choosing Between ARC-CO and PLC, farmdocDaily, October 1, 2019
 - ARC-IC, farmdocDaily, October 29, 2019

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Supplemental Coverage Option (SCO)

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Supplemental Coverage Option (SCO)

New crop insurance tool authorized in 2014 & 2018 Farm Bills

- Tied to ARC/PLC election, but administered by RMA, not FSA
- Purchase from crop insurance agents

Coverage Between 86% and crop insurance coverage level selected	Triggered Only if county losses exceed 14%
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Supplemental Coverage Option (SCO)

Is **county based** coverage (no multiplier)

Available in all Illinois Counties:

- Will operate similarly to Ag Risk Protection Insurance (ARPI)
- Different band of coverage
- Corn
- Soybeans
- Wheat

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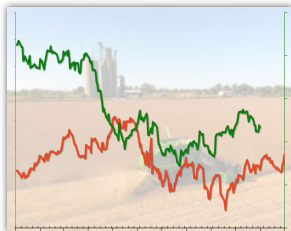
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Supplemental Coverage Option (SCO) will use Area Risk Protection Insurance (ARPI)



Same "Expected County Yield"



Same base and harvest prices

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SCO: Endorsement to Underlying Crop Insurance Policy

Matches underlying crop insurance coverage
(Yield or Revenue Protection must be purchased)

SCO Provides County Based	If you purchase		
	Yield Protection (YP)	Revenue Protection (RP)	Revenue Protection with Harvest Price Exclusion (RP-HPE)
	Yield Coverage	Revenue Coverage	Revenue protection that only uses the crop insurance base price

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SCO: Band of Coverage

SCO Coverage level established at 86%

Indemnities triggered when county revenues/yields fall below 86% of guarantee

SCO coverage ends at the coverage level selected by the producer for underlying crop insurance

Band of coverage = 86% down to the coverage level chosen on crop insurance

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SCO & RP at Various Coverage Levels

*SCO coverage is area (county) based coverage



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RP & SCO Example

Assumptions for RP coverage:

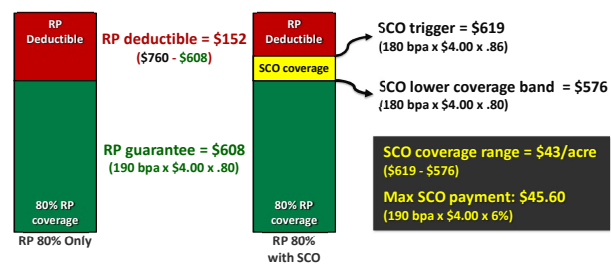
- TA-APH of 190 bpa and Base price of \$4.00
- Expected Revenue = \$760 (190 bpa x \$4.00)
- Coverage level chosen = 80%
- RP Guarantee of \$608 (190 bpa x \$4.00 x .80)

Assumptions for SCO coverage:

- Expected County Yield = 180 bpa
- Base price of \$4.00
- Expected County Revenue = \$720 (180 bpa x \$4.00)
- SCO trigger of \$619 (180 bpa x \$4.00 x .86)

Example: RP 80% and SCO

Expected Farm Revenue \$760 (190 bpa x \$4.00)



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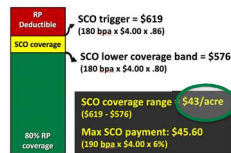
Example: SCO Claim calculation

Actual Revenue Calculation:

Harvest price = \$3.00
Final county yield = 200 bpa
Final county revenue = \$600 (\$3 x 200 bpa)

Claim Calculation:

\$619 SCO trigger - \$600 final = \$19 shortfall
\$19 = 44% of max coverage range (\$19/\$43)
Claim: \$46 max payment x 44% shortfall = \$20 claim



Considerations for SCO

65% subsidy level
Provides protection on planted acres as opposed to base (PLC & ARC)
Not subject to payment limits
Not subject to AGI eligibility test
Eliminates ARC as an option

Starting in 2020 if SCO is purchased on a farm that chose ARC;
 • SCO will be cancelled
 • Customer will still owe 60% of SCO premium (USDA rule)

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Considerations for SCO

County based coverage, not popular in Illinois crop insurance usage
Illinois farmers use high coverage levels, limiting impact of SCO

Since it's county based, SCO won't offer:
 • Replant provisions
 • Prevent Plant provisions
 • Quality loss adjustments (aflatoxin)

SCO has premium cost, ARC does not

Your agent can quote it along with your underlying crop policy

Yield Update for PLC

- Update yields on a crop and farm basis
- Request FSA 156 EZ to get current PLC yields
- Higher of:
 - Current PLC yield, or
 - 2013 to 2017 average x factor

Factor:
 Corn .8100
 Soybeans .8100
 Wheat .8591

Update if that yield is higher
 (My advice: Use crop insurance yields)

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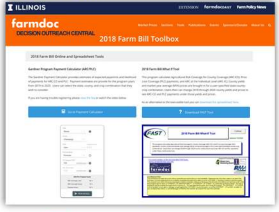


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