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Farm Bill Decisions



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Disclaimer

- This information is based on our reading of the 2014 Farm Bill and discussions with field experts
- Interpretation and differences in final rules and regulations are very likely
- This information is intended for educational purposes only
- Interpretation and analysis of this legislation is an ongoing processes
- Neither the presenter nor the Board of Regents of the University of Nebraska accept any responsibility for decisions made as a result of the use or interpretation of this material

Agenda

- The risk management focus
- Programs and decisions
 - Program yield update
 - Base update
 - PLC
 - ARC-CO
 - ARC-IC
- Supplemental Coverage Option

Producer Timeline

- Decision one
 - Update program yields
- Decision two
 - Update base acres
- Decision three
 - Choose a program
 - PLC
 - ARC-IC
 - ARC-CO



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Program Yield Updating

Program Yield Update





- Current countercyclical yield (default option), or...
- 90% of a simple 2008-12 average yield
 - Includes all years, regardless of outcome
 - 2012 low-yields on rain-fed crops, unless average is less than 75% county average
 - Election crop by crop, farm by farm
 - 75% of county yield average may be used when no crop evidence exists

Program Yield Update

Table 1 Example of Program Yield – Corn 2008 - 2012

Category	Year				
	2008	2009	2010	2011	2012
Yield per Planted Acre	Planted: No Evidence	160	167	No Acres Planted	54
Substitute Yield: 75% of County Average (08-12)	120	120	120	120	120
Calc. Yield	120	160	167	Not Used	120
Sum	567	Average	141.75	90% PY	127.6

Blended Acres

- In blended acres – Payment Effect
 - If farm is mostly irrigated - rain-fed acres
 -  in “coverage”
 -  in probability of payment
 - If county is mostly rain-fed – irrigated acres
 -  in “coverage”
 -  in probability of payment

Considerations

- In some cases, farm program yields may go down
 - Farm uses county average yield with no evidence
 - Farm and county experience unusually low yields



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Program Base Acre Updating

Program Base Reallocation

- Keep current program acres by crop (default) or
- Total acres allocated by share of covered crop acres planted or prevent planted to each covered crop during 2009 – 2012
 - Election by FSA serial farm
 - ****Important decision because program payments are made on base acres****

Program Base Update

Table 2. Example of Program Base Acre Reallocation

Crop	Base Acres on 9/13	2009 Crop Plant	2010 Crop Plant	2011 Crop Plant	2012 Crop Plant	2009-12 Average Plantings	Reallocate Percent	Reallocated Base Acre Option
Corn	100	150	100	150	50	110	46%	138
Soybean	100	100	150	100	200	130	54%	162
Alfalfa	NC	50	50	50	50	NC	NC	NC
Wheat	30	0	0	0	0	0	0%	0
Sorghum	70	0	0	0	0	0	0%	0
Total	300	300	300	300	300	240	100%	300

Considerations

- ARC-CO and PLC program payments are made on **base acres, not actual plantings**
 - Producers may give up payments on some covered commodities through reallocation
- Reallocation affects this and all future farm bill programs

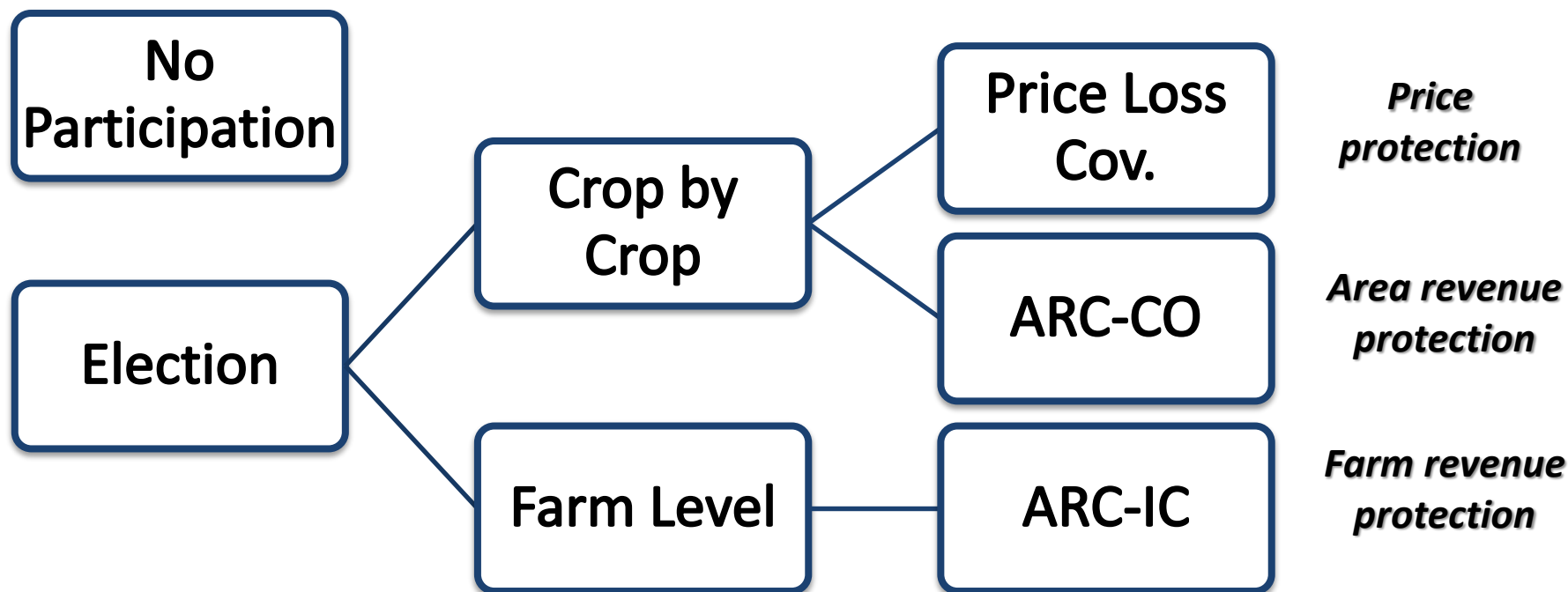
Program Elections

- Opt Out
- No Decision
- ARC-IC
- ARC-CO
 - PLC

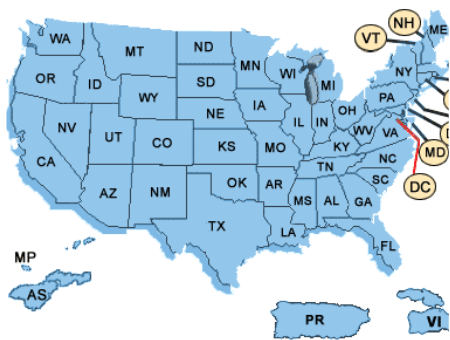
Farm Program

- Producers on each farm can choose
 1. An individual farm version of ARC for **all crops** on the farm **OR**
 2. For **each crop** on a farm, they can choose between the county version of ARC or PLC
- Choice is made **once** for the life of the farm bill
- If producers on a farm do not agree on a choice
 - No ARC or PLC benefits are available in 2014
 - PLC is only remaining option for 2015 and beyond

Farm Election(s)

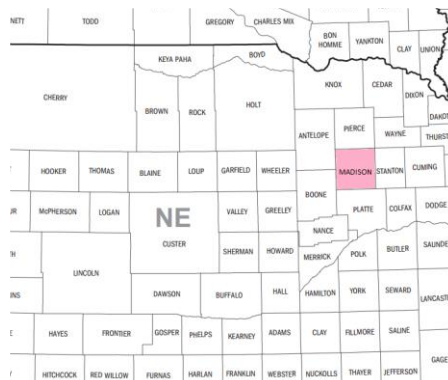


Risk Management Levels



National

Price Loss Coverage



County-Area

ARC-CO



Local-Farm

ARC-IC



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Price Loss Coverage - PLC

Price Loss Coverage

- This program extends price risk coverage only – no revenue or yield coverage
- Represents national only price coverage
- Program payments based on:
 - Difference between a benchmark price and
 - National Average Market Price (NAMP)
 - Payments on base acres, not planted acres

Program Payments

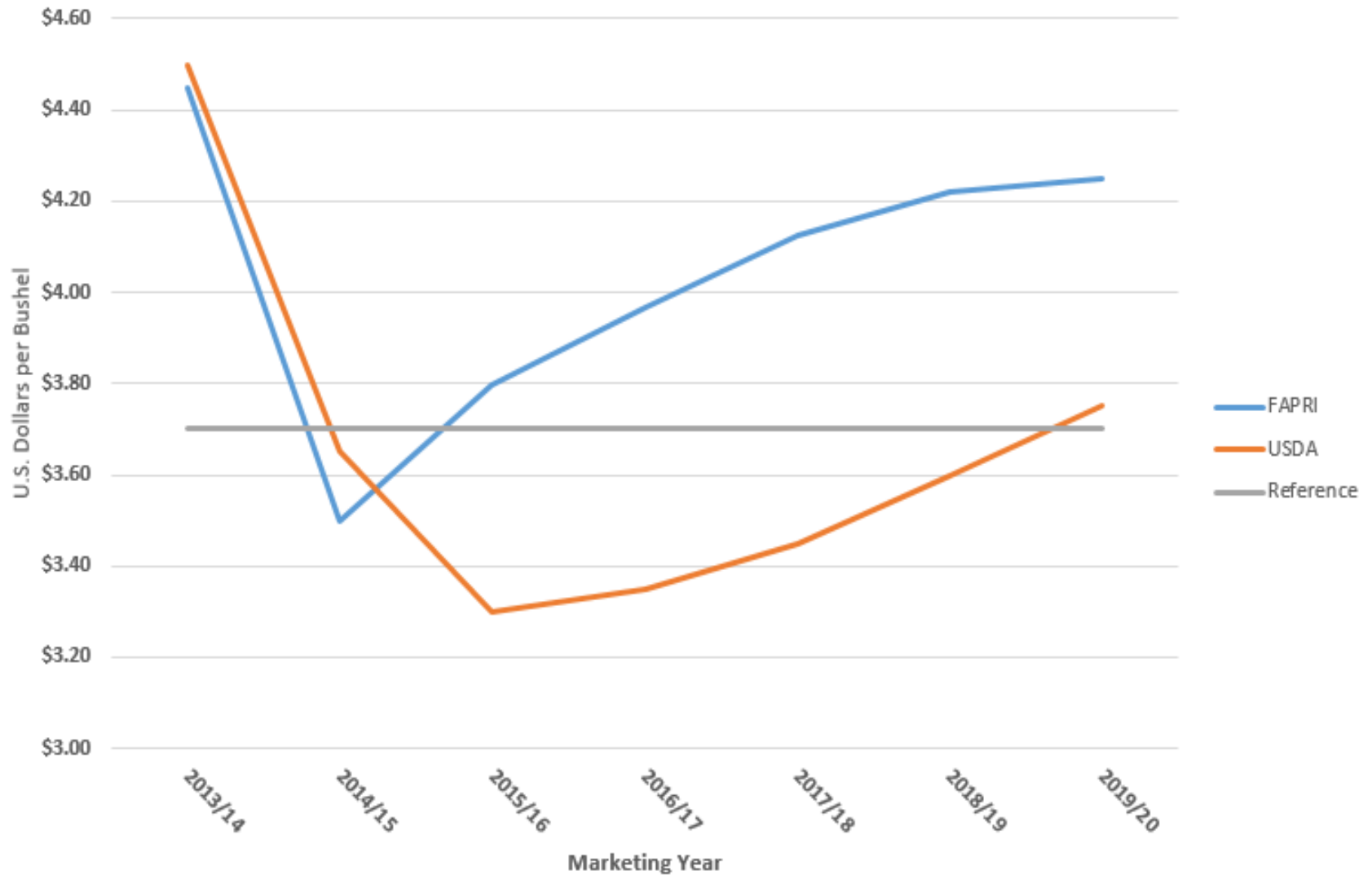
- Program payments are **NOT** separated between rain-fed and irrigated base acres
- If you put corn into the program, all corn acres are in
- Maximum PLC payment equals the statutory reference price less the national loan rate
- PLC payment yield may be a blend of rain-fed and irrigated acres

Price Loss Coverage

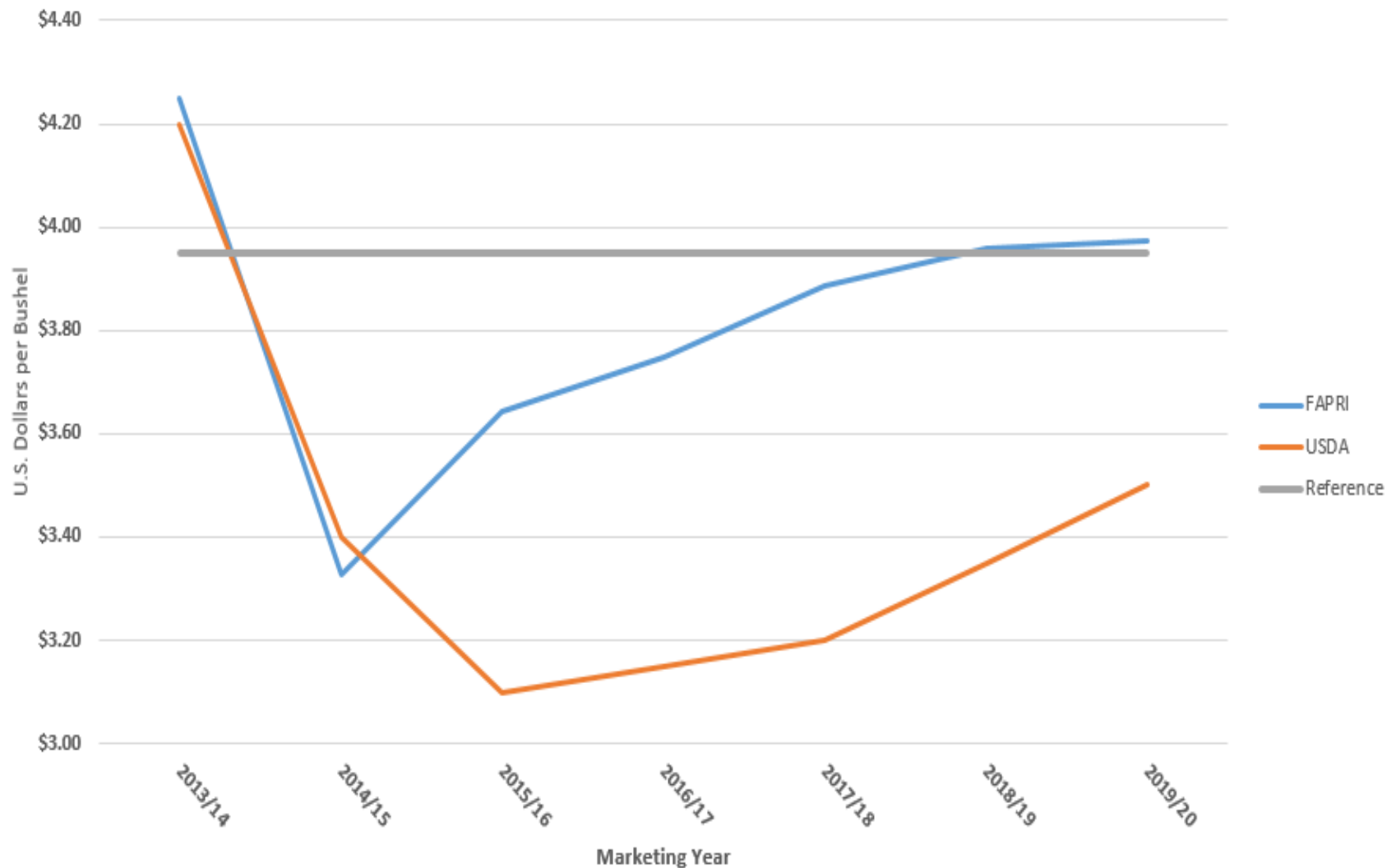
Table. 3 Comparison of CCP and PLC price supports

Commodity	2008 CCP Target Price	2014 Farm Reference Price	2014 National Loan Rate	Maximum PLC Payment Rate
Corn	\$2.63	\$3.70	\$1.95	\$1.75
Soybean	\$6.00	\$8.40	\$5.00	\$3.40
Grain Sorghum	\$2.63	\$3.95	\$1.95	\$2.00
Wheat	\$4.17	\$5.50	\$2.94	\$2.56
Barley	\$2.63	\$4.95	\$1.95	\$3.00
Oats	\$1.79	\$2.40	\$1.39	\$1.01

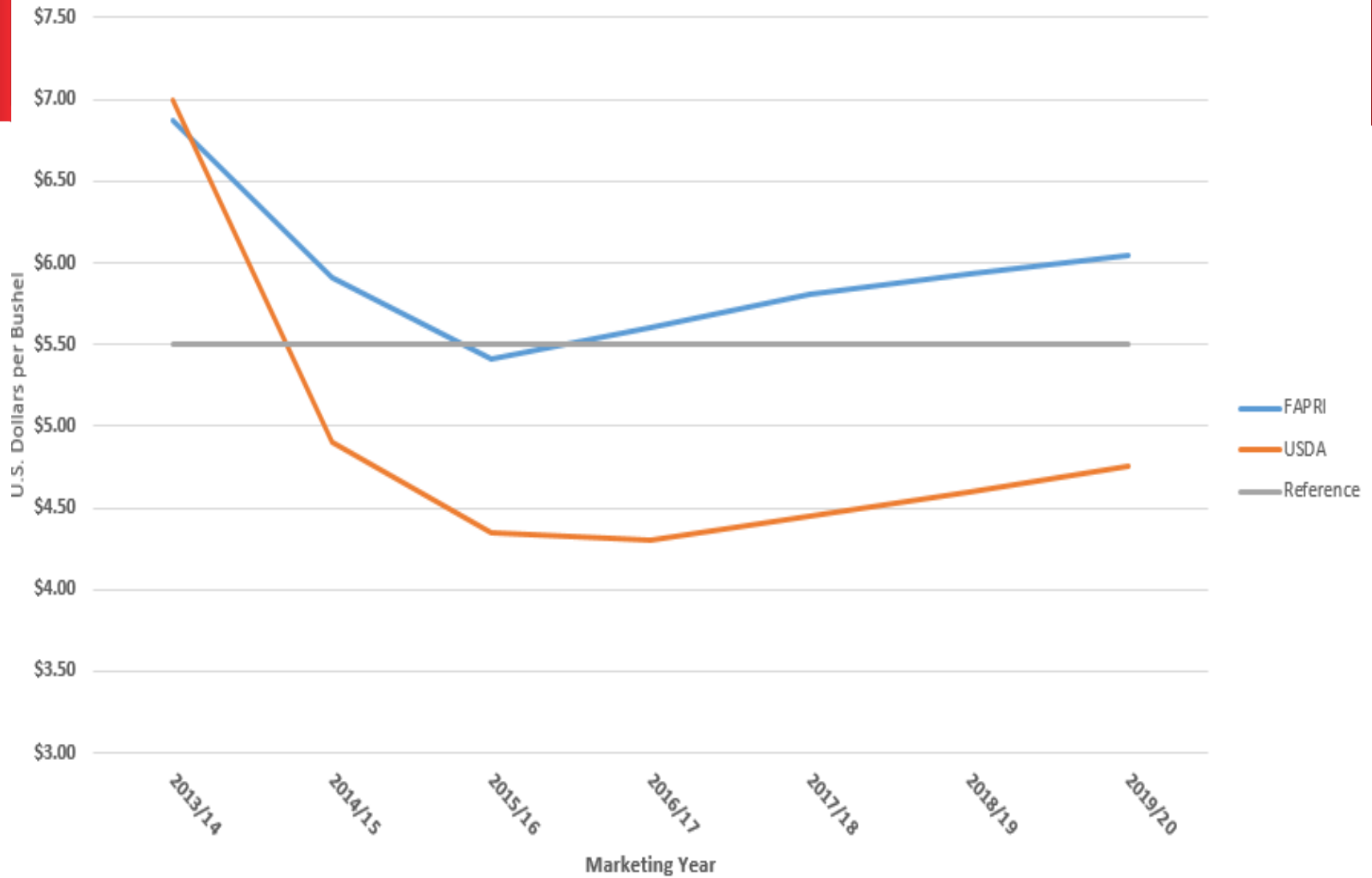
Corn Commodity Price Estimates



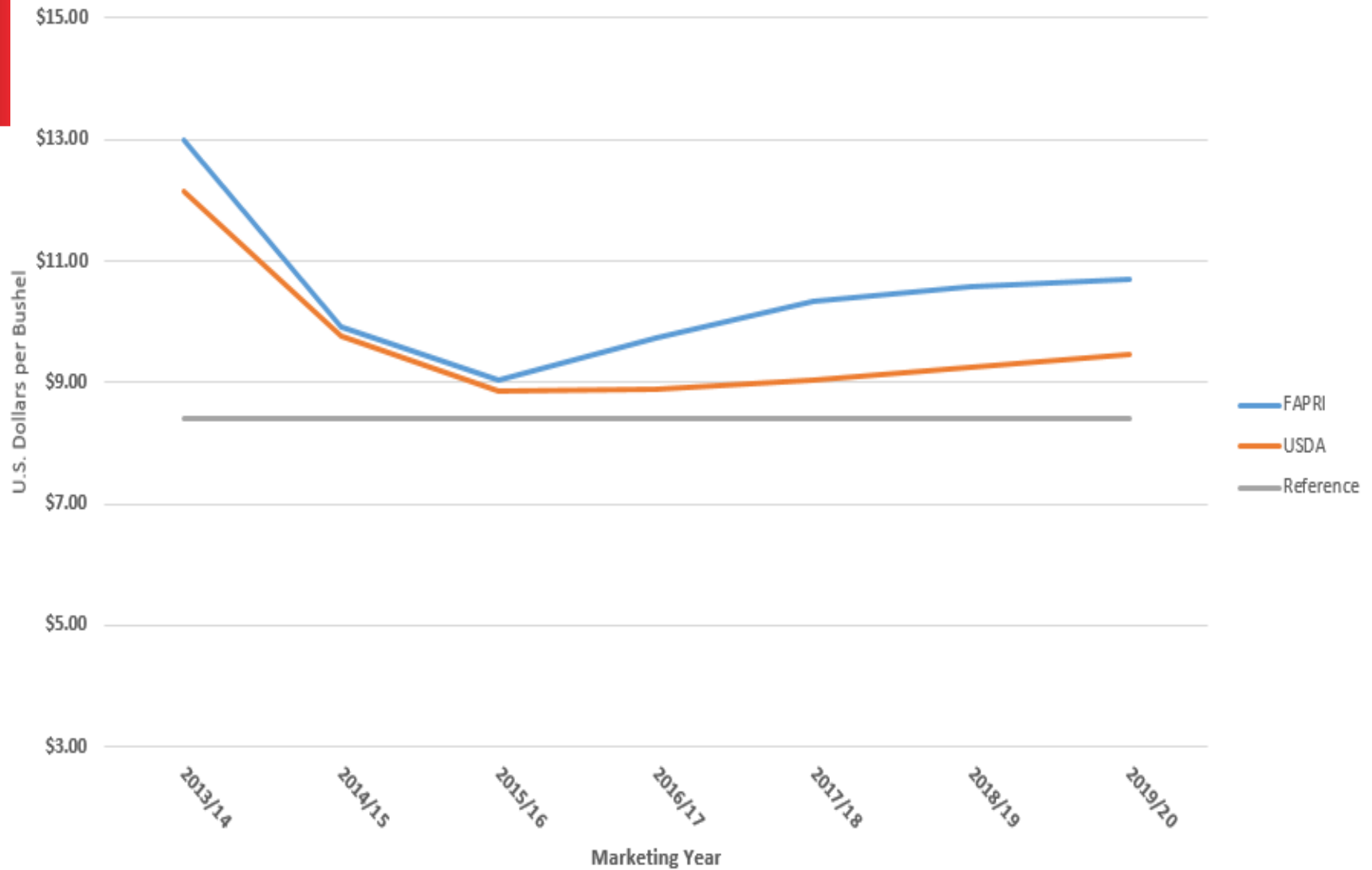
Sorghum Commodity Price Estimates



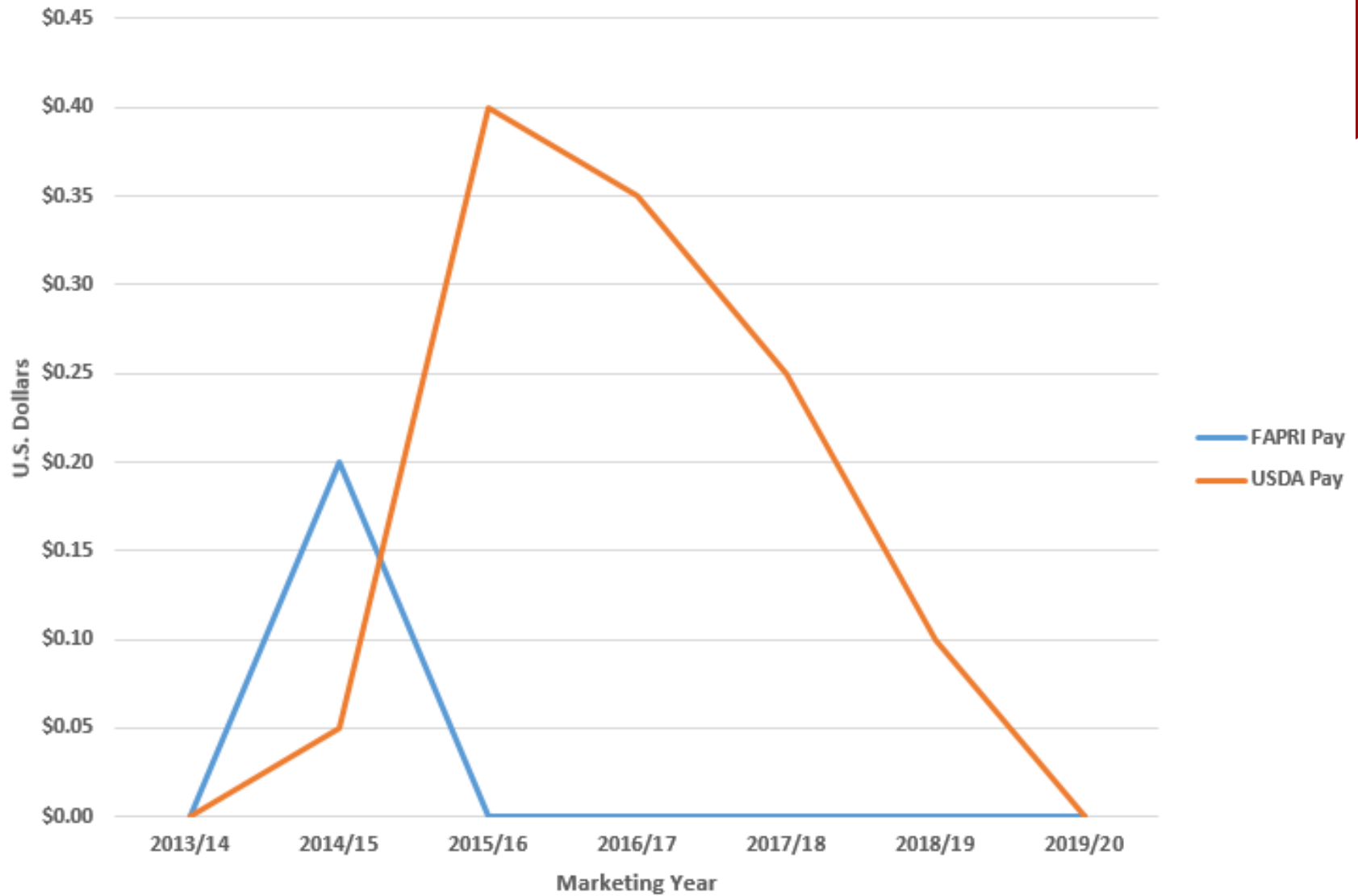
Wheat Commodity Price Estimates



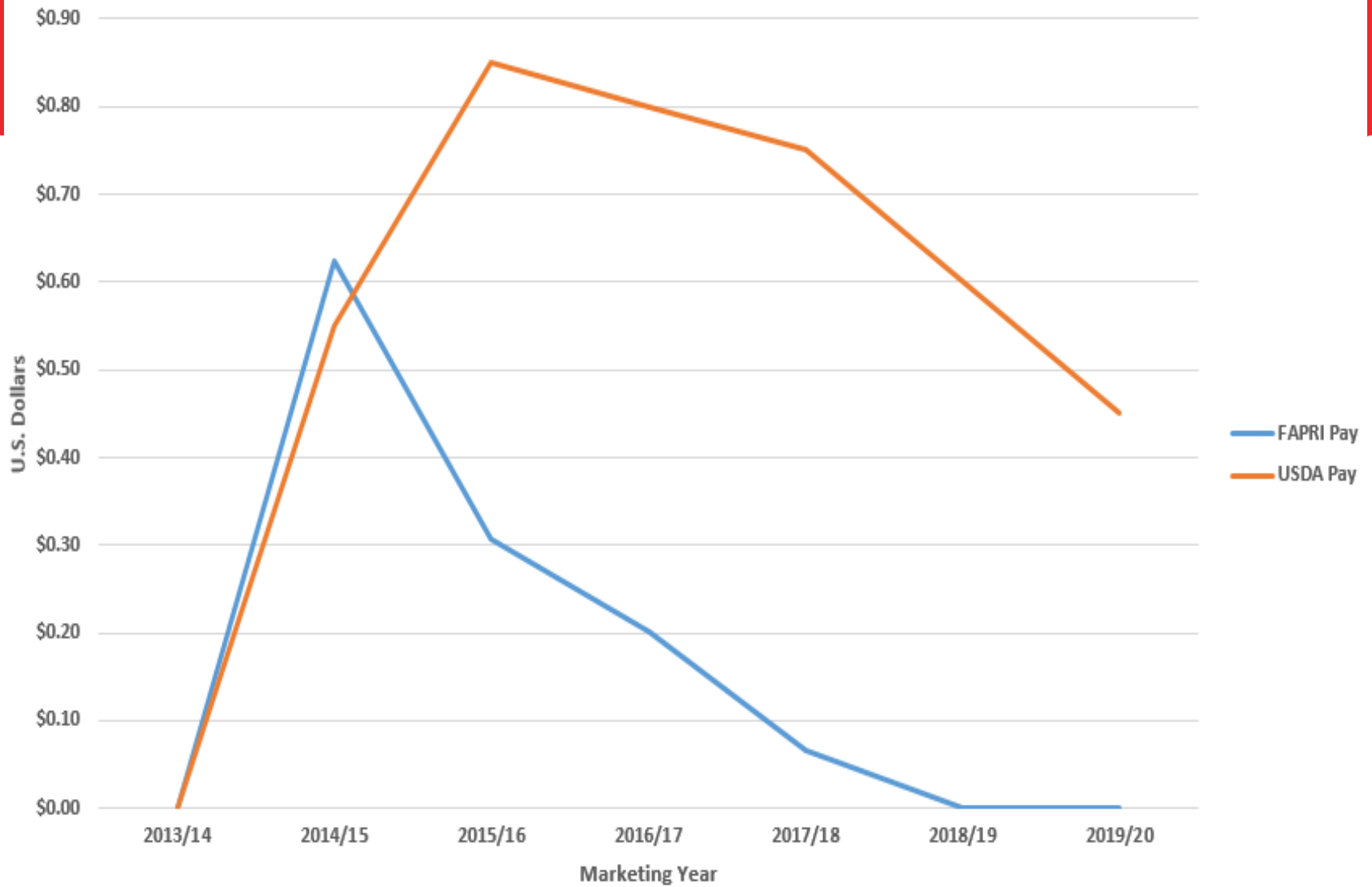
Soybean Commodity Price Estimates



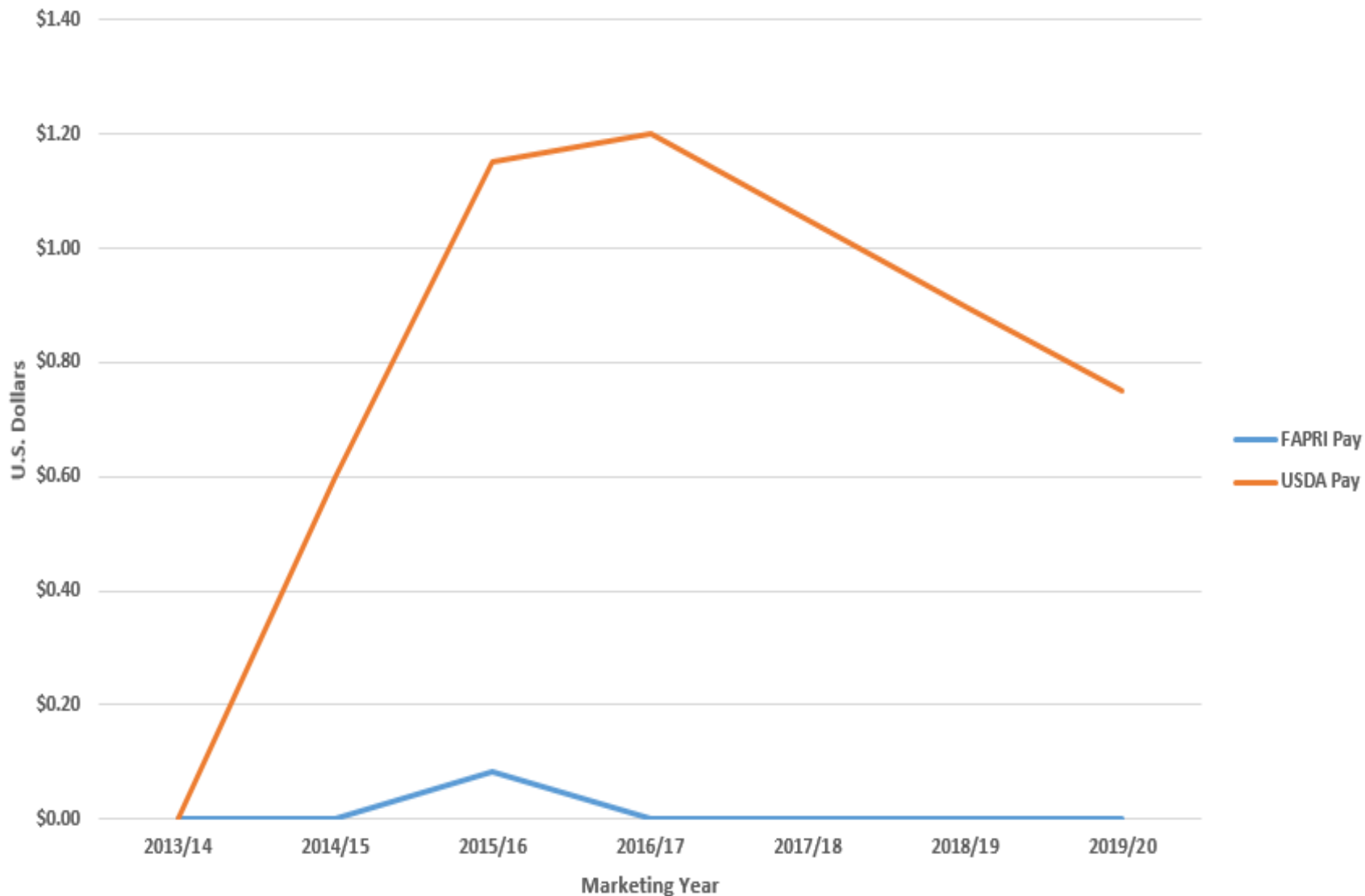
Possible PLC Corn Program Payments



Possible PLC Sorghum Program Payments



Possible PLC Wheat Program Payments



Price Loss Coverage

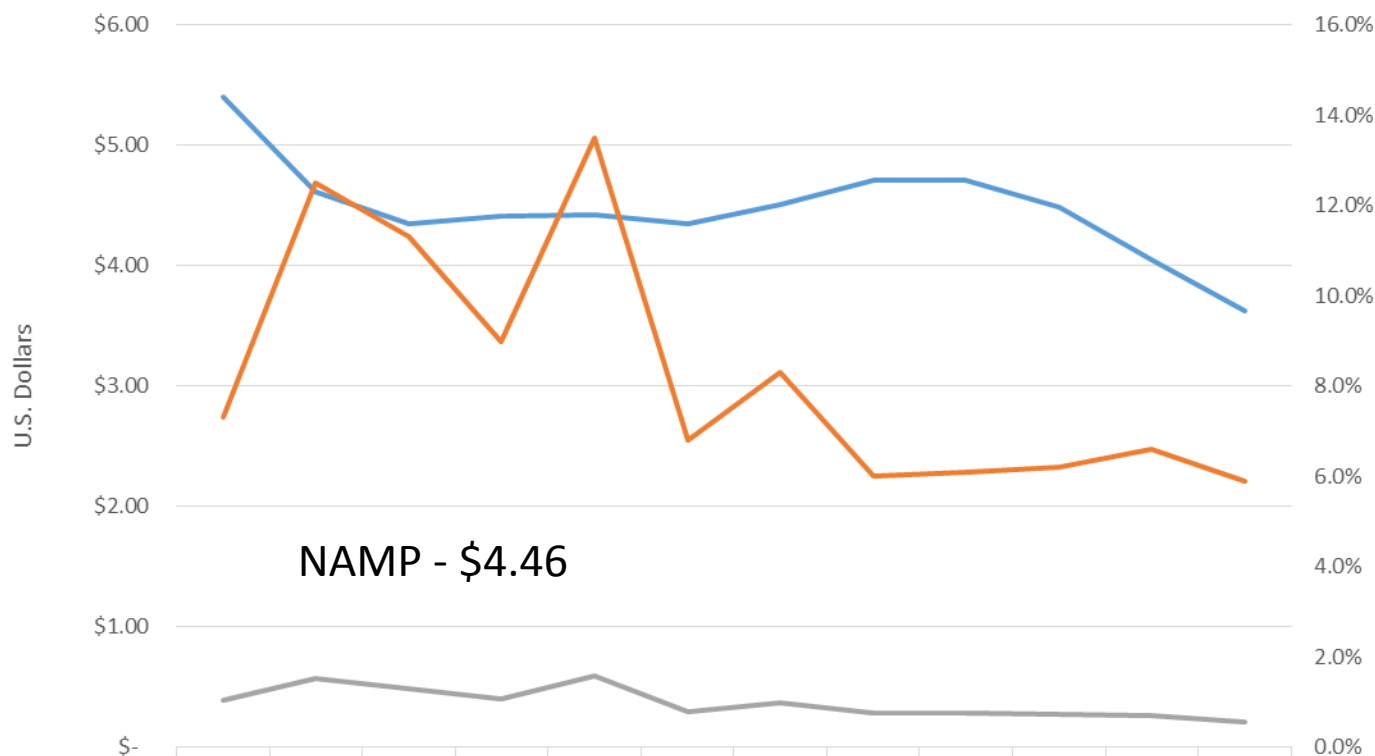
- Payments made on **85%** of covered commodity program base acres, if –
 - NAMP of the covered crop drops below the reference price
- This is a national level price risk program, no consideration for farm level prices received from marketing efforts

What is NAMP?

- Represents the *average commodity price* received between
 - September 1st the year of the crop and extends to August 31st the following year
 - Not all months are equal – statistically, greater weight is given to more active contract months

NAMP

Corn Price and Weight Average NAMP 2013-2014



PLC Decision

PLC is a Slightly Revised Target Price Program

- higher target price (now called reference price)
 - Corn Reference Price = \$3.70
 - Soybean Reference Price = \$8.40
 - Wheat Reference Price = \$5.50
- pays on 85% of program, not planted, acres, if U.S. crop year price less than reference price

OVERVIEW: pays if price is below reference price on 85% of program, not planted, acres

THUMB NAIL ASSESSMENT: effective multiple year price risk option if **prices stay below reference price for multiple years** but beware of price decline from 2013 level that last multiple years and price stays above reference price

PLC Challenges

- Price variability will dictate payment probabilities
- No revenue protection – price only
 - Provides an artificial floor for marketing purposes but...
 - Only for program yield bushels grown on 85% of base acres
 - Only when the crop grown matches the base acres
 - Ex. Corn grown on corn base



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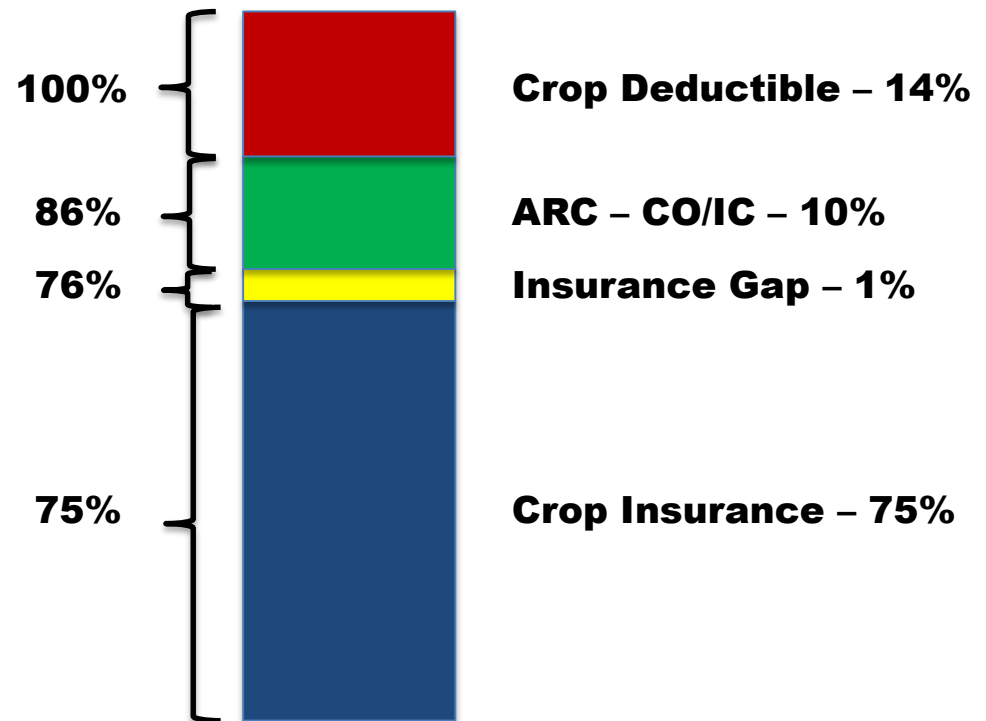
Ag Risk Coverage – County ARC-CO

ARC

- Shallow-loss program, pays up to 10% of **historic revenue** loss
- Designed to cover both price and yield risk at the regional level
 - ARC-CO Functions much like GRIP insurance
 - ARC-IC Functions much like whole-farm insurance

ARC

- Risk coverage starts at 86% of historic revenues
- Pays no more than 10% of benchmark



Expected vs. Historic

- Insurance benchmark for crop = Expected
 - Historic **Farm** Yield x **Exp. Future price** x Rate
- ARC benchmark for crop = Historic
 - Historic **County** Yield x **Historic NAMP Price** x 86%

ARC

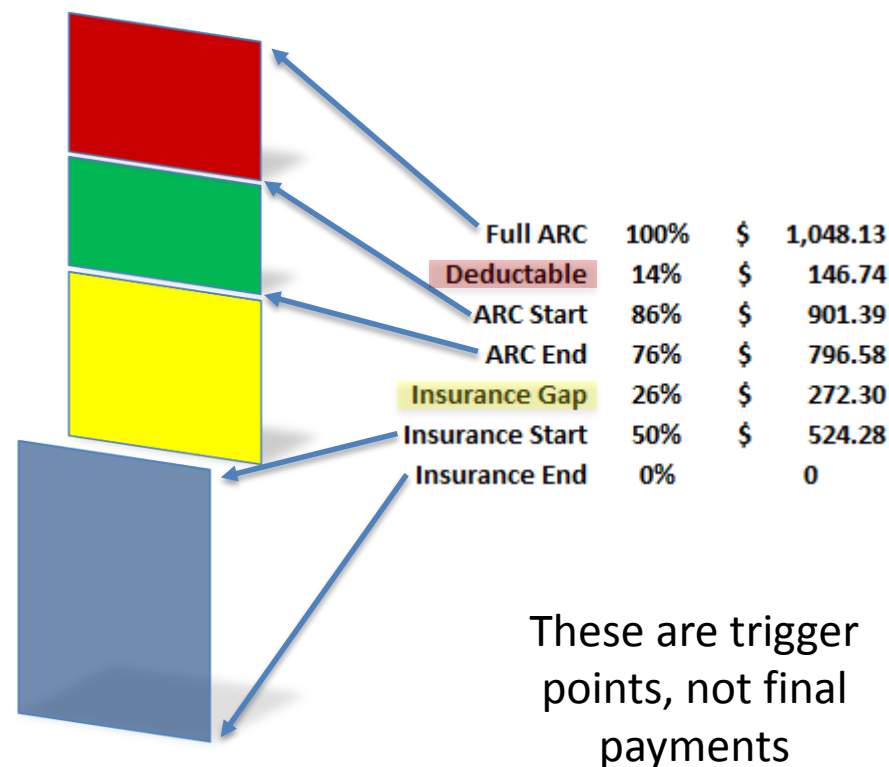
- Insurance is based on **expected** future price of the crop
- ARC-CO/IC is based on the **historic** performance of the crop
- There is the possibility that overlaps and unexpected gaps may occur

ARC

- If the insurance price is high, the gap between indemnity cutoff and ARC payments may be less
- If the insurance price is low, the gap between indemnity cutoff and ARC payment may be greater

Insurance Gap - ARC

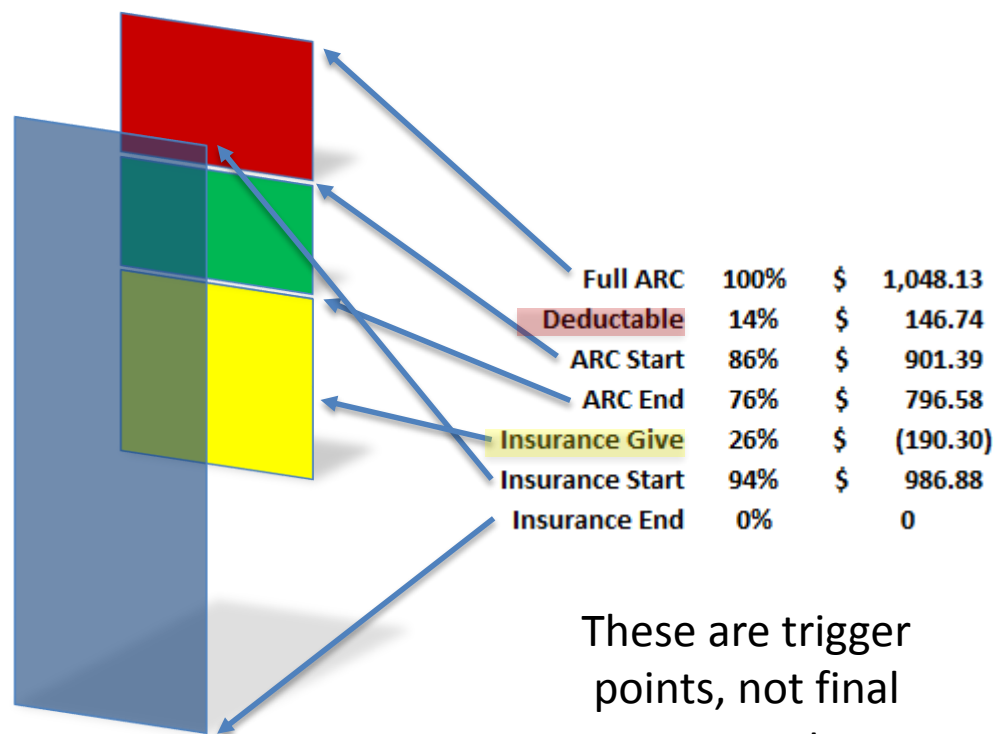
- **Exp Fall Price - \$3.40**
- 5-yr Oly CO Yield – 198
- 5-yr Farm APH Yield – 206
- **5-yr Oly NAMP - \$5.30**
- Farm Ins Cov. – 75%
- Farm Ins. Bench - \$524.28
- ARC Bench - \$901.39



Low Insurance Price

Insurance Give - ARC

- **Exp Fall Price - \$6.40**
- 5-yr Oly CO Yield – 198
- 5-yr Farm Yield – 206
- **5-yr Oly NAMP - \$5.30**
- Farm Ins Cov. – 75%
- Farm Ins. Bench - \$986.88
- ARC Bench - \$901.39



These are trigger points, not final payments

High Insurance Price

ARC-CO

- Risk coverage based on difference in actual county revenue and historic county revenue
- Elected on a crop by crop basis
- Pays on 85% of covered commodity crop base acres, regardless of actual planted acres (45% of prevent plant)

NAMP 2009-2013

Table 4. National Average Market Prices 2009-2012

Market Year	Corn	Soybean	Wheat	Sorghum
2014/15	\$3.50	\$10.00	\$5.90	\$3.30
2013/14	\$4.50	\$12.70	\$6.87	\$4.26
2012/13	\$6.89	\$14.40	\$7.77	\$6.33
2011/12	\$6.22	\$12.50	\$7.24	\$5.99
2010/11	\$5.18	\$11.30	\$5.70	\$5.01
2009/10	\$3.55	\$9.59	\$4.87	\$3.22

ARC-CO

- For each crop grown in the county
 - Olympic 5-year average county yield per planted acre
 - Times the max of
 - Olympic 5-year NAMP or national loan rate





Table 5. Example of calculating an ARC-CO benchmark

Crop	Year	Planted Yield	NAMP	
Corn – Irr.	2009	179.5	\$3.70**	For the 2013 NAMP Price, the year began in Sept. 1 st , 2013 and extends to Aug. 31 st of 2014
Corn – Irr.	2010	189.6	\$5.18	
Corn – Irr.	2011	210	\$6.22	
Corn – Irr.	2012	191	\$6.89	
<i>Corn – Irr.</i>	2013	192	\$4.50	
	Ave.	~191	\$5.30	Total
** - Higher of NAMP or PLC reference price			86% Rate	\$869.98

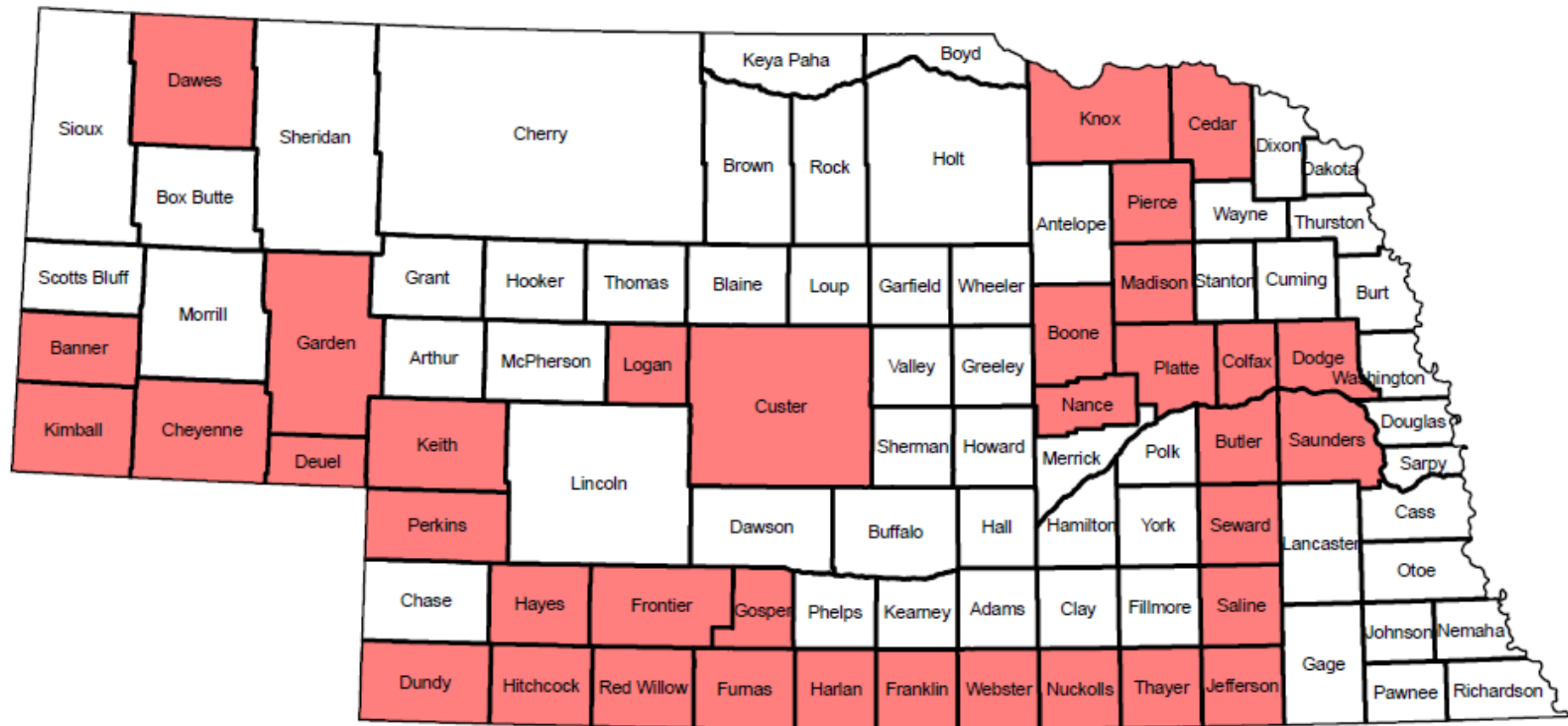
Blend vs. Separate

- If the county has 25% or more of it's farming practice reported as either rain-fed or irrigated
 - County may have separated county benchmarks by practice

Blended Acres

- In blended acres – Benchmark Affect
 - If county is mostly irrigated - rain-fed farmer
 -  in “coverage”
 -  in probability of payment
 - If county is mostly rain-fed – irrigated farmer
 -  in “coverage”
 -  in probability of payment

ARCPLC
ARC-CO Counties with Separate
Irrigated and Non-Irrigated Yields for Corn



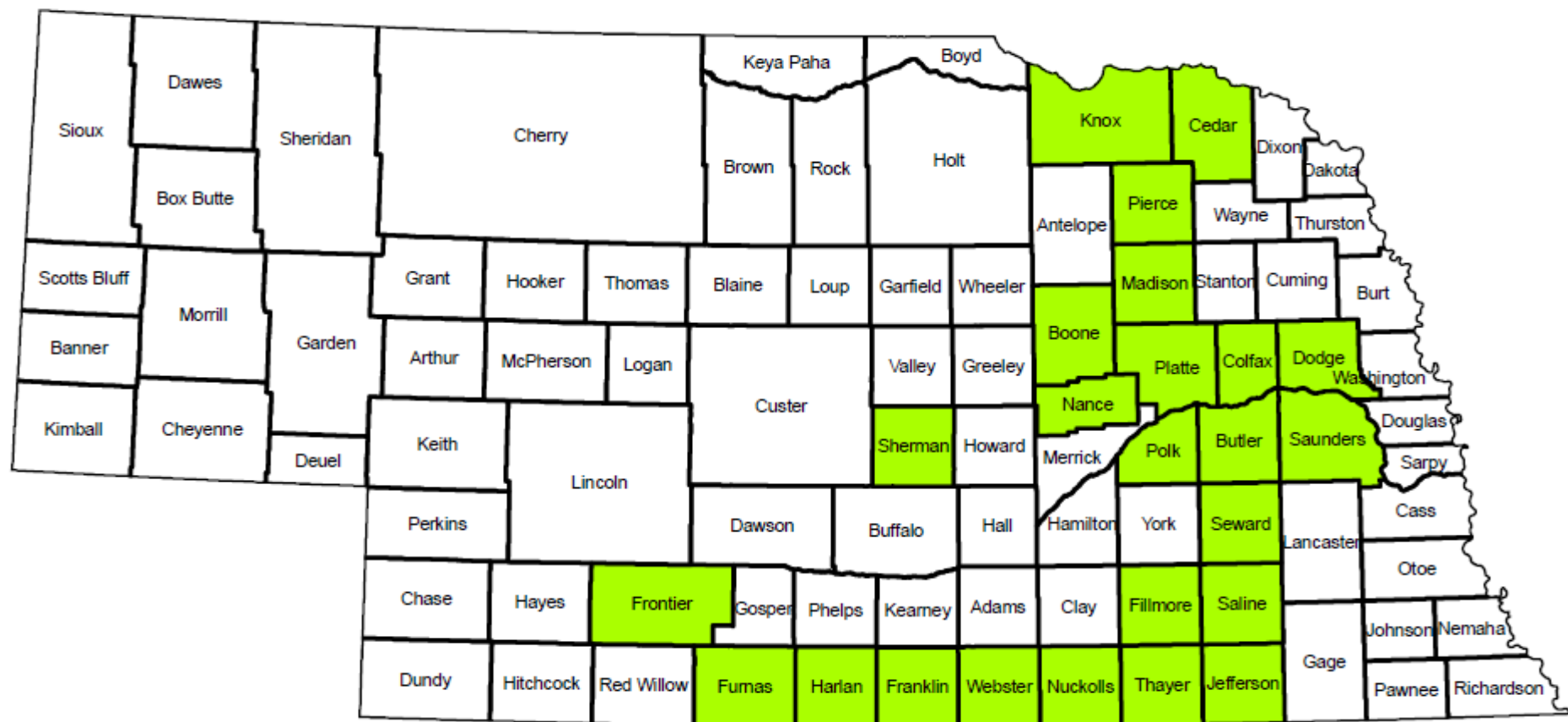
ARC-CO Counties with Irrigated and Non-Irrigated Yields

- Nebraska Counties
 - Irrigated and Non-Irrigated Yields for Corn



ARCPLC

ARC-CO Counties with Separate Irrigated and Non-Irrigated Yields for Soybeans



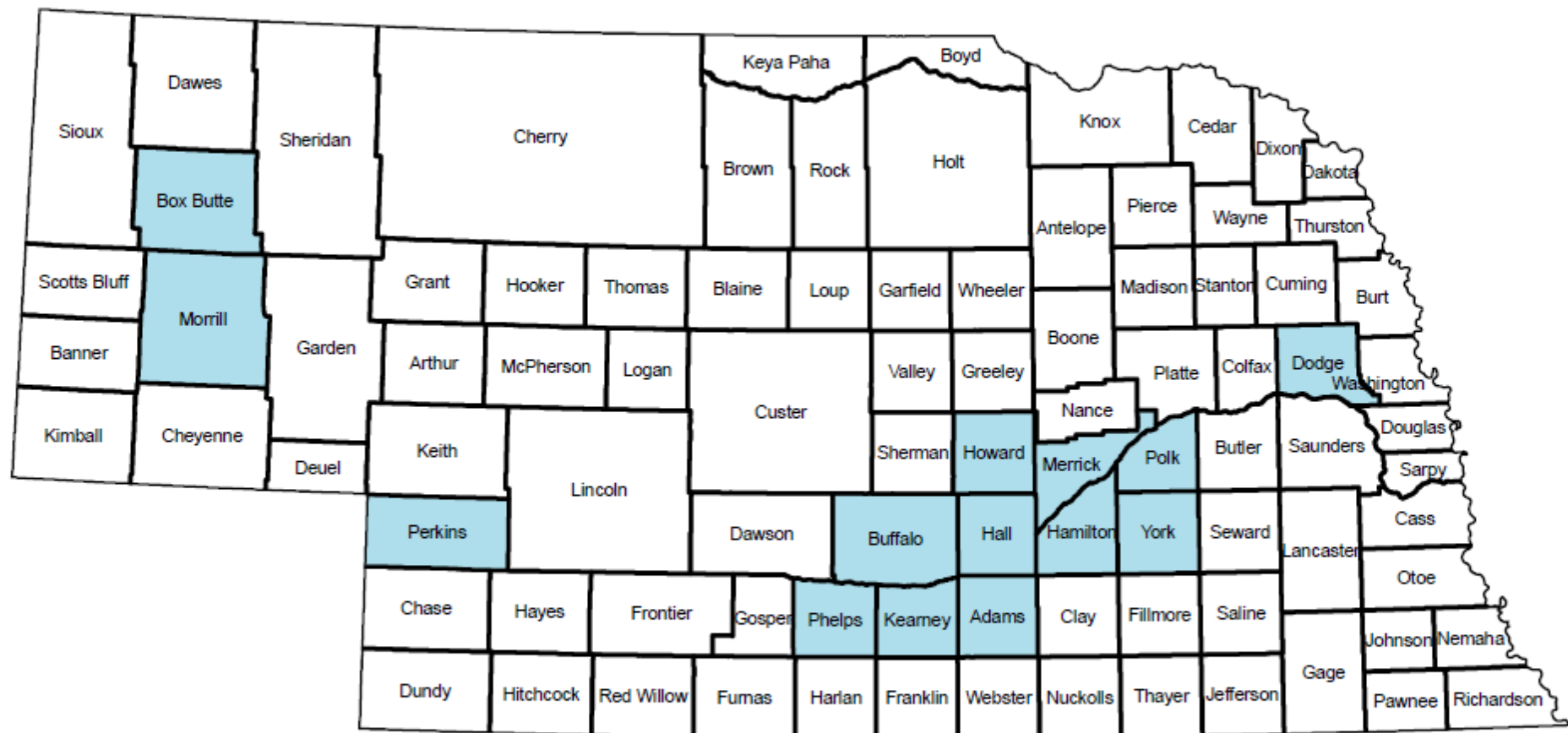
ARC-CO Counties with Irrigated and Non-Irrigated Yields

- Nebraska Counties
- Irrigated and Non-Irrigated Yields for Soybeans



ARCPLC

ARC-CO Counties with Separate Irrigated and Non-Irrigated Yields for Grain Sorghum

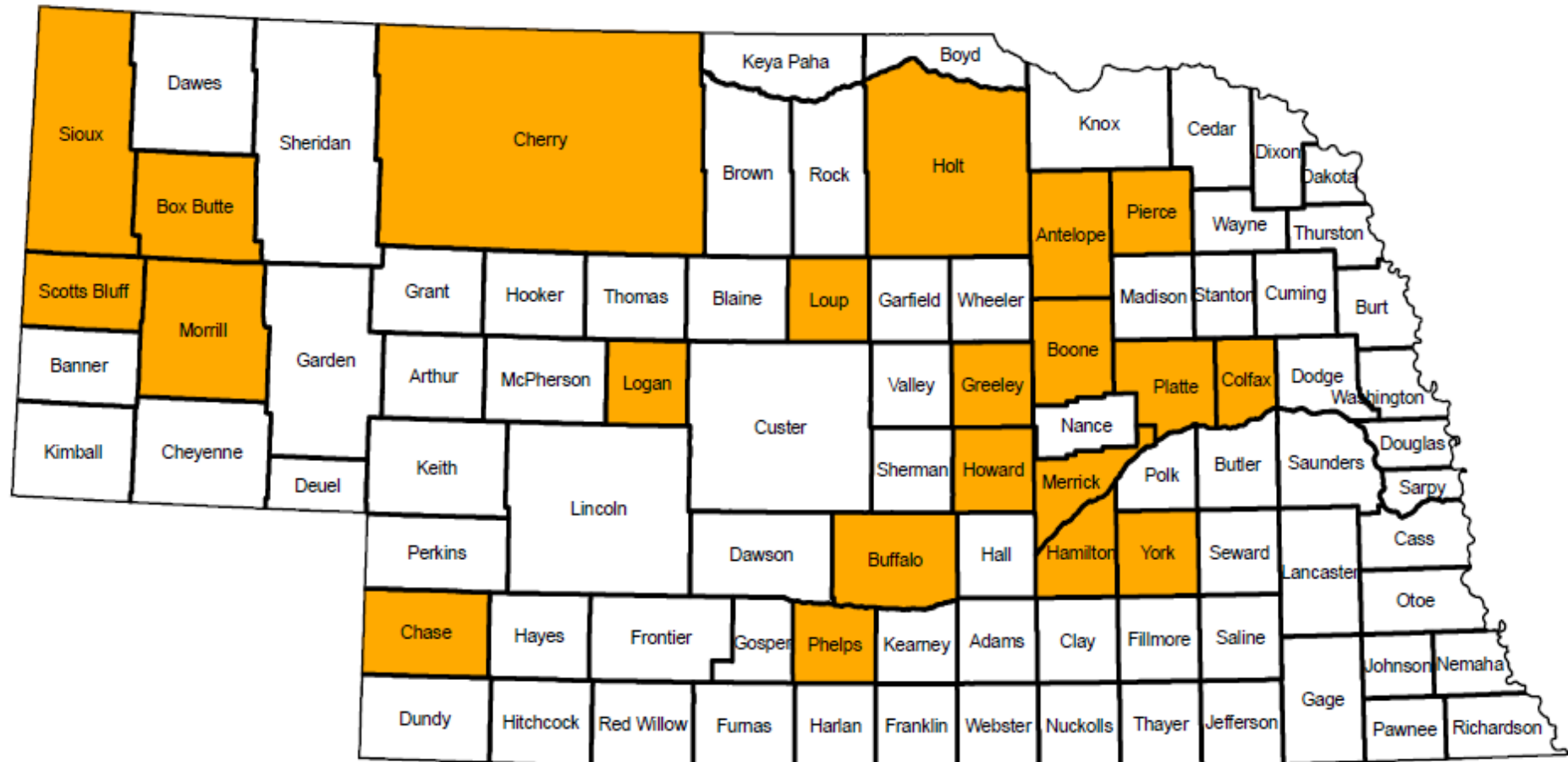


ARC-CO Counties with Irrigated and Non-Irrigated Yields



- Nebraska Counties
- Irrigated and Non-Irrigated Yields for Grain Sorghum



ARCPLC



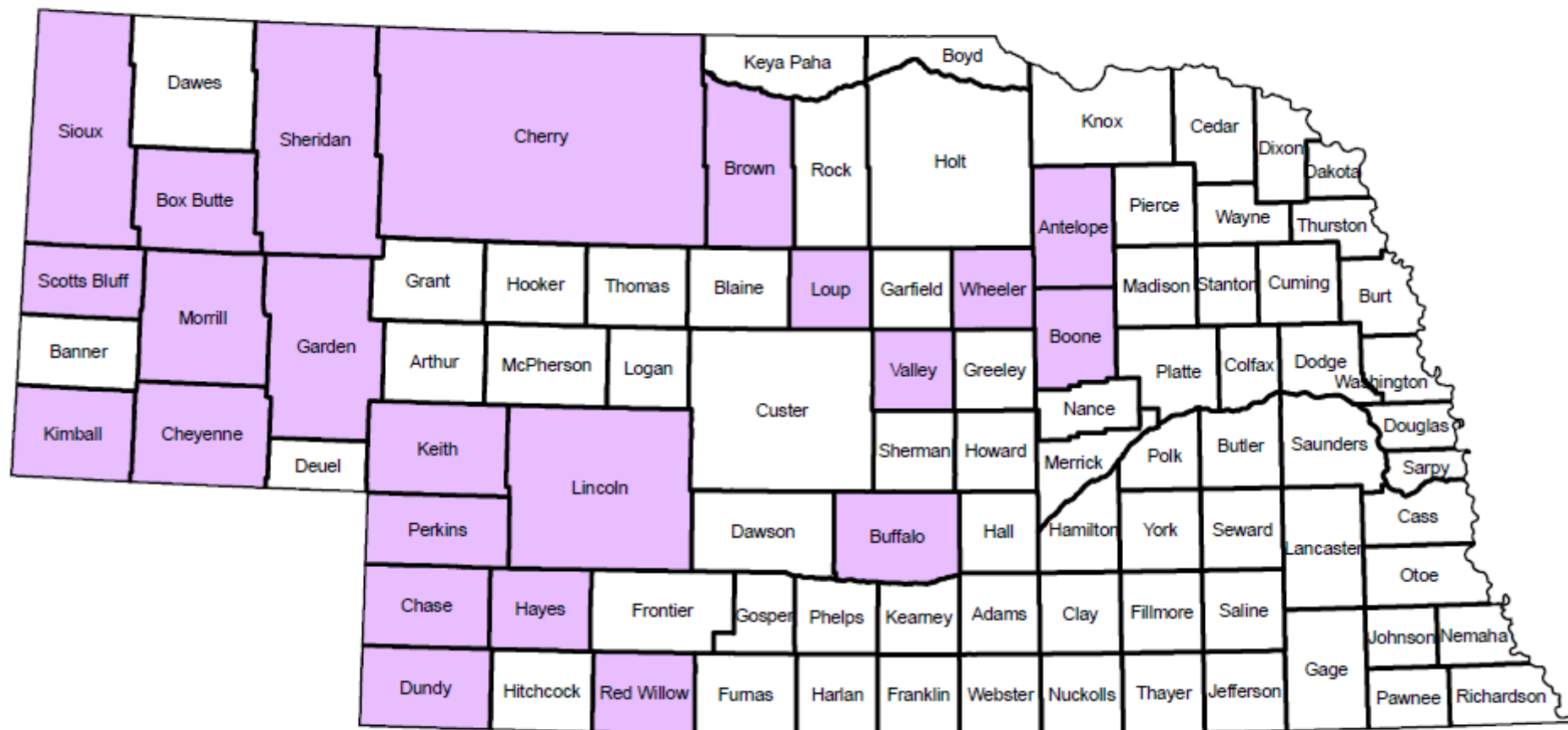
ARC-CO Counties with Irrigated and Non-Irrigated Yields

-  Nebraska Counties
 Irrigated and Non-Irrigated Yields for Wheat





ARCPLC

ARC-CO Counties with Separate Irrigated and Non-Irrigated Yields for Oats



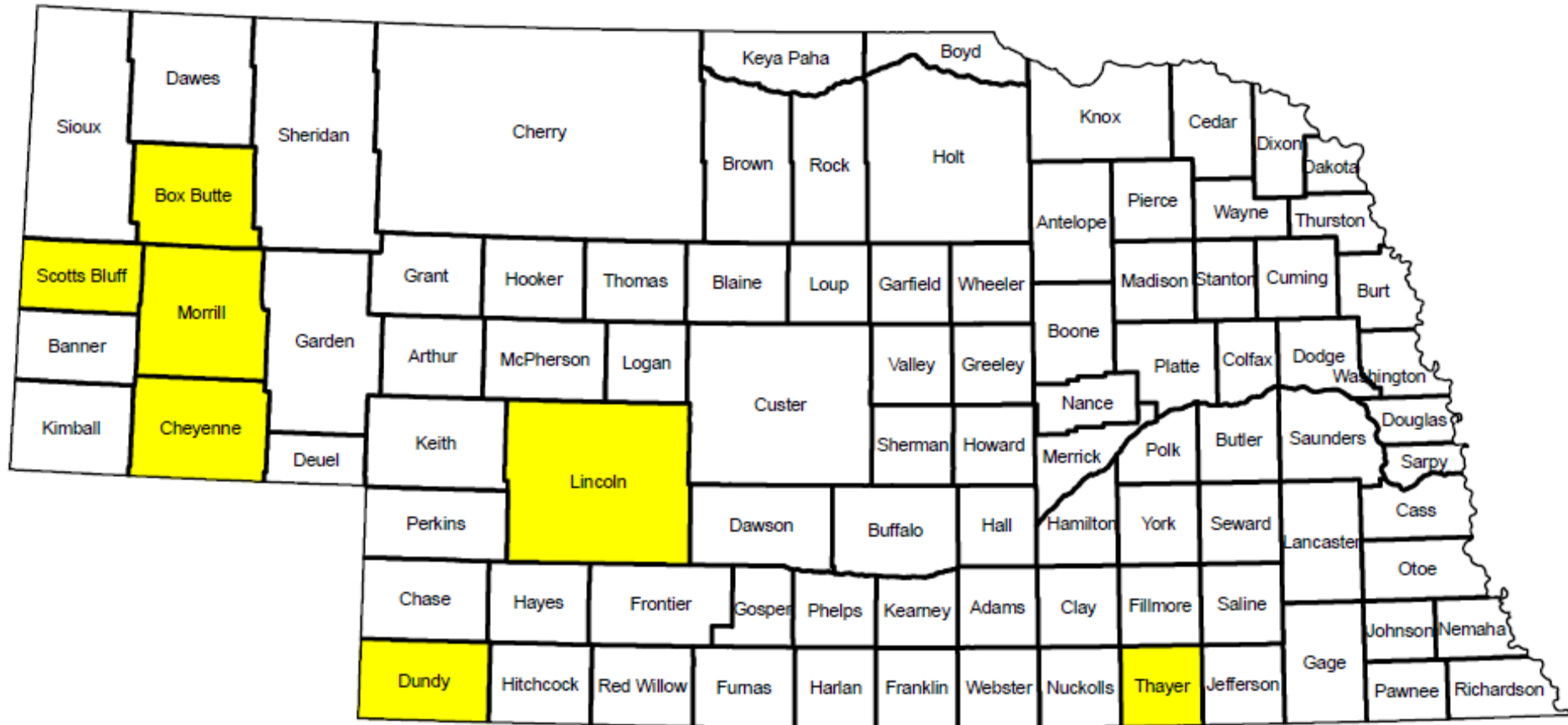
ARC-CO Counties with Irrigated and Non-Irrigated Yields

-  Nebraska Counties
-  Irrigated and Non-Irrigated Yields for Oats





ARCPLC

ARC-CO Counties with Separate Irrigated and Non-Irrigated Yields for Sunflowers



ARC-CO Counties with Irrigated and Non-Irrigated Yields

-  Nebraska Counties
-  Irrigated and Non-Irrigated Yields for Sunflowers



ARC-CO Decision

Substantively Revised ACRE Revenue Program

- elected by crop, not by farm – more to come
- county instead of state yield
- minimum price exists (= reference price)
- no 10% limit on up/down change in revenue benchmark
- coverage level is 76% to 86%, not 67.5% to 90%
- continues 5-year Olympic average of yield & U.S. price

OVERVIEW: pays on 85% of program, not planted, acres if county revenue is between 76% and 86% of 5 prior year's Olympic average county revenue

THUMB NAIL ASSESSMENT: effective multiple and shallow revenue loss option if prices **do not stay below reference price for multiple years** but beware disaster price risk scenario

Source: Carl Zulauf – The Ohio State University

PLC vs. ARC-CO

Table 6. PLC vs. ARC-CO

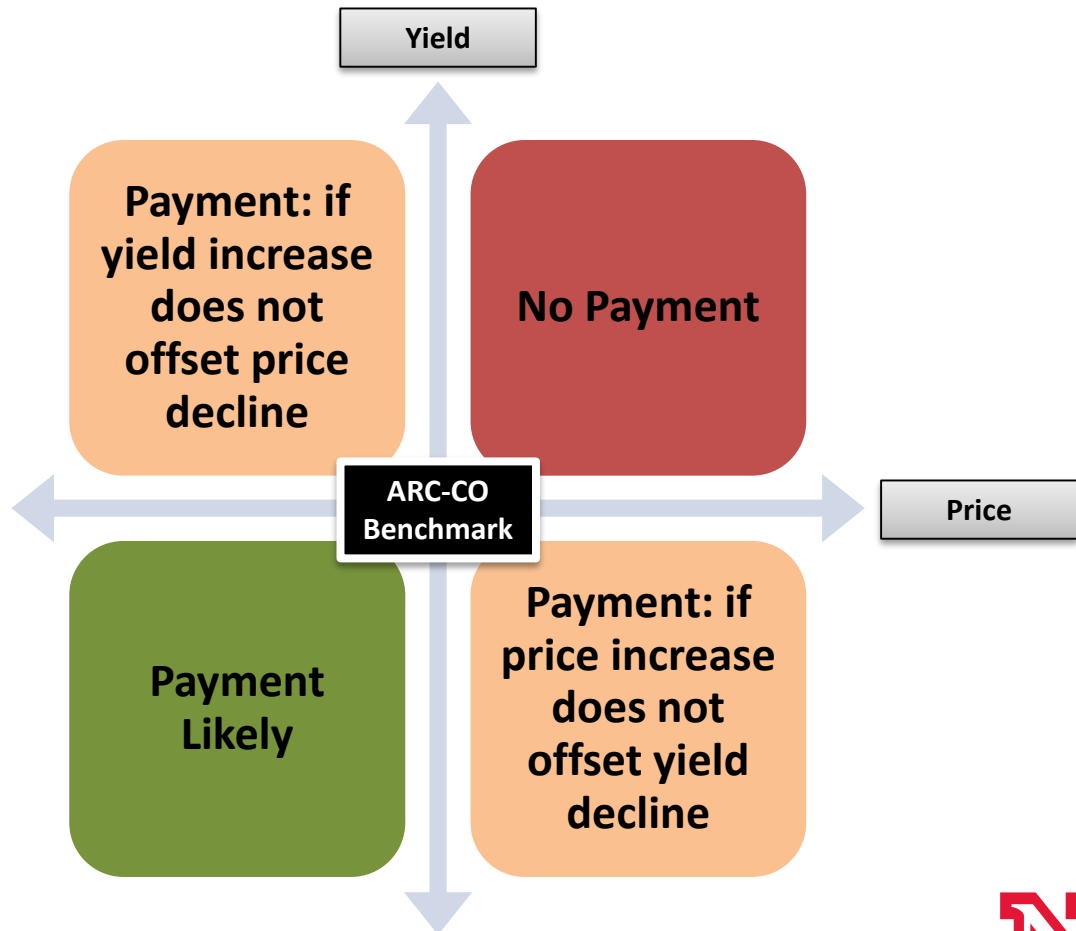
	PLC	ARC County
Guarantee	Reference Price	County Revenue
Benchmark Yield	FSA program yields	5 yr Olympic Average county yield
Benchmark Price	Reference Price	5 yr Oly Avg max (MYA Price, Reference Price)
Benchmark Guarantee	Reference Price	86% * Benchmark Price * Benchmark Yield
Actual Yield	NA	County yield
Actual Revenue	NA	County yield * MYA Price
Payment Acres	85% * base acres	85% * base acres (30% of PP)
Maximum Payment	None (except for \$125K combined payment limit)	10% * Benchmark Revenue (and \$125K combined payment limit)

ARC-CO Challenges

- Payment eligibility is triggered at the county level – actual revenue must be less than **86%** of **historic** revenues
- Probability of payment depends on two factors
 - How variable are the commodity yields
 - What is the expected movement in price

The Matrix

Counties with a large number of rain-fed acres will have higher yield variability than irrigation heavy counties. This is compounded for counties with blended county yields. Heavy irrigation counties will rely more on price variability for payment, than yield variability





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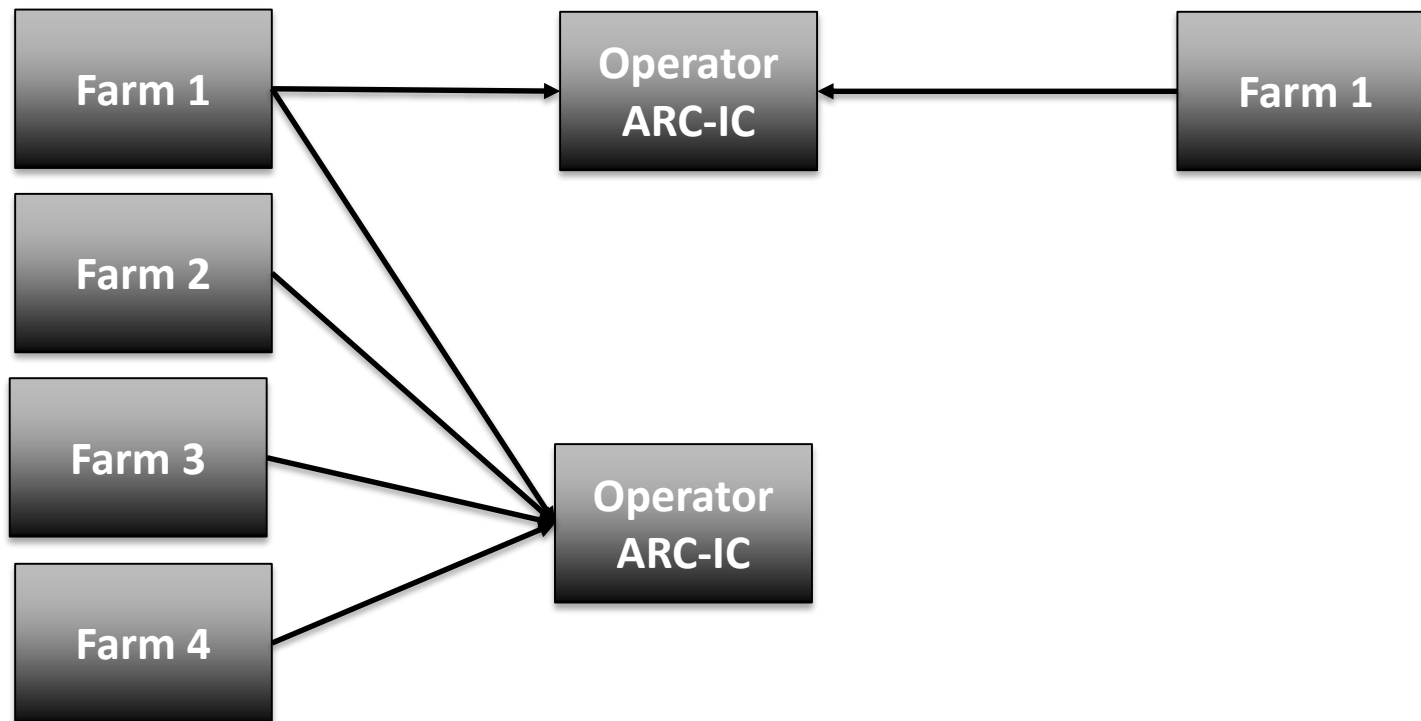


Ag Risk Coverage – Individual ARC-IC

ARC-IC

- Risk coverage based on difference in actual county revenue and historic county revenue
- Effects all crops grown on the farm
- All farms in ARC-IC are pulled together for a single revenue benchmark
- Pays on 65% of covered commodity crop base acres, regardless of actual planted acres (45% of prevent plant)

ARC-IC



ARC – Individual Benchmark Revenue

- Affects all commodities grown on the farm

Table 7. Example of a single crop ARC-IC calculation

Crop	Year	Planted Yield	NAMP	Gross Revenue
Corn – Irr.	2009	179.5	\$3.70**	\$664.15**
Corn – Irr.	2010	189.6	\$5.18	\$982.13
Corn – Irr.	2011	210	\$6.22	\$1,306.20
Corn – Irr.	2012	191	\$6.89	\$1,316.00
<i>Corn – Irr.</i>	<i>2013</i>	<i>191</i>	<i>\$4.50</i>	<i>\$859.50</i>
** - Higher of NAMP or PLC			Ave.	\$1,049.28
			86% Rate	\$902.38

For the 2013 MYA Price, the year began in Sept. 1st, 2013 and extends to Aug. 31st of 2014

ARC – Individual Benchmark Revenue

- Benchmark represents totals for all commodities – whole farm units

Table 8. Example of a multi-crop ARC-IC farm

Crop	5YOA	Ratio	Total
Corn	\$1,049.28	.79	\$828.93
Soybeans	\$897	.21	\$188.37
Total Bench			\$1,017.27
86% Rate			\$874.85

- Represents the average commodity revenue experience across time

ARC-IC

Suggest First Program Decision: Does ARC-IC fit?

- don't ignore ARC-IC even though pays on 65% of program acres (vs. 85% for ARC-CO and PLC) and has complex calculations

OVERVIEW: pays if average experience of all covered crops on whole ARC-IC farm unit is between 76% and 86% of ARC-IC farm unit revenue benchmark

- portrayed as individual farm but only true if operator has only 1 FSA farm in ARC-IC in state

THUMB NAIL ASSESSMENT: Consider ARC-IC if

1. production on FSA farm varies highly
 - more attractive if only 1 FSA farm and 1 crop per year
 - has higher probability of payment and no premium
2. fruits/vegetables may be planted on ARC-IC farm — more flexibility to plant these crops than with ARC-CO & PLC

Source: Carl Zulauf, The Ohio State University

ARC-CO vs. ARC-IC

- Less variability in yield at the county relative to the farm...
 - Varies by farm, an irrigated operation is less variable than rain-fed
- ARC-CO pays less often, but on more base acres (85%)
- ARC-IC pays (in theory) more often, but on fewer base acres (65%)

ARC-CO vs. ARC-IC

- ARC-IC pays on planted acres not to exceed base
- ARC-CO pays on base acres, even if that crop is not planted
 - 100 base sorghum planted entirely to corn may still qualify for a payment under both ARC-CO and PLC

Producer Affect

- Producers may easily farm ground in all three programs depending on enrollment decision

Table 9. Producer Program Elections

	Farm – 1	Farm – 2	Farm – 3	Farm - 4
Corn – Irr.	ARC-IC	PLC/SCO	ARC-CO	ARC-CO
Corn – Rain-fed	ARC-IC	PLC/SCO	ARC-CO	ARC-CO
Soy – Irr.	ARC-IC	PLC/SCO	PLC/SCO	ARC-CO
Soy – Rain-fed	ARC-IC	PLC/SCO	PLC/SCO	ARC-CO
Sorghum	ARC-IC	ARC-CO	PLC/SCO	PLC/SCO
Wheat	ARC-IC	PLC/SCO	ARC-CO	PLC/SCO
Oats	ARC-IC	ARC-CO	PLC/SCO	PLC/SCO

Summary Thoughts

- ▶ **U.S. farmers are rediscovering the crop safety net has 2 pillars: commodity programs and insurance. The risk of multiple year losses is real in farming.**
- ▶ ARC-CO's strength is assistance for shallow multiple year losses, but ARC-CO also provides some disaster price assistance since it has a minimum price, the PLC reference price. PLC's strength is assistance for multiple years of disaster prices, but SCO or high individual farm coverage can provide some assistance with cumulative shallow losses. Which of these combinations is preferred will help guide the shallow loss – multiple year loss program choice.
 - **Key operational features to consider: (1) ARC pays on price declines; PLC pays if price is below the reference price. (2) ARC pays on yield declines; PLC does not --- PLC uses the fixed payment yield.**

Source: Carl Zulauf, The Ohio State University

Summary Thoughts

- ▶ **Economics says wait to make a decision:** (1) reasonably well-known 2014 payments; (2) some but limited insight on 2015 payments; (3) then depends on forecast ability. Do FSA farm owners want to weight years differently — higher weight on 2014 because more is known?
- ▶ **An FSA farm owner with more than 1 FSA farm and more than 1 covered crop can mix ARC-CO and PLC-SCO.**
- ▶ **My current thinking is that** Midwest corn and soybean farmers need to ask (1) if SCO is a cost competitive option relative to higher individual farm coverage, (2) if their program choice will influence their insurance decision, (3) how much weight they want to put on the reasonably well known 2014 crop year payments vs. the more uncertain payments for the other years, and (4) if they want to diversify their program choice. Once these big picture considerations are assessed, the farm program calculators can help with the decision.

Source: Carl Zulauf, The Ohio State University



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Supplemental Coverage Option SCO

Supplemental Coverage Option

- Only available with Price Loss Coverage election and enrollment
- Works in cooperation with traditional crop insurance programs
- Sold by local insurance agents
- Must sign-up prior to planting
- Premiums will reflect potential payouts, much like RMA insurance

SCO

- SCO is an endorsement to a standing crop insurance policy
- Must be a yield or revenue product, area and group products are excluded
- SCO will mirror the current standing policy

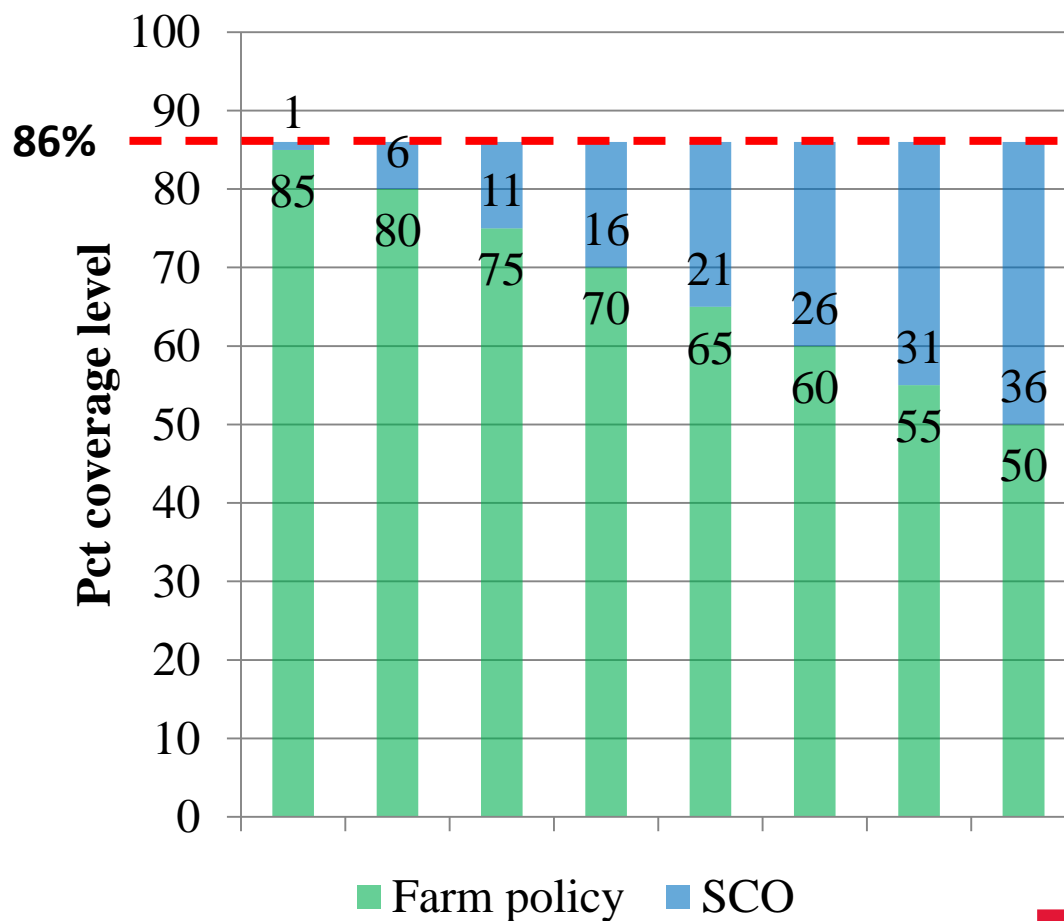
SCO

- Calculating extent of loss
 - **Yield:** based on county yield
 - Payment triggered when **actual** yield falls below 86% of historic average
 - **Revenue:** county yield + crop insurance reference prices
 - Expected county revenue =
 - **Historic** county avg. yield x crop insurance*
 - Payment triggered when **actual** county revenue (or yield) falls below 86% of benchmark

*For underlying YP and RP-HPE policies, the crop insurance price will be the projected price; for underlying RP policies, the crop insurance price will be the higher of the projected price and the harvest price.

What is SCO's purpose?

- To provide additional protection on top of your individual crop insurance policy
- SCO range: 86% of average revenue/yield down to underlying farm policy level
- Overlaps with ARC (86% to 76% band); can't have both



Calculating dollar coverage under SCO (revenue version)

- SCO liability = total coverage
 - Expected farm revenue x SCO range of coverage
- Expected farm revenue =
Farm APH Yield x Crop Insurance Reference Price
- SCO range of coverage (RCO) =
86% - coverage of underlying policy

Calculating dollar coverage under SCO (revenue version)

- Example - corn
 - Underlying policy
 - 75% coverage
 - 140 bu. APH
 - \$3.70 price
 - SCO liability = $(140 \times \$3.70) \times (86\% - 75\%)$
 $= \$518 \times 11\% = \56.98

SCO Liability by Policy

Table 10. SCO Liability by Underlying Policy

Policy	SCO	SCO Cover
85%	1%	\$ 5.18
80%	6%	\$ 31.08
75%	11%	\$ 56.98
70%	16%	\$ 82.88
65%	21%	\$ 108.78
60%	26%	\$ 134.68
55%	31%	\$ 160.58
50%	36%	\$ 186.48

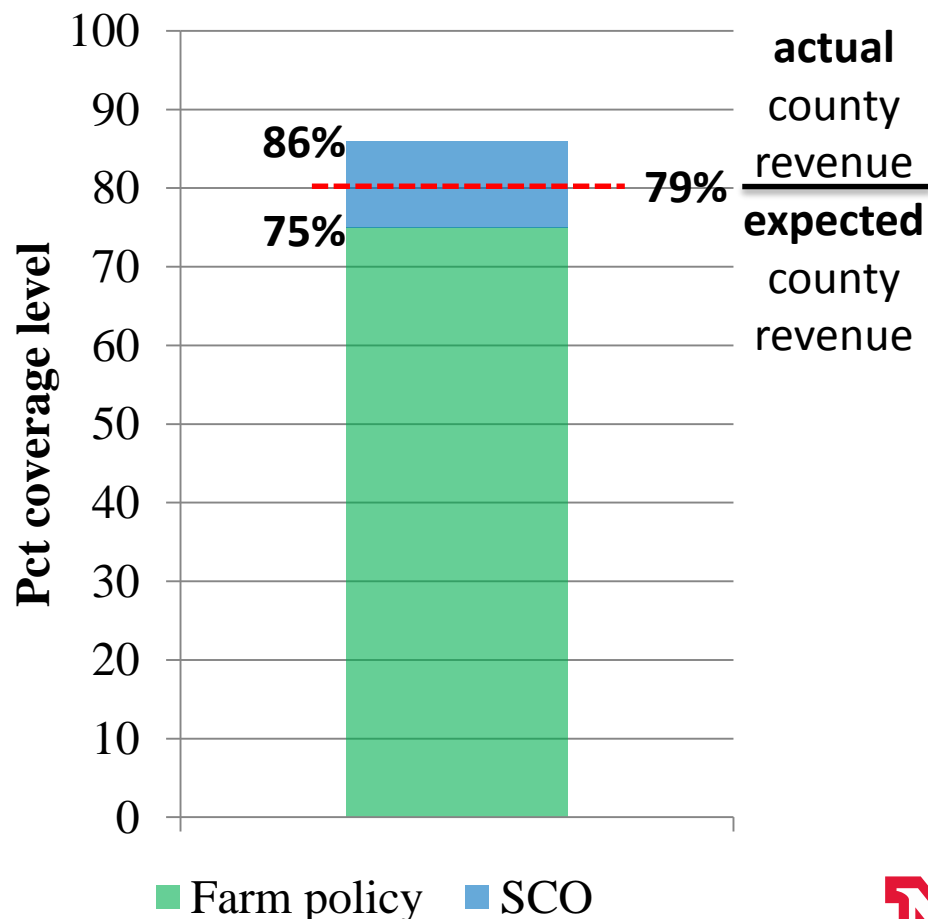
Loss occurs if actual county revenue is less than 86% of expected county revenue - RP

Expected county revenue = Historic County Ave Yield x Crop Insurance Reference Price

Actual County Revenue = Actual County Average Yield x Crop Insurance Harvest Price

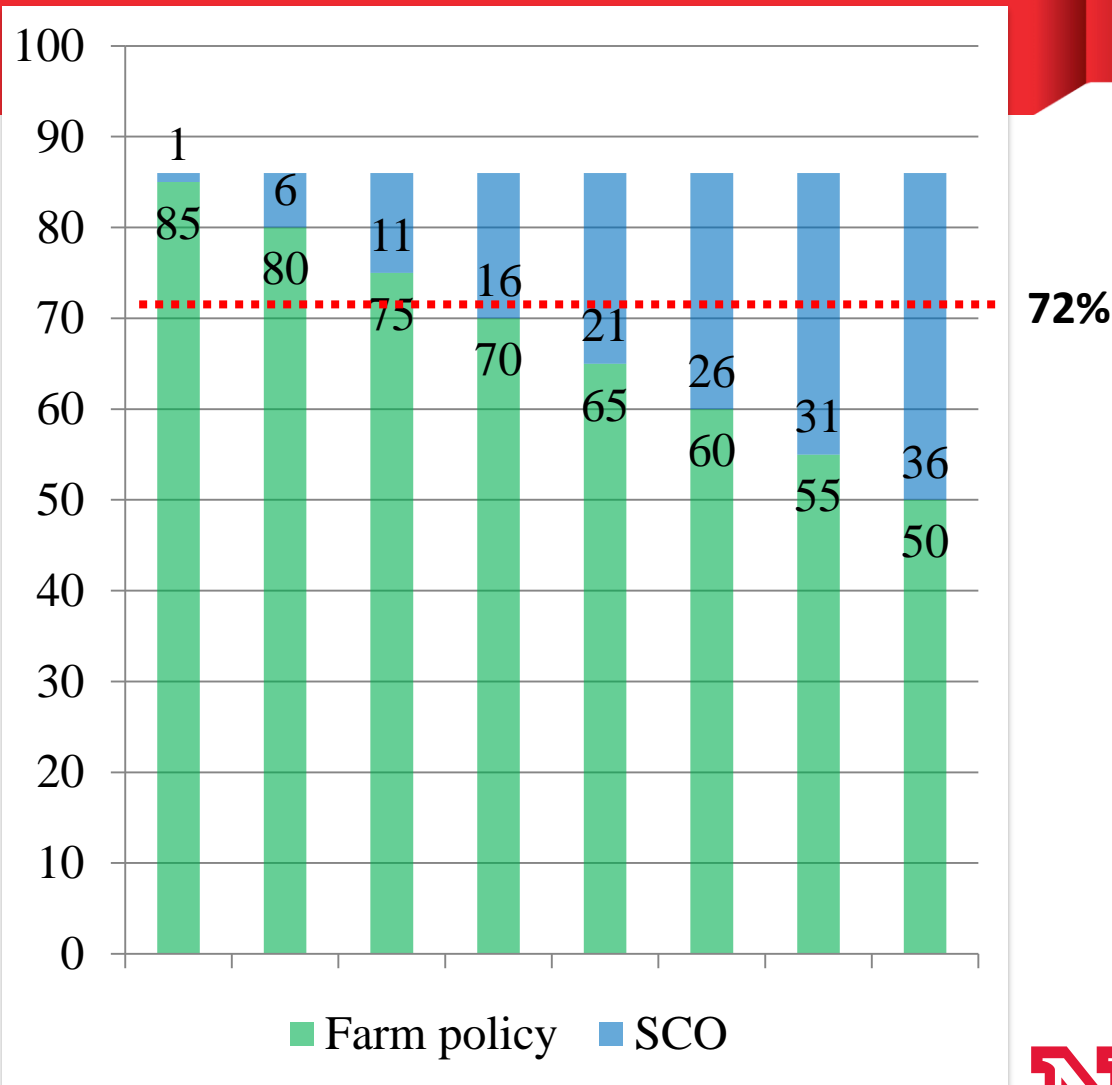
Calculating Losses on SCO

- Must calculate the County Payment Factor – CPF
 - CPF = percentage of SCO range that is considered a loss
- Example
 - Underlying policy of 75%
 - Actual/Exp is 79%
- $CPF = (86 - 79) / (86 - 75)$
 $= 7 / 11 = .636$



Examples: CPF calculation

- Suppose:
- Actual / Expected = 72%
- CPF when underlying coverage level is:
- 85%: 1.000
- 80%: 1.000
- 75%: 1.000
- 70%: $(86-72)/16 = 0.875$
- 65%: $(86-72)/21 = 0.667$
- 60%: $(86-72)/26 = 0.538$
- 55%: $(86-72)/31 = 0.452$
- 50%: $(86-72)/36 = 0.389$



Calculating Losses under SCO

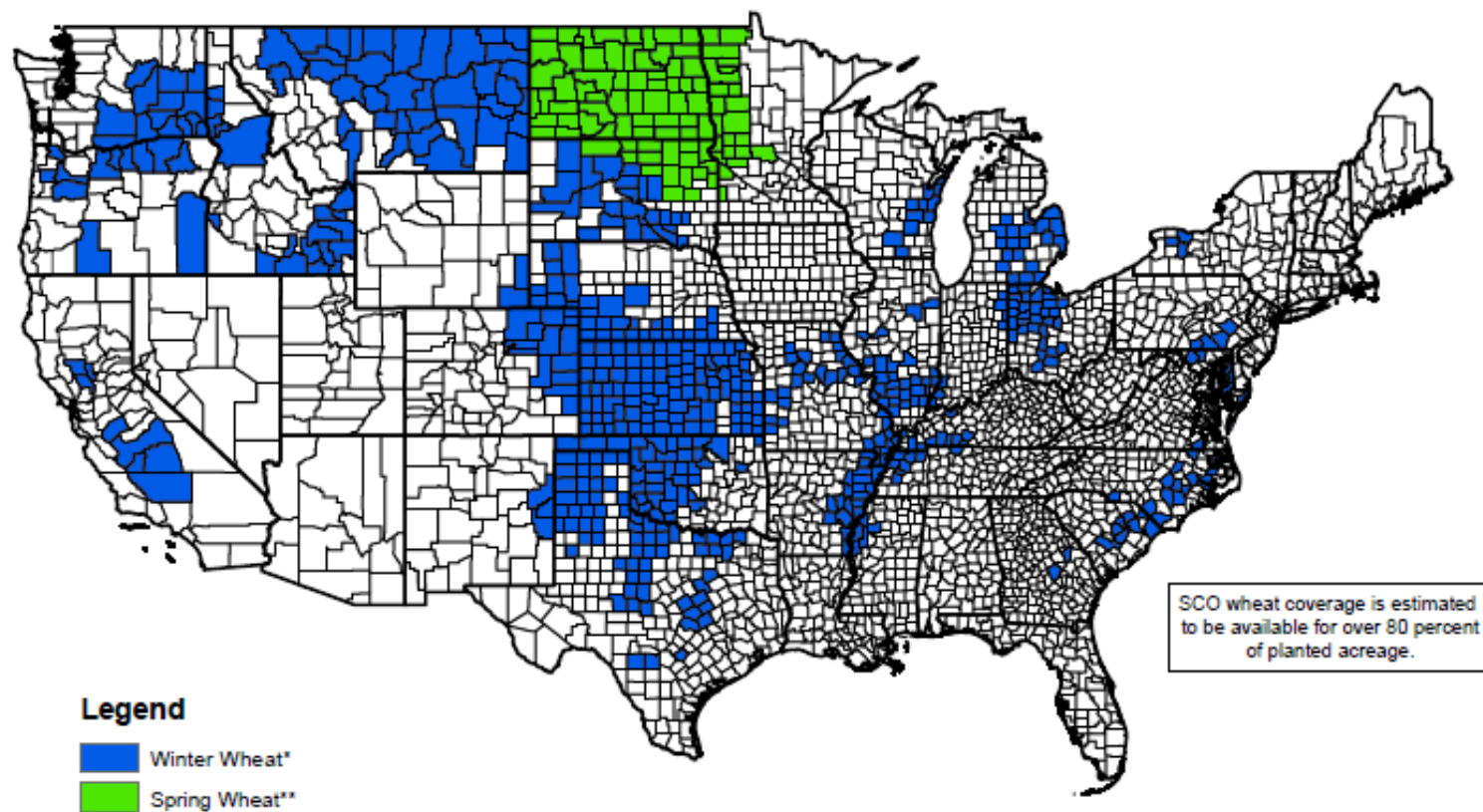
- Indemnity payment = CPF x SCO Coverage
 - Corn Commodity
 - 75% Revenue Product
 - \$56.98 SCO coverage
 - Actual / Exp = 79%
 - $CPF = (86 - 79) / (86 - 75) = 7/11 = .636$
- Indemnity = $0.636 \times \$56.98 = \36.24

When to Buy SCO

- SCO has a premium payment
- SCO is 65% subsidized
- SCO applies to plant acres, not base
- ARC pays on 85% of base
- SCO is more attractive when base is less than planted acres
- Use when over FSA payment limit (\$125K)

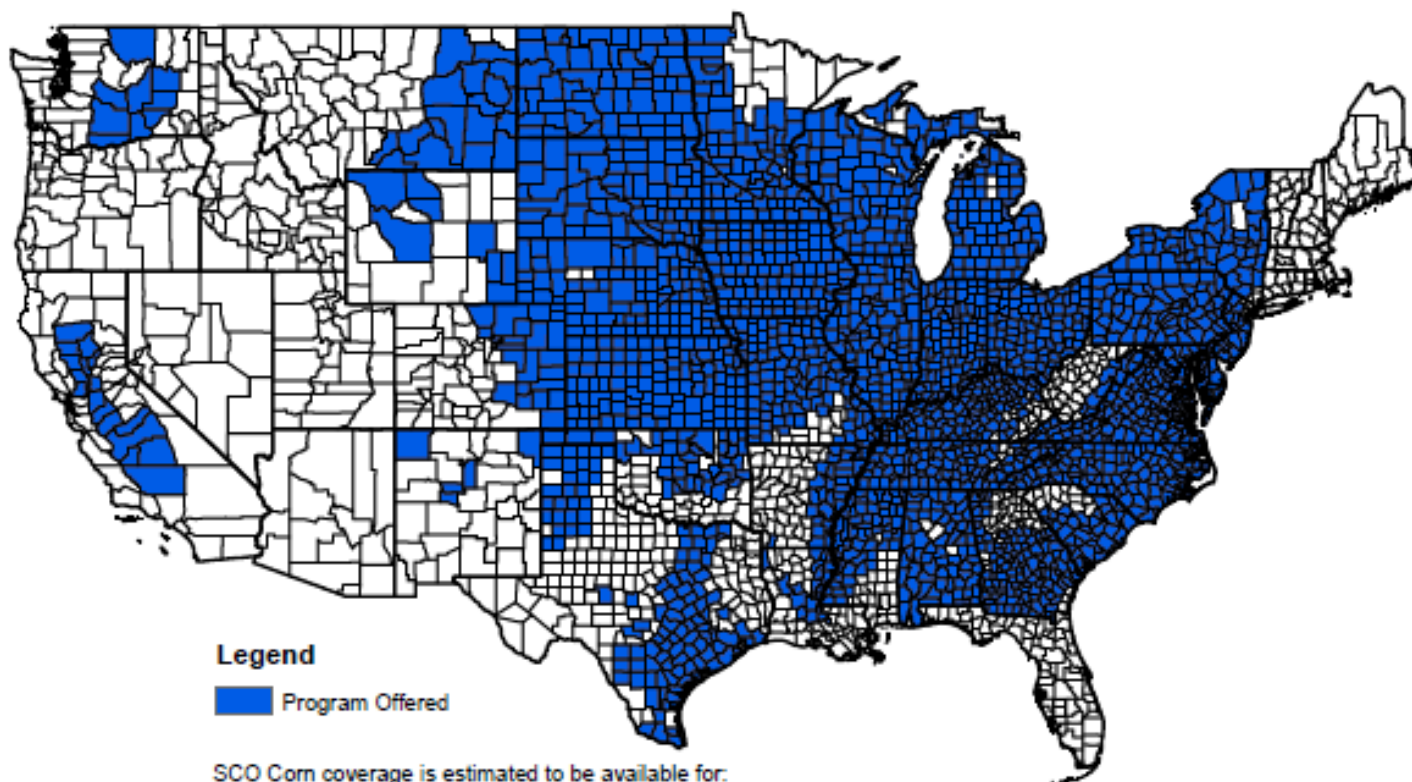
When to Buy SCO - Availability

Crop Year 2015 Supplemental Coverage Option (SCO) Availability for Wheat



When to Buy SCO - Availability

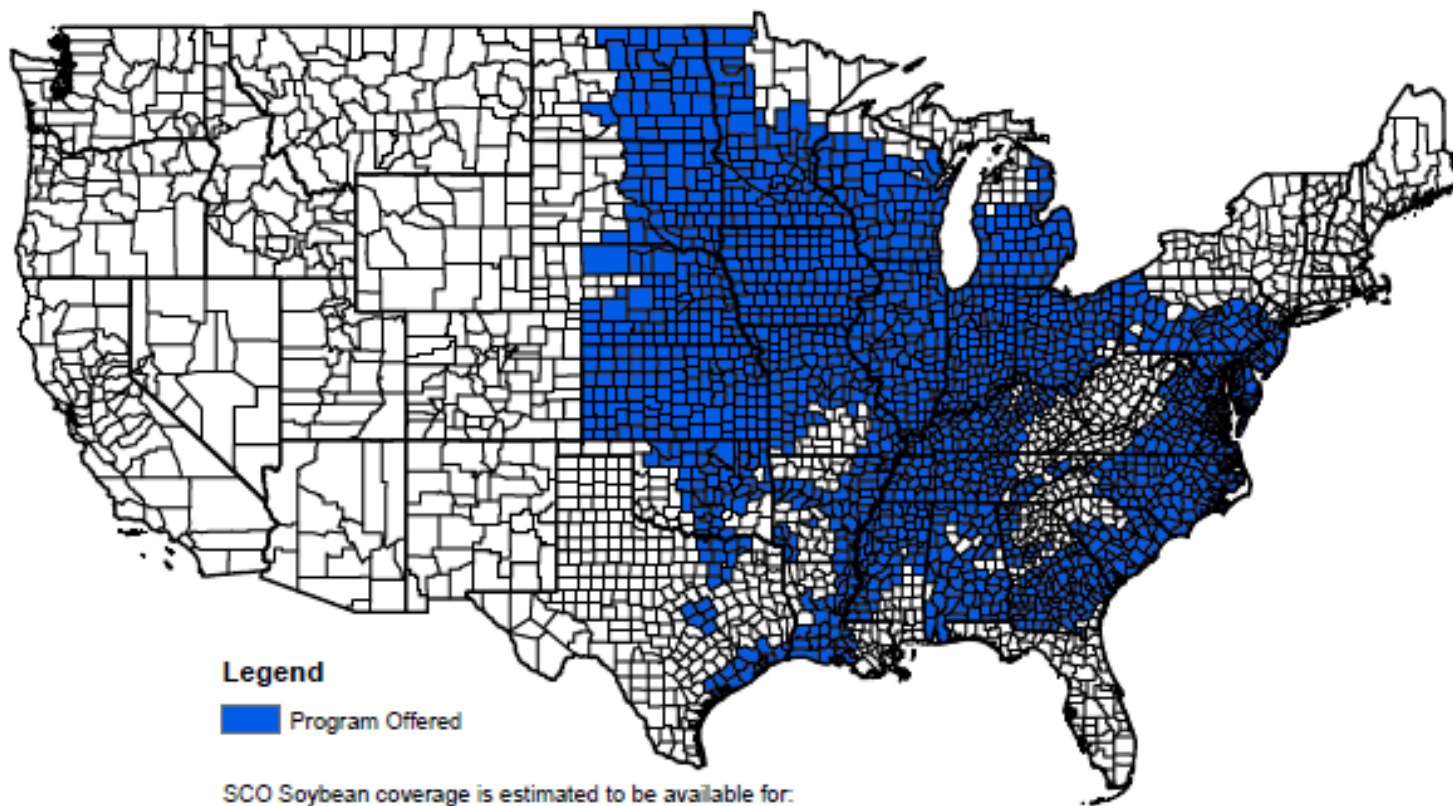
2015 Crop Year Supplemental Coverage Option (SCO) Availability for Corn



SCO Corn coverage is estimated to be available for:
99% of acreage insured (based on 2013 crop insurance participation)
98% of all planted acreage (based on 2013 NASS estimates)

When to Buy SCO - Availability

2015 Crop Year Supplemental Coverage Option (SCO) Availability for Soybeans



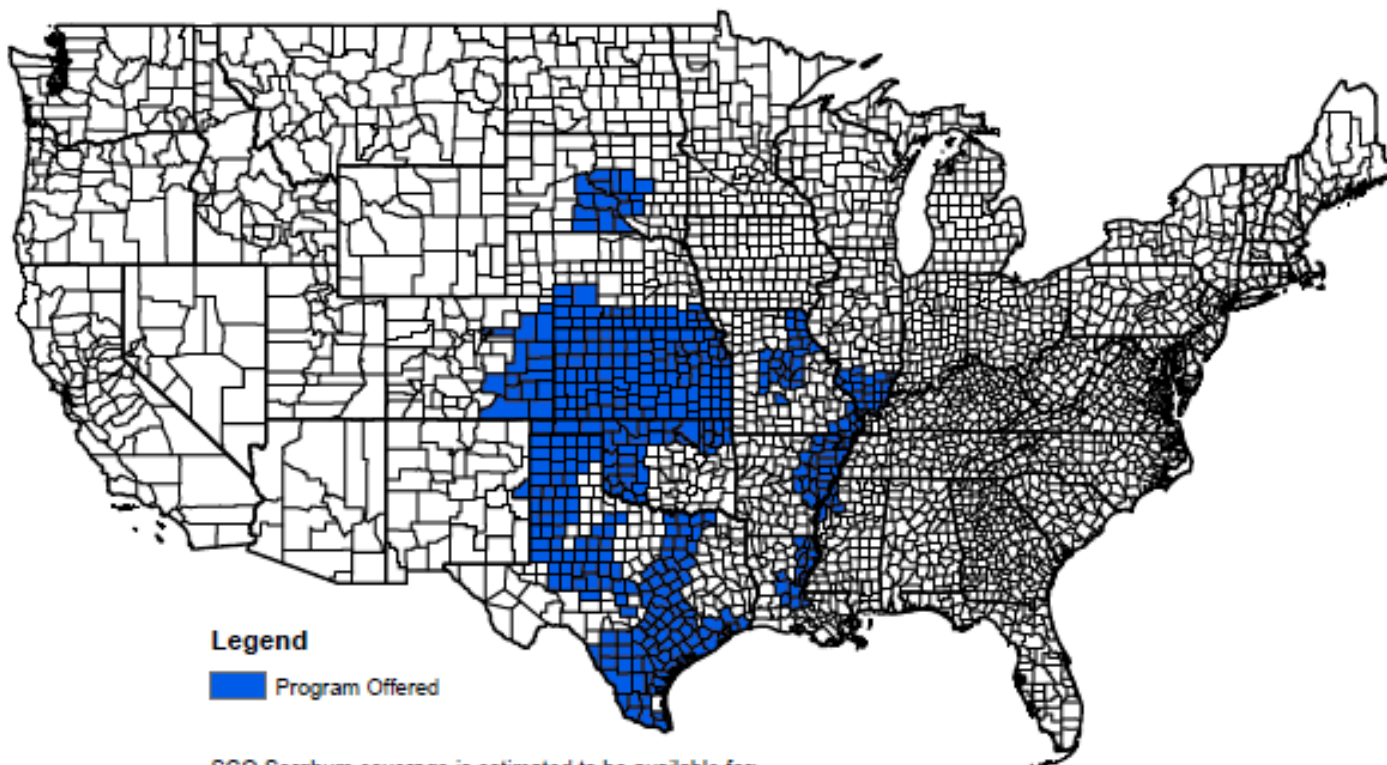
Legend

■ Program Offered

SCO Soybean coverage is estimated to be available for:
99% of acreage insured (based on 2013 crop insurance participation)
98% of all planted acreage (based on 2013 NASS estimates)

When to Buy SCO - Availability

2015 Crop Year Supplemental Coverage Option (SCO) Availability for Sorghum



SCO Sorghum coverage is estimated to be available for:
95% of acreage insured (based on 2013 crop insurance participation)
87% of all planted acreage (based on 2013 NASS estimates)

SCO – Sign Up

- As usual – sign up with underlying insurance policy prior to March 15th
- Must comply with conservation requirements to be eligible for premium subsidies

Other Crop Insurance

- May obtain separate enterprise units for rain-fed and irrigated units in 2015
- If the county suffers a 50% yield loss, farmers may exclude their yield from the APH calculation

SCO Challenges

- Depending on premium cost – is it better/cheaper to buy up crop insurance rather than purchase SCO or vice versa?
- What is the cost difference and coverage between basic unit and enterprise?



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Questions



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Farm Bill Decisions

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