COUNTY ARC OR PLC + SCO? WHAT'S A FARMER TO DO?

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New Commodity Support Programs

- **Price Loss Coverage (PLC)**
  - Establishes a <u>price</u> floor based on national marketing year average price
  - Essentially Counter-cyclical payments, but higher prices
  - Can buy **Supplemental Coverage Option (SCO)** crop insurance as an add-on option
- **Agriculture Risk Coverage (ARC)**
  - Establishes a <u>revenue</u> floor
  - Essentially a new and improved ACRE program
  - 1) County revenue by Crop (County ARC or ARC-CO)
  - 2) Individual revenue for Whole Farm (ARC-IC)

New Commodity Support Programs

- Most farmers will find <u>County ARC</u> a fine option, especially for corn and soybeans
  - In some counties, PLC for corn will be fine too
- Many farmers will find <u>PLC</u> a good option for wheat in many counties
- There are always exceptions!

Price Loss Coverage (PLC)

- Same as old Counter-Cyclical Payments, but with higher "Reference Prices"
  - Corn $3.70, Soybeans $8.40, Wheat $5.50, and Oats $2.40
- If the National Marketing Year Average Price is less than the Reference Price, PLC payments are made
  - **PLC PaymentRate = ReferencePrice – MYAPrice**
  - **PLC Payment = 85% x BaseAcres x PaymentYield x PLC PaymentRate**
- Option to buy Supplemental Coverage Option (SCO), a new type of crop insurance

Simple PLC Example

- Suppose the corn National Marketing Year Average Price is $3.50

- Corn Reference Price is $3.70 > $3.50, so PLC payments are triggered

- PLC Payment Rate = $3.70 – $3.50 = $0.20/bu

- PLC Payment = 85% x BaseAcres x PaymentYield x PLC PaymentRate

- Assume 80 corn Base Acres with a Payment Yield of 110 bu/ac, then your PLC payment would be

  - 85% x 80 ac x 110 bu/ac x $0.20/bu = $1,496

- This is why if you update payment yields, pick the option that gives the highest payment yields

Supplemental Coverage Option (SCO)

- If you sign up for PLC, you have the <u>option</u> to buy SCO: allows you to insure part of your RP/YP deductible with a county policy (ARP/AYP)
  - Layer individual & county coverage
  - Can't exceed 86% total coverage
- Add SCO to an RP policy to increase coverage up to the 86% maximum
  - 65% SCO premium subsidy (farmer pays 35%)
- SCO available in 2015 for corn and soy, but only if choose PLC & buy RP/YP

Supplemental Coverage Option (SCO)
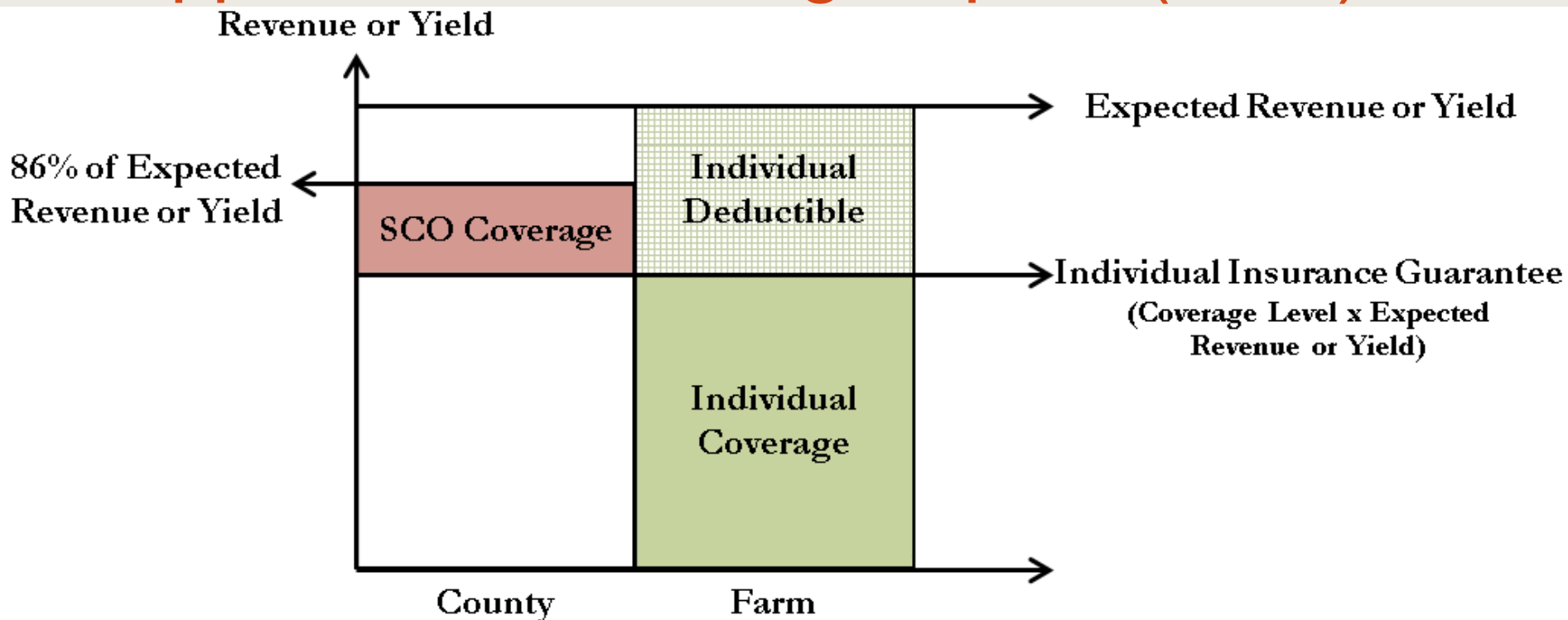
Possible outcomes with RP plus SCO

1. SCO pays, but not RP
2. RP pays, but not SCO
3. Both SCO and RP pay
4. Neither SCO nor RP pays

County & Farm coverages are <u>imperfectly connected</u>

Agriculture Risk Coverage (ARC)

- County ARC: Each county has a County Revenue Guarantee and ARC payments are made if Actual County Revenue is less than its County Revenue Guarantee
  - Each county has a different County Revenue Guarantee
- County Benchmark = 5-Year Olympic Average County Yield x 5-Year Olympic Average National MYA Price
  - Price and yield floors used
- County Guarantee = 86% of County Benchmark
- **Actual Revenue = County Average Yield x MYA Price**
- **ARC Payment Rate = County Guarantee – Actual County Revenue**, up to 10% of County Benchmark
- **ARC Payment = 85% x Base Acres x ARC Payment Rate**

Olympic Averaging: Unofficial 2014 Corn Example St. Croix County

Year	Yield	Price
2013	85.4	4.46
2012	165.6	6.89
2011	164.6	6.22
2010	172	5.18
2009	167	3.55

- Olympic Average Yield = 165.7
- Olympic Average Price = 5.29
- ARC County Benchmark = 5.29 x 165.7 = $876.55
- ARC Guarantee = 86% x $876.55 = $753.83
- Maximum ARC Payment = 10% x $876.55 = $87.66

County ARC Payment Example

- Suppose 2014 County ARC Guarantee is $750 for corn
- Suppose 2014 actual USDA yield is 180 bu/ac and 2014 MYA corn price is $3.60
- Actual revenue is 180 x 3.60 = $648/ac
- $648 < $750, triggers County ARC payment
- ARC Payment Rate = 750 – 648 = $102/ac: exceeds max
- Maximum ARC payment = 10% x County Benchmark = 10% of $750/86% = $87.21
- So ARC Payment Rate = $87.21
- ARC Payment = 85% x BaseAcres x ARC Payment Rate
       = 85% x BaseAcres x $87.21 = $74.13 per Base Acre

Comments

- PLC payments depend on national MYA price, not actual price you sell for
  - If you sell corn for $3/bu, but national MYA price is $3.75, you receive no PLC payment (and vice versa)
- County ARC payments depend on national MYA price and county yield, not your actual price and your farm yields
  - If you get half your expected revenue, but county revenue exceeds the county guarantee, you receive no ARC payment (and vice versa)
- Do not have to grow the crop to get ARC/PLC payments, just have to operate base acres of that crop
- SCO: must grow the crop and insure the crop with RP/YP

Decision Aids: http://fsa.usapas.com/

| Wisconsin | ▼ | Rock | ▼ | CBO Prices | ▼ | 75 Percent Coverage | ▼ |

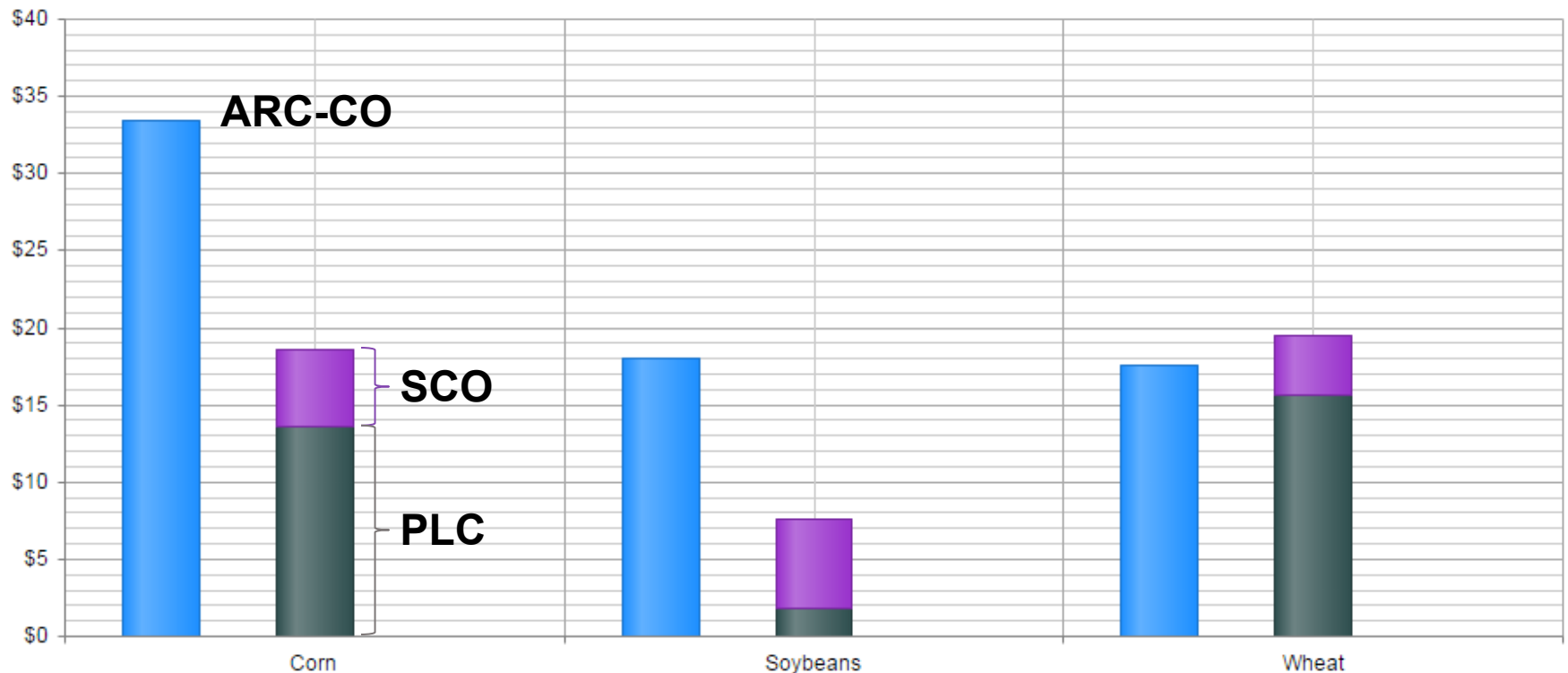| Select Sample Farm | Cropped Acre Usage | Sample Farm | Expected Program Payments | Safety Net |

| Expected Sample Farm Program Payments | Expected Program Payments per Acre by Crop |

5 Year Horizon ▼

Expected Crop Program Payments By Acre For Rock County Wisconsin Sample Farm

Expected program payments are estimated average annual payments for the sample farm using the different programs, including program selections optimized over different planning horizons.

Dane County, FAPRI Prices, 75% RP Coverage, 5-year horizon

Expected Crop Program Payments By Acre For Dane County Wisconsin Sample Farm

No SCO for Oats
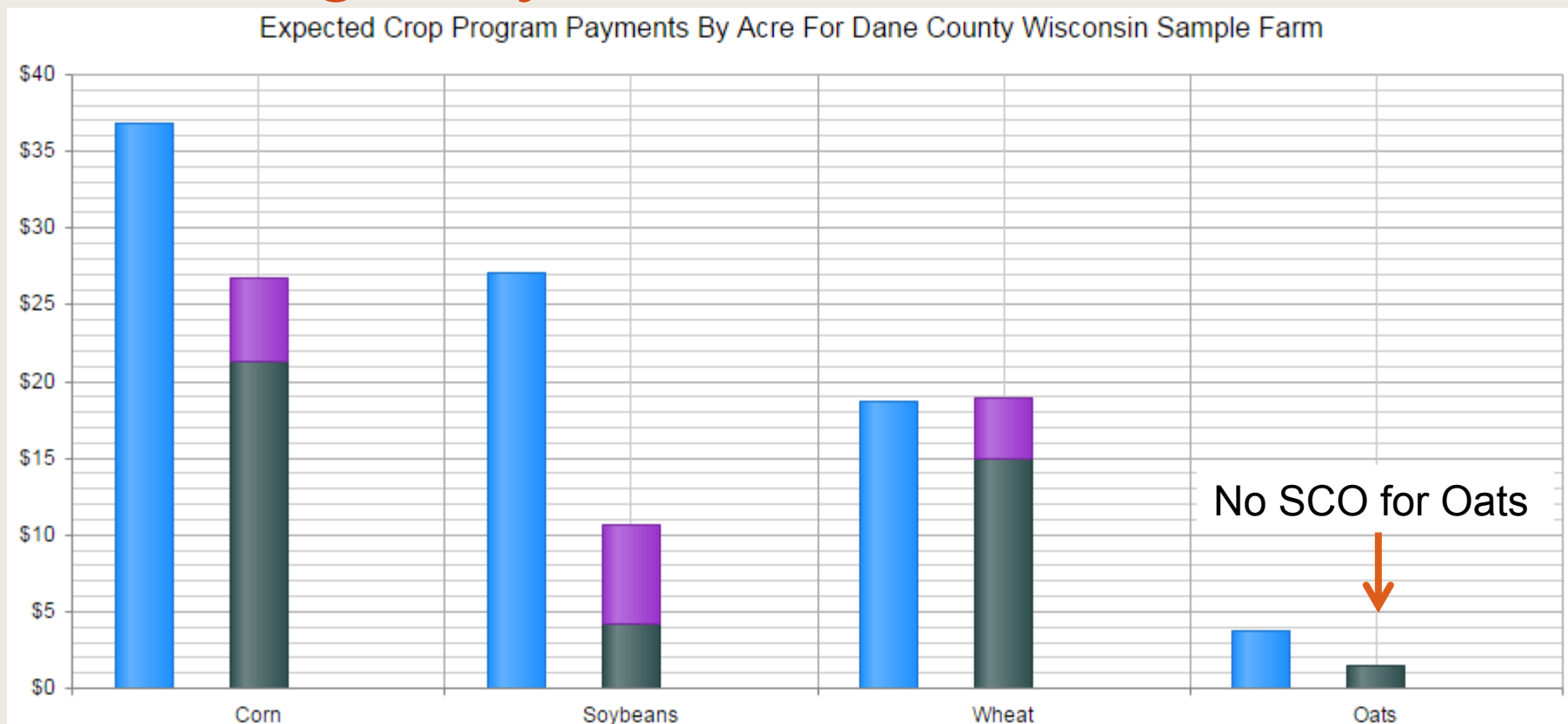
- Corn > Soybeans ≥ Wheat > Oats
- County ARC > PLC and PLC + SCO for corn and soybean
- PLC + SCO about same as County ARC for wheat

Jackson County, FAPRI Prices, 75% RP Coverage, 5-year horizon

Need to buy SCO for PLC to be comparable to ARC

No SCO for Oats

- Corn > Soybeans > Oats
- County ARC > PLC
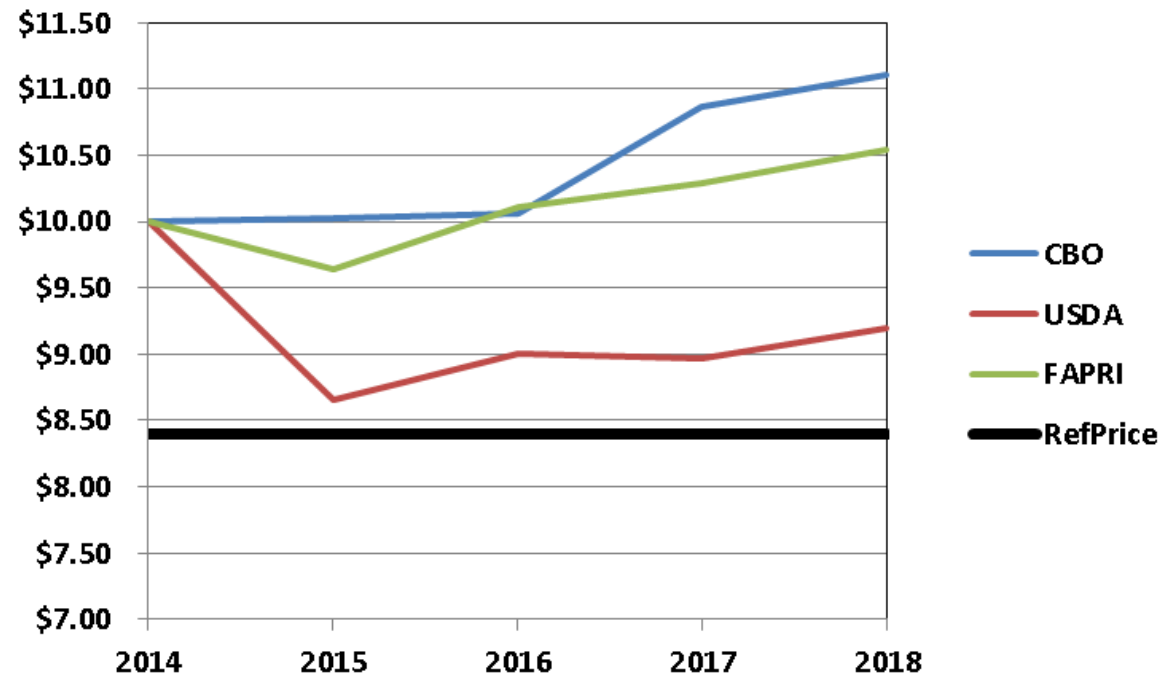- County ARC about same as PLC + SCO

Main Points

- **What about County ARC versus PLC?**
  - Depends on prices assume, but <u>generally</u> ARC does better for corn & soy in <u>most</u> counties
- Tool has 3 options for <u>average</u> prices
- 1) CBO futures prices (*Optimistic*?)
- 2) USDA WASDE prices (*Pessimistic*?)
- 3) FAPRI price estimates (*Realistic*?)

CORN
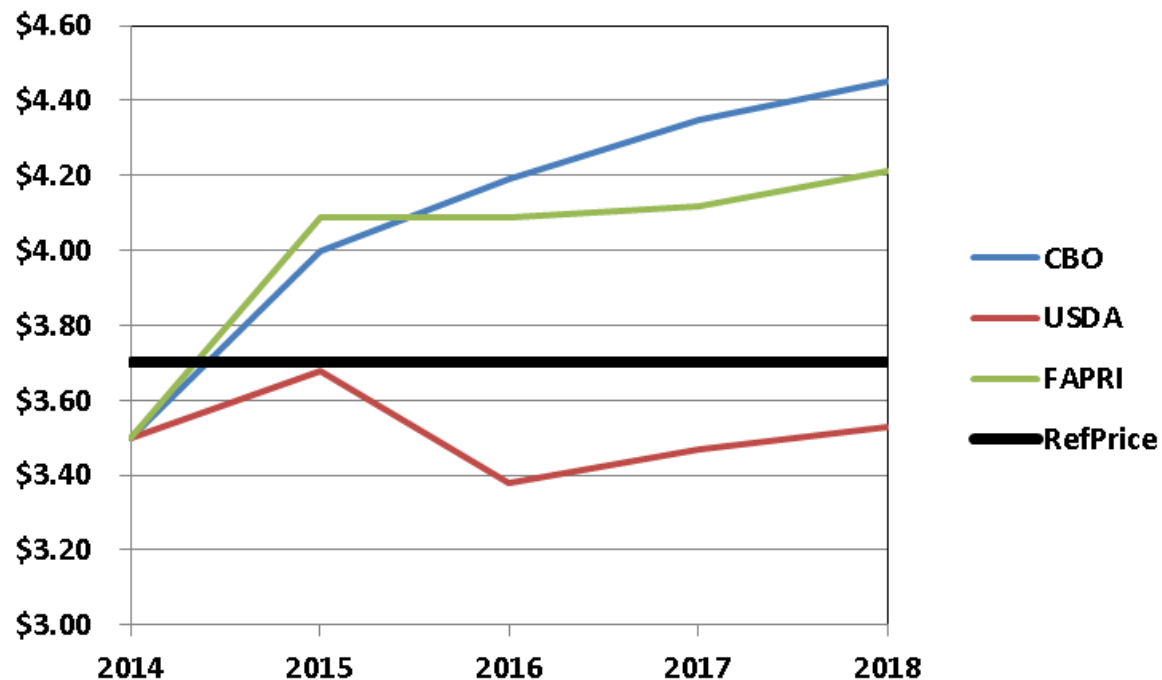
SOYBEAN

Dane County, **FAPRI** Prices, 75% RP Coverage, 5-year horizon
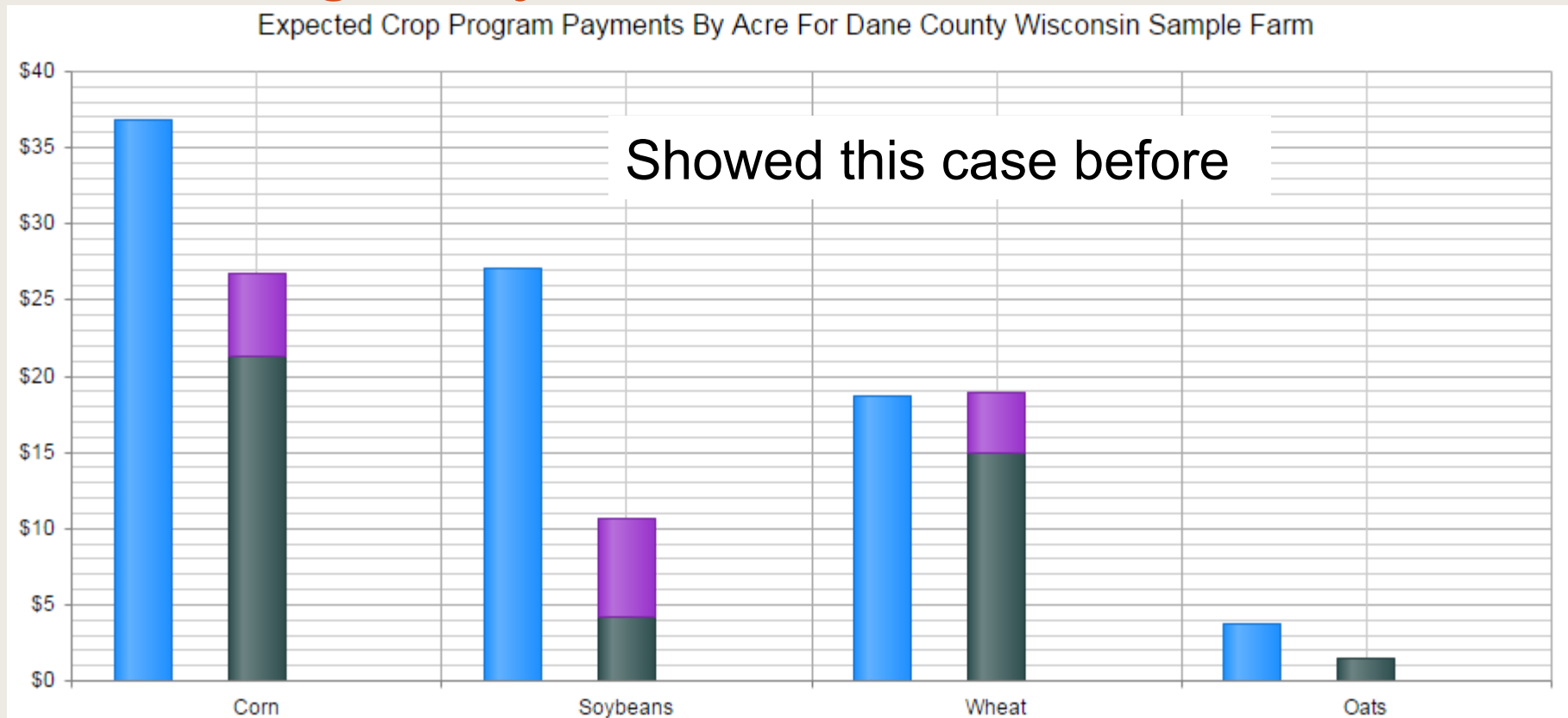
Expected Crop Program Payments By Acre For Dane County Wisconsin Sample Farm

Showed this case before

- **Soybean**: County ARC > PLC + SCO
- **Corn**: County ARC > PLC + SCO
- **Wheat**: County ARC about same as PLC + SCO

Dane County, **CBO** Prices, 75% RP Coverage, 5-year horizon
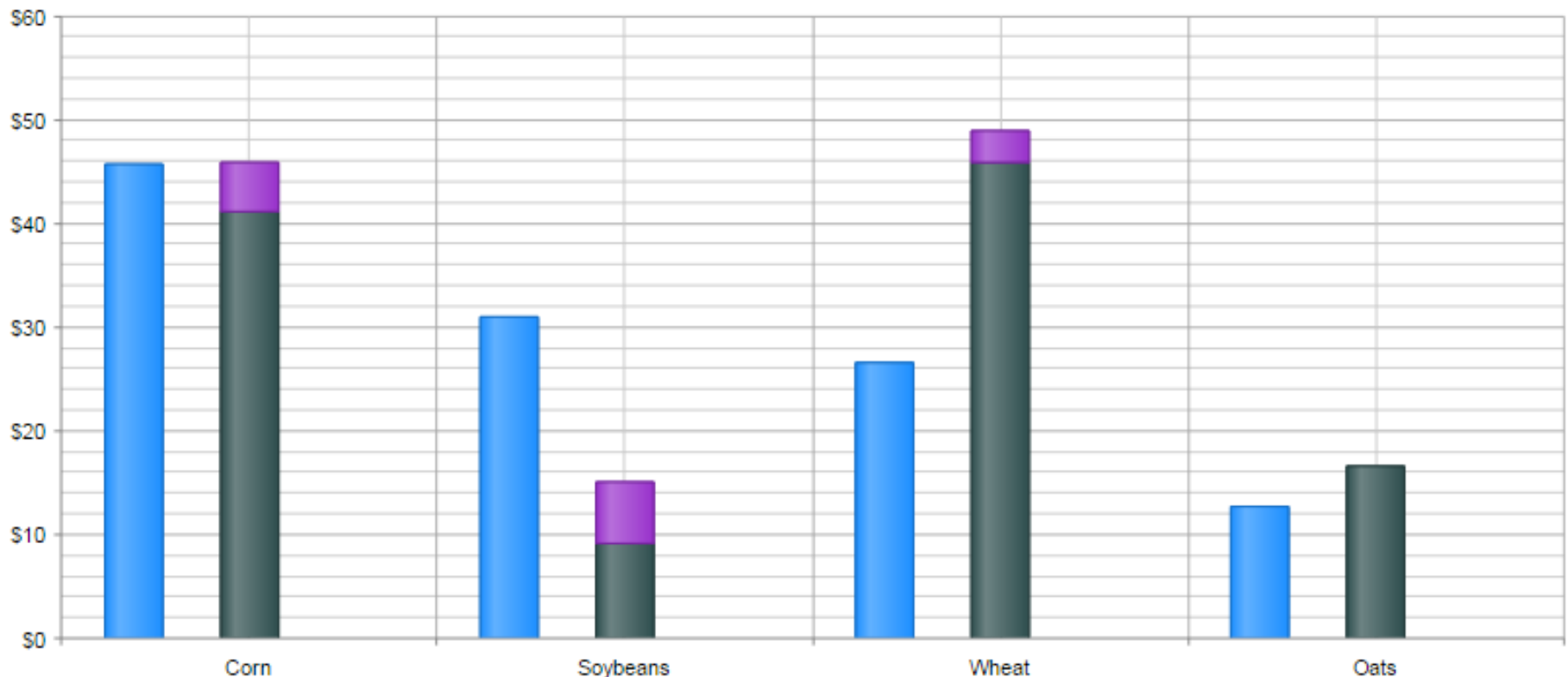

Expected Crop Program Payments By Acre For Dane County Wisconsin Sample Farm

CBO Prices give similar results to FAPRI
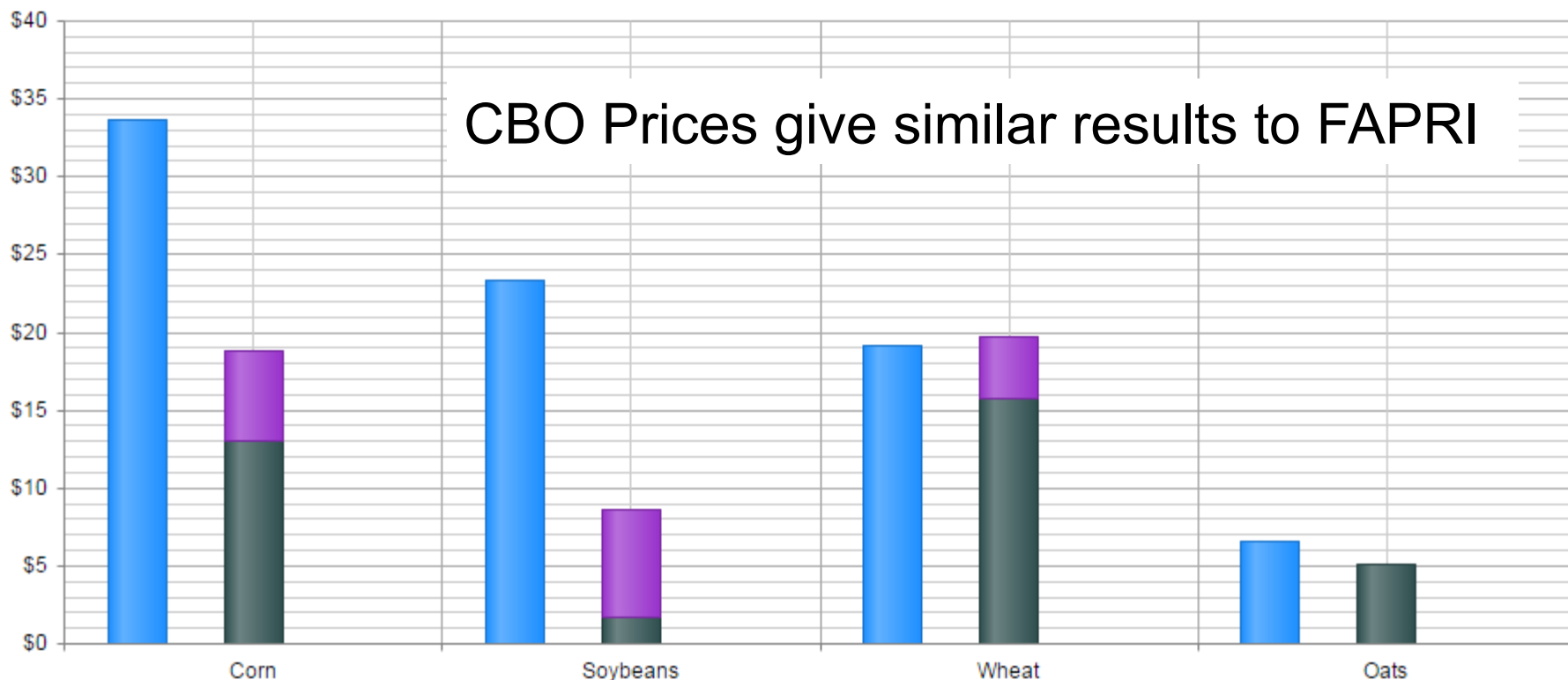
- **Soybean**: County ARC > PLC + SCO
- **Corn**: County ARC > PLC + SCO
- **Wheat**: County ARC about same as PLC + SCO

Dane County, **USDA WASDE** Prices, 75% RP Coverage, 5-year horizon

Expected Crop Program Payments By Acre For Dane County Wisconsin Sample Farm

- **Soybean**: County ARC > PLC + SCO
- **Corn**: County ARC about same as PLC + SCO
- **Wheat**: PLC + SCO > County ARC
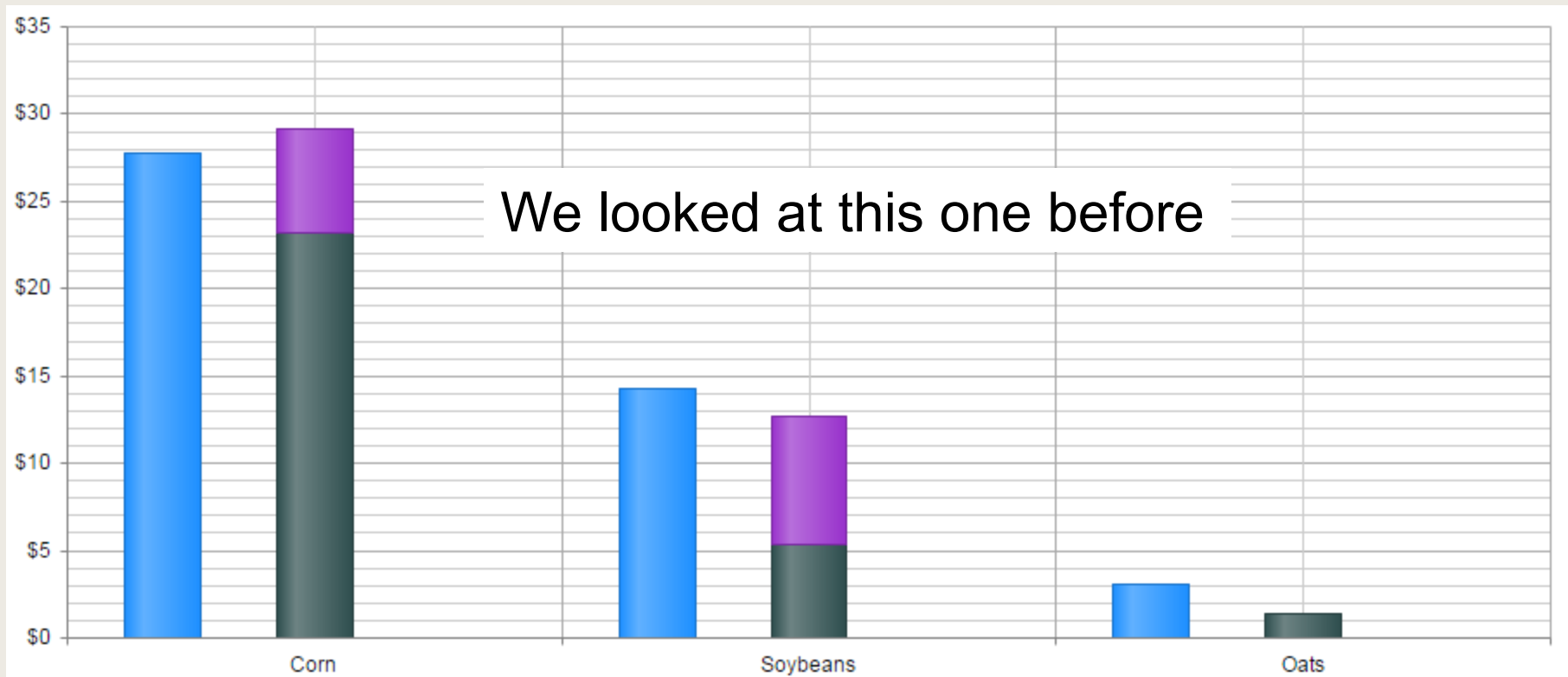
Jackson County, **FAPRI** Prices, 75% RP Coverage, 5-year horizon

We looked at this one before

- **Corn**: County ARC > PLC, about same as PLC + SCO
- **Soybean**: County ARC > PLC + SCO
- **Oats**: County ARC > PLC

Jackson County, **CBO** Prices, 75% RP Coverage, 5-year horizon
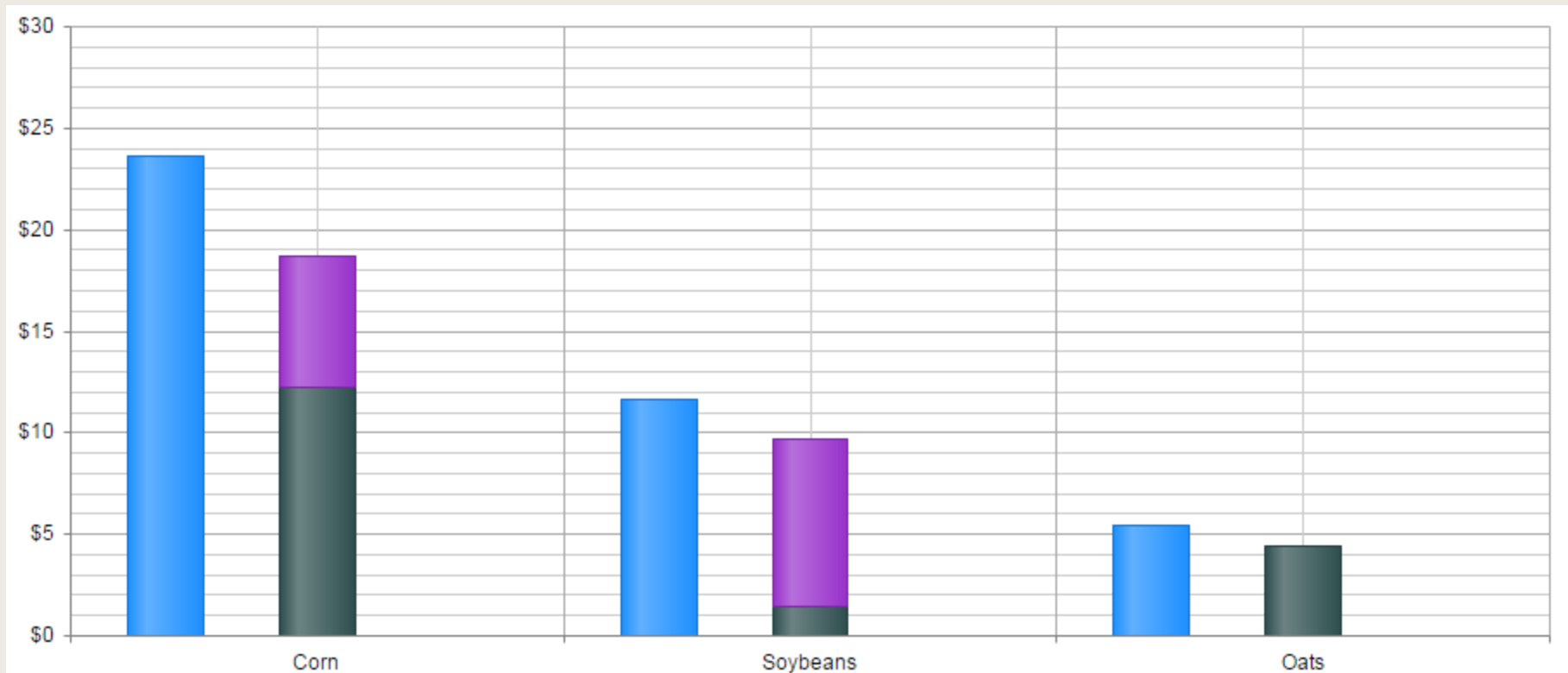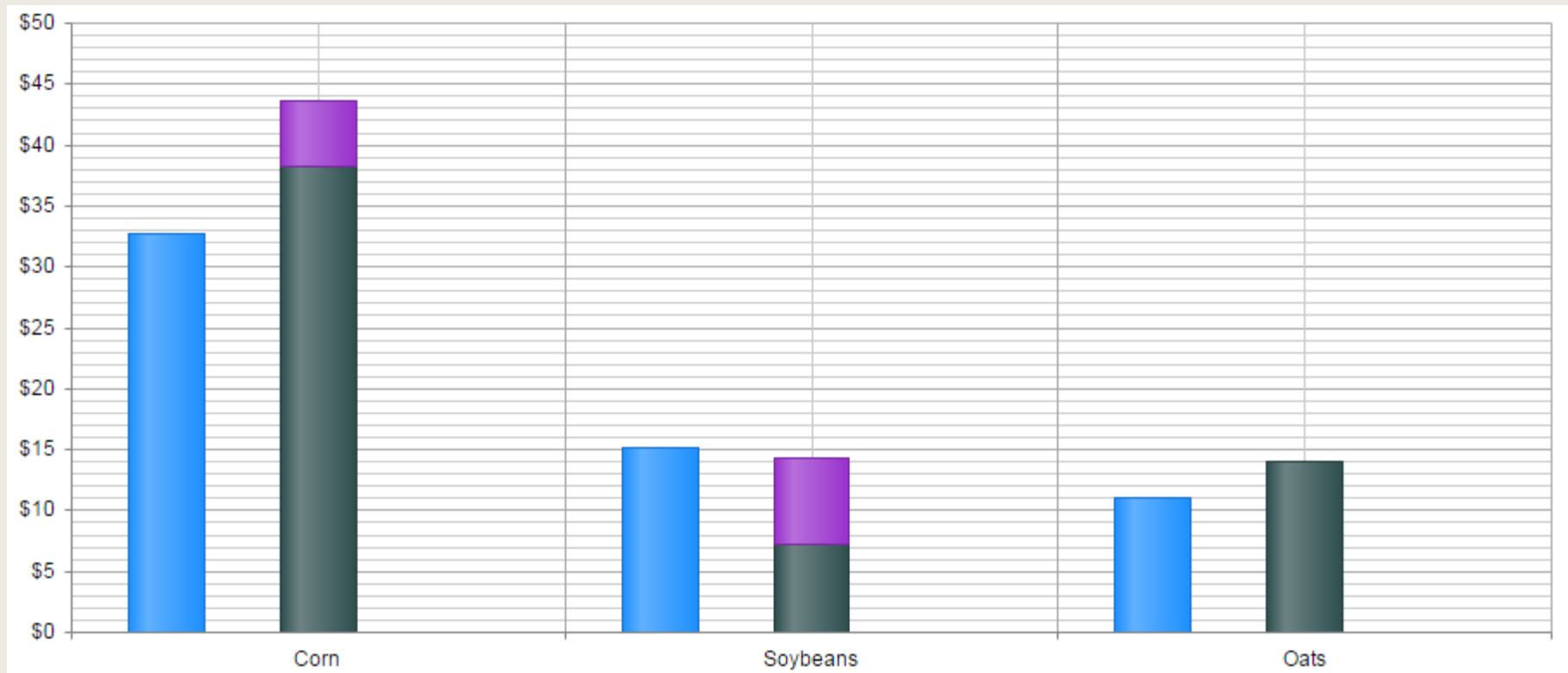

- **Corn**: County ARC > PLC + SCO
- **Soybean**: County ARC > PLC + SCO
- **Oats**: County ARC > PLC

Jackson County, **USDA** Prices, 75% RP Coverage, 5-year horizon

- **Corn**: PLC and PLC + SCO > County ARC
- **Soybean**: County ARC > PLC, about same as PLC + SCO
- **Oats**: PLC > County ARC

Comments

- These are Monte Carlo <u>estimates</u> of <u>average</u> payments under different price expectations

- <u>These are not direct payments</u>: no guaranteed payments

- <u>Estimates</u> are (educated?) Predications, not always correct

- <u>Averages</u> are not certain

  - The average of rolling two dice is 7, but this does not mean you always get a 7, you can still roll 2's and 12's

Corn

- In many counties, County ARC looks like the best choice under all but most pessimistic price expectations
- PLC is about the same as or slightly above county ARC only under pessimistic price expectations and if buy SCO
- SCO means buying another crop insurance policy & more costs up front, payments not certain (ARC/PLC are free)

- Recommend County ARC
- Cost of being wrong is small
- **If choose PLC, looks like you give up lots of upside potential with county ARC to get only a little more protection from low price outcomes with PLC**
- **Is your county an exception? Are you an exception?**

Soybean

- In almost all counties, County ARC looks like the best choice under all price expectations

- County ARC pays more than PLC except for <u>very pessimistic</u> price expectations (lower than simulated scenarios) and if buy SCO

- SCO means buying another crop insurance policy & more costs up front, payments not certain (ARC/PLC are free)

- Recommend <u>County ARC</u>

- **If choose PLC, looks like you give up <u>lots</u> of upside potential with county ARC to get only a little more protection from <u>very low </u>price outcomes with PLC**

- **Is your county an exception? Are you an exception?**

Comments

- These are generalizations that will work for many farmers in many counties
- You can keep it simple, make your choice and move on
- Alternatively: use the online Decision Aids
  - Look at sample farm for your counties
  - Build your own farm
- **Is your county an exception? Are you an exception?**
- ***It's like the rest of farming -- The wrong choice costs you money, but how can you tell what's the wrong choice? Only in hind sight!!!***

Thanks for Your Attention!

Questions?

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Multi-Step Process with Different Deadlines

- Step 1: Maintain or Reallocate Base Acres — By 2/27/15
- Step 2: Maintain or Update Payment Yields — Owner Signs
- Step 3: Elect PLC/ARC-CO/ARC-IC — 3/31/2015
- Step 4: Consider SCO — By 3/15/2015
- Step 5: Enroll in PLC/ARC — By Summer 2015 — Producer Signs

- County ARC, PLC (ARC IC):
- Irrevocable choice for 2014 – 2018 crop years
- Time to make decisions, don't delay.

Base Acres and Program Yields

- Reallocate Base Acres/Update Program Yields
    - 1) Leave them as they are now, or
    - 2) Update
- **Base Acres Reallocation**
- Choose the option that puts more Base Acres in Corn
- In terms of $, Corn > Soybean ≥ Wheat > Oats
- **Updating Program Yields**
- For each crop, choose the option that gives the highest Program Yields

Individual ARC

- Based on revenue from all program crops as a whole for an FSA farm, not crop by crop
- Create a whole farm revenue guarantee and receive payment if actual revenue less than farm guarantee
  - **65%** of the payment gap, up to 10% of County ARC Benchmark (same maximum as county ARC)
- Like 86% whole-farm revenue coverage
- Acreage-weighted average of each crop's revenue
- Use farm historical yields and national prices, but use Olympic averages
- Complicated and detailed program: if interested, use the tool and try your farm details and see what you get

Comments on Individual ARC

- APAS shows County ARC always beats Individual ARC for WI Sample Farms
- "Rumors" among ag economists: Individual ARC works for some Montana Wheat farmers (Musselshell County, MT)
- I have put little time into analyzing individual ARC: complicated, need to run for your own farm specifics
  - Paying on only 65% of base acres really hurts it

Counties with SCO for Wheat