

NEW FARM BILL CHOICES

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DEPARTMENT OF
AGRICULTURAL AND
RESOURCE ECONOMICS

UNIVERSITY OF
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Our website:

<http://www.arec.umd.edu/extension/crop-insurance>



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Crop Insurance



2014 Maryland Crop Insurance Update
Webinar being offered by the Center for Ag and Natural Resource Policy, MDA, and USDA-RMA

About Us

This website is to provide related information over crop insurance and other risk management tools. This website is brought to you as a partnership by the Department of Agricultural and Resource Economics, University of Maryland Extension, Maryland Department of Agriculture, and USDA-Risk Management Agency.

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Have a question?
Please send an e-mail to [Professor Howard Leathers](#).

Useful Links:

USDA-Risk Management Agency



My Personal Journey

- Reading the language
- Working through examples.
- Preliminary lessons:
 - Everything is different.
 - Except where it isn't. (PLC and countercyclical payments)
 - Everything is complicated.
 - Farmers will need to make some important decisions about program participation.



WARNING: TALOCA

There

Are

Lots

Of

Confusing

Acronyms

Crop Commodity Program Decisions

- What Program will you participate in for the next 5 years?
 - Price Loss Coverage (PLC)
 - With or without participation in supplemental coverage option (SCO)
 - Agricultural Risk Coverage, County option (ARC – CO)
 - Agricultural Risk Coverage , Individual option (ARC – IN)
- Update base acres?
- Update yields?

- Inter-relationships between Program decisions and crop insurance decisions.

Next step on my path to discovery:
Constructing examples that include all
elements of programs and insurance.

What we need for our examples:

7 different yield measures

6 different price measures

2 different area measures



Yield Measures

- Actual Production History (APH) yields per harvested for the individual farm.
 - County average yields per planted acre for the last five years.
 - County t-yields for the last five years
 - “Expected” county yield for SCO.
 - “Program yield” for the individual farm.
 - Current (hypothetical) yield for the individual farm.
 - Current (hypothetical) yield for the county.
- (Not included: district yields/planted acre for years when county yields are not available.)

Price Measures

- Marketing year average price (MYA) for the last five years.
 - PLC reference price.
 - Average post-harvest months futures price during pre-planting month.
 - Average post-harvest month's futures price during harvest month.
 - MYA (hypothetical) for upcoming year.
 - Actual selling price for the individual farm in the upcoming year.
- (Not included on this list: Loan rates, posted county price on date of LDP claim, should MYA fall below loan rate.).



Area Measures

- Actual planted acres 200 acres
- Base acres 150 acres

(Not included on this list: Actual insured acres, should those differ from actual planted acres.)

Review of all assumptions

- Things which are known to a considerable degree:
 - Examples: county yields from the recent past, PLC reference prices.
- Characteristics of a particular farm, things known from that farm's past.
 - Examples: program yields, base acres, Average Production History for insurance.
- Guesses or “scenarios” about the future.
 - Examples: future crop prices; future county yields.



Program alternatives under this scenario: Summary

	Market income	Insurance Indemnity	Program payment	SCO Indemnity	Insurance Premium	SCO premium	Total
County ARC + 75% rev. insur	58,300	1,300	5,922	0	2466	0	63056
PLC + rev. insurance	58,300	1,300	3,905	0	2466	0	61039
PLC + rev. ins. + SCO	58,300	1,300	3,905	7702	2466	1276	67465

“Normal” or average wheat income: $200 \text{ acres} \times 65 \text{ b/acre} \times \$6.54/\text{b} = \$85,020$

86% of normal income: \$73,117

Next step on my path to discovery:
Using the “decision tools”

The complicated details of the programs
are built into a calculator.



Go to fsa.usapas.com

Click on "APAS Custom Farm"



United States Department of Agriculture
Farm Service Agency

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Agriculture Policy Analysis System (APAS)

APAS Sample Farm

Five Minute Review of Analytics for Your County

Quick program payment comparison using data for your state and county

APAS Custom Farm Build Your Own Farm

Enter your own farm's information for detailed program and risk management analysis

NAP Crops Coming Soon

Dairy



Start Here for Program & Tool Explanation

Payment Yield Update
Quick Calculator

Base Acre Reallocation
Quick Calculator

APAS FAQ

YouTube Channel



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Lessons from the decision tools.

- Choice of PLC or ARC – CO can be made on a crop-by-crop basis.
- The “best” program for corn may not be the “best program” for wheat or barley.
- For two farmers in the same county:
 - ARC-CO will have identical per acre payments for a crop.
 - PLC will have different per acre payments depending on the farmer’s program yields.

Lessons from the decision tools.

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	County	Program yield	ARC-CO payment per acre	PLC payment per acre
Joe Calvert	Calvert	70	16.55	6.82
Hank Calvert	Calvert	210	16.55	20.45



Lessons from the decision tools.

- For two farmers with the same program yields but in different counties:
 - PLC will have identical per acre payments for a crop.
 - ARC-CO will have different per acre payments depending on the farmer's county.

	County	Program yield	ARC-CO payment per acre	PLC payment per acre
Joe Calvert	Calvert	70	16.55	6.82
Joe Caroline	Caroline	70	45.84	6.82



Lessons from the decision tools.

- Choosing the “right” program can make a big difference:
 - \$10 per corn base acre in Calvert Co.
 - \$39 per corn base acre in Caroline Co.

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Lessons from the Decision Tools

- Corn: ARC-CO is better than PLC.
- Soybeans: ARC-CO is better than PLC.
- Wheat: PLC is better than ARC-CO.
- Barley: PLC is better than ARC-CO.

- (“Usually” better.)

- SCO (Supplemental Coverage Option) expected indemnities do not cover premiums for corn.



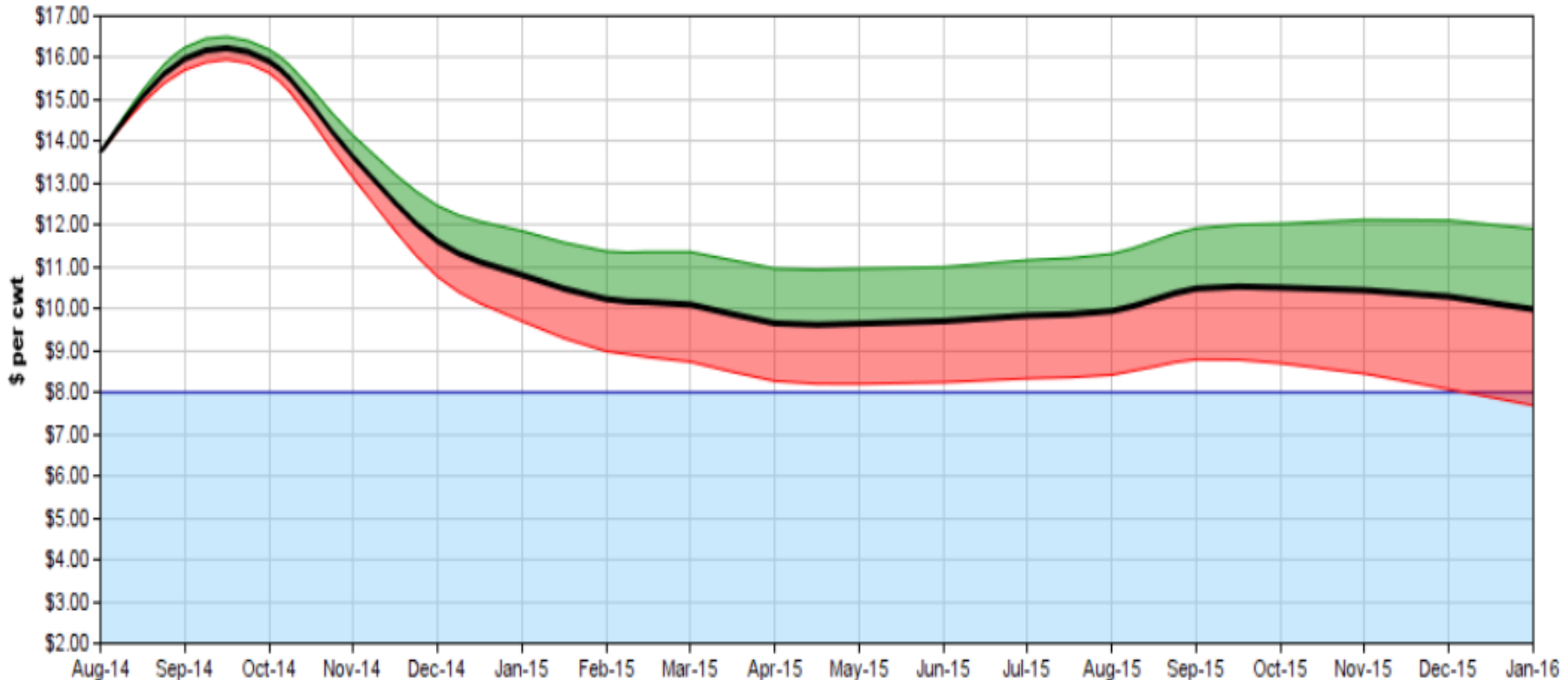
Lessons from the Decision Tools

- To evaluate individual ARC, run one scenario with the “best” individual choices for your crops, and a second scenario for ARC-IN.
 - In the sample cases I have run, ARC-IN is never better.

What about Dairy?

- Enrollment decision in Market Protection Program (MPP) due December 5. (Friday).
- You can choose:
 - Basic (\$4.00) free margin protection for 2015 (\$100 flat fee).
 - Higher protection (up to \$8.00) for 2015 with a premium.
 - No enrollment for 2015, with the option of entering the program in 2016.

Forecasted margin based on futures prices in late October 2014.



Source: Thraen, Ohio State, Buckeye Dairy News.

<http://dairy.osu.edu/bdnews/Volume%2016%20issue%205%20files/Volume%2016%20Issue%205.html>



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Probability of an MPP payment during 2015.

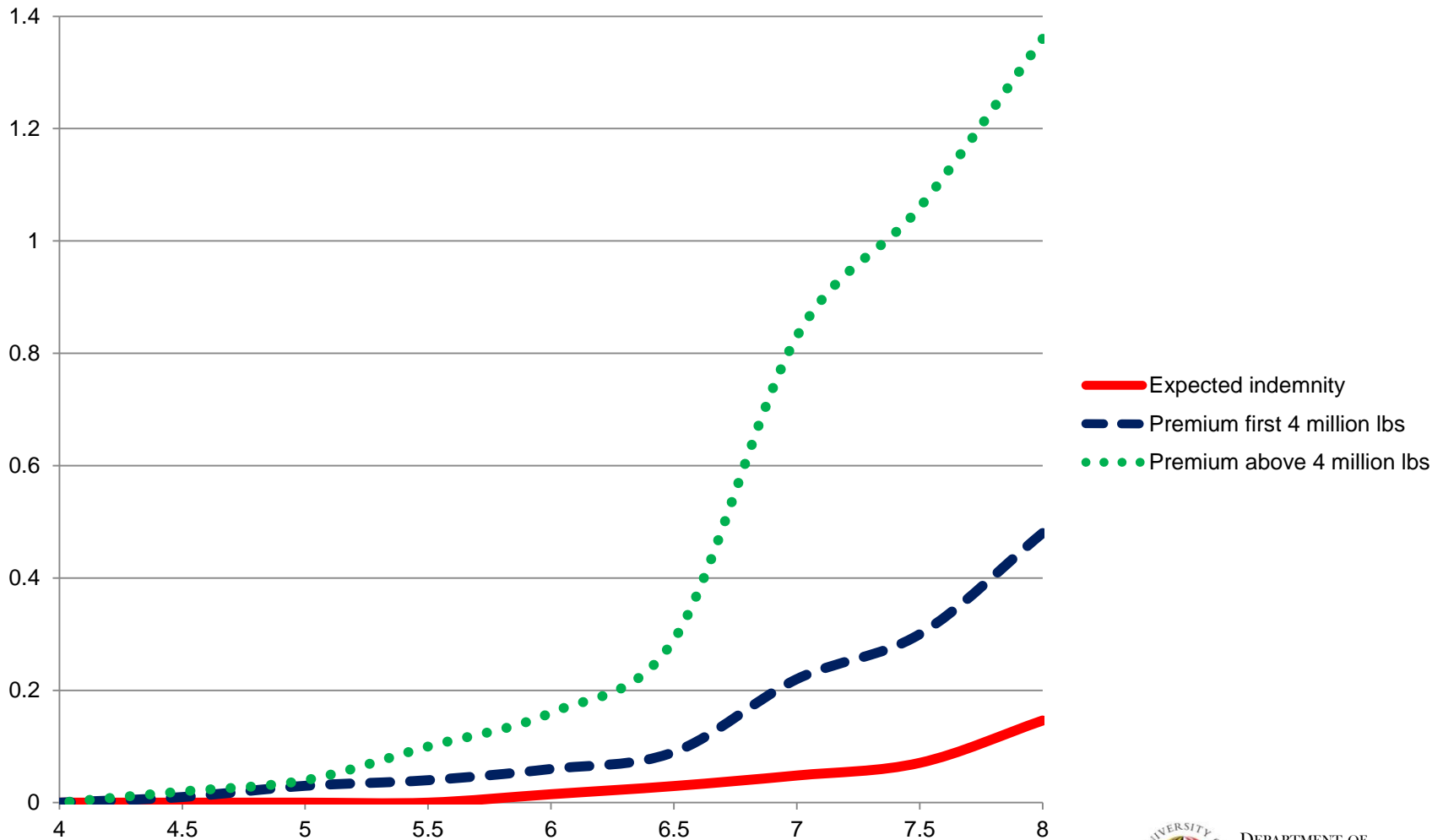
Margin Level	Sep-Oct 2014	Nov-Dec 2014	Jan-Feb 2015	Mar-Apr 2015	May-Jun 2015	Jul-Aug 2015	Sep-Oct 2015	Nov-Dec 2015
Expected	\$15.95	\$12.62	\$10.52	\$9.88	\$9.68	\$9.89	\$10.50	\$10.37
< \$8.00	-	-	5%	16%	20%	19%	14%	21%
< \$7.50	-	-	2%	10%	13%	12%	9%	15%
< \$7.00	-	-	1%	5%	8%	7%	5%	10%
< \$6.50	-	-	-	2%	4%	3%	3%	6%
< \$6.00	-	-	-	1%	2%	1%	1%	4%
< \$5.50	-	-	-	-	1%	1%	-	2%
< \$5.00	-	-	-	-	-	-	-	1%
< \$4.50	-	-	-	-	-	-	-	-
< \$4.00	-	-	-	-	-	-	-	-

Source: Thraen, Ohio State, Buckeye Dairy News.

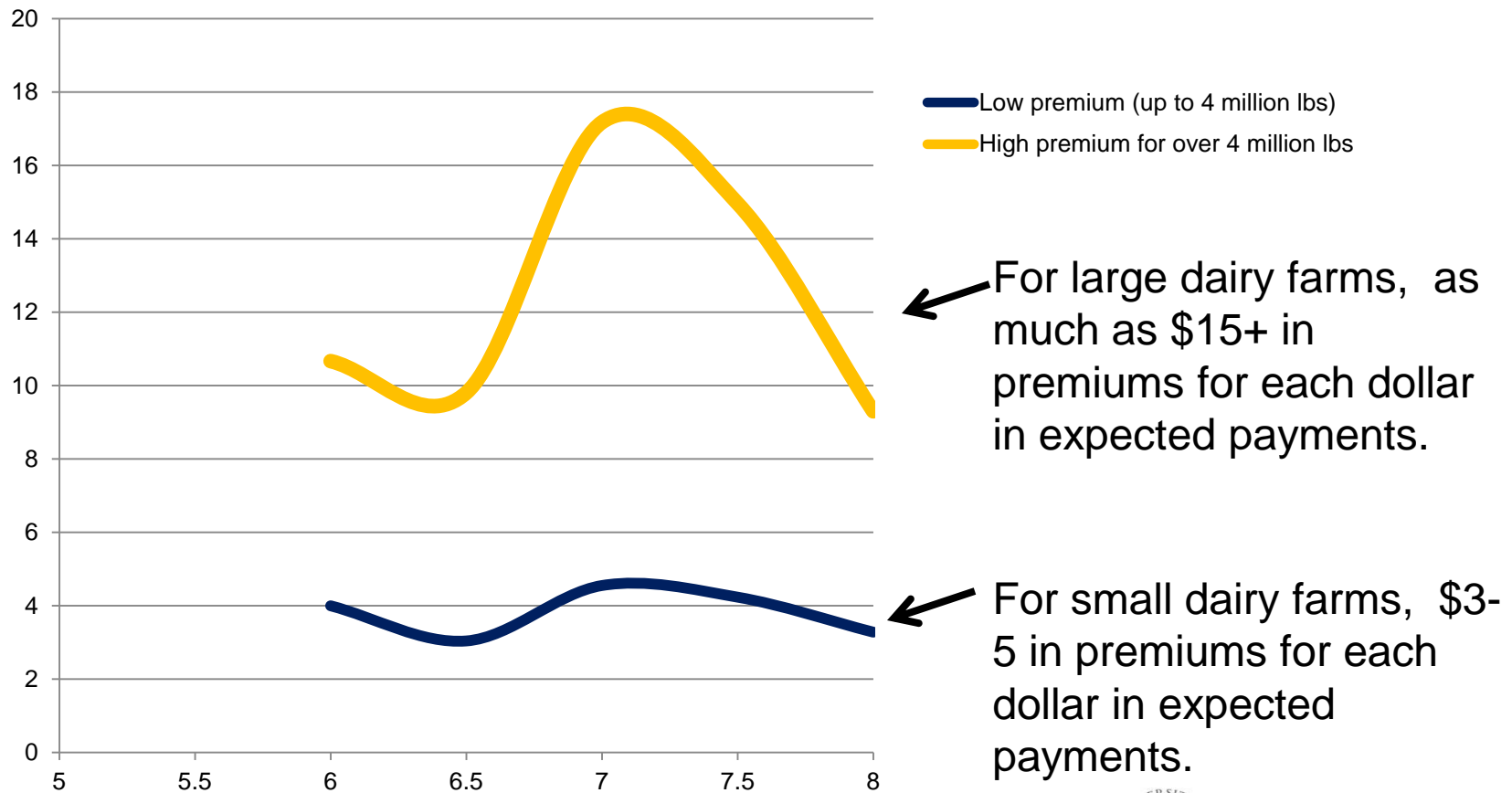
<http://dairy.osu.edu/bdnews/Volume%2016%20issue%205%20files/Volume%2016%20Issue%205.html>



For 2015, premiums are much higher than expected indemnities.



Dollars spent in premiums for each dollar of expected indemnity payment, 2015, at different levels of coverage.



For coverage levels less than \$6, there is zero expected indemnity payment.

