Farm Bill Decision Making: Supplemental Coverage Option

Why it is essential to have a good risk management Plan
- Crop Production is risky business
- Each producer is personally responsible to develop their risk management plan

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Farm Bill Safety Nets

- A farmer can choose Crop Insurance or NAP (if crop insurance is not available) but they must also make a decision to choose PLC or ARC (PLC will be default if no choice is made) for crops that have an acreage base at FSA.

- ARC, PLC and NAP are administered and delivered by FSA. *If Individual ARC is chosen it applies to all program crops.

- SCO is only available for crops with PLC; administered by RMA, the premium is subsidized at a fixed 65%.
Likely Flow of Decision Making

Farmer's Choices

- PLLC by crop will be default if no ARC choice made
- County ARC by crop
  - Crop Insurance
  - NAP
  - Crop Insurance
  - NAP
  - Crop Insurance
  - NAP
- Individual ARC applies to all crops

Crop Insurance

NAP

SCO

Most Producers will need more Protection than ARC

If farmers think ARC will replace their crop insurance coverage revenue protection (RP), then they are missing the point.

Farmers who drop their crop insurance coverage and depend on ARC will have about 92.5% of their expected revenue uninsured.

The amount of their uninsured crop revenue will increase if the harvest time price increases.

Also, if farmers have crop acres with no base or planted in excess of base, then ARC coverage is also reduced compared to RP, because RP covers all planted acres, not just the base acres.

Dr. Art Barnaby, Extension Economist, Kansas State University
Comparing County and Individual ARC with Crop Insurance vs NAP

Example of acres covered when Planted acres meet or exceed base acres under County vs Individual ARC
Planted acres 100 150 200
acres covered under County ARC (150% of base acres) 85 115 200
acres covered under Individual ARC (150% of base acres) 85 115 200
acres not covered 15 65 100
% acres covered 65% 77% 90%
% acres not covered 35% 23% 10%

8/14/2014

Manage Your Crop Risks

Protection Plans for general field crops with FSA base acres:
- County and Individual Area Revenue Coverage (ARC)
- Provides protections for up to 85% or 80% of revenue losses between 10% and 80% of historical revenue for eligible crops for crops with FSA base acres (maximum payment of 65% or 85% respectively)
- This protection is available at no cost to you.

Price Loss Coverage (PLC)
- Provides protection when market prices are less than reference prices for crops with FSA base acres.
- This protection is available at no cost to you.

USDA's Crop Loss Protection Tools

Protection Plans for almost all crops and some livestock:
- Provides protection not covered by the ARC or PLC programs.
- Can significantly reduce risk exposures to manageable levels to minimize financial interruptions when disasters occur.
- Provided with federal cost sharing to make the protection more affordable.

Crop Insurance Protection is available:
- For up to 75% of your yield history (85% for some crops) on many crops and some livestock.
- Whole Farm Revenue Protection also available.
- New Farm Bill has added improvements, including benefits for new/beginning and organic producers.

Non-Insured Crop Assistance Program (NAP)
- New Farm Bill has added improvements.
- Provides similar protection as crop insurance for most crops, at up to 65% of your yield history when a crop insurance policy is not available. (NAP coverage is available from your county FSA office.)

Information is available from:
Crop Insurance Agents
http://www.nrcs.usda.gov/eng/aem/cropinsuranceagents/
http://www.fsa.usda.gov/
County Farm Service Agency Offices (FSA/USDA)
http://www.fsa.usda.gov/

8/14/2014

Claim Calculation Illustration
* per acre 100% ownership share

Yield Protection
Hybrid Tomatoes

<table>
<thead>
<tr>
<th>Field Crops</th>
<th>Lower Price at Harvest Time</th>
<th>Higher Price at Harvest Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>144</td>
<td>134</td>
<td>144</td>
</tr>
<tr>
<td>75%</td>
<td>Coverage % Level</td>
<td>72%</td>
</tr>
<tr>
<td>33</td>
<td>Yield guarantee</td>
<td>111</td>
</tr>
<tr>
<td>$10,000</td>
<td>Guaranteed Payment</td>
<td>$12,150</td>
</tr>
<tr>
<td>$10,000</td>
<td>Actual Yield</td>
<td>10,000</td>
</tr>
<tr>
<td>7</td>
<td>Net Income</td>
<td>40</td>
</tr>
</tbody>
</table>

$10,000 | Projected Profit | $10,000 | $10,000 |
$10,000 | Adjusted Loss Payment | $10,000 | $10,000 |
$10,000 | Projected Loss | $10,000 | $10,000 |
$10,000 | Loss Payment | $10,000 | $10,000 |

Yield Protection
Hybrid Tomatoes

170 | Projected Yield - Cents
65% | Coverage % Level
110.50 | Yield Guarantee
30.75 | Yield Produced
99.75 | Yield Loss
$74.00 | Projected Price
120% | Price Percentage
$7,760.50 | Loss Payment

8/14/2014
### Comparative Reference Table: Key Parameters by Crop Program Option, 2014 U.S. Farm Bill

<table>
<thead>
<tr>
<th>Item</th>
<th>PLC Price Loss Coverage</th>
<th>IND Price Loss Coverage</th>
<th>IND Price Loss Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decision Framework</td>
<td>Same For All 3 Options</td>
<td>Same For All 3 Options</td>
<td>Same For All 3 Options</td>
</tr>
<tr>
<td>(1) Option existed for 5 years covering 2014-16 crop years</td>
<td>(2) Decision made in 2014</td>
<td>(3) All PLC payment entities must make same choice or lose payment for 2014 crop and forced into PLC in 2015</td>
<td></td>
</tr>
<tr>
<td>Decision Tool</td>
<td>Individual program crop on individual PSA farm</td>
<td>Individual program crop on individual PSA farm</td>
<td>Individual program crop on individual PSA farm</td>
</tr>
<tr>
<td>Payment Acres</td>
<td>65% of program crop base acres on a PSA farm (base acres are those on which crops are planted)</td>
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</tr>
<tr>
<td>Base Acres</td>
<td>Same For All 3 Options: Participants may reallocate base acres and update yields</td>
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</tr>
<tr>
<td>Payment Method</td>
<td>For a program crop, U.S. market year average price is less than or equal to reference price</td>
<td>For a program crop, actual revenue is less than or equal to reference revenue</td>
<td>For a program crop, actual revenue is less than or equal to reference revenue</td>
</tr>
<tr>
<td>Payment Yield</td>
<td>XXXXXX</td>
<td>XXXXXX</td>
<td>XXXXXX</td>
</tr>
<tr>
<td>Reference Price</td>
<td>(See Table 1)</td>
<td>(See Table 1)</td>
<td>(See Table 1)</td>
</tr>
<tr>
<td>Revenue Guarantee</td>
<td>XXXXXX</td>
<td>80% of program crop revenue benchmark (equals prior 5-year Olympic average times high and crop yield over prior 5-year Olympic average times crop-year price times 0.85 + 0.10)</td>
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<tr>
<td>Payment Range</td>
<td>Reference price minus loan rate</td>
<td>Minimum of 30% of program crop revenue benchmark</td>
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</tr>
<tr>
<td>Loss Rate</td>
<td>XXXXX</td>
<td>XXXXX</td>
<td>XXXXX</td>
</tr>
<tr>
<td>Supplemental Insurance Coverage Option</td>
<td>Same For All 3 Options:</td>
<td>Same For All 3 Options:</td>
<td>Same For All 3 Options:</td>
</tr>
<tr>
<td>Coverage Percentage</td>
<td>$125,000 per legal entity</td>
<td>$250,000 for persons and spouses: limit excludes gains from forfeiting non-insurance crops, separate limit for parents</td>
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<td>AGI</td>
<td>Same For All 3 Options:</td>
<td>AGI adjustments apply to entities with an AGI adjusted gross income from farm and non-farm sources</td>
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</tbody>
</table>

### Table 1: Comparison of CCP and PLC Price Support Levels

<table>
<thead>
<tr>
<th>Commodity</th>
<th>2014 Farm Bill Reference Price</th>
<th>2006 Farm Bill Target Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>$5.50/bu</td>
<td>$4.17/bu</td>
</tr>
<tr>
<td>Corn</td>
<td>$3.70/bu</td>
<td>$2.65/bu</td>
</tr>
<tr>
<td>Soybeans</td>
<td>$3.90/bu</td>
<td>$2.65/bu</td>
</tr>
<tr>
<td>Cotton</td>
<td>$4.90/bu</td>
<td>$2.65/bu</td>
</tr>
<tr>
<td>Cotton Premium</td>
<td>$2.40/bu</td>
<td>$1.78/bu</td>
</tr>
</tbody>
</table>

Information Source: [http://farmdocdaily.illinois.edu/2014/02/2014-crop-safety-net-decision-key-considerations.html](http://farmdocdaily.illinois.edu/2014/02/2014-crop-safety-net-decision-key-considerations.html)

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**The "Sum of the Parts" - Protection for YOUR Farm**

Each producer is personally responsible to develop a risk management plan for their farm(s) before enrollment deadlines. USDA provides tools for your consideration.

- **Price Loss Coverage (PLC)** available in lieu of ARC on Program crops with base acres at FSA
- **Comparison of PLC and CCP Price Support Levels**

### National Crops

<table>
<thead>
<tr>
<th>2014 Farm Bill Reference Prices</th>
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<tr>
<td>Wheat</td>
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</table>

**Supplemental Coverage Option (SCO) available on an expanding number of crops (not available on crops enrolled in ARC). SCO provides area loss coverage between 60% and the Individual policy coverage @65% premium subsidy.**

Is YOUR Risk Management Plan Adequate to Manage a Disaster Related Business Interruption?
## Producers Crop Safety Net Worksheet

Obtain Farm Bill Safety Net Options and advice from crop insurance agents, your county Farm Service Agency office, NRCS Representatives and Penn State Extension Ag Educators.

<table>
<thead>
<tr>
<th>Crops I Plan to Grow</th>
<th>Estimated Input Costs</th>
<th>Estimated Expected Revenue</th>
<th>Protection Choices Available</th>
<th>Protection Choice I’m Considering</th>
<th>Notes</th>
</tr>
</thead>
</table>

How much risk exposure do I have?
What should my ideal safety net accomplish?

- Cover production costs?
- Cover preharvest sales contract?
- Replace livestock feed?
- Make a rent or mortgage payment?
- Contribute to family living expenses?
- Secure Ag Loans?
- Other?

How much protection do I need?
Do I prefer revenue protection or yield protection?
At what percentage of crop loss should my payment trigger?

Am I likely to enroll in: ARC - County Loss Trigger, ARC - Individual Farm Loss Trigger or PLC Price Protection Program (binding 5 year commitment for crops with PSA base acres)?

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**Is MY Risk Management Plan Adequate to Avoid a Disaster Related Business Interruption?**

**The alternative to having crop insurance.**

Call an agent today.