

Building your 2015 Risk Mgt. Plan

Using Farm Bill Programs The “Sum of the Parts” = Protection for Your Farm

by

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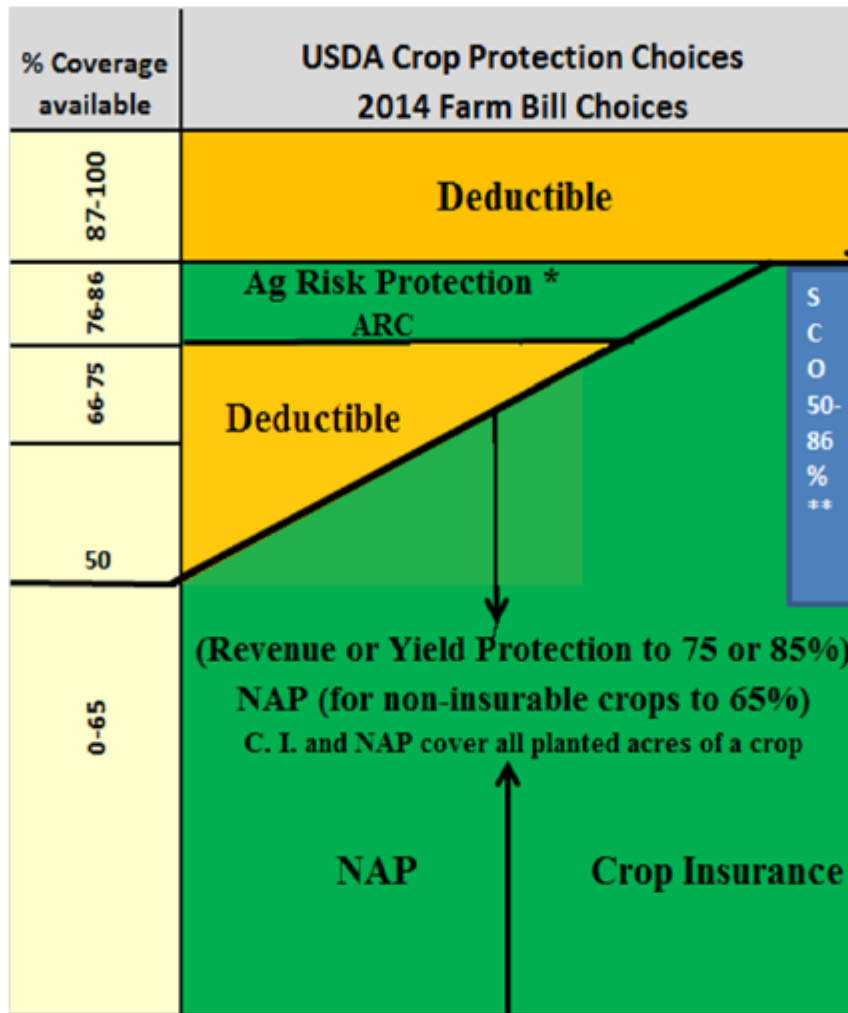
The "Sum of the Parts" - Protection for YOUR Farm

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* Comparison of PLC and CCP Price Support Levels

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Is YOUR Risk Management Plan Adequate to Manage a Disaster Related Business Interruption?

Farm Bill Safety Nets

- A farmer can choose Crop Insurance or NAP (if crop insurance is not available) but then must also make a decision to choose PLC or ARC (PLC will be default if no choice is made).
- 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%.

Manage Your Crop Risks

Each producer is personally responsible for developing a risk management plan for their farm(s) before the enrollment deadlines.

Information is available from:

Crop insurance Agents

<http://www.rma.usda.gov/tools/agent.html>

<http://www.fsa.usda.gov/>

❖ Protection Plans for general field crops with FSA base acres:

♦ County and Individual Area Revenue Coverage (ARC)

- Provides up to 65% or 85% of revenue losses between 76% and 86% of historical revenue for eligible crop losses for crops with FSA base acres (maximum payment of 6.5% or 8.5% 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 foundation protection is available at no cost to you.

❖ Protection Plans for almost all crops and some livestock:

- Provide 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.)

Claim Calculation – Yield vs. Revenue Protection for Field Crops
*per acre 100% ownership share illustration for educational purposes

Field Crops (barley, grain corn, grain sorghum, soybeans and wheat)		Revenue Protection Lower Price@	
Yield Protection		Lower Price at Harvest Time	Higher Price at Harvest Time
148	Approved Yield	148	148
75%	Coverage % Level	75%	75%
111	←Yield guarantee/ Yield base for revenue calculation →		
	Projected Price	\$4.60	\$4.60
	Revenue Guarantee (minimum)	\$510.60	\$510.60
	Est. Harvest Time Price **	4	5.05
	Est. Harvest Time Guarantee **	N/A	\$60.55
40	Yield Produced	40	40
71	Yield Loss		
\$4.60	←Projected Price/ Value of Yield Produced →		
	Value of Yield Produced →	\$160.00	\$202.00
\$326.60	Estimated Loss Payment	\$350.60	\$358.55

** Harvest time typically determined from the monthly average of the daily closing prices from the appropriate Board of Trade harvest time contract, just prior to the harvesting completion of the crop, see insurance policy for details.

Information Sources: FSA and RMA Fact Sheets

Claim Calculation Illustration
*per acre 100% ownership share
for educational purposes

Yield Protection	Hybrid Tomatoes
170	Approved Yield – Cwts
65%	Coverage % Level
110.50	Yield Guarantee
10.75	Yield Produced
99.75	Yield Loss
\$78.00	Projected Price
100%	Price Percentage
\$7,780.50	Loss Payment

Information Sources: FSA and RMA Fact Sheets



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Crop Insurance Improvements authorized by the Farm Bill continued

1. **More coverage options – Many are listed below**
2. **Improved NAP Protection** (Non-insured crop disaster Assistance Program from FSA) provides up to 65 percent level of coverage and 100 percent of projected price for most non-insurable crops
3. **Enterprise insurance units** authority changed from a temporary to a **permanent** program
4. **Separate enterprise insurance units for irrigated and non-irrigated crops**
5. **Different coverage levels by practice** may be selected if producer has both irrigated and **non-irrigated** production practices
 - A. Improved Organic Protection
 - B. Organic elections availability for more crops
 - C. Extended for organic price coverage – for 2014, to eight additional crops (oats, peppermint, apricots, apples, blueberries, almonds, pears, and grapes for juice) to a total of sixteen (producer has the option of using organic or conventional prices)
RMA has removed the 5 percent premium surcharge for organic price options

Crop Insurance Improvements Authorized by the Farm Bill

6. New benefits for being beginning farmers

- A. Additional 10 percentage points of premium subsidy for additional coverage policies (buy-up) that have premium subsidy;
- b. Exemption from paying the administrative fee for catastrophic (CAT) and additional coverage (buy up) level policies;
- c. Use of the production history of farming operations, if BFs were previously involved in the decision making or physical activities; and
- d. increase in the substituted yield for yield adjustment, which allows a replacement of a low yield due to an insured cause of loss, from 60 to 80 percent of the applicable transitional yield (T-Yield) for the crop in the county.

7. New T-Yield Options (expected for 2016 crop year) - When a crop in a county suffers over a 50 percent yield loss, producers in that county and adjacent counties may omit their yield for that year's production. For this provision, the Federal Crop Insurance Corporation may make a separate determination for irrigated and non-irrigated acreage. Note: The current 60% yield plug is retained for replacing low APH yields (80% yield plug for new and beginning farmers).

8. New improved whole-Farm Revenue Protection - A whole-farm insurance policy is expected to be available that combines AGR and AGR-Lite with improvements to target highly diversified farms selling 2-5 commodities to wholesale markets.

9. Supplemental Coverage Option (SCO) - An option to buy area/county loss trigger insurance to cover yield or revenue loss (depending on the coverage in effect of the individual policy. The level of coverage is between 86% and coverage of individual policy. Premium is subsidized at 65% subsidy. SCO covers all planted acres with no payment limitation (not available for crops covered by ARC.) SCO coverage will be available in counties that meet the RMA actuarial data requirements beginning with 2015 wheat.

Note: This unofficial document is a bullet summary for educational purposes. More complete details are located at: www.rma.usda.gov, www.fsa.usda.gov, and www.rma.usda.gov/news/currentissues/farbill/index.html

**Comparative Reference Table:
Key Parameters by Crop Program Option, 2014 U.S. Farm Bill**

Item	PLC (Price Loss Coverage)	County ARC (Ag Risk Coverage)	Individual ARC (Ag Risk Coverage)
Decision Framework	<i>Same For All 3 Options:</i> (1) One option elected for 5 years covering 2014 -18 crop years; (2) Election made in 2014; (3) All FSA farm payment entities must make same choice or lose payment for 2014 crop and forced into PLC in 2015		
Decision Unit	Individual program crop on individual FSA farm	Individual program crop on individual FSA farm	all program crops on an individual FSA farm
Payment Acres (generic base is former cotton base)	85% of program crop base acres on a FSA farm plus generic base acres planted to program crop	85% of program crop base acres on a FSA farm plus generic base acres planted to program crop	65% of all program crop base acres on all FSA farms the payment entity elected for individual ARC in the state plus generic base acres planted to any program crop
Base Acres	<i>Same For All 3 Options: participants may reallocate base acres and update yield</i>		
Payment Made When	for a program crop, U.S. market year average price is less than reference price	for a program crop, actual revenue is less than ARC revenue guarantee	for whole program crop farm of payment entity, actual revenue is less than all farm ARC revenue guarantee
Payment Yield	FSA farm current counter- cyclical yield OR 90% of FSA farm average plant yield for 2008-12 crops	XXXXXX	XXXXXX
Reference Price	(see table 1)	XXXXXX	XXXXXX
Revenue Guarantee	XXXXXX	86% of program crop revenue benchmark [equals prior 5 year Olympic average (remove high and low) of county yield times prior 5 year Olympic average US crop year price x 85% x 10%]	86% of whole program crop farm revenue benchmark [equals sum of revenue benchmark for each program crop on all FSA farms in the state of operator weighted by crop's share of total program acres x 65% x 10%]
Payment Range	reference price minus loan rate	Maximum of 10% of program crop revenue benchmark	Maximum of 10% of whole program crop farm revenue benchmark
Loan Rate	<i>Same For All 3 Options: current rates (see table 1)</i>		
Supplemental Insurance Coverage Option	SCO if available is option to buy county insurance to cover yield or revenue loss between 86% and coverage of individual policy; 65% subsidy (covers all planted acres/no payment limitation)	SCO not available	SCO not available
Payment Limit	<i>Same For All 3 Options:</i> \$125,000 per legal entity; \$250,000 for person and spouse; limit excludes gains from forfeiting nonrecourse loans; separate limit for peanuts		
AGI Limit	<i>Same For All 3 Options:</i> benefits denied to payment entities with an AGI (adjusted gross income from farm and nonfarm sources) over \$900,000		

Information Source: <http://farmdocdaily.illinois.edu/2014/02/2014-crop-safety-net-decision-key-considerations.html>

Table 1. Comparison of CCP and PLC Price Support Levels

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Wheat	\$5.50/bu	\$4.17/bu
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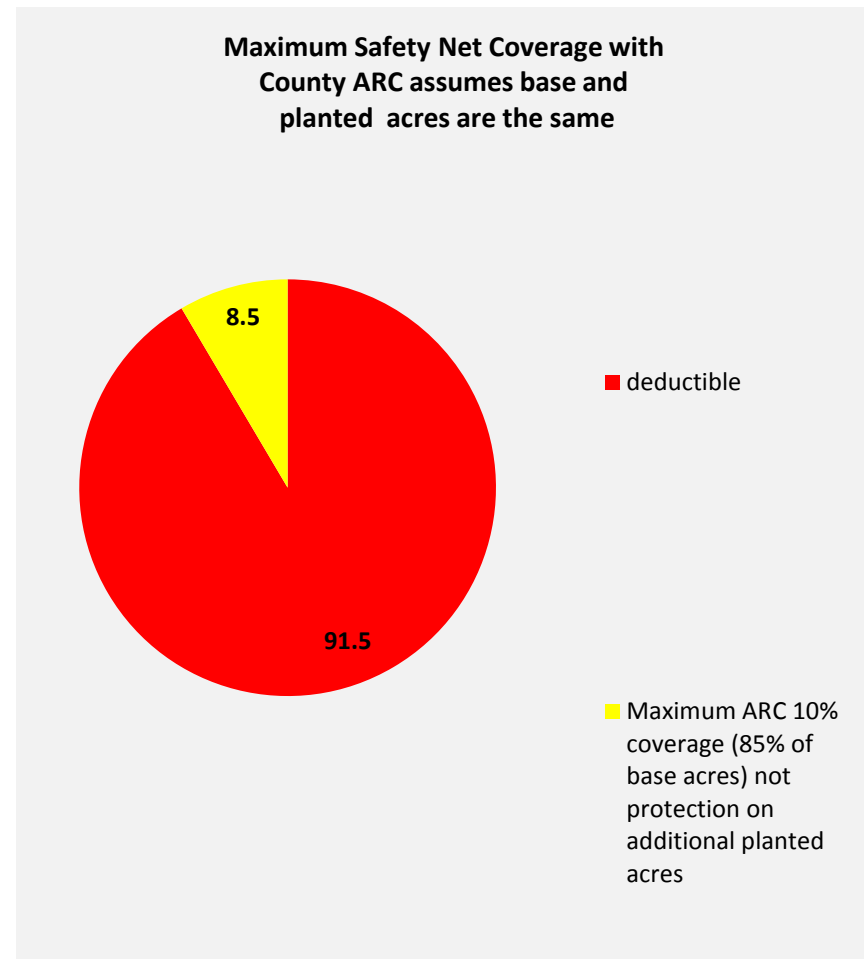
Is Your Risk Management Plan Adequate to Manage a Disaster?



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How much of your risk is covered by ARC/PLC?

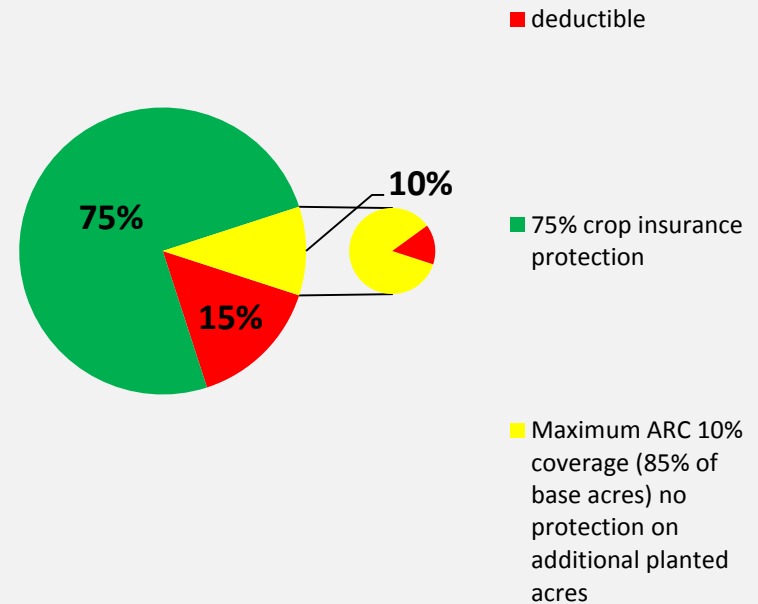
- County ARC:
 - Covered losses are 10% max. on 85% of Base Acres
 - Estimated coverage about 8.5% of producer's expected revenue, if planted acres equal base acres
 - Payment made after end of market year



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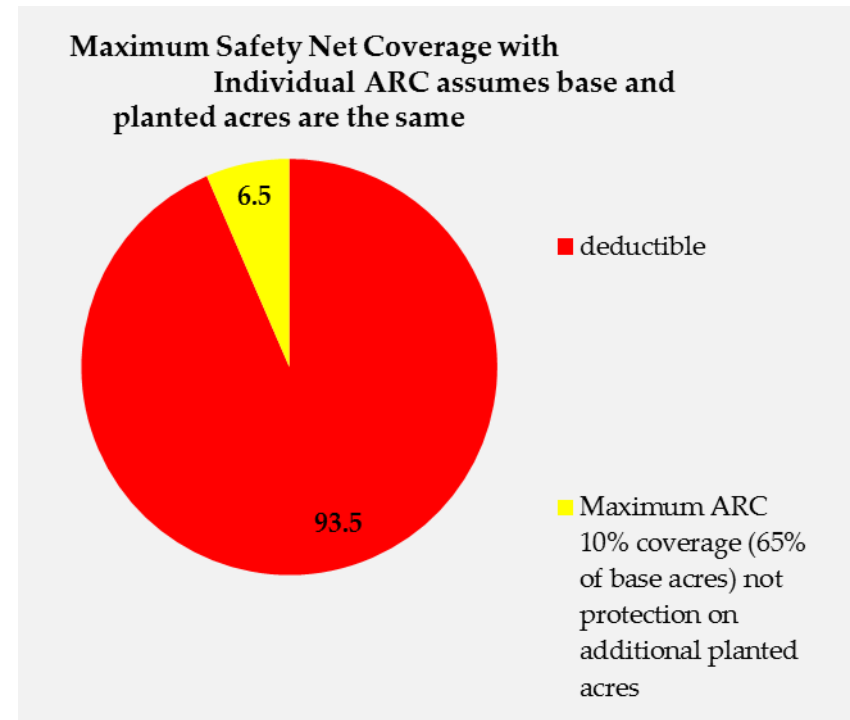
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Safety Net Coverage with Crop Insurance and County ARC
County ARC triggers at **County** level
assumes base and planted acres are the same



How much of your risk is covered by ARC/PLC?

- Individual ARC:
 - Covered losses 10% max. on 65% of Base Acres
 - Includes Producer's crops from anywhere in state
 - Estimate coverage about 6.5% of producer's expected revenue if planted acres equal base acres
 - Payment made after end of market year



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

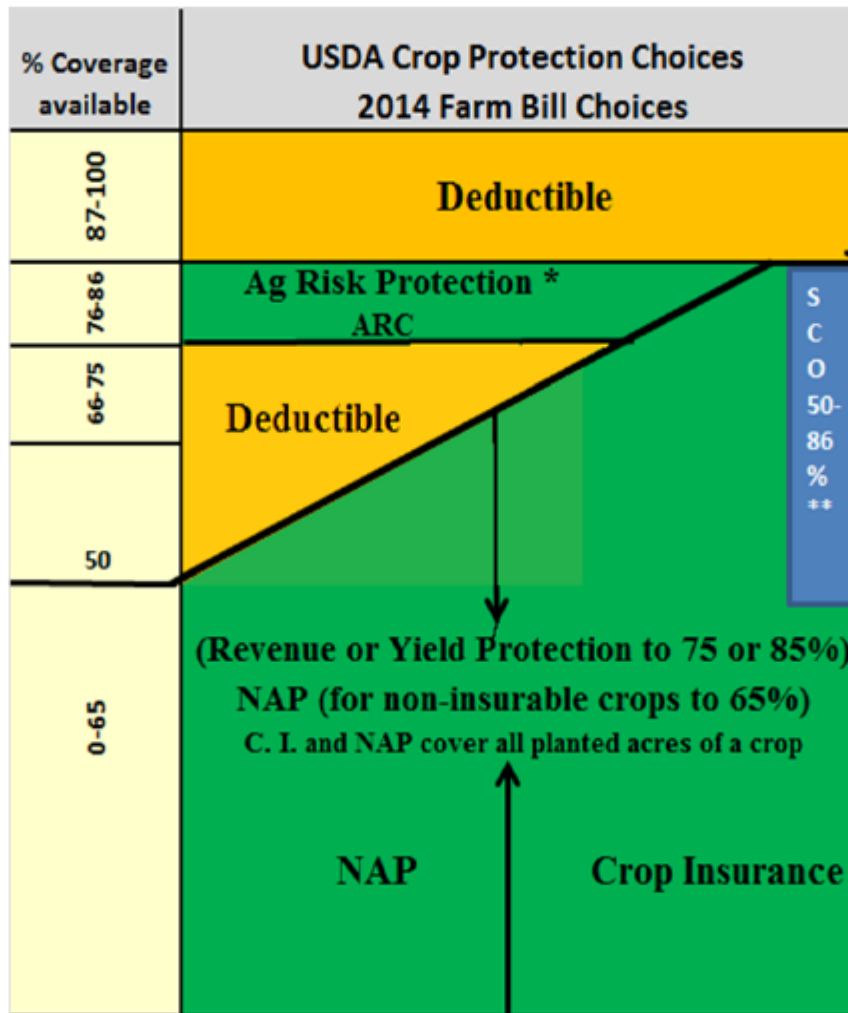
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Producers Crop Safety Net Worksheet

By utilizing the table we are getting a handle on the information needed to respond to the following questions:

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.

Crops I Plan to Grow	Estimated Input Costs	Estimated Expected Revenue	Protection Choices Available	Protection Choice I'm Considering	Notes
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 FSA base acres)?					

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?



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

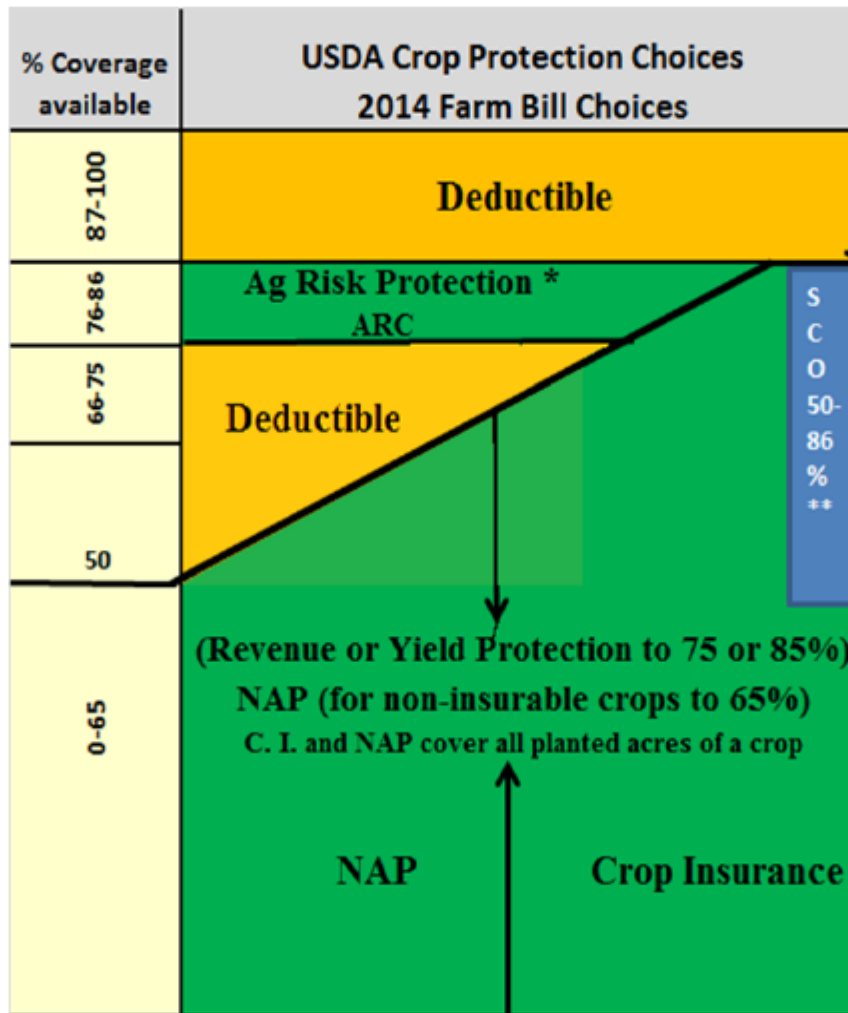
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How Good is your Risk Management Plan ?

What do you want YOUR Crop Insurance Based Risk Management Plan to do For YOU when disasters occur?

- **Protect crop value \$? A.**
- **Protect input cost \$? A.**
- **Protection to secure operating loan (security) \$?**
- **\$\$ To replace livestock feed \$?**
- **\$\$ Buy-out preharvest sales contracts \$?**
- **Strengthen the business plan and avoid an income interruption \$?**

At what percent of crop damage do you need a loss claim to trigger? _____%

Risk Management Check Up

Will YOUR 2015 Risk Management Plan be Adequate to Manage 2015 Risks?

(Increasing Input Costs, Prices & Weather Volatility)

Individual farm details available from crop ins. agents, list available at:
www3.rma.usda.gov/apps/agents/



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**The alternative to
having crop insurance.**



Call an agent today.