NEW FARM BILL CHOICES

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“This institution is an equal opportunity provider.”
Our website:
http://www.arec.umd.edu/extension/crop-insurance
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

<table>
<thead>
<tr>
<th></th>
<th>Market income</th>
<th>Insurance Indemnity</th>
<th>Program payment</th>
<th>SCO Indemnity</th>
<th>Insurance Premium</th>
<th>SCO premium</th>
<th>Total</th>
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<tbody>
<tr>
<td>County ARC + 75% rev. insur</td>
<td>58,300</td>
<td>1,300</td>
<td>5,922</td>
<td>0</td>
<td>2466</td>
<td>0</td>
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<td>PLC + rev. insurance</td>
<td>58,300</td>
<td>1,300</td>
<td>3,905</td>
<td>0</td>
<td>2466</td>
<td>0</td>
<td>61039</td>
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<tr>
<td>PLC + rev. ins. + SCO</td>
<td>58,300</td>
<td>1,300</td>
<td>3,905</td>
<td>7702</td>
<td>2466</td>
<td>1276</td>
<td>67465</td>
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</table>

“Normal” or average wheat income: 200 acres x 65 b/acre x $6.54/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”
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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<th>County</th>
<th>Program yield</th>
<th>ARC-CO payment per acre</th>
<th>PLC payment per acre</th>
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</thead>
<tbody>
<tr>
<td>Joe Calvert</td>
<td>Calvert</td>
<td>70</td>
<td>16.55</td>
</tr>
<tr>
<td>Hank Calvert</td>
<td>Calvert</td>
<td>210</td>
<td>16.55</td>
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</tbody>
</table>
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.

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<td>16.55</td>
</tr>
<tr>
<td>Joe Caroline</td>
<td>Caroline</td>
<td>70</td>
<td>45.84</td>
</tr>
</tbody>
</table>
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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<td>Joe Calvert</td>
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<td>70</td>
<td>16.55</td>
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<tr>
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</table>
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.

http://dairy.osu.edu/bdnews/Volume%2016%20issue%205/files/Volume%2016%20Issue%205.html
Probability of an MPP payment during 2015.

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<td>1%</td>
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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.

For small dairy farms, $3-5 in premiums for each dollar in expected payments.

For large dairy farms, as much as $15+ in premiums for each dollar in expected payments.