

*ARC/PLC and SCO*

*2015 Risk Management Decisions*

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# ARC/ PLC

- Eliminates direct, counter-cyclical and ACRE programs and replaces with farmer choice of PLC (Price Loss Coverage) or ARC (Agricultural Risk Coverage). Farmer can choose area (ARC-CO) or individual (ARC-IC)
- This election will be made for the 2014 crop year in the winter of 2014 and will remain in effect for all crop years through 2018.
- Failure to make or agree to an election for a farm in 2014 will result in the default program designation of “PLC” for the years 2015 through 2018, and eliminate any 2014 payment.
- Choice made commodity-by commodity on a farm but if choose ARC-IC all commodities on the farm must be ARC-IC
- Farm means FSA FSN, except farm means the sum of the producer’s interest in all ARC-IC farms in the State for ARC-IC.

# ARC/ PLC Eligibility Requirements

- AGI eligibility test at \$900,000 3 year average for ARC/ PLC
- Payment limit for PLC/ARC/Loan rate at \$125,000 per individual
- Farmers must meet Conservation Compliance provisions
- Must have at least 10 acres of Base to qualify unless socially disadvantaged or limited resource farmer
- ARC/ PLC not applicable to cotton

# ARC/ PLC

- ARC-CO/ PLC are decoupled – meaning that a farmer does not have to plant the covered crop or base acre to receive the payment. ARC-IC payments based on planted acres.
- No payments before 9/30/2015 for the 2014 crop.
- ARC/ PLC paid on base acres -- one time base acre update/ reallocation to covered commodities planted 2009 – 2012, probably offered in fall of 2014.
- If a farm/ crop is enrolled in ARC, that farm/ crop is not eligible for Supplemental Coverage Option (SCO). Payments are in addition to any crop insurance indemnity – no offset with crop insurance program.

# Base Acres

- In effect on September 30, 2013, will be in effect for the 2014 ARC and PLC programs
- May be reallocated, but **not** increased, on the farm using an average of the acreage of all covered commodities on the farm during the 2009 through 2012 crop years. The option to retain or reallocate base acres is an “all or nothing” proposition. Partial retention of bases or partial reallocation of bases is **not** permissible. Base update available Fall of 2014.
- **Note: Total base acres** on the farm **cannot increase** above the amount of total base acres **in effect on September 30, 2013**.
- Of upland cotton in effect on September 30, 2013, are the basis for Cotton Transition Assistance Payment, and under the 2014 Farm Bill become generic base acres
- May be restored for CRP contracts that expire, are voluntarily terminated, or early released.

# PLC Payment Yields

- PLC yields will either be the commodity's CC yield or the updated PLC yield.
- The farm **owner** has the opportunity to update the PLC program yield for each covered commodity based on 90 percent of the farm's 2008 through 2012 average yield per planted acre, excluding any year when no acreage was planted to the covered commodity.
- If the yield in any of the years 2008 through 2012 is less than 75 percent of the county yield, then 75 percent of the 2008 through 2012 county yield will be substituted for that year.
- The decision to retain either the CC yield or the updated PLC yield is made by the **owner of the farm** and is made on a **commodity-by-commodity** basis. PLC yields may be updated for all farms, regardless of program election. Yield update Fall of 2014.

# Price Loss Coverage

- Similar to current Counter-cyclical Program
- 85% base acres (30% prevented planted acres)
- Commodity-by-Commodity choice, not available for cotton
- $\text{PLC Payment} = (\text{Reference Price} - 12 \text{ Month National Ave Marketing Price}) * \text{Yield} * 85\% \text{ of Base Acres}$

## PLC Reference Prices

<b>Crop</b>	<b>Reference Prices</b>	<b>National Loan Rates</b>	<b>Maximum PLC Rate</b>
Barley	\$4.95 per bu.	\$1.95 per bu.	\$3.00 per bu.
Chickpeas,			
Large	\$21.54 per cwt.	\$11.28 per cwt.	\$10.26 per cwt.
Small	\$19.004 per cwt.	\$7.43 per cwt.	\$11.61 per cwt.
Corn	\$3.70 per bu.	\$1.95 per bu.	\$1.75 per bu.
Dry Peas	\$11.00 per cwt.	\$5.40 per cwt.	\$5.60 per cwt.
Grain Sorghum	\$3.95 per bu.	\$1.95 per bu.	\$2.00 per bu.
Lentils	\$19.97 per cwt.	\$11.28 per cwt.	\$8.69 per cwt.
Oats	\$2.40 per bu.	\$1.39 per bu.	\$1.001 per bu.
Canola	\$20.15 per cwt.	\$10.09 per cwt.	\$10.06 per cwt.
Crambe	\$20.15 per cwt.	\$10.09 per cwt.	\$10.06 per cwt.
Flaxseed	\$11.28 per bu.	\$5.65 per bu.	\$5.63 per bu.
Mustard	\$20.15 per cwt.	\$10.09 per cwt.	\$10.06 per cwt.
Rapeseed	\$20.15 per cwt.	\$10.09 per cwt. \$	10.06 per cwt.
Safflower	\$20.15 per cwt.	\$10.09 per cwt.	\$10.06 per cwt.
Sesame Seed	\$20.15 per cwt.	\$10.09 per cwt.	\$10.06 per cwt.
Sunflower	\$20.15 per cwt.	\$10.09 per cwt.	\$10.06 per cwt.
Peanuts	\$535.00 per ton	\$355.00 per ton	\$180.00 per ton
Rice			
Long Grain	\$14.00 per cwt.	\$6.50 per cwt.	\$7.50 per cwt.
Medium Grain	\$14.00 per cwt.	\$6.50 per cwt.	\$7.50 per cwt.
Soybeans	\$8.40 per bu.	\$5.00 per bu.	\$3.40 per bu.
Wheat	\$5.50 per bu.	\$2.94 per bu.	\$2.56 per bu.



# ARC-CO

- Farm/ commodity specific choice
- Benchmark Revenue = Olympic Ave 5 most recent years area yield \* Olympic Ave 5 most recent years National Marketing Price – can plug reference price if higher in any given year when calculating price
- Actual Revenue = Area yield \* National 12 Month Average Market Price
- ARC Area Payment = 86% of Benchmark Revenue – Actual Revenue \* 85% of Base not to exceed 10% of Benchmark Revenue and payment limit

# ARC-IC

- All commodities on a farm
- Can separate for non-irrigated v. irrigated
- The farm for individual ARC purposes is the sum of the producer's interest in all ARC-IC farms in the State.
- Benchmark Revenue = Olympic Ave 5 most recent years individual planted yield \* Olympic Ave 5 most recent National Marketing Price summing across all crops on the farm – can plug reference price if higher in any given year when calculating price, and can plug yield with 70% T-yield

# ARC Individual Coverage

- Actual Revenue = actual planted yield \* National 12 Month Average Market Price summing across all crops on the farm
- ARC-IC Payment = 86% of Benchmark Revenue – Actual Revenue \* 65% of Base not to exceed 10% of Benchmark Revenue and payment limit

# ARC/PLC 2014 Price Comparison

Reference Price	Unit	ARC 2014 Projected	PLC
Wheat	\$/bu	6.87	5.50
Corn	\$/bu	4.55	3.70
Oats	\$/bu	3.73	2.40
Barley	\$/bu	6.05	4.95
Sorghum	\$/bu	4.30	3.95
Soybeans	\$/bu	13.10	8.40
ARC Price Projection Source: FSA			

ARC prices may/ will change as a result of moving Olympic Average formula, PLC are set by Statute

# Decisions, Decisions

- ARC or PLC – Revenue v Price
- If ARC, individual or area
- Is/ should SCO be a factor when deciding?
- How involved agents/ FSA offices in decision?
- FSA has provided \$6 million to universities to build decision support tools/ outreach material

# Crop Insurance Title Highlights

- No provisions effective for 2014
  - No AGI Test
- Starting in 2015
  - Supplemental Coverage Option (SCO)
  - Stacked Income Protection (STAX)
  - Reattaches Conservation Compliance Certification to Crop Insurance purchase but forward looking only

# Crop Insurance Title Highlights

## ■ Starting in 2015

- 6 State Sodsaver Provision – ND, SD, MN, IA, MT and NE
- Rerate CAT
- Ability to correct errors
- Beginning farmer provisions
- Information sharing w/ FSA and Publication of Rebating Violations
- Separate coverage by practice

## ■ Starting in 2016

- APH – allow drop yields if actual county yield is 50% below 10 year county average yield, contiguous counties qualify

# What is SCO?

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- SCO provides area-based coverage for a portion of your insurance deductible
- SCO is an endorsement to the following plans
  - Yield Protection (YP)
  - Revenue Protection (RP)
  - Revenue Protection with the Harvest Price Exclusion (RP-HPE)
- The endorsement will be available in select counties for barley, corn, soybeans, wheat, sorghum, cotton, and rice starting with the 2015 crop year



# SCO Availability in MD

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- Corn & Soybeans most counties except far western counties
- Wheat – some counties

# What is SCO?

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- Must be purchased with an underlying individual crop policy
- Liability (max payout) based on expected crop value for the individual grower
  - But the amount paid out is based on how well the county does
  - Payment generally occurs later than for individual policy
    - Based on when county data becomes available
    - Similar to Area Risk Protection Insurance (ARPI)
- 65% premium subsidy
  - Regardless of coverage level of the underlying policy

# Overview of SCO

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- SCO coverage type follows underlying plan of insurance
  - If underlying policy is yield-based (YP or APH), SCO also provides yield coverage
  - If underlying policy is revenue-based (RP or RP-HPE), SCO provides revenue coverage
- Separate Premium and Administrative Fees for SCO by crop/county
  - In addition to fees for underlying individual policy
- Separate insurance offers by irrigation practice (where actuarially sound)
  - Follows underlying policy

# Overview of SCO

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- The amount of SCO coverage depends on the liability, coverage level, and approved yield of your underlying policy
  - If there are multiple types or practices for the insured crop in the county, the supplemental protection will be determined separately for each coverage level, type, and practice
- Indemnity payments for SCO based on whether the yield or revenue for an area (generally county) falls below its expected level

Example:

Grower  
purchases an  
individual  
revenue  
policy, 75%  
coverage

SCO Coverage		
Percent of Expected Grower Revenue	Individual Loss	Area-Based Loss
100%		
95%		
90%		
<b>86%</b>		SCO Revenue (86% to 75%)
80%		
75%		
70%	Individual Revenue Policy (75% coverage)	
65%		
60%		
55%		
50%		
45%		
40%		
35%		
30%		
25%		
20%		
15%		
10%		
5%		
0%		

Example:

Grower  
purchases an  
individual  
revenue  
policy, 80%  
coverage

SCO Coverage		
Percent of Expected Grower Revenue	Individual Loss	Area-Based Loss
100%		
95%		
90%		
86%		
80%		SCO Revenue (86% to 80%)
75%	Individual Revenue Policy (80% coverage)	
70%		
65%		
60%		
55%		
50%		
45%		
40%		
35%		
30%		
25%		
20%		
15%		
10%		
5%		
0%		

**Questions?**

**Thank You!**