

# RISK MANAGEMENT IMPLICATIONS IN THE 2014 FARM BILL

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Paul Goeringer  
2014 Farm Bill Workshops



DEPARTMENT OF  
AGRICULTURAL AND  
RESOURCE ECONOMICS

Individual Farm Level Details are available from a crop insurance agent  
(list available at: [www.rma.usda.gov/tools/agent.htm](http://www.rma.usda.gov/tools/agent.htm))

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United States Department of Agriculture  
Risk Management Agency

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opportunity provider."*



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**University of Maryland** DEPARTMENT OF AGRICULTURAL RESOURCE ECONOMICS

**Maryland Crop Insurance Update**  
Farming/Agriculture

**Timeline** About Photos Likes Events

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**ABOUT** >  
This page is to provide relevant up-to-date information on crop insurance programs .  
<https://extension.umd.edu/crop-insurance>

**PHOTOS** >  
USDA  
Center for Cultural & Natural Resource Policy  
Department of Agricultural Resource Economics

**Maryland Crop Insurance Update**  
20 hours ago  
It is National Chocolate Chip day! Enjoy some chocolate chips in something!

**Maryland Crop Insurance Update**  
23 hours ago  
USDA Sending Acreage History and Yield Reports to Help Producers Prepare for New Farm Bill Programs  
WASHINGTON, Aug. 1, 2014 — U.S. Department of Agriculture (USDA) Farm



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# Where to Find This Presentation and the Others?

<http://www.arec.umd.edu/extension/crop-insurance/2014-farm-bill>

The screenshot shows the AREC website with a red header and a black navigation bar. The main content area is white. The left sidebar contains a list of extension topics, with '2014 Farm Bill' highlighted. The main content area features the title '2014 Farm Bill', a paragraph about the bill's purpose, and a link to the 'Farm Bill Presentation' by Howard Leathers (2014).

**Agricultural and Resource Economics**

ABOUT - UNDERGRAD - GRADUATE - PEOPLE - EXTENSION - RESEARCH - NEWS & EVENTS

Home » Extension » Crop Insurance » 2014 Farm Bill

**Extension**

- Agricultural Law
- Beginning Farmer Success
- Coastal and Marine Resources
- Crop Insurance
  - 2014 Farm Bill**
  - Crop Insurance Workshops
- Publications
- Farm and Financial Management
- Grain Marketing
- International Extension
- Land Use and Agricultural Land Preservation Program
- Linking Agriculture, Natural Resources, and the Environment
- Smart Growth and Residential Development
- Sustainable Agriculture
- Water Quality
- Women in Agriculture

**2014 Farm Bill**

The 2014 farm bill creates interesting issues for farmers. This page will house materials to best help Maryland farmers better understand the decision they will need to make under the 2014 farm bill.

**Farm Bill Presentation**

*Decisions Under the 2014 Farm Bill* by Howard Leathers (2014)

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# INTRODUCTION

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# Risk Management Changes in the 2014 Farm Bill

- Crop insurance program remains relatively unchanged in 2014 Farm Bill except for:
  - Conservation compliance for highly erodible lands and wetlands is now required when purchasing crop insurance.
  - Failure to comply means being ineligible for any portion of the crop insurance policy premium that is paid by FCIC (ie you will pay for 100% of the premium).
  - Shouldn't be an issue here since Maryland requires conservation plans that are more stringent than USDA requires.



# Risk Management Changes in the 2014 Farm Bill

- Additional Crop Insurance Changes for beginning farmers:
  - Exemption from cat and additional coverage policies fees;
  - Additional 10 percentage points of premium subsidy for additional coverage policies that have premium subsidy;
  - Use of the production history of farming operations that you were previously involved in the decision making or physical activities; and
  - An increase in the substitute Yield Adjustment, which allows you to replace a low yield due to an insured cause of loss, from 60 to 80 percent of the applicable transitional yield (T-Yield).



# Risk Management Changes in the 2014 Farm Bill

- Currently no payment limitations in crop insurance program on either payouts on losses or government's share of premium subsidy.
  - Was apart of debate on bill but excluded from final version.
- ARC and PLC do have payment limitations and AGI limits
  - Payments limited to \$125,000 combined for ARC, PLC, and marketing assistance for an individual or a business entity.
  - NAP has separate \$125,000 per entity payment limit.
  - Adjusted Gross Income (AGI) has to be under \$900,000 to participate in ARC and PLC.





# Risk Management Changes in the 2014 Farm Bill

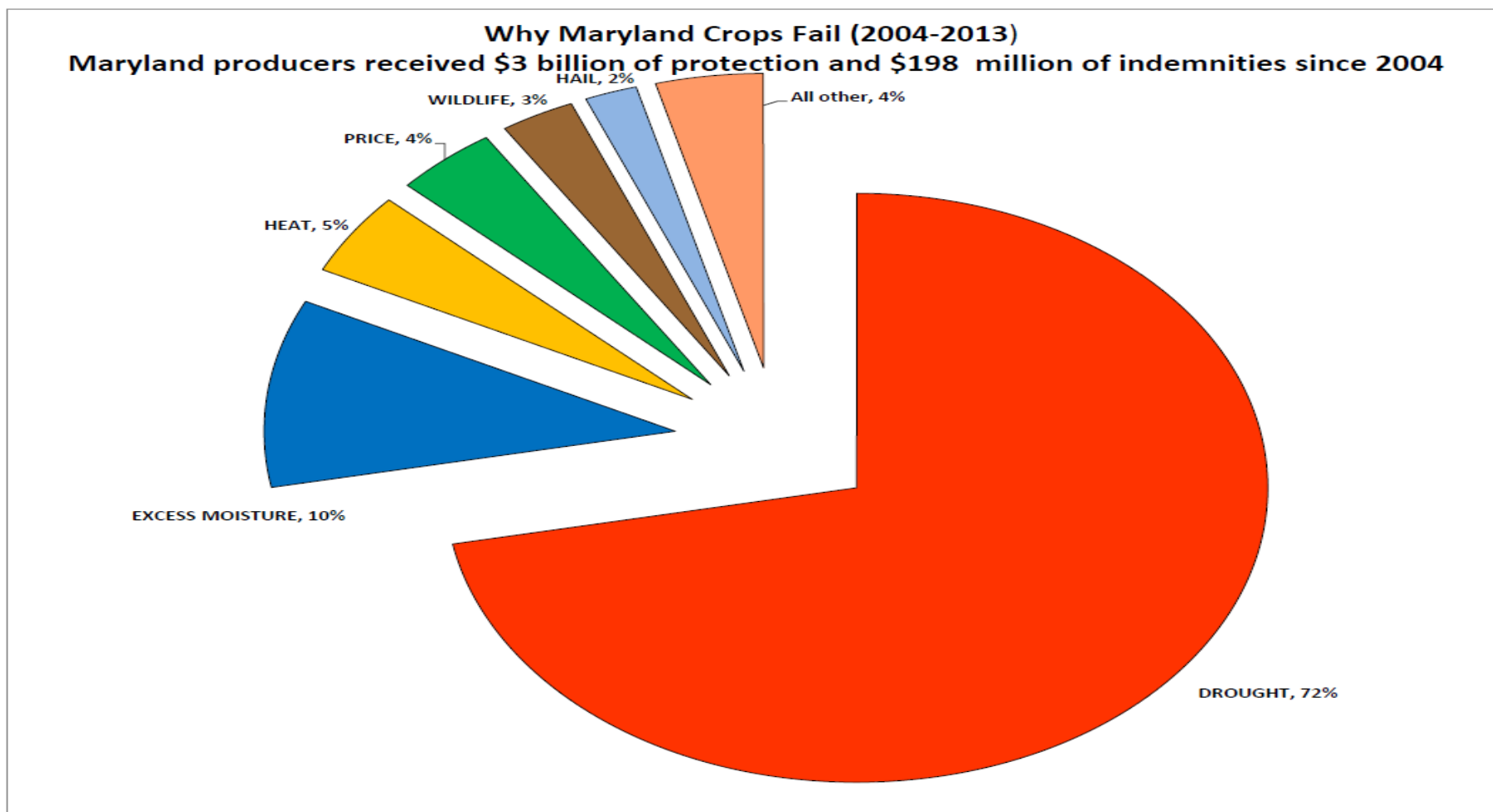
- Non-Insured Crop Disaster Assistance Program (NAP) was changed in Farm Bill:
  - Now allowed to elect coverage at individual crop level at 50 to 65 percent in 5 percent increments at 100 percent of average market price.
  - Premium is 5.25 percent of liability
  - Waiver of service fee expanded from limited resource farmers to also include beginning farmers and socially disadvantaged farmers.



# RISK MANAGEMENT DECISIONS

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# Crop Insurance Protection in Maryland



# Farm Safety Net Tools

- FSA will have new tools we have discussed:
  - ARC: ARC makes revenue-based payments on 85 percent of the covered commodity's base acres when actual county revenue or individual revenue is between 86 percent and 76 percent of the benchmark county or individual revenue.
  - PLC: Payment is available when market prices below references prices
- Both of these options are available at no cost to you.



# Farm Safety Net Tools



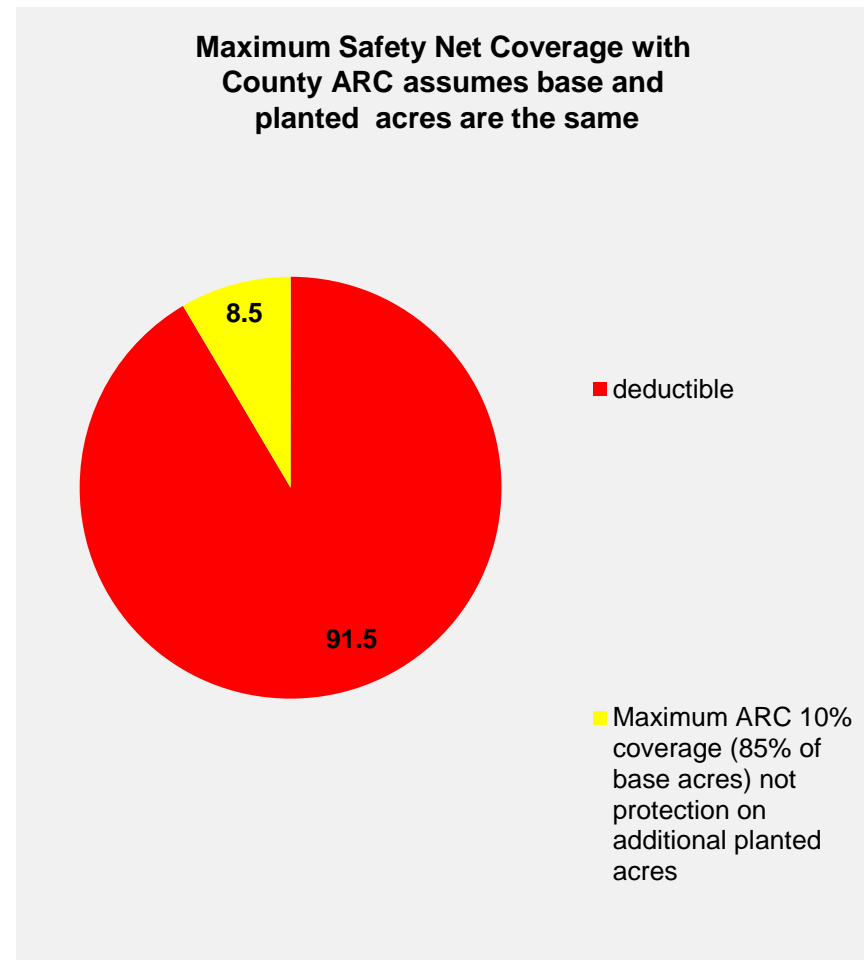
- RMA will continue to offer crop insurance coverage at up to 75% of yield history (up to 85% for certain crops).
- FSA will continue to offer NAP – covers up to 65% of yield history.





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

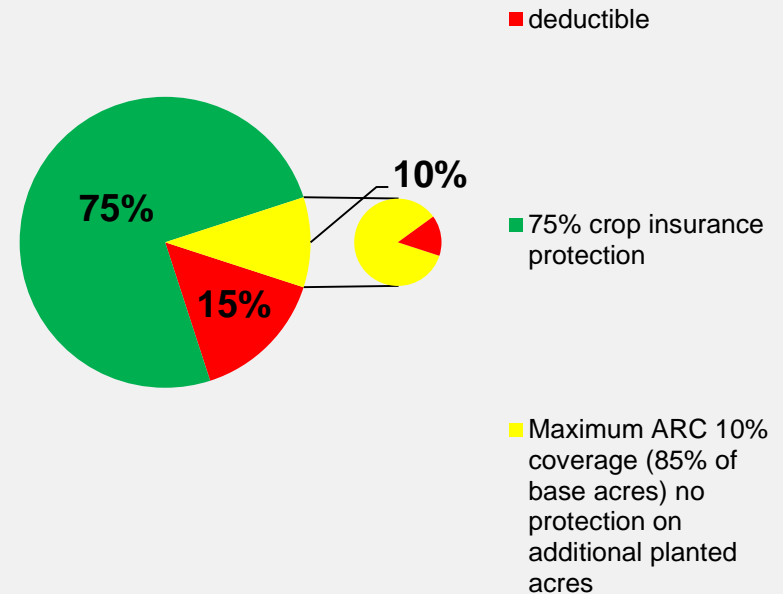
- **County ARC:**
  - Covered losses are 10% max. on 85% of Base Acres
  - Estimated coverage about 8.5% of producer's expected revenue, if planted acres equal base acres
  - Payment made after end of market year



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

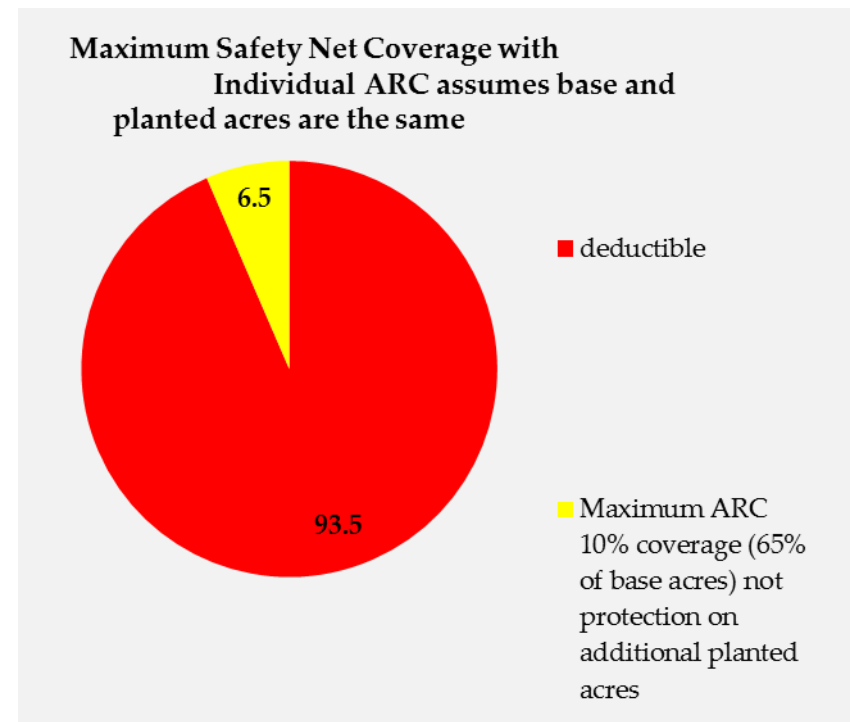
- **County ARC:**
  - Covered losses are 10% max. on 85% of Base Acres
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**Safety Net Coverage with Crop Insurance and County ARC**  
County ARC triggers at **County** level  
assumes base and planted acres are the same



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

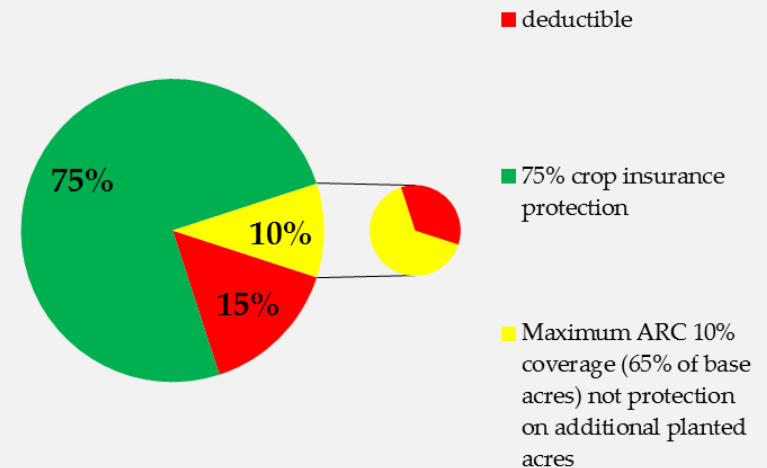
- Individual ARC:
  - Covered losses 10% max. on 65% of Base Acres
  - Includes Producer's crops from anywhere in state
  - Estimate coverage about 6.5% of producer's expected revenue if planted acres equal base acres
  - Payment made after end of market year



# 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

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



# Take away point – going to need more than just ARC protection

- Not going to be able to replace crop insurance coverage for ARC coverage
- If you take ARC and drop crop insurance coverage leaving over 90% of expected revenue uninsured
- Amount of uninsured revenue will increase if harvest price increases
- Finally, if have no base acres or plant in excess of base acres, then ARC coverage will be reduced because insurance will cover 100% of planted acres not just your base acres





# Comparing County and Individual ARC with Crop Insurance vs NAP

% Coverage available	Crop Insurance	County ARC triggers at county level	Individual ARC triggers at state level
87-100	deductible		
76-86		10% area loss on 85% of base acres	10% area loss on 65% of base acres
70-75			
65			
60			
55			
0-50	minimum crop insurance coverage 50% on all planted acres that can choose additional coverage in %'s of 5. Max crop insurance 85%		

% Coverage available	NAP	County ARC triggers at county level	Individual ARC triggers at state level
87-100	deductible		
76-86		10% area loss on 85% of base acres	10% area loss on 65% of base acres
70-75			
65			
60			
55			
0-65	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 (85% of base acres)	85	85	85
acres not covered	15	65	115
% acres covered	85%	57%	43%
acres covered under Individual ARC (65% of base acres)	65	65	65
acres not covered	35	85	135
% acres covered	65%	43%	33%



# Supplemental Coverage Option (SCO)



- New crop insurance product created in '14 Farm Bill
  - A county level revenue or yield based optional endorsement that covers a portion of losses not covered by the same crop's underlying crop insurance policy.
- Indemnities will be payable once a 14 percent loss has occurred in the county, and individual payments will depend upon coverage levels selected by producers.



# Supplemental Coverage Option (SCO)

- SCO is only available to producers who select PLC
- Not available to those that select ARC (County or Individual)
- Potentially only available in counties with Area Risk Protection Insurance (replaces old Group Risk Plan and Group Risk Income Plan)
  - Very few of those plans previously available in MD
  - May not be available in MD, but will have to wait for regs from RMA



# Price Loss Coverage (PLC) and Supplemental Coverage Option (SCO)

With Price Loss Coverage (PLC)

producers to have

Supplemental Coverage Option (SCO)

- 100% planted acres
- Provides Area Yield or Revenue protection (same as underlying crop ins.)
- Projected prices
- No payment cap
- Loss payment within 60 days of claims submission
- Premiums Subsidized a fixed 65%

% Coverage available	Crop Insurance and Supplemental Coverage Option (SCO) Illustration
87-100	deductible
51-86	SCO yield or revenue coverage based on underlying crop insurance selection
0-50	2014 Crop Insurance Protection Yield or revenue coverage on all planted acres



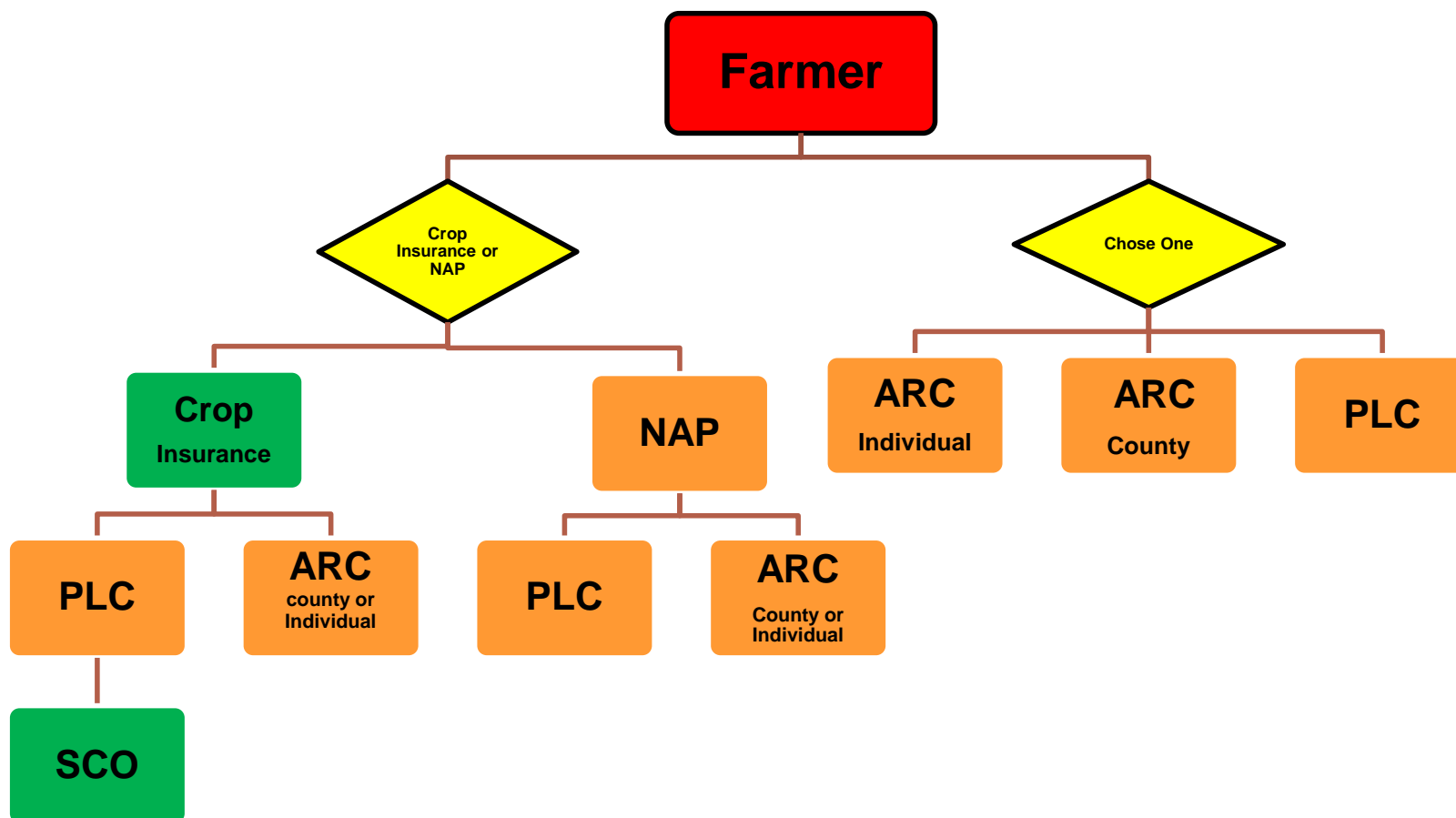
# DECISION TREE

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# Farm Bill Crop Safety Nets

## Producer Decision Choices



# 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/](http://www3.rma.usda.gov/apps/agents/)



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# THANKS

# ANY QUESTIONS?

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