

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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United States Department of Agriculture
Risk Management Agency



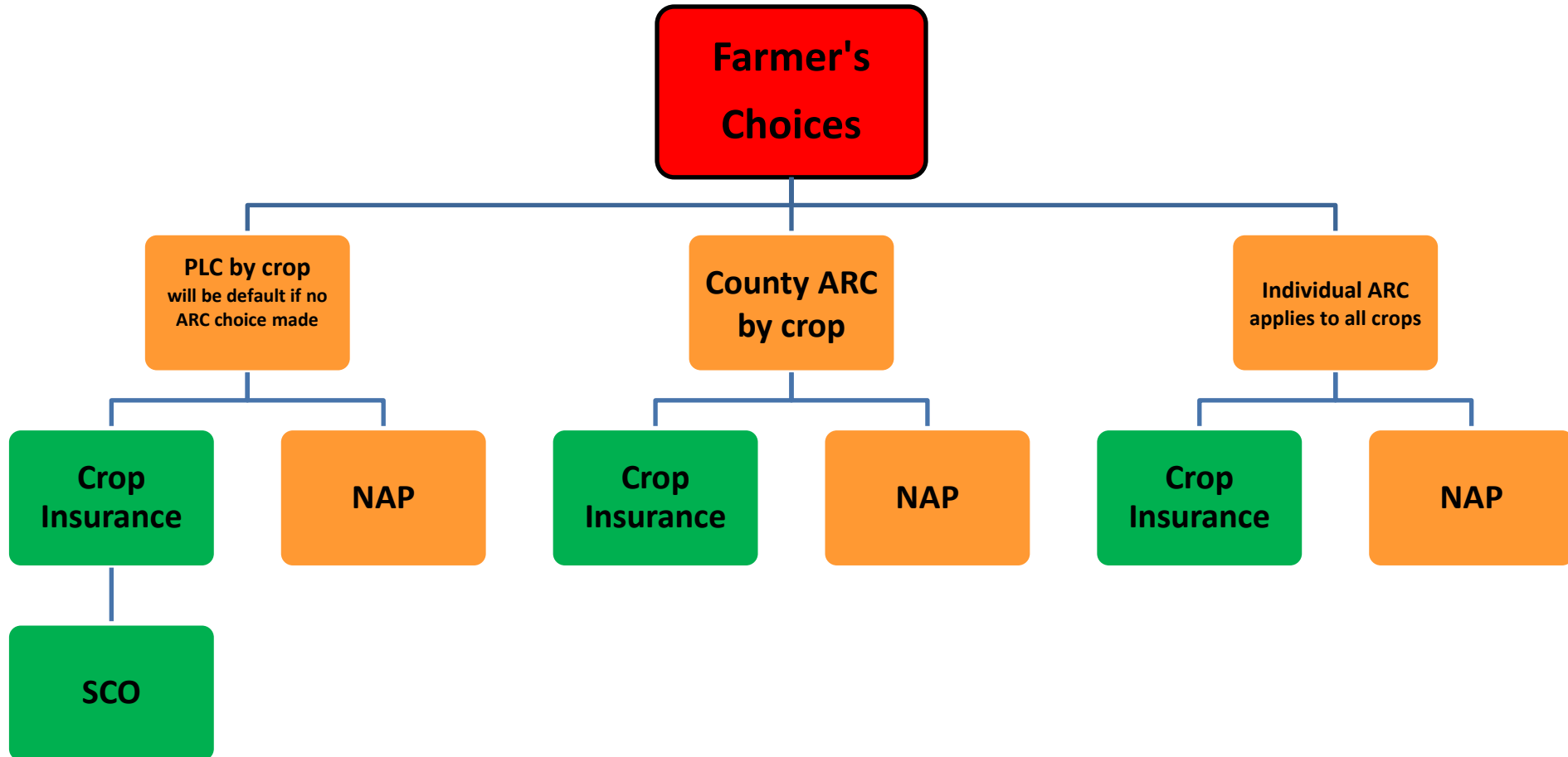
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8/14/2014

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



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

% 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			
60-65			
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			
60-65			
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%

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Manage Your Crop Risks

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

USDA's Crop Loss Protection Tools

Information is available from:

Crop insurance Agents

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

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

County Farm Service Agency Offices (FSA/USDA)

<http://www.rma.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→	111	111
	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	560.55
40	Yield Produced	40	40
71	Yield Loss		
\$4.60	←Projected Price/		
	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.

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

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		

Table 1. Comparison of CCP and PLC Price Support Levels

Covered Commodity	2014 Farm Bill Reference Price	2008 Farm Bill CCP Target Price
Wheat	\$5.50/bu	\$4.17/bu
Corn	\$3.70/bu	\$2.63/bu
Grain Sorghum	\$3.95/bu	\$2.63/bu
Barley	\$4.95/bu	\$2.63/bu
Oats	\$2.40/bu	\$1.79/Bu
Soybeans	\$8.40/bu	\$6.00/bu
Information Source: http://farmdocdaily.illinois.edu/2014/02/2014-crop-safety-net-decision-key-considerations.html		



Is Your Risk Management Plan Adequate to Manage a Disaster?

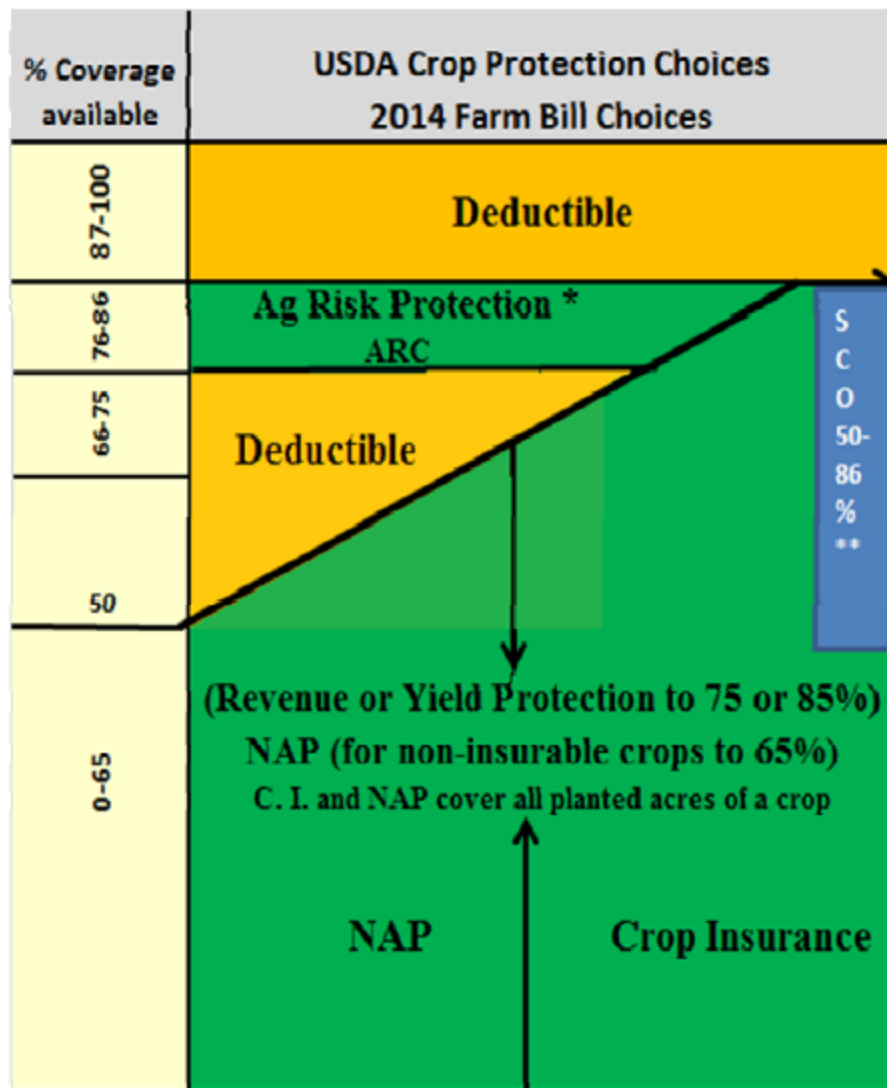
The "Sum of the Parts" - Protection for YOUR Farm

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

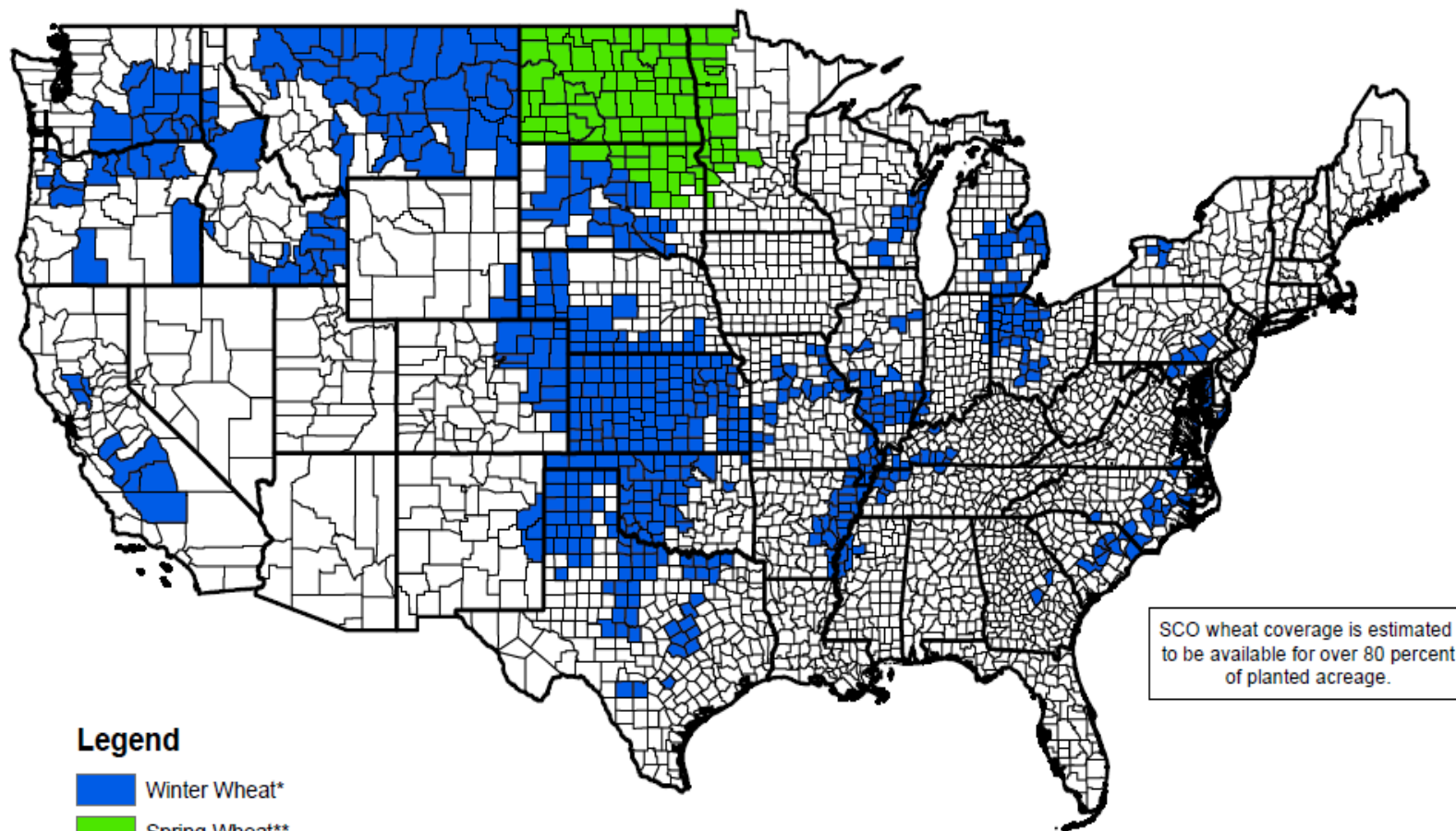
Covered Commodity	2014 Farm Bill Reference Prices Statutory	2008 Farm Bill Target Prices
Wheat	\$5.50	\$4.17
Barley	\$4.95	\$2.63
Oats	\$2.40	\$1.79
Corn	\$3.70	\$2.63
Grain Sorghum	\$3.95	\$2.63
Soybeans	\$8.40	\$6.00



** Supplemental Coverage Option (SCO) available on an expanding number of crops (not available on crops enrolled in ARC). SCO provides area loss coverage between 86% and the individual policy coverage @65% premium subsidy.

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

Crop Year 2015 Supplemental Coverage Option (SCO) Availability for Wheat



* Includes Spring, Durum, and Khorasan types in counties with a June 30 contract change date.

** Includes Durum and Khorasan types in counties with a November 30 contract change date.

ANSI Code	State	County	Legend
20189	Kansas	Stevens	Winter Wheat
20191	Kansas	Sumner	Winter Wheat
20193	Kansas	Thomas	Winter Wheat
20195	Kansas	Trego	Winter Wheat
20197	Kansas	Wabaunsee	Winter Wheat
20199	Kansas	Wallace	Winter Wheat
20201	Kansas	Washington	Winter Wheat
20203	Kansas	Wichita	Winter Wheat
20205	Kansas	Wilson	Winter Wheat
20207	Kansas	Woodson	Winter Wheat
21007	Kentucky	Ballard	Winter Wheat
21035	Kentucky	Calloway	Winter Wheat
21047	Kentucky	Christian	Winter Wheat
21059	Kentucky	Daviess	Winter Wheat
21083	Kentucky	Graves	Winter Wheat
21141	Kentucky	Logan	Winter Wheat
21213	Kentucky	Simpson	Winter Wheat
21219	Kentucky	Todd	Winter Wheat
21221	Kentucky	Trigg	Winter Wheat
21227	Kentucky	Warren	Winter Wheat
24011	Maryland	Caroline	Winter Wheat
24013	Maryland	Carroll	Winter Wheat
24019	Maryland	Dorchester	Winter Wheat
24021	Maryland	Frederick	Winter Wheat
24029	Maryland	Kent	Winter Wheat
24035	Maryland	Queen Anne's	Winter Wheat
24041	Maryland	Talbot	Winter Wheat
24047	Maryland	Worcester	Winter Wheat
26017	Michigan	Bay	Winter Wheat
26025	Michigan	Calhoun	Winter Wheat
26037	Michigan	Clinton	Winter Wheat
26045	Michigan	Eaton	Winter Wheat
26057	Michigan	Gratiot	Winter Wheat
26059	Michigan	Hillsdale	Winter Wheat
26063	Michigan	Huron	Winter Wheat
26065	Michigan	Ingham	Winter Wheat
26067	Michigan	Ionia	Winter Wheat
26073	Michigan	Isabella	Winter Wheat
26087	Michigan	Lapeer	Winter Wheat
26091	Michigan	Lenawee	Winter Wheat
26115	Michigan	Monroe	Winter Wheat
26117	Michigan	Montcalm	Winter Wheat
26145	Michigan	Saginaw	Winter Wheat
26147	Michigan	St Clair	Winter Wheat
26151	Michigan	Sanilac	Winter Wheat
26155	Michigan	Shiawassee	Winter Wheat

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.

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

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



"This institution is an equal opportunity provider."

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

**The alternative to
having crop insurance.**



Call an agent today.