Farm Program Decision: A Risk Management View

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Agricultural Act of 2014

- Enrollment deadline for program participation in the 2014 farm bill is March 31, 2015.
- Deciding which election to choose is not obvious.
- How do you make a choice?

Agricultural Act of 2014

- Many farmers are trying to make this election based upon which option will generate the largest potential payments.
- This is one way to evaluate the different elections.
- Are there others?

Agricultural Act of 2014

- How do the alternative 2014 farm bill options fit into an overall farm risk management program?
- Risk management requires that you consider all of the “bad things” that can happen.
- What risks keep you awake at nights?
- What safe guards do you have in place to protect against these risks?

Quick Overview

- PLC: Price Loss Coverage
  - Enroll by FSA Farm
  - Crop base by Crop base on the farm
  - Can mix and match with ARC-Co
  - Does NOT require planting the crop.
- Price protection only. Uses a *reference price* to determine if payments are made.

Quick Overview

- ARC-Co: Ag. Risk Coverage - County
  - Enroll by FSA Farm
  - Crop base by Crop base on the farm
  - Can mix and match with PLC
  - Does NOT require planting the crop
- Revenue protection using historical <u>county</u> yields and national average prices to establish a benchmark revenue.

Quick Overview

- ARC-IC: Ag. Risk Coverage - Individual
  - Enroll by FSA Farm
  - Entire farm and ALL CROPS on the farm(s)
  - Cannot mix with PLC
  - Requires planting the crop to be eligible
- Revenue protection using historical individual yields and national average prices to establish a benchmark revenue.
- Requires annual product production reporting.

What risk protection is offered? PLC

- Price protection only. Uses a *reference price* to determine if payments are made.
- Provides protection against low national average average prices.
- Fixed reference prices listed in the legislation.
- Maximum PLC rate is Reference Price – National Loan Rate.
- Eligible of Supplemental Coverage Option (SCO).

Reference Prices for PLC

Crop	Reference Price	National Loan Rate	Max. PLC Rate
All Barley	$4.95/bu	$1.95/bu	$3.00/bu
Corn	$3.70/bu	$1.95/bu	$1.75/bu
Dry Peas	$11.00/cwt	$5.40/cwt	$5.60/cwt
Oats	$2.40/bu	$1.39/bu	$1.11/bu
Canola	$20.15/cwt	$10.09/cwt	$10.06/cwt
Flax	$11.28/bu	$5.25/bu	$6.03/bu
Sunflower	$20.15/cwt	$10.09/cwt	$10.06/cwt
Soybean	$8.40/bu	$5.00/bu	$3.40/bu
Wheat	$5.50/bu	$2.94/bu	$2.56/bu

PLC Example

Crop	Reference Price	Marketing Year Price	PLC Payment Rate
Wheat	$5.50	$6.10	-0-
Corn	$3.70	$3.65	$0.05
Soybeans	$8.40	$10.20	-0-

- Marketing year price is the January estimate by USDA
- Payment rate is multiplied by the farm's payment yield times base acres times 85 percent

What risk protection is offered?
ARC-Co

- Revenue protection using historical county yields and national average prices to establish a benchmark revenue.
- Provides protection against below average revenue.
- Rolling benchmark using 5 year Olympic average county yields and national average prices.
- Maximum payment limited to 10% of benchmark and applied individually to each crop.
- Payments made on **85%** of base acres.

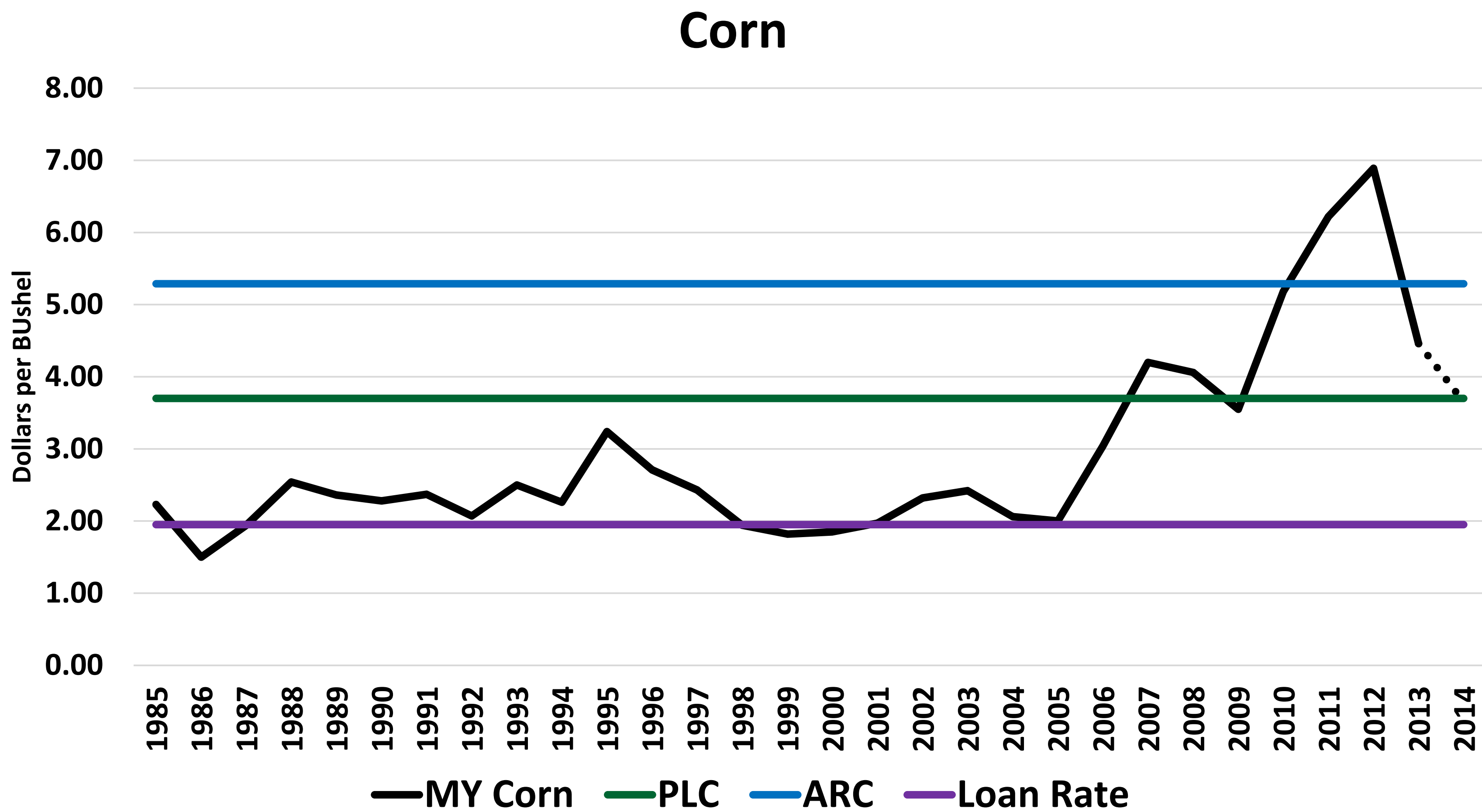
What risk protection is offered?
ARC-IC

- Revenue protection using historical <u>individual</u> yields and national average prices to establish a benchmark revenue.
- Provides protection against below average revenue.
- Rolling benchmark using 5 year Olympic average individual yields and national average prices.
- Maximum payment limited to 10% of benchmark and applied collectively to ALL covered crops.
- Payments made on **65%** of base acres of all covered crops.

What risk protection is offered? ARC-Co vs. ARC-IC

- Uses same 5 year Olympic average national prices.
- Both capped at maximum of 10% loss.
- What is correlation between your individual yields and the county average yields?
- ARC-IC requires weighted average loss across ALL covered commodities.
- ARC-IC uses planted acres to determine payment rate.
- Payment on 85% of base (ARC-Co) vs. 65% of base (ARC-IC).

Historical National Average Prices



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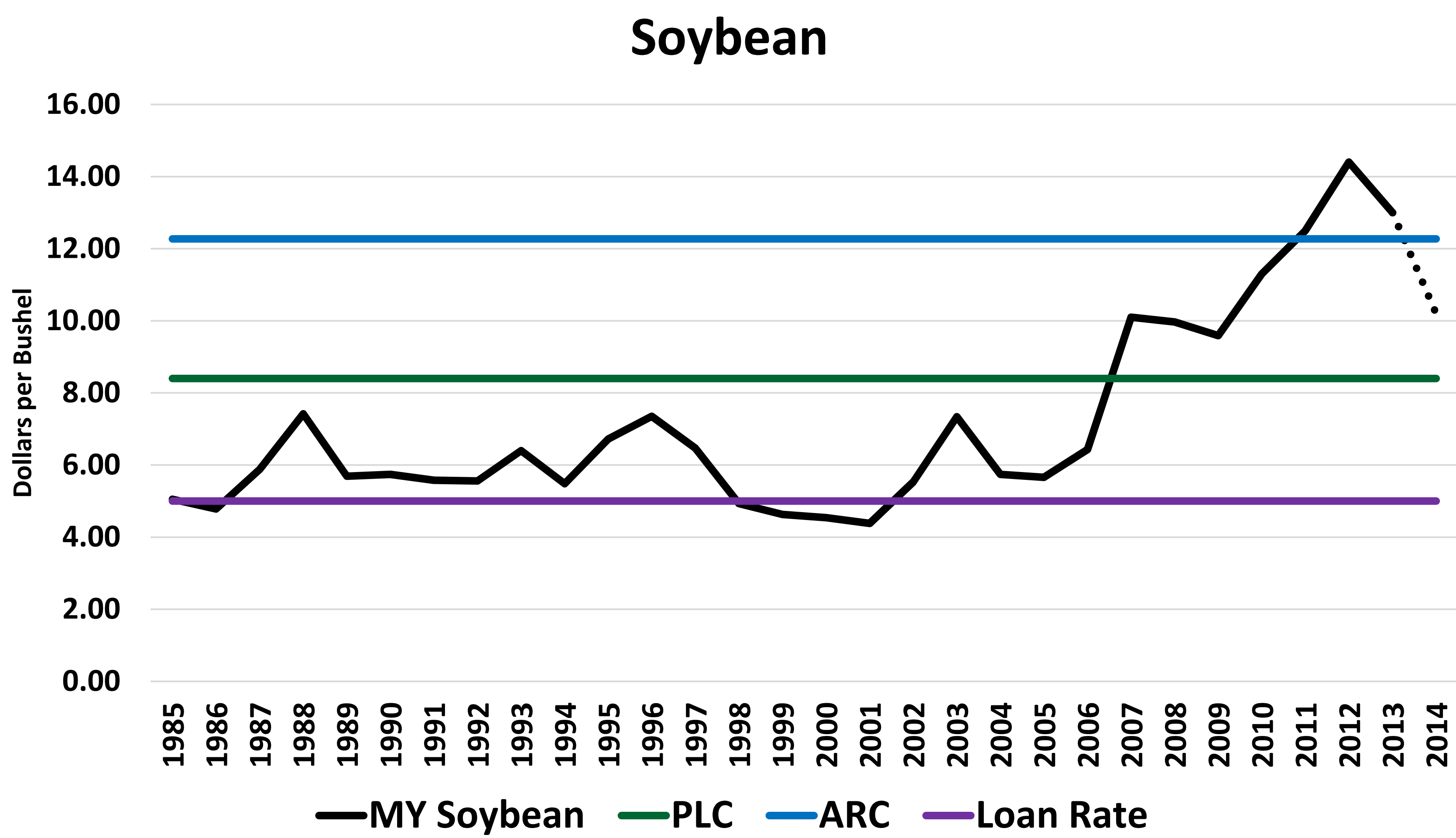

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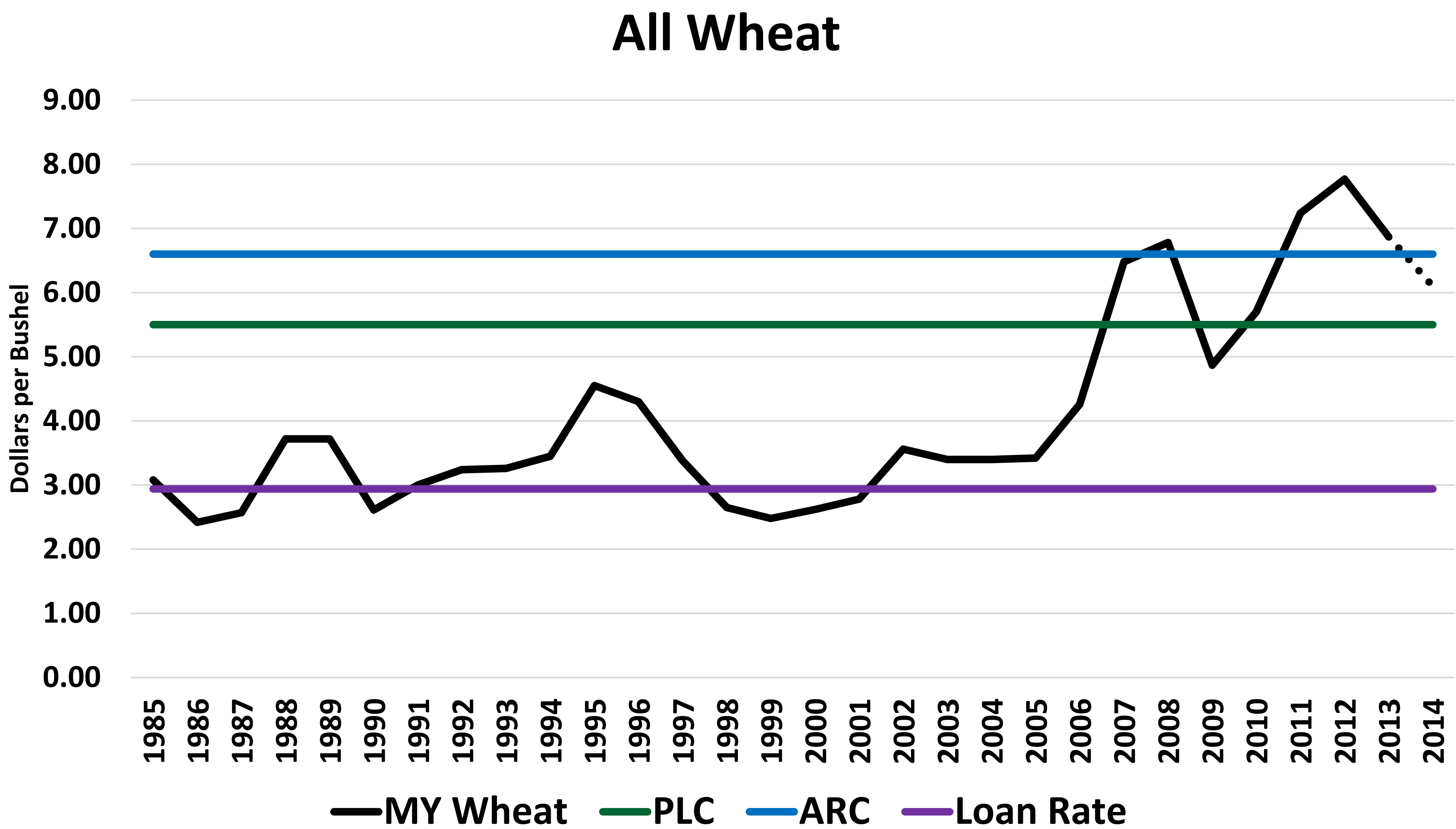

Questions?