



Producer Decisions Under the 2014 Farm Bill: Agricultural Risk Coverage versus Price Loss Coverage Decisions

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The Agricultural Act of 2014 (the “2014 Farm Bill”) contains several provisions that are important for landowners and tenants. In particular, the 2014 Farm Bill requires decisions on three issues that owners and tenants will need to address in the next few months. First, owners will be permitted to update the program yields on their farms. Second, owners will be permitted to reallocate the base acres on their farms. Finally, landowners and/or tenants will be required to elect either the new Agricultural Risk Coverage (ARC) or Price Loss Coverage (PLC) programs for each covered crop on their farms. This Fact Sheet provides information on the ARC versus PLC decision. Additional Fact Sheets will address the yield update and base reallocation decisions.

Changes in Farm Bill Commodity Programs

The 2014 Farm Bill eliminated the Direct and Counter-cyclical Payment (DCP) and the Average Crop Revenue Election (ACRE) programs that were included in the 2008 Farm Bill. The DCP and ACRE programs were replaced by a choice of three programs that producers may elect to enroll in for the 2014 to 2018 crop years. The Price Loss Coverage program is a price-based program with payments being made when the effective price of a covered commodity falls below the commodity’s reference price. The Agricultural Risk Coverage County Option (ARC-CO) program is a revenue-based program with payments being made when the actual revenue (calculated using the county average yield) falls below the county benchmark revenue. The Agricultural Risk Coverage Individual Coverage (ARC-IC) program is a revenue-based program with payments being made when the actual revenue (calculated using the individual farm’s yield) falls below the individual farm’s benchmark revenue.

General Rules for ARC and PLC Decisions

The general rules for ARC and PLC decisions are:

1. The 2014 Farm Bill provides all producers on a farm with a 1-time opportunity to elect the ARC-CO, ARC-IC, or PLC program for the crop years 2014 through 2018. This election will remain in effect for all crop years through 2018.
2. The producer(s) on a farm must make the election of ARC-CO, ARC-IC, or PLC during the period from November 17, 2014 to March 31, 2015.
3. Failure to make or unanimously agree to an ARC-PLC election by all producers on a farm by March 31, 2015 will result in (a) the elimination of any 2014 payment and (b) the default program designation of PLC for the years 2015 through 2018.

4. Producer(s) may elect ARC-CO or PLC for each covered commodity with base acres on a farm. For example, on a farm with both corn base acres and soybean base acres, the producer(s) may elect ARC-CO for the corn base acres and PLC for the soybean base acres on the farm (or elect PLC for corn and ARC-CO for soybeans or elect ARC-CO for both corn and soybeans, or elect PLC for both corn and soybeans).
5. A “producer” is defined as an owner, operator, landlord, tenant, or sharecropper who shares in the risk of producing a crop and who is entitled to share in the crop available for marketing on the farm, or would have shared had the crop been produced. A producer includes a grower of hybrid seed.
6. Given the definition of producer in rule 5, a landlord who leases land to a tenant using a crop share lease is considered to be a producer for purposes of the ARC-PLC election and is required to approve the ARC-PLC election decision. A landlord who leases land to a tenant using a cash rent lease is not considered to be a producer for purposes of the ARC-PLC election and is not required to approve the ARC-PLC election decision.
7. Some landowners have granted power of attorney to their tenant(s) for purposes of enrolling in FSA commodity programs. The form FSA-211, “Power of Attorney” may be used to complete the yield update decision on behalf of an owner. The form FSA-211 must be marked “All Current and Future Programs” and “All Actions” to be used to make the ARC-PLC election decision.
8. The “farm,” for ARC-IC purposes, is the sum of the producer’s interest in all of the producer’s ARC-IC farms in the State.
9. The payment limitation amount for ARC and PLC payments received, directly or indirectly by a person or legal entity, is \$125,000 for crop years 2014 through 2018. Included in each \$125,000 payment limitation are ARC-CO, ARC-IC, and PLC payments and market gains and Loan Deficiency Payments (LDPs) received through the Marketing Assistance Loan (MAL) program.
10. Producers who participate in ARC-CO, ARC-IC, and/or PLC are subject to an acre-for-acre payment reduction when fruits, vegetables, and/or wild rice are planted and harvested on either of the following:
 - a. more than 15 percent of the base acres of a farm enrolled in ARC-CO or PLC;
 - b. more than 35 percent of the base acres of a farm enrolled in ARC-IC.
11. To be eligible to receive ARC-CO, ARC-IC, or PLC payments, producers who enroll must:
 - a. comply with applicable conservation requirements;
 - b. comply with applicable wetland protection requirements;
 - c. be a person or legal entity who is actively engaged in farming;
 - d. be a person or legal entity with average AGI for the 3-year period applicable to the benefit year not in excess \$900,000.

The Price Loss Coverage (PLC) Program

The rules for the PLC program are:

1. PLC program payments are issued when the effective price of a covered commodity is less than the reference price for that commodity.

2. The effective price for a covered commodity is the higher of (1) the market year average (MYA) price during the 12-month marketing year for the covered commodity or (2) the national average loan rate for the for the covered commodity.
3. PLC program payments will be paid on 85 percent of the farm’s base acres of the covered commodity.
4. PLC payments are not dependent on the planting of a covered commodity or planting of the applicable base acre crop on the farm.
5. PLC payments will be made after October 1 or as soon as practical after the end of the marketing year for the covered commodity.
6. The reference prices and loan rates for covered commodities in Michigan are:

	<u>Reference Price</u>	<u>Loan Rate</u>
Corn	\$3.70	\$1.95
Soybeans	\$8.40	\$5.00
Wheat	\$5.50	\$2.94

If the effective price of a covered commodity is less than the reference price, then the farm’s PLC payment for that covered commodity will be calculated as:

$$\begin{array}{r}
 \text{(Reference price minus the } \underline{\text{higher of}} \text{ the MYA price } \underline{\text{or}} \text{ the loan rate)} \\
 X \quad \text{The farm’s PLC program yield} \\
 X \quad \text{The farm’s base acres} \\
 X \quad \underline{85\%} \\
 \hline
 = \quad \text{The farm’s PLC program payment for the covered commodity}
 \end{array}$$

If the effective price of a covered commodity is greater than the reference price, then the PLC program payment will be zero.

The Agricultural Risk Coverage-County Option (ARC-CO) Program

The rules for the ARC-CO program are:

1. ARC-CO program payments are issued when the actual county crop revenue of a covered commodity is less than the ARC-CO guarantee for the covered commodity.
2. ARC-CO program payments are based on county yield data, not individual farm yield data.
3. The ARC-CO guarantee is calculated as 86 percent of the ARC-CO benchmark revenue.
4. The ARC-CO benchmark revenue is calculated by multiplying the 5-year Olympic average county yield for the covered commodity (the 5-year Olympic average yield excluding the high and low years) by the 5-year Olympic average of the greater of (1) the MYA price for the covered commodity or (2) the PLC reference price for the covered commodity.
5. The ARC-CO actual county crop revenue for the covered commodity is calculated as the actual county average yield for the crop year multiplied by the MYA price for the crop year.

6. The farm's total ARC-CO payment is equal to 85 percent of the farm's base acres of the covered commodity multiplied by the difference between the ARC-CO guarantee and the actual county crop revenue for the covered commodity.
7. The ARC-CO payment may not exceed 10 percent of the ARC-CO benchmark county revenue.
8. The ARC-CO program payments are not dependent on the planting of a covered commodity crop or planting of the applicable base acre crop on the farm

The farm's ARC-CO payment for a covered commodity will be calculated as:

Step 1: The 5-year Olympic average county yield for the covered commodity (the 5-year average county yield excluding the high and low years)

X The 5-year Olympic average price (the 5-year average price excluding the high and low years) of the greater of (1) the MYA price for the covered commodity or (2) the PLC reference price for the covered commodity

= The ARC-CO benchmark revenue for the covered commodity

Step 2 The ARC-CO benchmark revenue for the covered commodity

X 86%

= The ARC-CO guarantee for the covered commodity

Step 3: Actual county average yield of the covered commodity for the crop year

X MYA price for the covered commodity for the crop year

= The actual ARC-CO revenue for the covered commodity

Step 4a: If the ARC-CO benchmark revenue for the covered commodity is greater than the actual county crop revenue for the covered commodity, then the farm's ARC-CO payment will be:

The lesser of (1) The ARC-CO benchmark revenue for the covered commodity minus the actual county crop revenue for the covered commodity or (2) 10 percent of the benchmark revenue for the covered commodity

X The farm's base acres for the covered commodity

X 85%

= The farm's ARC-CO program payment for the covered commodity

Step 4b: If the ARC-CO benchmark revenue for the covered commodity is less than the actual county crop revenue for the covered commodity, then the ARC-CO payment will be zero.

The Agricultural Risk Coverage-Individual Coverage (ARC-IC) Program

The rules for the ARC-IC program are:

1. ARC-IC program payments are issued when the actual farm crop revenue for all covered commodities on the farm is less than the ARC-IC guarantee for all covered commodities on the farm.
2. The farm, for ARC-IC purposes, is the sum of the producer's interest in all of the producer's ARC-IC farms in the State.
3. The farm's ARC-IC benchmark revenue is calculated as the 5-year Olympic average revenue (the 5-year average revenue excluding the high and low years) for all covered commodities on the farm weighted by each covered commodity's share of the total P&CP acres on the farm in the current crop year.
4. The farm's ARC-IC guarantee is calculated as 86 percent of the farm's ARC-IC benchmark revenue.
5. The farm's ARC-IC actual revenue is calculated as the actual production of the covered commodity multiplied by the greater of (1) the MYA price for the covered commodity or (2) National Average Loan Rate for the covered commodity for all covered commodities on the farm and divided by the total P&CP acres for all covered commodities on the farm.
6. The ARC-IC payment equals 65 percent of the sum of the base acres of all covered commodities on the farm times the difference between the ARC-IC guarantee and the ARC-IC actual crop revenue.
7. ARC-IC program payments may not exceed 10 percent of the ARC-IC benchmark revenue.
8. ARC-IC payments are dependent on the planting of covered commodities on the farm.

The farm's total ARC-IC payment is calculated as:

<u>Step 1:</u>	For all covered commodities on the farm, the sum of: (P&CP acres on the farm planted to the covered commodity for the crop year divided by the total P&CP acres of all covered commodities on the ARC-IC farm for the crop year)
X	The 5-year Olympic average revenue (the 5-year average revenue excluding the high and low years) for each covered commodity on the farm (the revenue for each crop year equals the farm's yield for the covered commodity multiplied the <u>greater of</u> (1) the MYA price for the covered commodity <u>or</u> (2) the PLC reference price for the covered commodity)
=	<hr/> The ARC-IC benchmark revenue
<u>Step 2:</u>	The ARC-IC benchmark revenue
X	<u>86%</u>
=	<hr/> The ARC-IC guarantee

Step 3: For all covered commodities on the farm, the sum of (total production on farm's P&CP acres planted to the covered commodity for the crop year multiplied by the greater of (1) the MYA price for crop year or (2) the national average loan rate)

÷ Total P&CP acres on the farm

= The ARC-IC actual revenue

Step 4a: If the ARC-IC benchmark revenue is greater than the ARC-IC actual farm revenue, then the farm's ARC-IC payment will be:

The lesser of (1) The farm's ARC-IC benchmark revenue minus the farm's ARC-IC actual farm revenue or (2) 10 percent of the farm's ARC-IC benchmark revenue

X The sum of the farm's base acres for all covered commodities on the farm

X 65%

= The Farm's Total ARC-IC Program Payment

Step 4b: If the farm's ARC-IC benchmark revenue for the crop year is less than the farm's ARC-IC actual revenue for the crop year, then the ARC-IC program payment will be zero.

Conclusions and Implications of the ARC-CO/ARC-IC/PLC Decision for Farm Risk Management

Several important conclusions and implications can be drawn when comparing the ARC-CO, ARC-IC, and PLC programs and considering the decision of which program to elect:

1. The ARC-CO, ARC-IC, and PLC programs are not intended to serve, and cannot serve, as a replacement for crop insurance or other risk management tools. Decisions about the choice of ARC-CO, ARC-IC, or PLC should be made within the farm's overall risk management strategy, including other risk management tools such as crop insurance, futures contracts, or other contracts
2. The outlook for the prices of covered commodities for the 2014 to 2018 period is likely to be a critical factor in making choices between the ARC-CO, ARC-IC, and PLC programs.
3. The ARC-CO and ARC-IC programs provide partial coverage for price risk at price levels above the PLC reference price. The PLC program does not.
4. Both the ARC-CO and ARC-IC programs provide partial coverage for yield risk. The PLC program does not.
5. If a farm's yield is poorly correlated with the county average yield, then the ARC-IC program could provide more yield risk protection than the ARC-CO or PLC programs.
6. Since the ARC-IC program is based on a farm's actual plantings, yields, and yield history, ARC-IC program could provide a closer match to the actual risk exposure of some farms.
7. Cooperation and sharing of information between landowners and tenants in making ARC-CO/ARC-IC/PLC decisions is likely to result in the best financial benefit for the farm.

References and Other Sources of Information on the ARC-CO/ARC-IC/PLC Decision

For other sources of information on the 2014 Farm Bill's ARC-CO/ARC-IC/PLC decision, go to:

1. U.S. Department of Agriculture, Farm Service Agency, *Agricultural Act of 2014 (2014 Farm Bill), Title I Information About the Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) Programs*. Notice ARCPLC-4, May 23, 2014. Available at: https://www.fsa.usda.gov/Internet/FSA_Notice/arcplc_4.pdf
2. U.S. Department of Agriculture, Farm Service Agency, *Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) Base Reallocation Provisions*. Notice ARCPLC-7, August 3-, 2014. Available at: http://www.fsa.usda.gov/Internet/FSA_Notice/arcplc_7.pdf
3. U.S. Department of Agriculture, Farm Service Agency, *Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) Base Acre Reallocation and Yield Update Provisions*. Notice ARCPLC-12, September 26, 2014. Available at: http://www.fsa.usda.gov/Internet/FSA_Notice/arcplc12.pdf
4. U.S. Department of Agriculture, Farm Service Agency, *Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) Election*. Notice ARCPLC-14, August 3-, 2014. Available at: http://www.fsa.usda.gov/Internet/FSA_Notice/arcplc14.pdf
5. Young, Edwin C. David W. Skully, Paul C. Westcott, and Linwood Hoffman. *Economic Analysis of Base Acre and Payment Yield Designations Under the 2002 U.S. Farm Act*. Economic Research Report No. (ERR-12) 46 pp, September 2005.

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