New Safety Net: PLC, ARC-CO, ARC-IC

Ag Decision Maker

File A1-32

The 2014 Farm Bill introduced several changes to the commodity programs available through the Farm Service Agency (FSA) and created a new insurance program to complement one commodity program through the Risk Management Agency (RMA).This article provides an overview of the new safety net available to Iowa crop operators[1] through FSA from 2014 to 2018, and explains the timing of the decisions involved in selecting a farm program.

New Commodity Programs

The 2014 Farm Bill established two new programs, Price Loss Coverage (PLC) and Agricultural Risk Coverage (ARC), and repealed the Direct and Counter-Cyclical Program (DCP), the Supplemental Revenue Assistance Program (SURE), and the Average Crop Revenue Election Program (ACRE). The ARC program is offered at the individual farm level (ARC-IC) and at the county level (ARC-CO). The Marketing Assistance Loan program was extended until 2018 with the same loan rates, providing a safety net against very low prices.

For each FSA farm, operators can choose between (1) enrolling each crop in PLC or ARC-CO; and (2) enrolling all program crops on the farm in ARC-IC. For example, a farm can have corn base acres participating in ARC-CO and soybeans base acres participating in PLC. However, if ARC-IC is elected for a farm, then all crops in that farm must participate in it, and the farm can participate in neither of the other two programs.

In order to participate in the new commodity programs, operators are required to (1) be certified as "actively engaged in farming," (2) have an average adjusted annual gross income (AGI) of up to $900,000 over the most recent three years, (3) submit an acreage report for all cropland on the farm, (4) comply with the Highly Erodible Land Conservation and Wetland Conservation provisions, and (5) have more than 10 base acres on a farm (unless the operator is a socially disadvantaged operator or is a limited resource operator). Previous AGI provisions distinguished between farm and non-farm AGI, while the current provision averages across farm and non-farm income. The third prerequisite for eligibility also applies to marketing assistance loans and loan deficiency payments.

The total amount of payments received, directly and indirectly, by a person or entity (except joint ventures or general partnerships) for PLC, ARC-CO, ARC-IC, marketing loan gains, and loan deficiency payments may not exceed $125,000 per crop year. Each couple has a limit of $250,000 on total payments.

Payments for PLC, ARC-CO, and ARC-IC are based on base acres (not planted acres) and are issued after the end of the respective crop year, but not before October 1. Base acres are defined by FSA as "a farm's crop-specific acreage of wheat, feed grains, rice, oilseeds, pulse crops, or peanuts eligible used for FSA program purposes. Base acres do not necessarily align with current plantings." Planted acres are only relevant for the Agricultural Risk Coverage-Individual program, where they are used to determine the weights applied in the calculation of actual and benchmark revenues.

Starting in 2015, operators enrolled in PLC who insure their crops with COMBO products may choose to buy the Supplemental Coverage Option (SCO) at a subsidized rate. For more information on SCO see *AgDM File A1-44,* **New Safety Net: SCO** ([www.extension.iastate.edu/agdm/crops/html/a1-44.html)](www.extension.iastate.edu/agdm/crops/html/a1-44.html)

Price Loss Coverage (PLC)

PLC offers price protection. Payments are triggered when the Effective Price of a covered commodity is lower than the Reference Price for that commodity. The Reference Prices for corn and soybeans were set for 2014-2018 by statute at $3.70 and $8.40 per bushel, respectively. In essence, PLC is similar to the repealed Counter-Cyclical Payments program, since both use reference prices to determine payments.

The Effective Price is the higher of the Marketing Year Average (MYA) Price or the National Loan Rate ($1.95 per bushel of corn and $5.00 per

[1] *Operators growing Upland cotton would only be eligible to participate in the new Stacked Income Protection Plan (STAX) offered by the RMA.*

FM 1872a Revised March 2015

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bushel of soybeans). The MYA prices for corn and soybeans are the average prices observed between September 1 of one year and the following August 31.

The PLC Payment equals 85 percent of the Base Acres of the covered commodity times the difference between the Reference Price and the Effective Price times the Program Payment Yield for the covered commodity. It is important to highlight that payments are made on base acres, not on planted acres.

Unless operators choose to change the Program Payment Yield (see section on Implementation Process below), they will keep the current payment yields at the levels used in the 2008 Farm Bill Counter-Cyclical Payments (CCP) program.

Agricultural Risk Coverage-County (ARC-CO)

ARC-CO offers shallow loss revenue protection at the county level. Payments are triggered when the Actual County Crop Revenue of a covered commodity is less than the ARC-CO Guarantee Revenue for that commodity. Both the guarantee and the actual revenue are computed using base acres, not planted acres; and county yields, not individual farm yields.

The ARC-CO Payment equals 85 percent of the base acres of the covered commodity times the lower of (a) the difference between the ARC-CO Guarantee Revenue and the Actual County Crop Revenue for the covered commodity; and (b) 10 percent of the Benchmark County Revenue. The ARC-CO Guarantee Revenue equals 86 percent of the Benchmark County Revenue.

The Benchmark County Revenue is equal to the ARC-CO Guarantee Price (Olympic average of previous 5-year MYA prices) times the ARC-CO Guarantee Yield (Olympic average of the previous 5-year county yields). The Olympic average is obtained by eliminating the highest and the lowest values from the list and computing the average over the remaining values (in this case, three values).

If the county yield for the covered commodity for any of the five most recent crop years is less than 70 percent of the transitional yields as determined by the Secretary of Agriculture for each crop and county, the amounts used for any of those years in the calculation of the ARC-CO Guarantee Yield shall be 70 percent of the transitional yield. Similarly, if the MYA price for any of the most recent five crop years is lower than the Reference Price for the covered commodity, the Reference Price shall be used for any of those years in the calculation of ARC-CO Guarantee Price.

The Actual County Crop Revenue for a covered commodity in a particular year equals the Actual Average County Yield times the higher of the MYA Price or the national average loan rate for a marketing assistance loan.

Agricultural Risk Coverage-Individual (ARC-IC)

ARC-IC offers shallow loss revenue protection at an individual farm level across all farms enrolled. Payments are made when the Actual Crop Revenue across all covered commodities on “farm” is less than the ARC-IC Revenue Guarantee across those covered commodities on the “farm.”

For ARC-IC, “farm” is defined as the sum of the operator’s interests in all ARC-IC participating farms in the state. Therefore, if an operator enrolls two or more farms with corn and soybean base acres in the state of Iowa into the ARC-IC program, then his or her revenue (actual and guarantee) is computed as a weighted average of individual revenue from corn and soybeans, with the weights being the ratio of the sum of planted acres to each crop across his or her ARC-IC farms divided by the sum of planted acres to all crops across his or her ARC-IC farms.

The ARC-IC payment equals 65 percent of the sum of the base acres of all covered commodities on “farm”, times the lower of (a) the difference between the ARC-IC Guarantee Revenue and the Actual Crop Revenue across all covered commodities planted on the “farm,” and (b) 10 percent of the Individual Benchmark Revenue for all covered commodities on the farm. The ARC-IC Guarantee Revenue equals 86 percent of the Individual Benchmark Revenue.

The Individual Benchmark Revenue is the weighted sum across all planted crops under ARC-IC of the Olympic average of the most recent 5-year crop revenues, with the weights being the shares of planted acres to each crop among all planted acres on the "farm." Crop revenue for each crop for each year equals the individual yield times the MYA price. If any of those five individual yields is less than 70 percent of the transitional yield, the individual yield shall be replaced in the Olympic average formula for 70 percent of the transitional yield. If any of those five MYA Prices is lower than the reference price, then the latter price is used in place of the former.

The Actual Crop Revenue is the weighted sum of the actual revenues per crop, with the weights being the shares of planted acres to each crop among all planted acres on "farm." Actual revenue per crop equals the actual individual yield times the highest of the MYA price or the national loan rate.

Planted acres to each crop are used in the computation of the program payment per acre to weight individual revenues from each crop across farms and crops; while total base acres across farms and crops is used in the final step to calculate the total program payment.

In essence, the ARC-CO and ARC-IC are similar to the repealed Average Crop Revenue Election (ACRE) program, since they are all revenue based programs and share the basic payment structures. The main difference resides in that while ACRE was triggered at the state level, ARC-CO and ARC-IC are triggered at the county and individual farm level, respectively. By bringing the triggering events closer to the individual farm, ARC-CO and ARC-IC should be better risk management tools than ACRE.

Timing of Decisions

Participation in the new commodity programs requires operators to make three choices: first, to choose whether to ***update*** base acres and payment yields, then to ***elect*** a program, and finally to ***enroll*** in the chosen program.

Between September 29, 2014 and March 31, 2015[2], land owners have a one-time opportunity to ***update*** payment yields for PLC and/or reallocate base acres based on recent production history. Since both choices are recorded in one FSA form (CCC-858), land owners must be prepared to fill out both portions of the form when they head to their local FSA office. For more information on these choices, see *AgDM File A1-35,* **Base Acreage Reallocation and Payment Yield Update** (www.extension.iastate.edu/agdm/crops/html/a1-35.html).

Between November 17, 2014 and March 31, 2015 operators will have a one-time opportunity to ***elect*** among PLC, ARC-IC and ARC-CO. That election will be binding for the life of the 2014 Farm Bill. Those operators that fail to elect a program will be excluded from PLC, ARC-IC and ARC-CO in 2014 and their farms will automatically be under PLC starting in 2015.

The election of a program is a necessary but not sufficient condition to participate in it: each year, operators will have to ***enroll*** in the elected program to participate. The alternative is not to enroll and not to participate in PLC, ARC-IC and ARC-CO for that year. For crop years 2014 and 2015, the enrollment period to participate in FSA programs will start in mid-April 2015 and it will end sometime in the summer of 2015.

[2] *A 1-time extension was made on February 27, 2015 to extend the* ***update*** *and reallocation period 1-month, to March 31, 2015.*

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