The 2018 Farm Bill

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Overview

• Context
• What’s new?
• What has not changed?
• ARC/PLC decisions timing
• Summary
ARC and PLC Enrolled Acres
US Total

- ARC-IC: 2,106,275 (1%)
- ARC-CO: 185,119,381 (76%)
- PLC: 55,137,845 (23%)

Base Acres by Elected Program in Iowa

- Corn Base Acres:
  - ARC-IC: 0.3%
  - PLC: 2.7%
  - ARC-CO: 97.0%

- Soybean Base Acres:
  - ARC-IC: 0.3%
  - PLC: 1.3%
  - ARC-CO: 98.4%
Federal Government direct farm program payments (All states)

- Suplemental and ad hoc disaster assistance
- Conservation
- Agriculture Risk Coverage (ARC)
- Price Loss Coverage (PLC)
- Miscellaneous programs

Billion

2015 2016 2017 2018F
**ARC-CO Program**

Payments made when the Actual County Revenue is *less than* the ARC-CO Guarantee for a covered commodity.

- Actual Co Revenue = Co Yield × Marketing Year Avg Price
- ARC-CO Guarantee = 86% × 5y O.Avg Price × 5y O.Avg Yield
- Max payment = 10% × 5y O.Avg Price × 5y O.Avg Yield
- Payments made on 85% of base acres
- Payments made regardless of commodity planting
Price Loss Coverage

Payments made when the effective price is less than the reference price for a covered commodity.

- Effective Price is the higher of Marketing Year Avg. Price for the crop or the National Loan Rate for the crop.
- Payments made on 85% of base acres
- Payments made regardless of commodity planting

PLC Statutory Reference Prices, National Loan Rate (2014 FB)

The Reference Price & National Loan Rate for each crop was set by statute and remains the same for life of Farm Bill.

<table>
<thead>
<tr>
<th>Crop</th>
<th>PLC Reference Price</th>
<th>National Loan Rate</th>
<th>Max PLC Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>$3.70</td>
<td>$1.95</td>
<td>$1.75</td>
</tr>
<tr>
<td>Soybeans</td>
<td>$8.40</td>
<td>$5.00</td>
<td>$3.40</td>
</tr>
<tr>
<td>Oats</td>
<td>$2.40</td>
<td>$1.39</td>
<td>$1.00</td>
</tr>
<tr>
<td>Wheat</td>
<td>$5.50</td>
<td>$2.94</td>
<td>$2.56</td>
</tr>
<tr>
<td>Peanuts</td>
<td>$535/ton</td>
<td>$355/ton</td>
<td>$180/ton</td>
</tr>
</tbody>
</table>
**What’s new?**

1. Switch between ARC & PLC, update PLC yields
2. Higher Loan Rates for Marketing Assistance Program and Loan Deficiency Payments
3. Cover Crops in Crop Insurance
4. Improved dairy assistance
5. Industrial hemp

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**What’s new?**

6. Permanent funding for farmers’ markets & local food programs; veteran & minority farmers.
7. First cousins, nephews and nieces can be beneficiaries of farm programs
8. Cotton eligible for ARC/PLC
1. ARC/PLC
   a. Farmers can change their ARC/PLC election in 2019 for 2019-20, and then yearly afterwards
   b. All FSA farms have a one-time option to update PLC yields
   c. Changes to Olympic avg. yield for ARC
   d. Reference Price “Escalator”
   e. No ARC/PLC payments for FSA farms planted 100% to grass or pasture 2009-2017

1.b. Option to update PLC yields

**Updated Yield** = Yield Update Factor × 2013 to 2017 average yields for the farm

<table>
<thead>
<tr>
<th>Crop</th>
<th>Yield Update Factor (Estimated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>0.81</td>
</tr>
<tr>
<td>Soybean</td>
<td>0.81</td>
</tr>
<tr>
<td>Sorghum</td>
<td>0.81</td>
</tr>
<tr>
<td>All wheat</td>
<td>0.90</td>
</tr>
</tbody>
</table>

1.c. Changes to Olympic avg. for ARC

- New plug yield is 80% of the transitional yield (old 70%), used to replace yields in 5-y Olympic average in any year when county yields are below it.
- USDA will calculate a trend-adjusted yield factor (similar to crop insurance) to use for the benchmark calculation.

1.c. Reference Price “Escalator” for ARC and PLC

- PLC payments:
  
  effective price < Effective Reference Price

- ERP = Higher of Statutory Reference Price and 85% of the 5-year Olympic average price, up to statutory reference price × 1.15.

- ARC: ERP used as plug price for calculation of 5-year Olympic avg. price

2. Marketing Assistance Program and Loan Deficiency Payments

Table 2. 2018 Farm Bill Loan Rates

<table>
<thead>
<tr>
<th>Loan Commodity</th>
<th>Current Loan Rate</th>
<th>2019 to 2023 Loan Rate</th>
<th>Percentage Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>WHEAT (bu.)</td>
<td>$2.94</td>
<td>$3.38</td>
<td>114.97%</td>
</tr>
<tr>
<td>CORN (bu.)</td>
<td>$1.95</td>
<td>$2.20</td>
<td>122.82%</td>
</tr>
<tr>
<td>GRAIN SORGHUM (bu.)</td>
<td>$1.95</td>
<td>$2.20</td>
<td>122.82%</td>
</tr>
<tr>
<td>BARLEY (bu.)</td>
<td>$1.95</td>
<td>$2.20</td>
<td>122.82%</td>
</tr>
<tr>
<td>UPLAND COTTON (lb.)</td>
<td>2-year average of world prices (between $0.45 and $0.52/lb)</td>
<td>2-year average of world prices, not less than 98% of previous year (between $0.45 and $0.52/lb)</td>
<td></td>
</tr>
<tr>
<td>LONG GRAIN RICE (cwt.)</td>
<td>$6.50</td>
<td>$7.00</td>
<td>107.69%</td>
</tr>
<tr>
<td>MEDIUM GRAIN RICE (cwt.)</td>
<td>$6.50</td>
<td>$7.00</td>
<td>107.69%</td>
</tr>
<tr>
<td>SOYBEANS (bu.)</td>
<td>$5.00</td>
<td>$6.20</td>
<td>124.00%</td>
</tr>
<tr>
<td>PEANUTS (tons)</td>
<td>$355</td>
<td>$355</td>
<td>100.00%</td>
</tr>
</tbody>
</table>


So what’s the expected change in Farm Bill Program Payments?

- Depends on crop, location, evolution of crop prices, 5-year trend in yields
- For Iowa, neither PLC nor ARC-CO are expected to trigger payments in 2019 and 2020 with corn and bean prices above $3.70 and $8.40 per bushel and yields near recent highs.

...So what’s the benefit of switching from ARC to PLC? ...SCO... maybe...
Supplemental Coverage Option (SCO)

- Endorsement to Crop Insurance contract to cover part of the **deductible** in RP, YP, RPHP, APH
- Triggered by low **County** yields
- SCO indemnity depends on:
  - RP/YP/RPHP/APH liability, and
  - county yield/revenue
- Crop CANNOT be enrolled in ARC
- Buy from insurance agent (65% premium subsidy)

**SCO Indemnity**

- Indemnity = (86% - Actual County Yield or Revenue as % of “Normal”) × underlying crop insurance liability
- Indemnity CAP = (86%-coverage level underlying policy) × underlying crop insurance liability
Example SCO, Story Co - Iowa

Total Revenue Guarantee $654

Producer Premium

How much of your revenue guarantee would you tie to county revenue instead of farm revenue to save on premiums?

Farm APH 190 bu/a
Projected County Yield 176 bu/a
Final RP Price $4/bu

Example

SCO makes more sense for farms with yields that move in tandem with county yields

Revenue with LOW farm yields, HIGH county yields

Revenue with LOW farm yields, LOW county yields

Low Farm Yield=70% APH = 133 bu/a
High County Yield = 88% Normal County Yield = 155 bu/a
Low County Yield = 70% Normal County Yield = 123 bu/a
3. Cover Crops in Crop Insurance

- If cover crops are terminated according to USDA guidelines (or an agricultural expert):
  - Cover crop practices are defined as a “good farming practice”; and
  - cover crop termination “shall not affect the insurability of a subsequently planted insurable crop.”

4. Improved Dairy Assistance

- Margin Protection Program renamed Dairy Margin Coverage Program (DMC)
- Enhanced coverage
- Lower premiums
- 2014-2018 premium Repayments: 50%-75% of difference b/ MMP premiums & payments
- Dairy Product Donation Program repealed; new Milk Donation Program authorized ($9m in 2019, $5m annually afterwards to reimburse costs)
5. Industrial Hemp is now an ag commodity

- Hemp is not marihuana.
- Hemp is the plant Cannabis sativa L. with a THC\* concentration of up to 0.3% on a dry weight basis
- USDA has 1 year to determine the economic viability of the domestic production and sale of industrial hemp; and to review each agricultural pilot program, and any other research relating to industrial hemp.

*THC = delta-9 tetrahydrocannabinol
What has NOT changed?

• Crop Insurance (other than cover crops)
• Income limitation: no benefits if average adjusted gross income exceeds $900,000 over the 3 previous taxable years.
• Conservation Stewardship Program
• Strong bipartisan support
• Work requirements for food stamps program (SNAP)
• No projected increase in the federal deficit (compared to prior projections)
2018-23 Farm Safety Net

Crop Insurance Agent

Farm Service Agency

CROP INSURANCE

SCO
SUPPLEMENTAL COVERAGE OPTION

Marketing Assistance Loans and Deficiency Payments National Rates:
$5.00/ bu Soybeans
$1.95/ bu Corn

Thank you for your attention!

Questions?

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