

# Farm Safety Net

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## Safety Net - definition

“Something that provides security against  
misfortune or difficulty.”

*Merriam-Webster online dictionary*

### Misfortune in Agriculture?

- Low Yields
- Low Commodity Prices
- High Input Costs
- Lost International Markets

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## Overview

- Next Farm Bill?
- 2014 Farm Bill (Expired)
- ARC-CO acting as Safety Net?

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### ***Farm-Bill Deal Scraps New Work Requirements for Food Stamps***

By The Associated Press

Nov. 29, 2018

WASHINGTON —  
bill would scrap ne  
recipients — reject  
President Donald T

### ***U.S. Lawmakers Seal Farm Bill Agreement in Principle***

By Reuters

Nov. 29, 2018

WASHINGTON — U.S.  
the Farm Bill, the top a  
Thursday, capping mon  
legislation to fund \$867

### **Lawmakers, farm groups welcome deal on farm bill**

11/29/18 4:25 PM By Philip Brasher

"We are pleased to ann  
principle on the 2018 Fa  
and ranking members c  
said.

Farm groups welcomed news that negotiators had reached agreement on a new farm bill, but key details were being kept under wraps while lawmakers waited to learn whether the final cost estimates would force them to tweak the text.

[Read More](#)

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## Next Farm Bill

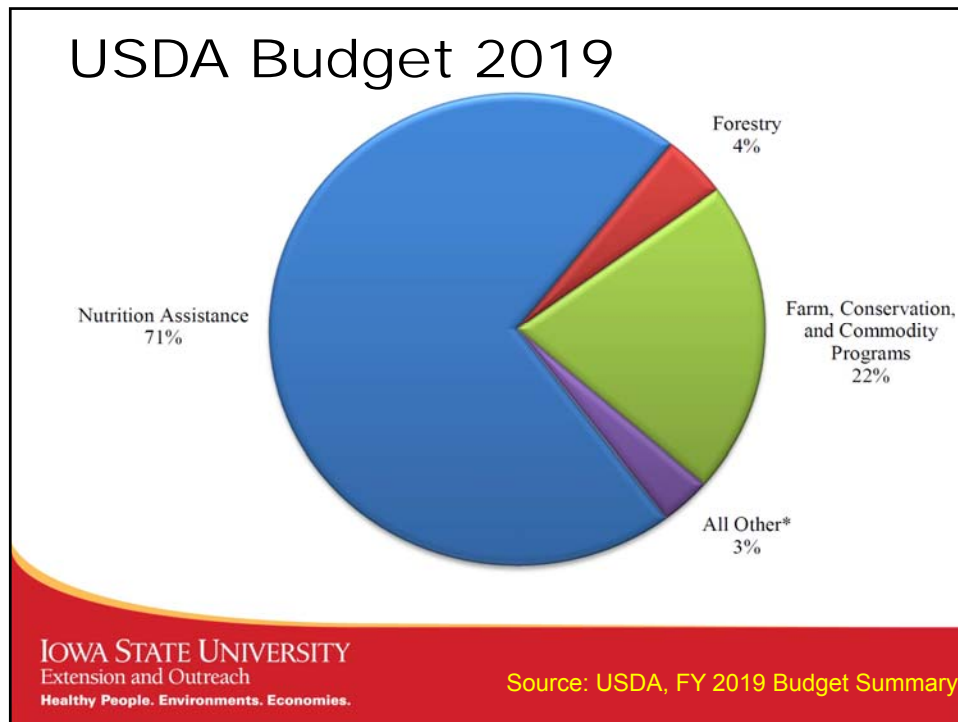
- Differences in legislation and approach between the chambers
  - House Farm Bill passed on partisan lines
  - Senate Farm Bill passed with bi-partisan vote
  - Major differences on work requirements for nutrition programs
  - Senate put in tighter payment limitations than House for commodity support programs
  - House reduced spending for conservation programs (and eliminated some programs), while Senate maintained conservation spending

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## What next?

- Details kept under wraps
- Awaiting Congressional Budget Office cost estimates
- Media says:
  - major commodity and conservation programs unchanged
  - the adjusted gross income limit for subsidy recipients would stay at \$900,000 a year.
  - Reference prices in the Price Loss Coverage would not be changed, but producers would be allowed to update yields in some cases.
  - Legalize industrial hemp production, and develop crop insurance

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## Current Safety Net: 2014 FB

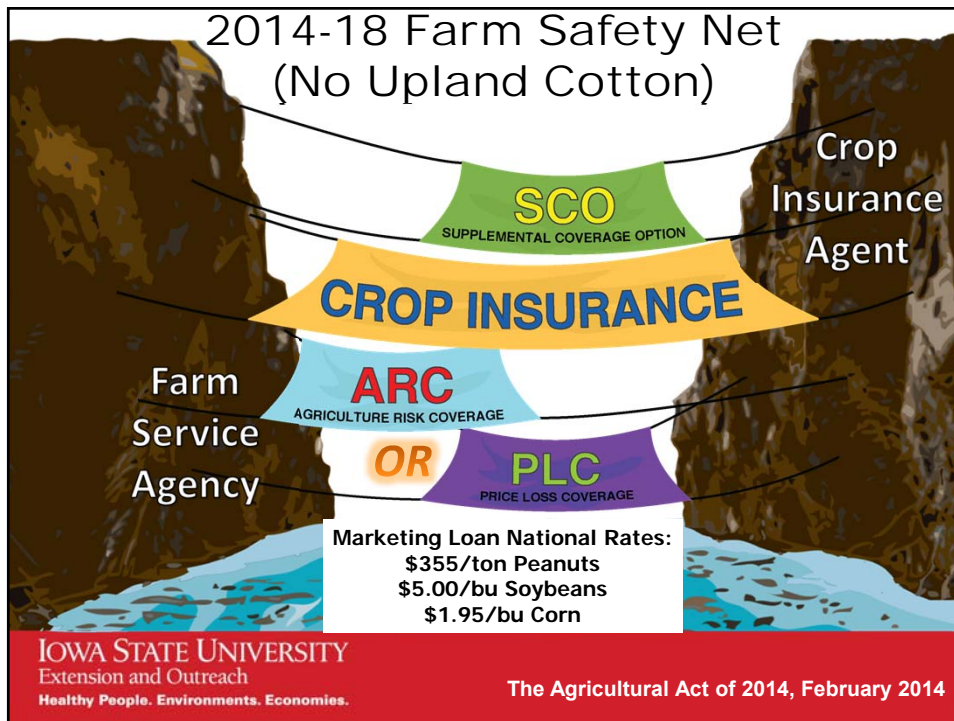
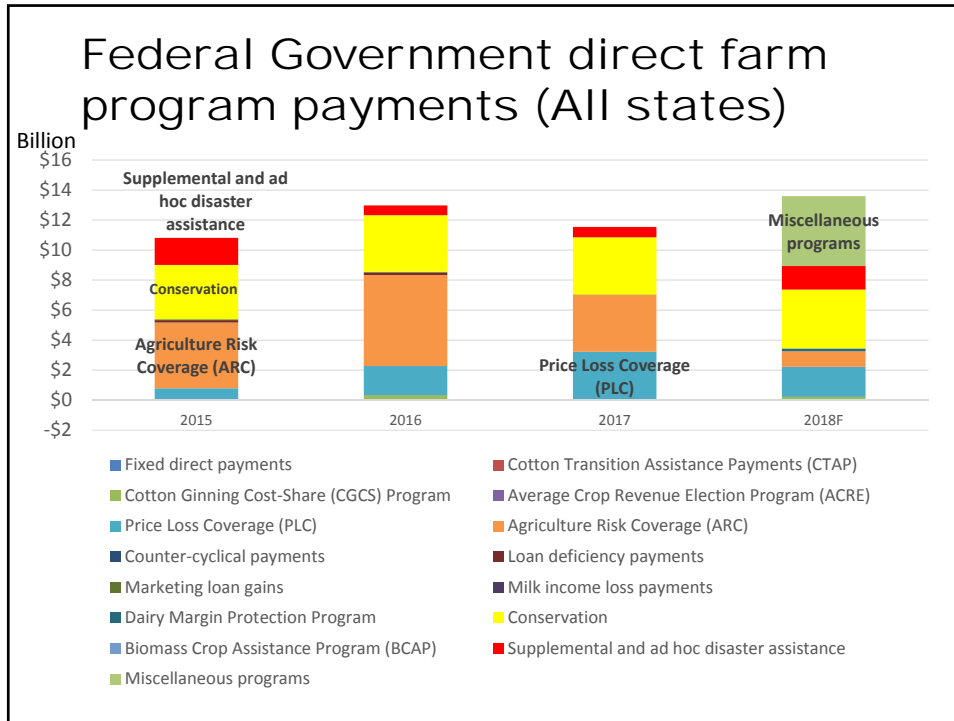
**USDA's Farm Service Agency:**

- Marketing Loans
- Price Loss Coverage (PLC)
- Agricultural Risk Coverage-County (ARC-CO)
- Agricultural Risk Coverage-Individual (ARC-IC)

**USDA's Risk Management Agency:**

- Crop and livestock Insurance
- Supplemental Coverage Option (SCO)
- Stacked Income Protection Plan (STAX)

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## ARC & PLC Programs

### Covered Commodities for ARC & PLC

Barley	Canola	Corn
Crambe	Flaxseed	Garbanzo, Large
Garbanzo, Small	Grain Sorghum	Lentils
Mustard Seed	Oats	Peanuts
Peas, Dry	Rapeseed	Rice, Long Grain
Rice, Medium Grain	Safflowers	Sesame Seed
Soybeans	Sunflower Seed	Wheat

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## 2014 Farm Bill: PLC/ARC

### **Price Loss Coverage (PLC):**

- Payments triggered by Low Prices

### **Ag Risk Coverage (ARC):**

- Payments triggered by Low Revenue (price × yield)
  - ARC-CO: County revenue
  - ARC-IC : Individual Farm revenue

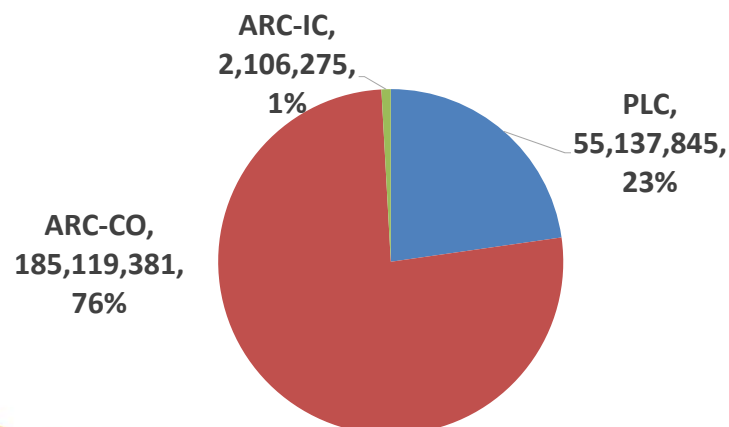
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## Timing of PLC/ARC

- By March 31, 2015:
  - Landowners could Update PLC yields & reallocate base acres across commodities
  - Farm operators could Elect base acres into PLC or ARC
- Each year:
  - Farm operator can Enroll in elected program
  - Payments calculated @ end of marketing year
  - Farm operators receive a check from FSA if payments triggered

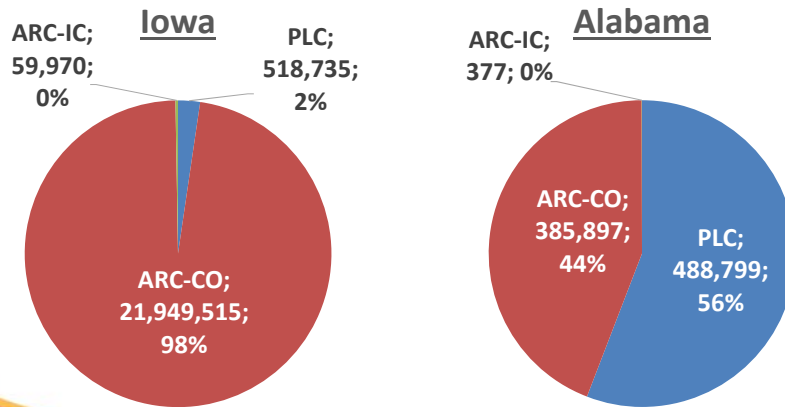
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## ARC and PLC Enrolled Acres US Total



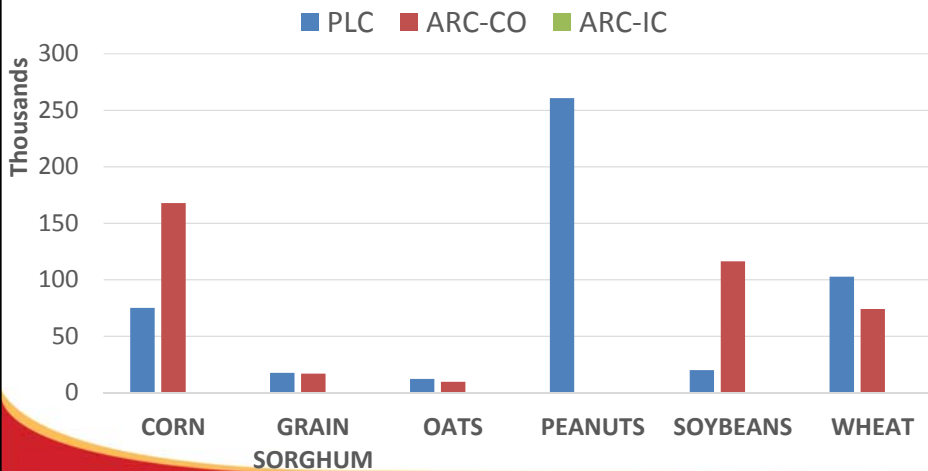
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## ARC and PLC Enrolled Acres Iowa and Alabama



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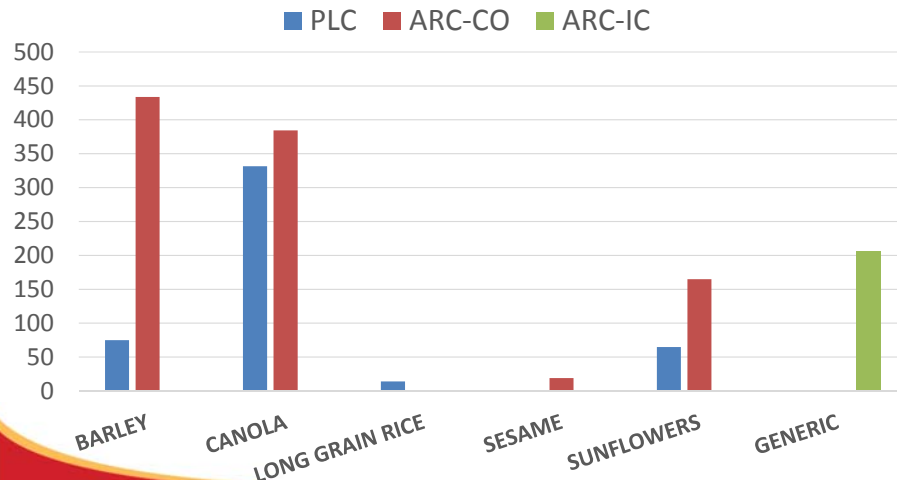
## Base Acres Enrolled in ARC/PLC in Alabama by Commodity



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## Base Acres Enrolled in ARC/PLC in Alabama by Commodity



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## 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 Average Price (MYA) for the crop or the National Loan Rate for the crop.
- Payments made on 85% of base acres
- Payments made regardless of commodity planting (deduction for vegetables, fruits, wild rice)
- Sequestration 6.8%

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## PLC Reference Price and National Loan Rate

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

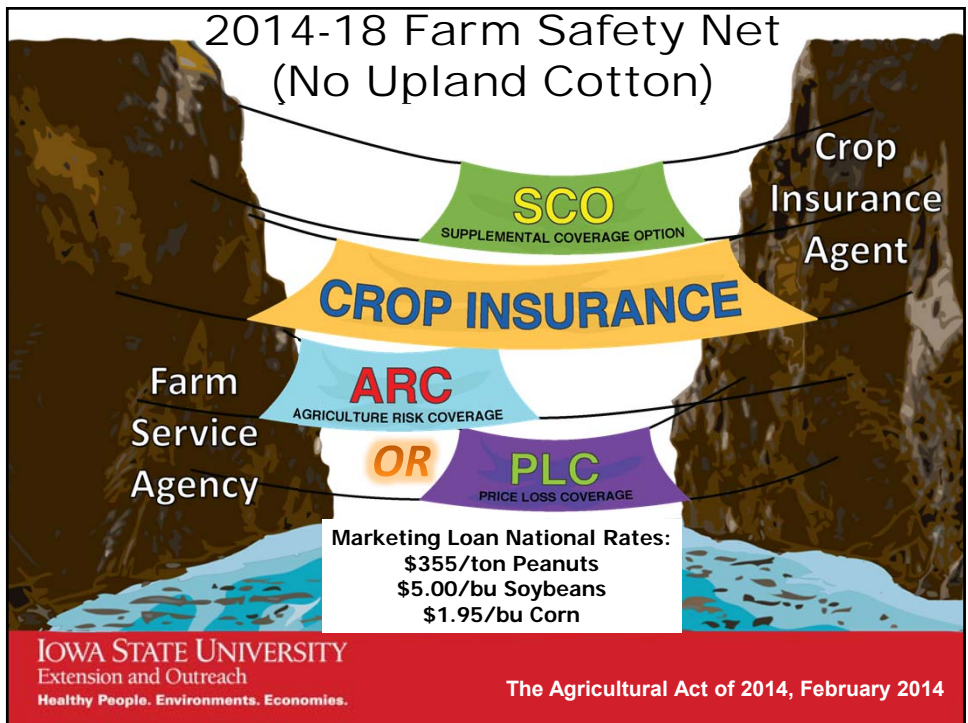
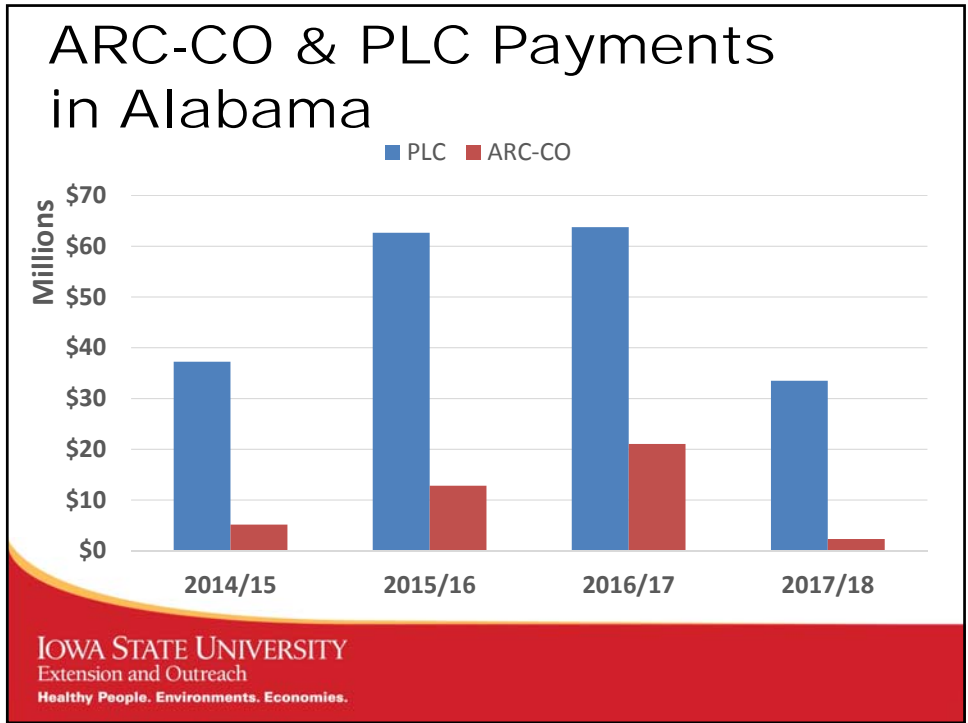
Crop	PLC Reference Price	National Loan Rate	Max PLC Rate
Corn	\$3.70	\$1.95	\$1.75
Soybeans	\$8.40	\$5.00	\$3.40
Oats	\$2.40	\$1.39	\$1.00
Wheat	\$5.50	\$2.94	\$2.56
Peanuts	\$535/ton	\$355/ton	\$180/ton

## ARC-CO Program

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

*County "Yield" data is used, not individual farm data*

- ARC-CO Guarantee = 86% Benchmark Revenue
- Benchmark Revenue = 5y O.Avg Price × 5y O.Avg Yield
- Max payment = 10% Benchmark Revenue
- Payments made on 85% of base acres
- Payments made regardless of commodity planting (deduction for vegetables, fruits, wild rice)
- Sequestration 6.8%



## Federally Sponsored Crop Insurance Policies

1. Yield Protection
  2. Revenue Protection with Harvest Price Exclusion
  3. Revenue Protection
  4. Whole Farm Revenue Protection
  5. Dollar Plan, APH, TDO, PRV, RainF
- ✓ Purchased from Crop Insurance Agent
  - ✓ Managed by Risk Management Agency
  - ✓ Subsidy 60%-65% of total premium (100% CAT)

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## Supplemental Coverage Option (SCO)

- Endorsement to Crop Insurance contract to cover part of the **deductible**
- Indemnity determined by **County** yields or revenues
- Crop CANNOT be enrolled in ARC;
- Buy from insurance agent
- Producer Premium: 35% of total premium (65% subsidy)

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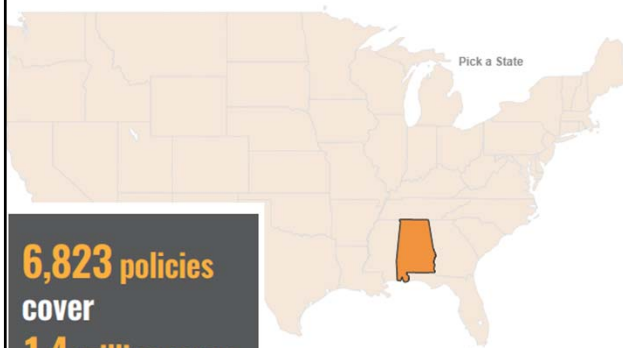
## SCO Indemnity

- Indemnity = (86% - Actual County Yield or Revenue as % of "Normal") X liability in underlying crop insurance policy
- Indemnity CAP = (86%-coverage level underlying policy) X underlying crop insurance liability

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## USDA/ERS Data 2017

Get to know farms in Alabama



**6,823 policies**  
cover  
**1.4 million acres**  
and provide  
**\$566.6 million**  
in protection

CROP INSURANCE  
Keeps America Growing

### Farm facts

<b>Number of farms</b>	<b>Acres of farmland</b>
43,600	8,900,000
<b>Net farm income</b>	<b>Government payments</b>
\$1,723,675,000	\$204,883,000
<b>Federal insurance premiums</b>	<b>Federal insurance indemnities</b>
\$23,697,000	\$32,943,000

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# Alabama (USDA/ERS data)

**Federal insurance premiums**  
2008-2017

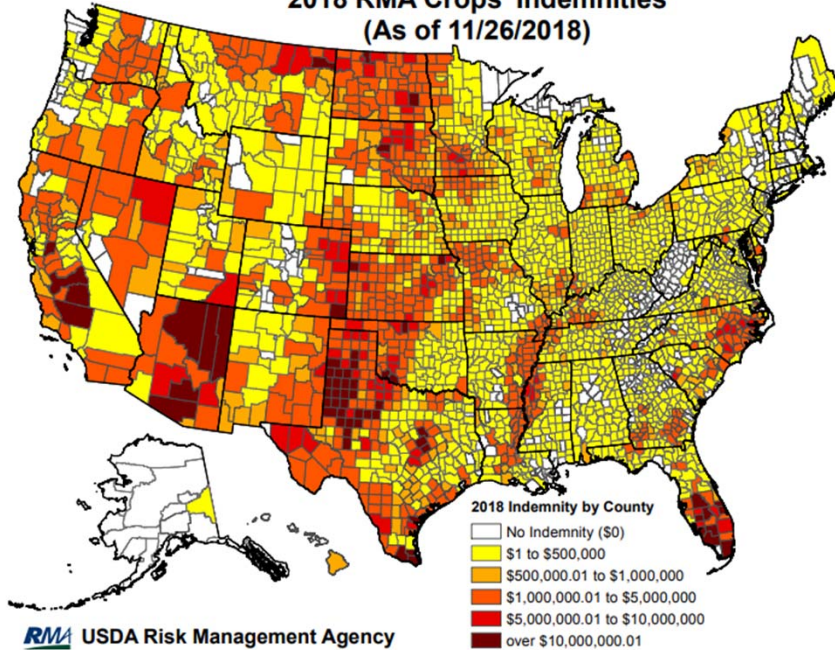
\$24,515,000 \$23,697,000

**Federal insurance indemnities**  
2008-2017

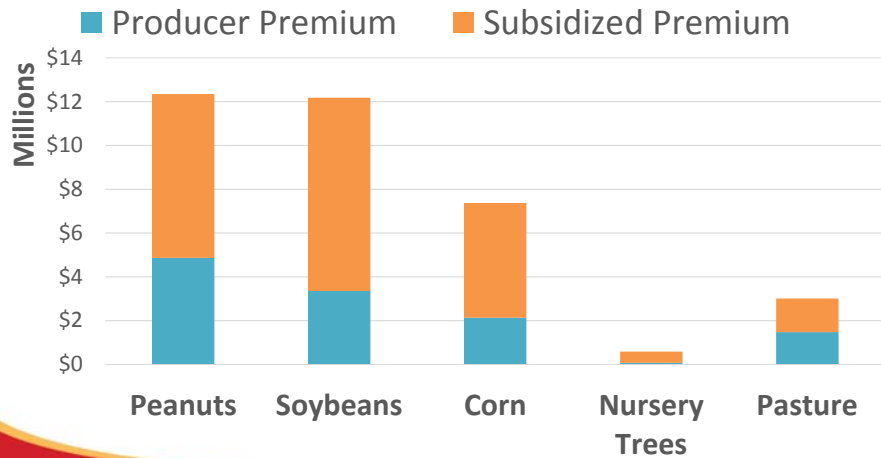
\$47,796,000 \$32,943,000

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**2018 RMA Crops' Indemnities**  
(As of 11/26/2018)

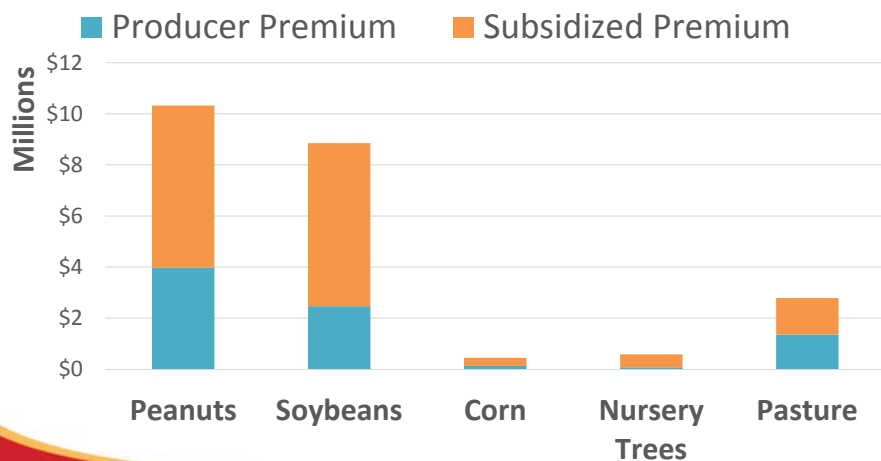


## Crop Insurance Premiums (incl. SCO) Alabama 2017



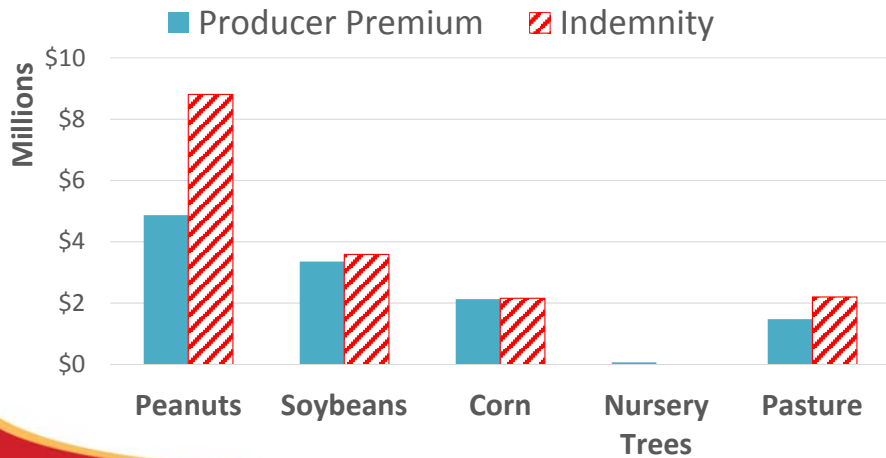
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## Crop Insurance Premiums (incl. SCO) Alabama 2018



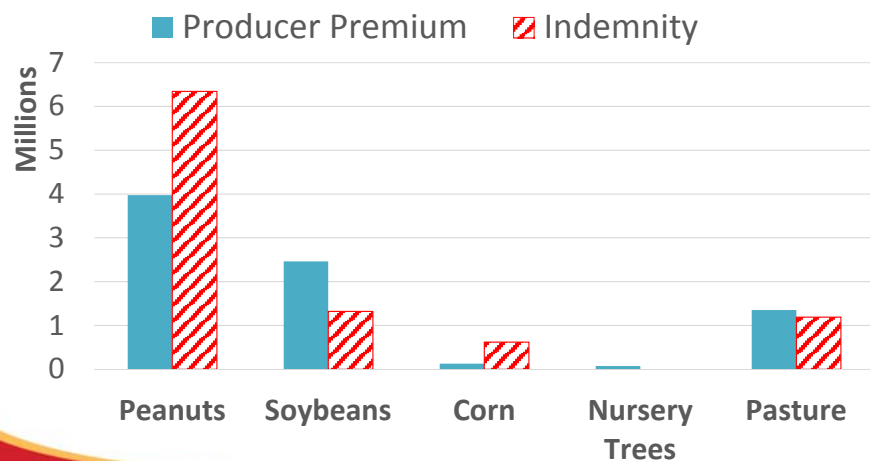
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## Crop Insurance Indemnities (incl. SCO) – Alabama 2017



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## Crop Insurance Indemnities (incl. SCO) – Alabama 2018



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2014-18 Farm Safety Net  
for Upland Cotton

**CROP INSURANCE**

Crop  
Insurance  
Agent

Stacked Income  
Protection Plan (STAX)

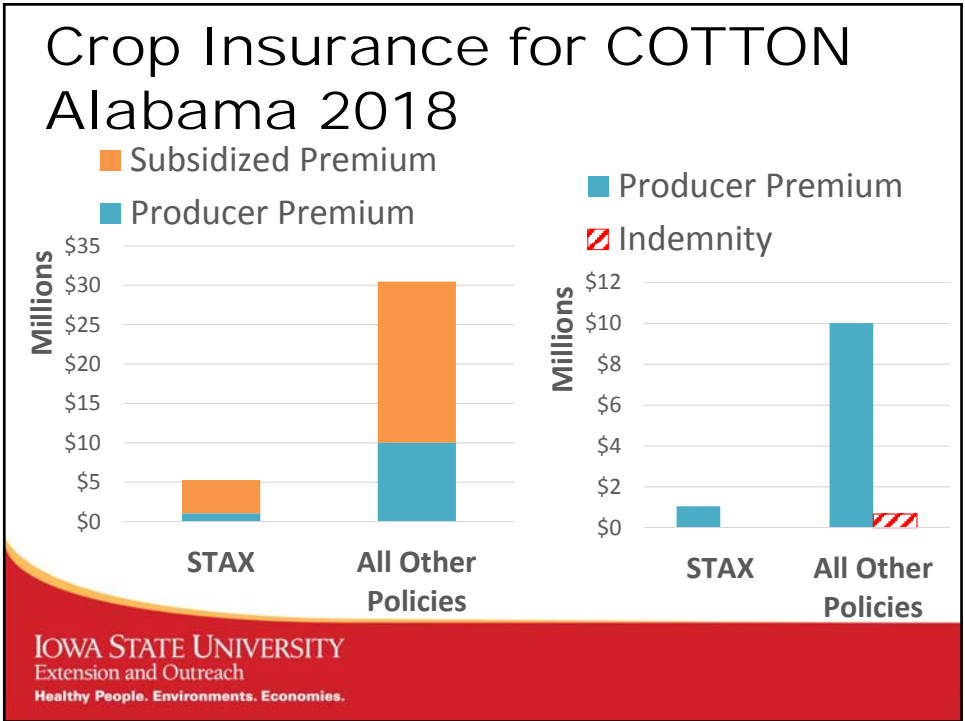
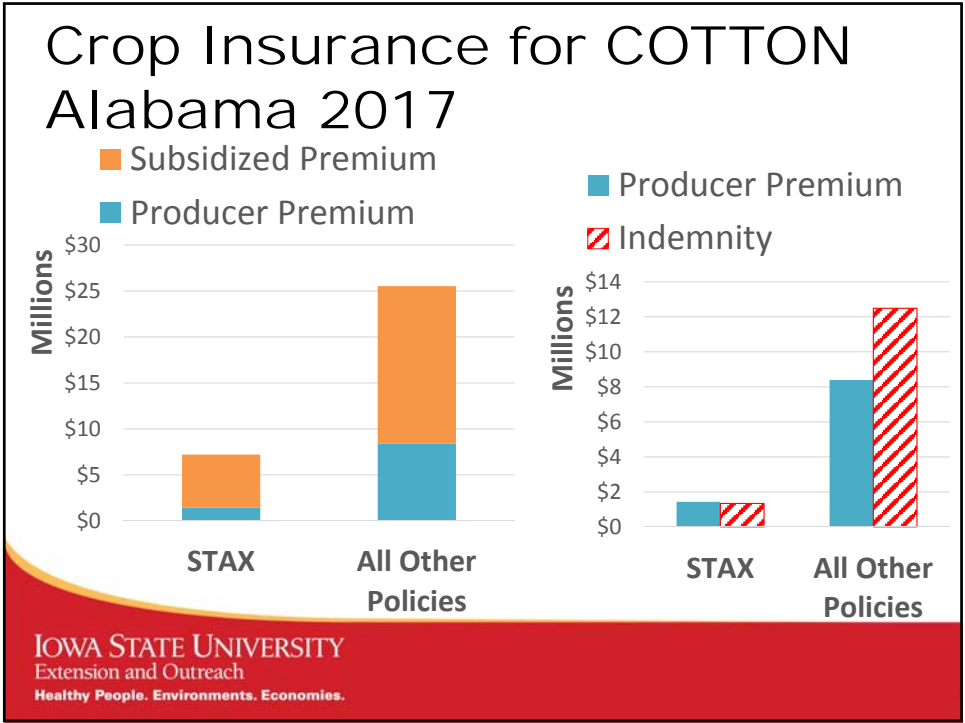
Marketing Loan National Rates:  
\$0.45-\$0.52/lb  
(Avg. A Index previous 2 years)

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The Agricultural Act of 2014, February 2014

## Stacked Income Protection Plan (STAX)

- Purchased as a stand-alone policy or as a companion policy with yield or revenue insurance.
- STAX provides coverage for a portion of the expected revenue for an area (not farm level).
- Indemnities:
  - Triggered when actual area revenue drops below 90% of the expected area revenue,
  - Max. Coverage: difference between actual revenue and 70% of expected area revenue (or the coverage level of the underlying policy)



## Alabama (USDA/ERS data)

Do ARC/PLC programs act as “Safety Net” programs?

- Higher payments with lower revenues?
- Farms in similar situations receiving similar payments per base acre?



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## ARC-CO as Safety Net in Iowa?

[Source: Plastina, A., and C. Hart. 2018. \(Open Access\) "Is ARC-CO acting as a Safety Net Program? Evidence from Iowa." Choices. Quarter 1](#)

- ARC-CO does NOT act like a “safety net” (revenue, profits, liquidity, solvency)
- It’s like a lottery with:
  - unknown probability of payment,
  - equal awards within county lines, and
  - different awards across county lines.

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Thank you for your attention!  
**Questions?**

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