



2014 Farm Bill

Crop Program Decisions

Major Farm Bill Changes

- **In general**
 - Somewhat integrates the use of crop insurance with farm bill programs
 - Producer decisions more complicated



Major Farm Bill Changes

- **Focused on risk management**
 - Program options let you decide what type of risk management you want
- **Decisions depend on price outlook**
 - No clear cut right decision



Three Decisions

- 1. Update payment yields**
- 2. Reallocate base acres**
- 3. Choose:**
 - Price Loss Coverage (PLC)
 - Agricultural Risk Coverage – County (ARC-CO)
 - Agricultural Risk Coverage – Individual (ARC-IC)



Update Payment Yields

- **Decision choices**
 - Update your payment yields to 90% of average yields from 2008 to 2012
 - Keep your current payment yields
 - Current payment yields are from 1998-2001 or 1981-1985



Update Payment Yields

- **Who & When**
 - Decision is made by the landowner
 - By February 27, 2015
 - Opportunity/necessity for producer to educate landowner



Update Payment Yields

- **Decision strategy**
 - Choose the higher payment yields by crop
 - Even if not selecting PLC, updated payment yields may be beneficial in the future

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Update Payment Yields

- **Information needed and sources**
 - Self-certify yield history 2008 – 2012



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Update Payment Yields

- **Challenges**

- Do you have documentation?
 - Keep a written record
- There will be audits



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Base Acre Reallocation

- **Decision choices**

- Reallocate base acres
 - Based on program crops planted & prevented planted from 2009 to 2012
- Retain current base acre allocation
 - Current base acres 1998-2001 or 1981-1985

Total base acres cannot be increased, only reallocated

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Base Acre Reallocation

- **Who & When**

- Decision is made by landowner
- Again, producer may need to become educator for landlords
- By February 27, 2015



Base Acre Reallocation

- **Decision strategy**

- Two perspectives:
 - Minimize financial risk
 - Maximize government payments



Base Acre Reallocation

- **Decision strategy**
 - Minimize financial risk
 - Choose to allocate base acres to be closest to 2015 through 2018 expected crop plantings
 - Probably will be most similar to 2009 to 2012 plantings



Base Acre Reallocation

- **Decision strategy**
 - Maximize government payments
 - ARC & PLC payments dependent on future prices
 - Depends on landowner's and producer's price outlook for each crop
 - Tied to ARC/PLC decision
 - Higher payments with corn base



PLC or ARC

- **Decision choices**
 - Price Loss Coverage (PLC)
 - Agricultural Risk Coverage –county (ARC-CO)
 - Agricultural Risk Coverage –individual (ARC-IC)



PLC or ARC

- **Who Decides**
 - Current producer



PLC or ARC

- **When**

- By March 31, 2015
- Before Feb. 27, integrate with base acre reallocation
- After late February
 - County yield reports released



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SCO

- **Supplemental Coverage Option – SCO**

- Available only if you don't select ARC
- Adds to your underlying crop insurance policy,
 - Yield protection
 - Revenue protection
 - Revenue protection with harvest price exclusion

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SCO

- **Covers losses from 86% down to the coverage level of underlying policy**
 - Example
 - 75% underlying coverage
 - SCO pays from 86% to 75%



SCO

- **County based coverage not individual farm**
- **Purchased from your crop insurance agent**
- **Premium subsidy is 65%**



Crop Insurance Subsidy Percent

Coverage Level	50	55	60	65	70	75	80	85
Optional*	67	64	64	59	59	55	48	38
Enterprise*	80	80	80	80	80	77	68	53

* unit structure

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PLC Example

2014, Kandiyohi County, 3.40 MYA price, 175 bu farm payment yield

- **Payment per Base Acre = 85% of Reference Price – National MYA Price x farm program yield**
 - Price
 - $\$3.70 - \$3.40 = \$0.30$
 - Payment per base acre
 - $\$0.30 \times 175 \text{ bu} \times .85 = \45



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ARC-CO Example

- **Payment rate* = County Revenue Guarantee - County Actual Revenue**
* capped at 10% of County Benchmark Revenue
- **County Revenue Guarantee = 86% of Olympic Average Price * County Olympic Average Yield**
- **Payment made on 85% of base acres**

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ARC-CO Example

- **Marketing Year Average Prices**

Marketing Year	Corn	Soybeans	Wheat
2009	3.55	9.59	4.87
2010	5.18	11.30	5.70
2011	6.22	12.50	7.24
2012	6.89	14.40	7.77
2013	4.46	13.00	6.87

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ARC-CO Example

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5 Year Olympic Average for 2014	5.28	12.27	6.60

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ARC-CO Example

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2011	6.22	12.50	7.24
2012	6.89	14.40	7.77
2013	4.46	13.00	6.87
2014 guess?	3.95	9.50	5.25
5 Year Olympic Average for 2015	5.28	12.27	6.60

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ARC-CO Example

- **County Yield (Kandiyohi example)**

Year	Corn	Soybeans	Wheat
2009	185	44	57
2010	175	47	50
2011	149	37	37
2012	185	46	48
2013	166	46	44
5 Year Olympic Average for 2014	175	45	47

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ARC-CO Example

2014, Kandiyohi County, 3.40 MYA price, 175 bu county yield

- County benchmark revenue
 - $\$5.28 \times 175 \text{ bu} = \924 (10% max pay rate \$92)
- County revenue guarantee
 - $\$924 \times .86 = \795
- 2014 Actual revenue
 - $\$3.40 \times 175 \text{ bu} = \595
- Payment rate
 - $\$795 - \$595 = \$200$, decreased to max rate \$92
- Payment per base acre
 - $\$92 \times .85 = \78

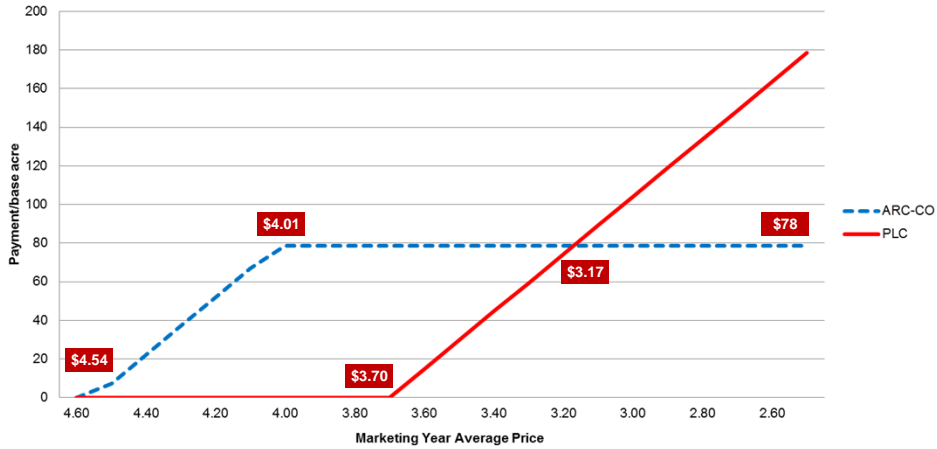
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PLC vs. ARC-CO

2014 & 2015 Corn Payments
(175 bu yield)



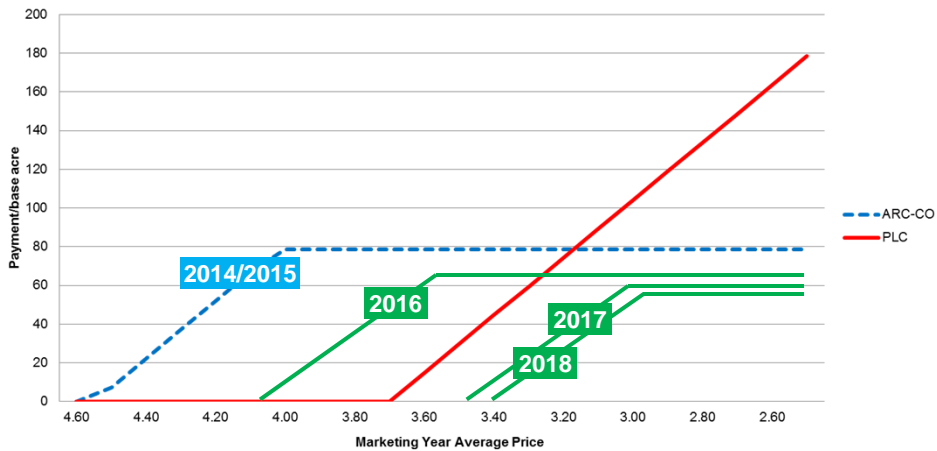
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PLC vs. ARC-CO

2014 & 2015 Corn Payments
(175 bu yield)



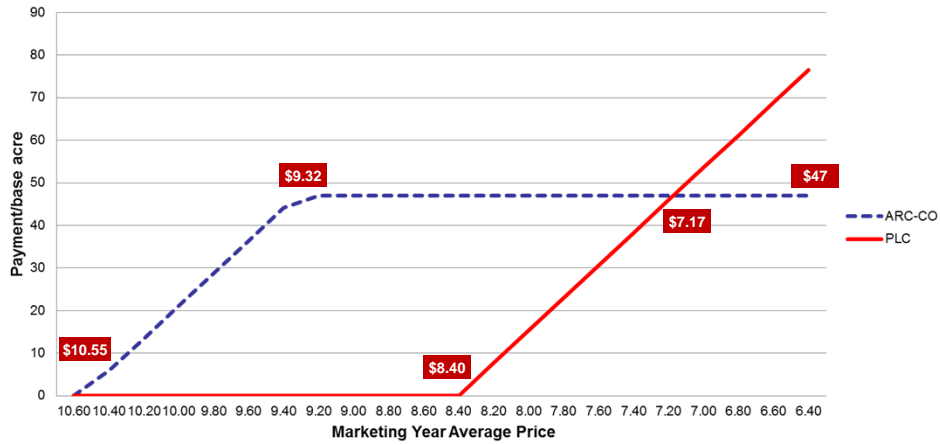
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PLC vs. ARC-CO

2014 & 2015 Soybean Payments
(45 bu yield)



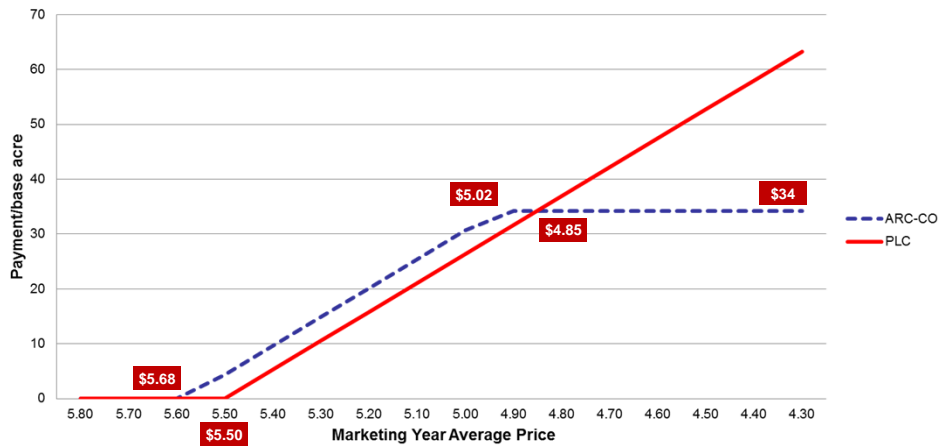
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PLC vs. ARC-CO

2014 & 2015 Wheat Payments
(62 bu yield)



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PLC or ARC

- **Decision strategy**
 - Weighing the different approaches:
 - Risk management
 - Price expectations over next five years



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PLC or ARC

- **Risk management approach**
 - PLC helps producers manage:
 - Catastrophic low prices (deep loss)



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PLC or ARC

- **Risk management approach**

- ARC–CO helps producers manage:

- Shallow revenue losses
 - Declining revenue
 - Yield losses



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PLC or ARC

- **Risk management approach**

- ARC-IC helps producers manage risk on farms with:

- Volatile yields
 - Yields higher than county averages

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PLC or ARC

- **Risk management approach**
 - How will you use crop insurance and commodity programs to manage risk
 - Will SCO with PLC be a cost effective option
 - Premium cost
 - County insurance vs. individual farm



PLC or ARC

- **Price expectations over next five years**
 - PLC: relative to reference price
 - ARC: historical prices vs expected prices



PLC or ARC

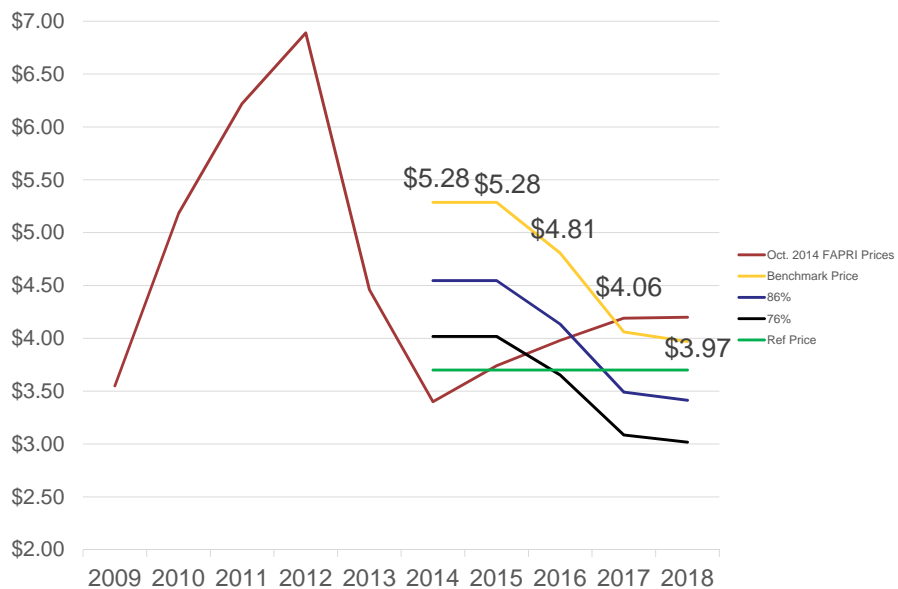
- **Price expectations over next five years**
 - Have price forecasts, but no one knows future prices
 - Decision has become much more challenging with lower prices

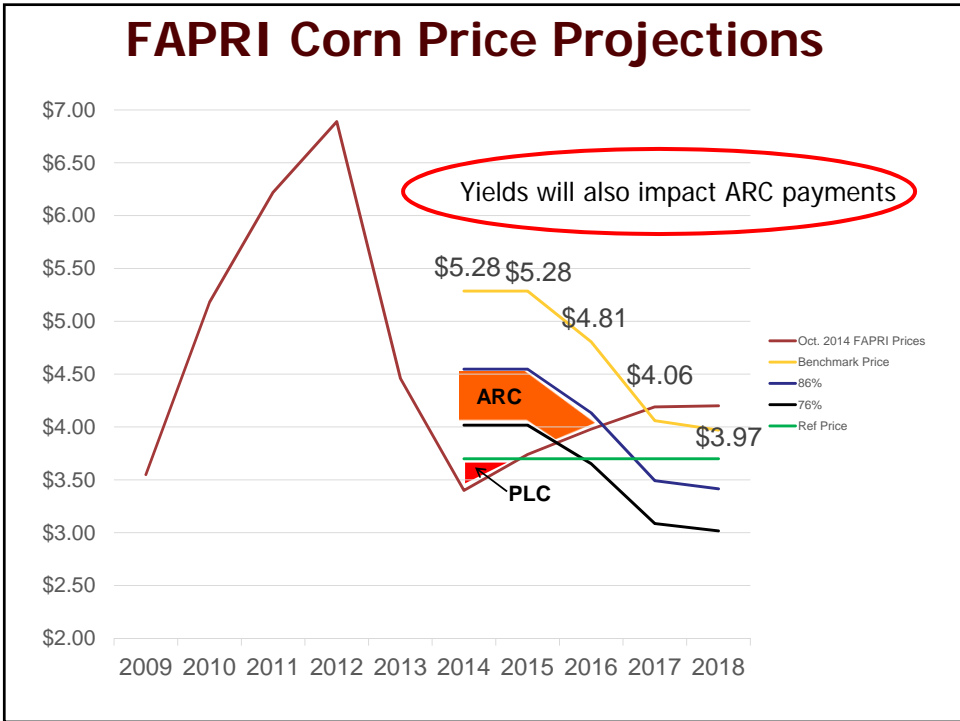
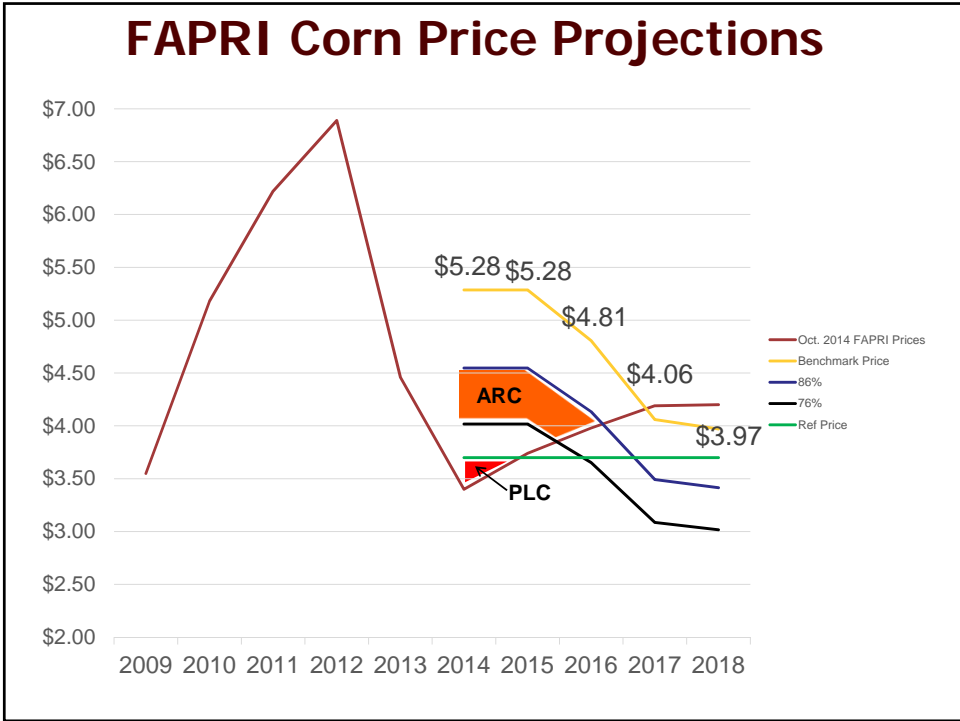
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FAPRI Corn Price Projections





PLC or ARC

- **Price expectations over next five years**
 - There will be ARC-CO payments the next few years
 - Will ARC-CO early year payments have more weight in your decision?



PLC or ARC

- **Price expectations over next five years**
 - Breakeven prices
 - If MYA corn price 2014 - 2018 averages above \$3.35 ARC-CO will have higher payments
 - If MYA soybean price averages above \$7.45 ARC-CO payments higher than PLC
 - If MYA wheat price averages above \$4.90 ARC-CO payments higher than PLC
 - Breakeven prices vary slightly by yield



PLC or ARC

- **Price expectations over next five years**
 - MN corn historic average price is \$.09 below national price, soybeans \$.18 below, & wheat is \$.25 above
 - Be aware of:
 - Catastrophic prices – PLC more protection
 - Disaster yields – ARC more protection

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PLC or ARC

- **Decision strategy**
 - Is ARC–IC an option for your farm
 - Maybe useful for farms:
 - Whose yields much higher than county yields
 - Have highly variable yields
 - May work if use for only one farm with one crop
 - That want to expand vegetable production

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PLC or ARC

- **Decision strategy**

- Other thoughts

- Diversify risk management use both ARC-CO and PLC

- By crops
 - By farms



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PLC or ARC

- **Decision strategy**

- Each farm is different

- Producers have different price outlooks

- Run different price and yield scenarios using the national decision aids



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PLC or ARC

- **Decision strategy**

- Let's look at 3 scenarios

- Low prices
- Higher prices
- Variable prices
- All at 80% crop insurance coverage



PLC or ARC

- **Sample MN Farm**

Base Acres

	Current Base	Reallocated Base
Corn	600	677
Soybeans	400	323



PLC or ARC

- **Low price scenario**

	2014	2015	2016	2017	2018
Corn (\$/bu)	\$3.40	\$2.85	\$2.85	\$2.85	\$2.85
Soybeans (\$/bu)	\$10.00	\$8.50	\$8.50	\$8.50	\$8.50

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PLC or ARC

- **Low price scenario**

Total Average Expected Payments 2014 - 2018				
Crops	ARC-C	PLC	PLC+SCO	ARC-I
Corn	\$207,750	\$288,565	\$299,690	\$212,560
Soybeans	\$48,800	\$20,760	\$24,405	

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PLC or ARC

- **Low price scenario**
 - Best option
 - PLC+SCO for corn
 - ARC–C for soybeans



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PLC or ARC

- **High price scenario**

	2014	2015	2016	2017	2018
Corn (\$/bu)	\$3.40	\$4.00	\$4.50	\$5.00	\$5.00
Soybeans (\$/bu)	\$10.00	\$11.00	\$12.00	\$14.00	\$14.00

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PLC or ARC

- **High price scenario**

Total Average Expected Payments 2014 - 2018				
Crops	ARC-C	PLC	PLC+SCO	ARC-I
Corn	\$97,440	\$49,185	\$68,310	\$102,590
Soybeans	\$19,260	\$1,720	\$7,495	

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PLC or ARC

- **High price scenario**

– Best option

- ARC–C for corn
- ARC–C for soybeans



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PLC or ARC

- **Variable price scenario**

	2014	2015	2016	2017	2018
Corn (\$/bu)	\$3.40	\$2.85	\$4.75	\$5.00	\$4.00
Soybeans (\$/bu)	\$10.00	\$7.60	\$11.00	\$12.00	\$10.50

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PLC or ARC

- **Variable price scenario**

Total Average Expected Payments 2014 - 2018				
Crops	ARC-C	PLC	PLC+SCO	ARC-I
Corn	\$119,385	\$110,255	\$127,185	\$129,310
Soybeans	\$33,245	\$12,420	\$16,955	

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PLC or ARC

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PLC or ARC

- **Variable price scenario**

- Best option

- PLC+SCO for corn
- ARC–C for soybeans



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Two National Decision Tools

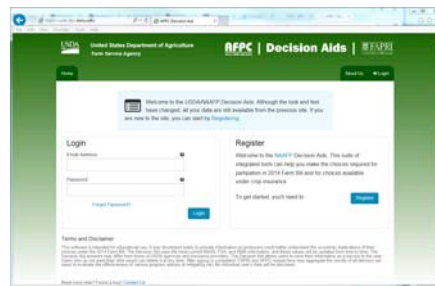
Agriculture Policy Analysis System (APAS)

U of Illinois



National Association of Agricultural and Food Policy (NAAFP)

Texas A&M



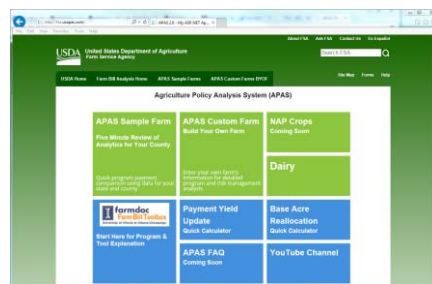
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Which Tool To Use?

- **We recommend the Illinois tool**

– <http://fsa.usapas.com>




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Agriculture Policy Analysis System (APAS)


APAS Sample Farm Five Minute Review of Analytics for Your County Quick program payment comparison using data for your state and county	APAS Custom Farm Build Your Own Farm Enter your own farm's information for detailed program and risk management analysis	NAP Crops Coming Soon Dairy
 Start Here for Program & Tool Explanation	Payment Yield Update Quick Calculator APAS FAQ Coming Soon	Base Acre Reallocation Quick Calculator YouTube Channel

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Agriculture Policy Analysis System (APAS)

APAS Sample Farm APAS Custom Farm NAP Crops

Payment Yield Update

Minimum Yield Lookup

State: County: Crop: Minimum Yield: 129 bushels/acre

Historical yields per planted acre

Please enter yields in bushels/acre. If the crop was not planted, leave the entry blank. Averages are only taken from crops that were planted.

2008	2009	2010	2011	2012
<input type="text" value="179"/>	<input type="text" value="193"/>	<input type="text" value="180"/>	<input type="text" value="176"/>	<input type="text" value="176"/>

Updated Payment Yield: 163 bushels/acre

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Agriculture Policy Analysis System (APAS)

APAS Sample Farm

Five Minute Review of Analytics for Your County

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Build Your Own Farm

Enter your own farm's information for detailed program and risk management analysis

NAP Crops

Coming Soon

Dairy

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APAS FAQ

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Select a Sample Farm

Minnesota | Kandiyohi | USDA Prices | 80 Percent Coverage

Select Sample Farm Cropped Acre Usage Sample Farm Expected Program Payments Safety Net

Kandiyohi County Minnesota

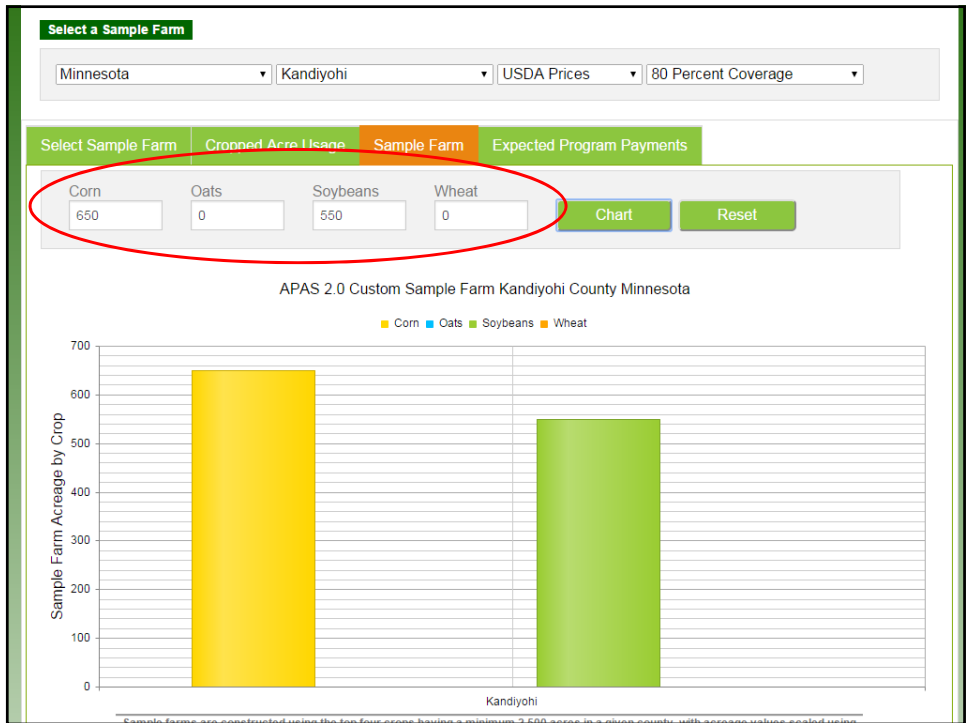
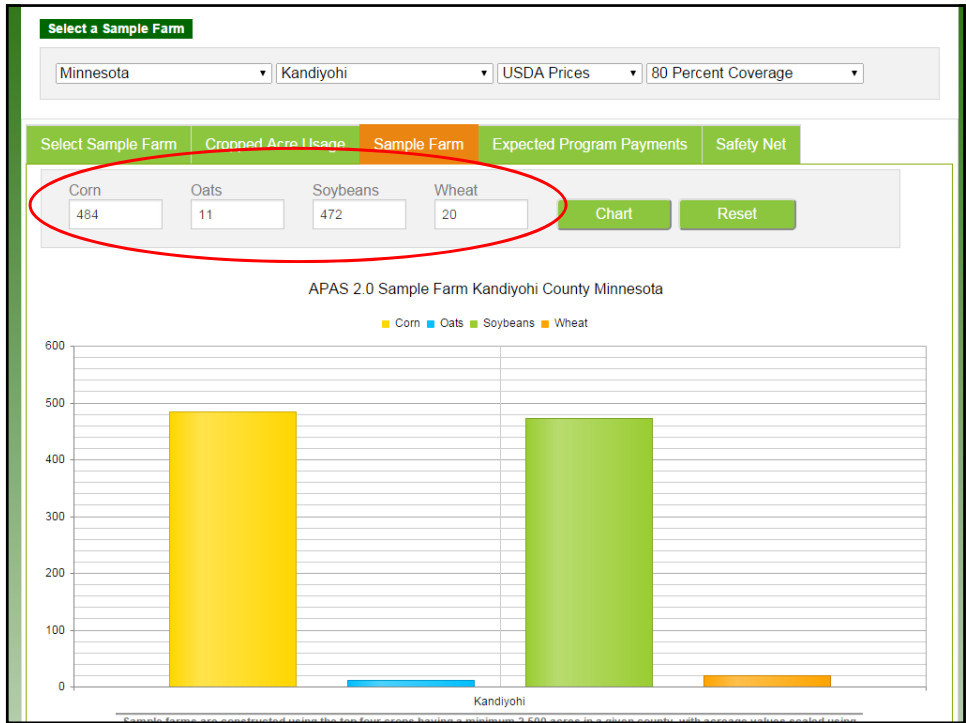
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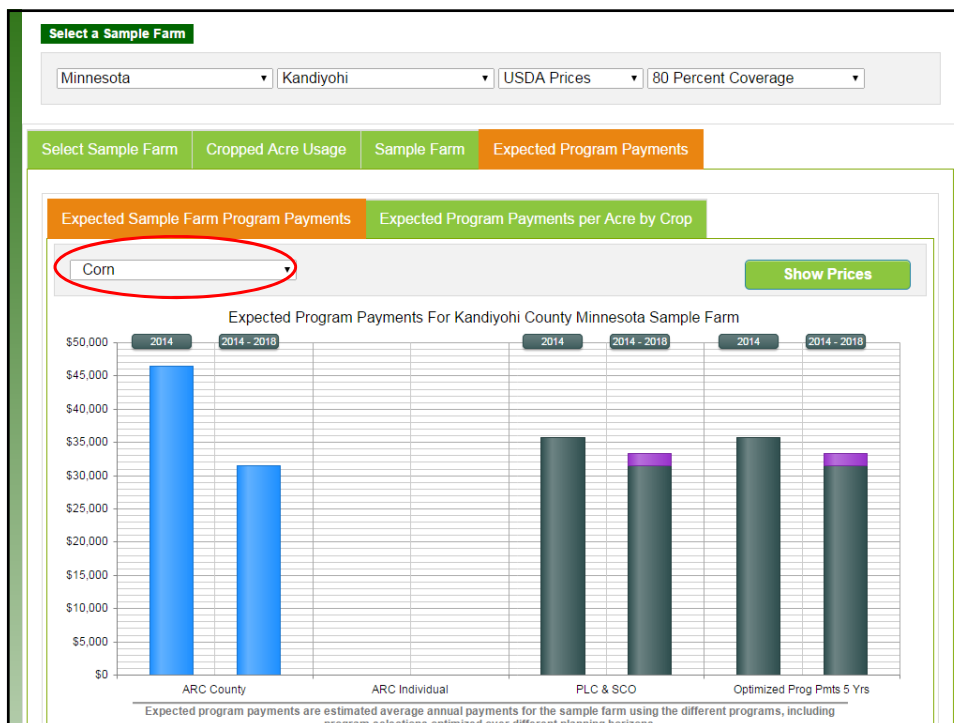
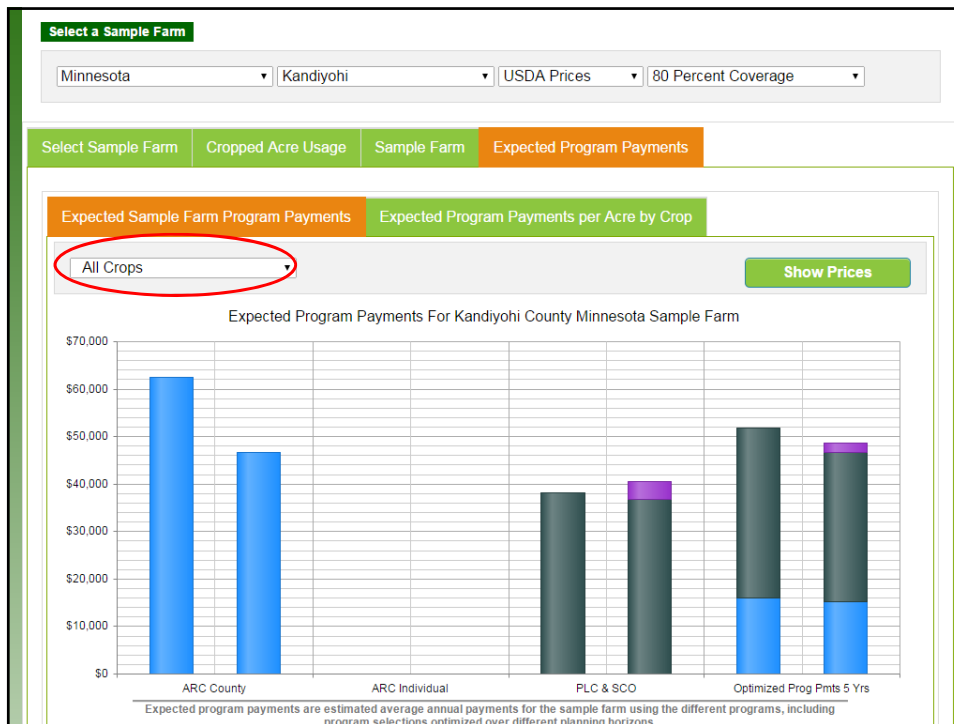
Select a Sample Farm

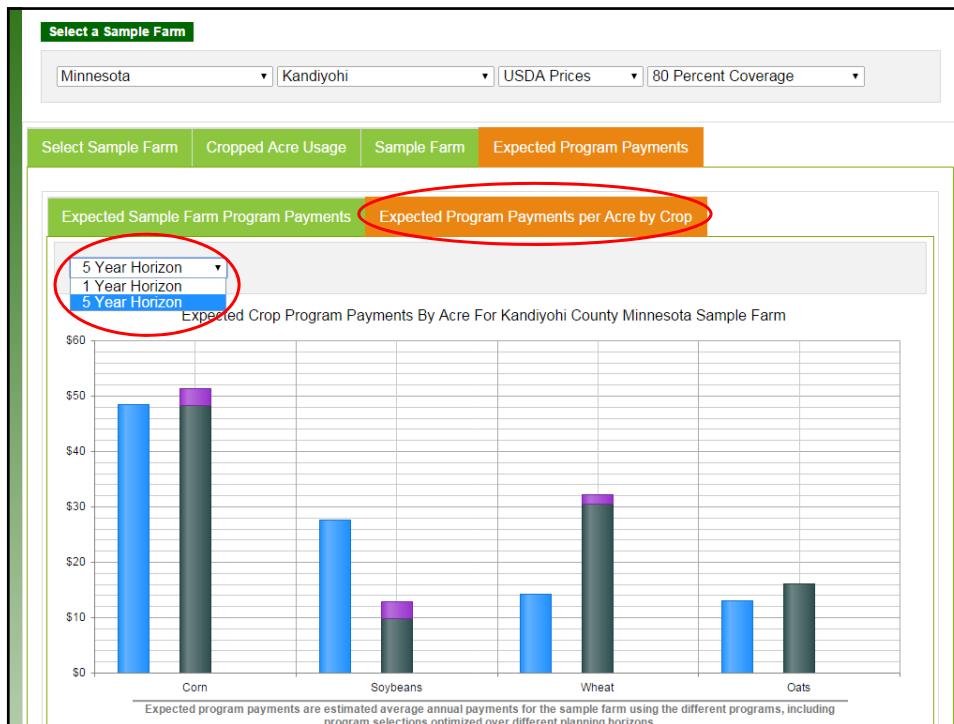
Minnesota | Kandiyohi | USDA Prices | 80 Percent Coverage

Select Sample Farm Cropped Acre Usage Sample Farm Expected Program Payments Safety Net

Kandiyohi County Minnesota







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APAS Custom Farm

Build Your Own Farm

Enter your own farm's information for detailed program and risk management analysis

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Coming Soon

Dairy

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Farm Bill Toolbox
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Quick Calculator

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1 Farm Location

2 Add Crops

3 Scenario Selection

4 FARM Analytics

State:
 County:
 Farm Base Acres:
 Payment Entities:

Next

Upload an existing farm

If you have previously saved a farm, please select 'Load Farm File' and pick the desired file from your computer.

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1 Farm Location

2 Add Crops

3 Scenario Selection

4 FARM Analytics

a Crop Info
Add Crop Information

b Program Inputs
Base Acres and Payment Yields

c Yield Series
Enter Yield History

d Price Series
Select a Price Series

Add crops to build your farm

Corn: 850 Planted Acres

Crop Entry Name	Type	Practice	Expected Yield	Planted Acres	Units	
Corn	Grain	Non-Irrigated	182	850	1	<input type="button" value="Edit"/> <input type="button" value="Delete"/>

Soybeans: 350 Planted Acres

Crop Entry Name	Type	Practice	Expected Yield	Planted Acres	Units	
Soybeans	Commodity	Non-Irrigated	49	350	1	<input type="button" value="Edit"/> <input type="button" value="Delete"/>

Crop Entry Name:
 Crop:
 Type:
 Practice:
 Expected Yield (Rate Yield where applicable):
 Planted Acres (2014):
 How many optional units would you be eligible to insure for this crop?:

Add Crop Entry

1 Farm Location

2 Add Crops

3 Scenario Selection

4 FARM Analytics

a Crop Info
Add Crop Information

b Program Inputs
Base Acres and Payment Yields

c Yield Series
Enter Yield History

d Price Series
Select a Price Series

Add crops to build your farm

Crop Entry Name

Crop

Type

Practice

Expected Yield (Rate Yield where applicable)

Planted Acres (2014)

How many optional units would you be eligible to insure for this crop?

Add Crop Entry

Corn: 850 Planted Acres

Crop Entry Name	Type	Practice	Expected Yield	Planted Acres	Units		
Corn	Grain	Non-Irrigated	182	850	1	Edit	Delete

Soybeans: 350 Planted Acres

Crop Entry Name	Type	Practice	Expected Yield	Planted Acres	Units		
Soybeans	Commodity	Non-Irrigated	49	350	1	Edit	Delete

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1 Farm Location

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a Crop Info
Add Crop Information

b Program Inputs
Base Acres and Payment Yields

c Yield Series
Enter Yield History

d Price Series
Select a Price Series

Farm Base Acres: 1000

Corn

Base Acres: Payment Yield:

Soybeans

Base Acres: Payment Yield:

Base Acre Reallocation Calculator

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Base Acre Calculator

Enter in your acreage history to see your new reallocated base acres

Crop	Base Acres	Planted Acres				Base Acres Reallocated
	Existing	2009	2010	2011	2012	
Corn	<input type="text" value="600"/>	<input type="text" value="850"/>	<input type="text" value="700"/>	<input type="text" value="825"/>	<input type="text" value="875"/>	677.08
Soybeans	<input type="text" value="400"/>	<input type="text" value="350"/>	<input type="text" value="500"/>	<input type="text" value="375"/>	<input type="text" value="325"/>	322.92

Calculate Reallocated Base **Close With Reallocated Base** **Cancel**

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a Crop Info Add Crop Information b Program Inputs Base Acres and Payment Yields c Yield Series Enter Yield History d Price Series Select a Price Series

Yield History (optional)

The yields entered from 2008-2012 are used to calculate the updated payment yield. The yields entered from 2009-2013 are used to estimate the ARC-Individual payments.

Corn (Bushels/acre)							Current Payment Yield: 131	Updated Payment Yield: 162.72
2008	2009	2010	2011	2012	2013			
<input type="text" value="179"/>	<input type="text" value="193"/>	<input type="text" value="180"/>	<input type="text" value="176"/>	<input type="text" value="176"/>	<input type="text" value="185"/>			

Soybeans (Bushels/acre)							Current Payment Yield: 36	Updated Payment Yield: 44.57
2008	2009	2010	2011	2012	2013			
<input type="text" value="46"/>	<input type="text" value="50"/>	<input type="text" value="52.5"/>	<input type="text" value="47.4"/>	<input type="text" value="51.7"/>	<input type="text" value="52"/>			

Previous **Next** **Finish**

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a Crop Info Add Crop Information b Program Inputs Base Acres and Payment Yields c Yield Series Enter Yield History d Price Series Select a Price Series

Price Series

These prices are the expected 12-month market year average for each year. Your farm's simulations will be centered on these prices, but will also include price volatility to reflect the unpredictable nature of prices several years out. This tool is not a deterministic calculator for PLC and ARC, but rather a **stochastic** simulation that is more robust to the unpredictable nature of future prices and yields.

For example, if you input an expected price that is greater than the PLC reference price, you will often see a positive expected PLC payment. This occurs when there is a positive probability that prices will fall below the reference price due to price volatility.

Please select a published price series or create your own.

Corn (\$/bu.)

Price Series	2014	2015	2016	2017	2018
Custom	3.90	4.00	4.19	4.35	4.45

Soybeans (\$/bu.)

Price Series	2014	2015	2016	2017	2018
Custom	11.06	10.02	10.06	10.87	11.11

April 2014 CBO Projected Prices
May 2014 USDA Projected Prices (WASDE update October 2014)
October 2014 FAPRI Projected Prices

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Corn Price Series

	2014	2015	2016	2017	2018
FAPRI (Nov)	3.50	3.89	4.02	4.10	4.10
USDA (May) Oct WASDE update of 2014 price	3.50	3.68	3.38	3.47	3.53
Congressional Budget (April)	3.90	4.00	4.19	4.35	4.45

Soybean Price Series

	2014	2015	2016	2017	2018
FAPRI (Nov)	10.00	9.10	9.78	10.08	10.23
USDA (May) <small>Oct WASDE update of 2014 price</small>	10.00	8.66	9.00	8.97	9.19
Congressional Budget (April)	11.06	10.02	10.06	10.87	11.11

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Wheat Price Series

	2014	2015	2016	2017	2018
FAPRI (Nov)	5.90	5.36	5.50	5.70	5.90
USDA (May) <small>Oct WASDE update of 2014 price</small>	5.90	5.10	4.38	4.33	4.56
Congressional Budget (April)	5.40	5.60	5.63	5.65	5.78

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Scenario 1

Corn

ARC County ▾

Crop: Corn
Type: Grain
Practice: Non-Irrigated

Revenue Protection ▾

0.80 ▾

Soybeans

ARC County ▾

Crop: Soybeans
Type: Commodity
Practice: Non-Irrigated

Revenue Protection ▾

0.80 ▾

Scenario 2

Corn

Price Loss Coverage ▾

Crop: Corn
Type: Grain
Practice: Non-Irrigated

Revenue Protection ▾

0.80 ▾

SCO - Supplemental Cr ▾

Soybeans

Price Loss Coverage ▾

Crop: Soybeans
Type: Commodity
Practice: Non-Irrigated

Revenue Protection ▾

0.80 ▾

SCO - Supplemental Cr ▾

Scenario 3

Corn

ARC Individual ▾

Crop: Corn
Type: Grain
Practice: Non-Irrigated

Revenue Protection ▾

0.80 ▾

Soybeans

ARC Individual ▾

Crop: Soybeans
Type: Commodity
Practice: Non-Irrigated

Revenue Protection ▾

0.80 ▾

Type: Commodity
Practice: Non-Irrigated

Revenue Protection ▾

0.80 ▾

Crop: Soybeans
Type: Commodity
Practice: Non-Irrigated

Revenue Protection ▾

0.80 ▾

SCO - Supplemental Cr ▾

Type: Commodity
Practice: Non-Irrigated

Revenue Protection ▾

0.80 ▾

Required Inputs for Revenue Protection Insurance:

Crop: Corn	Type: Grain	Practice: Non-Irrigated	APH 182	RP Unit Structure OU - Optional Unit ▾
Crop: Soybeans	Type: Commodity	Practice: Non-Irrigated	APH 49	RP Unit Structure OU - Optional Unit ▾

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Export Farm Details

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1 Farm Location

State:

County:

Farm Base Acres:

Payment Entities:

Next

Upload an existing farm

If you have previously saved a farm, please select 'Load Farm File' and pick the desired file from your computer.

Load Farm File

2 Add Crops

3 Scenario Selection

4 FARM Analytics

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Scenario 1

- Corn: ARC County
- Soybeans: ARC County

Scenario 2

- Corn: Price Loss Coverage
- Soybeans: Price Loss Coverage

Scenario 3

- Corn: ARC Individual
- Soybeans: ARC Individual

Please review your scenario selections. If you are satisfied, please click 'Run Scenarios' to see your results.

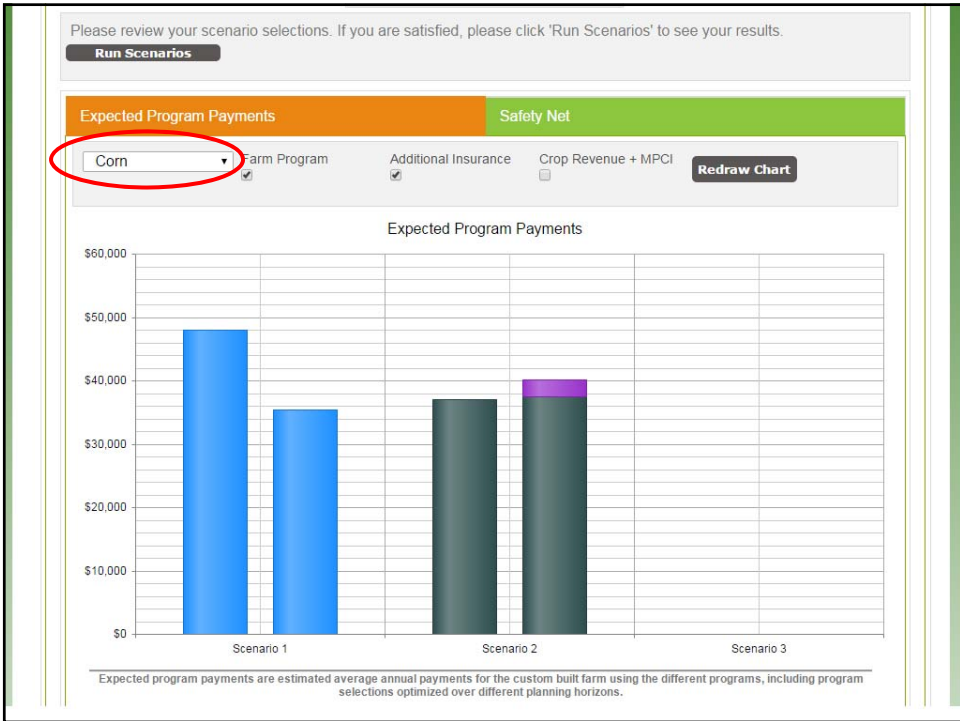
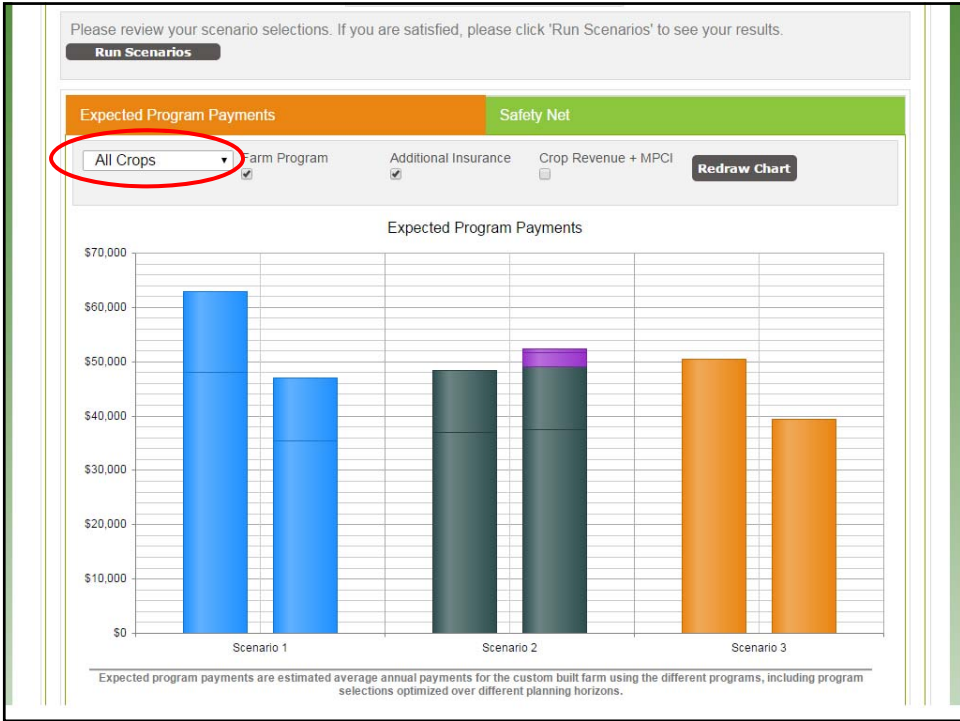
Run Scenarios

Expected Program Payments

Safety Net

Please click the 'Run Scenarios' button to see your Expected Program Payments for each scenario.

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PLC or ARC

- **Decision strategy - questions**
 - What is your price outlook?
 - What risks are you most concerned about managing?
 - Is ARC-I a viable option for you?
 - Is SCO a cost effective insurance option?



PLC or ARC

- **Decision strategy - questions**
 - Do you want to diversify your risk management with both ARC-C and PLC?
 - How do your program decisions fit with your crop insurance decisions?



Additional Information

<http://farmbill.umn.edu/>

- This training available online

<http://farmbilltoolbox.farmdoc.illinois.edu/>

- Large collection of farm bill articles and presentations

<http://z.umn.edu/cropfarmbill>

- Minnesota fact sheets and updates

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2014 Farm Bill

- **Questions?**

Evaluation!



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