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RightRisk™

RightRisk News

Dates to Remember

- **July 15, 2014**: Spring crop acreage reporting deadline.
- **August 15, 2014**: Spring premium billing deadline date.
- **November 15, 2014**: Pasture, Rangeland, Forage (PRF) sales closing date.

For more information see: http://www.rma.usda.gov.

How Much Risk is Right for You?

Agricultural Act of 2014
Agricultural Risk Coverage and Price Loss Coverage programs

The Agricultural Act of 2014 establishes new programs to provide price support to producers of covered agricultural commodities. These programs have been titled the Agricultural Risk Coverage (ARC) and the Price Loss Coverage (PLC) programs. The Act also establishes an insurance program called the Supplementary Coverage Insurance Option (SC0). We will address SCO insurance in a later article.

Many of the details on how ARC and PLC programs will function have not yet been released. This article will focus on information that is currently available. The USDA-Farm Service Agency (FSA) will administrate the programs and have provided information on their website at: http://www.fsa.usda.gov.

The main difference between ARC and PLC is that payments to producers are triggered by ***low crop prices*** under PLC. In contrast, payments to producers are triggered by ***low per acre crop revenues*** under ARC.

Price Loss Coverage

Payments are issued when the ***national average marketing year price*** for a covered commodity is lower than the ***reference price*** established for that commodity. The payment will be equal to 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.

Note that the PLC is not an insurance program. Producers are not required to pay any premiums to participate in the program. Nor are they required to plant a crop for which they have a production base. However, to be eligible they may be required to satisfy conservation compliance requirements, as was the case with previous Direct Payments, Countercyclical Payments and Average Crop Revenue Program (ACRE) programs.

Agricultural Risk Coverage

Payments are made when the estimated average revenue per acre for a crop (the current year crop yield multiplied by the national average marketing year price for that crop) falls below 86 percent of the ***estimated historical average per acre revenue*** for the crop over the most recent five years.

The ARC historical average per acre revenue for a crop is called the ***benchmark revenue***. The benchmark revenue for a crop is multiplied by 86 percent to obtain the ***agricultural risk coverage guarantee***. Note that if ARC is chosen for a crop, then the producer may not purchase SCO coverage for that crop.

The ARC program has two options: (1) a producer may base their participation in ARC on county-wide yields for a crop or (2) on yields for the crop on the producer's own land.

County ARC

Where a producer chooses to base their ARC program participation on county-wide yields for a crop, the farm would receive payments on 85 percent of its base acres of production of the crop. In addition, if the farm wanted to enroll a second crop in the PLC program and also purchase additional coverage for that crop under the SCO, it could do so.

continued on pg. 2

Individual ARC

Where a producer chooses to base their ARC program participation on their own yields for a crop, they will receive ARC payments on only 65 percent of the farm's base acres for that crop. In addition, the producer will also be required to enroll all of their other eligible crops in the ARC program.

Election Decision

Commodities covered under ARC/PLC include: wheat, oats, barley, corn, grain sorghum, rice, soybeans, sunflower seed, rapeseed, canola, safflower, flaxseed, mustard seed, crambe and sesame seed, dry peas, lentils, small chickpeas, large chickpeas and peanuts.

Producers of covered commodities will have the opportunity to update their program payment yield for each covered commodity based on 90 percent of the farm's 2008-2012 average yield per planted acre, excluding any year when no acreage was planted to the covered commodity. In addition, on a crop by crop basis, producers will be required to make a one-time decision for the entire duration of the 2014 Agricultural Act (2014-2018 crop years) on whether to participate in the PLC or the ARC program. At the present time, it is expected that producers will make the PLC/ARC decision sometime in either December of 2014 or by mid-February of 2015 and that the decision will apply to crops harvested in the 2014, 2015, 2016, 2017 and 2018 crop years. If an election is not made in 2014, the farm may not participate in either PLC or ARC for the 2014 crop year and the producers on the farm are deemed to have elected PLC for subsequent crop years, but must still enroll their farm to receive coverage.

What happens to prices for a particular commodity over the period 2014 to 2018 (the five crop years covered by the Act) will heavily affect the payments received for a given crop. If prices for a crop are expected to be substantially lower than the PLC reference price over that period then, for that crop, the PLC program may be attractive. If, on the other hand, prices for the crop are expected to be relatively high, close to, or in excess of the PLC reference price, the ARC program may be more attractive. In addition, all acres of a crop can continue to be insured under existing RMA actual production history (APH) or group risk programs.

This leaves many options open to producers, options that should be carefully considered before a choice is made. In late May, Secretary Vilsack announced that monetary awards were being made to universities and cooperative state extension services to develop online decision tools and other materials and to train experts to provide education to farmers and ranchers about key aspects of the Act. Interested producers should stay in close contact with their Farm Service Agency office or check the agency webpage for more information as the year unfolds and details become available.

For more details and examples of how the ARC/PLC programs may work, see the recently released *New Programs in the 2014 Farm Bill: Price Loss Coverage, Agricultural Risk Coverage and the Supplemental Coverage Agricultural Insurance Option for Wyoming Farms and Ranches*, available in the Western Risk Management Library at: http://riskmgt.uwagec.org/NEWPubs.

RightRisk™

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How much risk is right for you and your operation?