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
Overview

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

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
USDA Budget 2019

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)
Federal Government direct farm program payments (All states)

<table>
<thead>
<tr>
<th>Year</th>
<th>Supplemental and ad hoc disaster assistance</th>
<th>Conservation</th>
<th>Agriculture Risk Coverage (ARC)</th>
<th>Price Loss Coverage (PLC)</th>
<th>Miscellaneous programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$2</td>
<td>$0</td>
<td>$2</td>
<td>$4</td>
<td>$6</td>
</tr>
<tr>
<td>2016</td>
<td>$2</td>
<td>$0</td>
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<td>$4</td>
<td>$6</td>
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<tr>
<td>2017</td>
<td>$2</td>
<td>$0</td>
<td>$2</td>
<td>$4</td>
<td>$6</td>
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<tr>
<td>2018F</td>
<td>$2</td>
<td>$0</td>
<td>$2</td>
<td>$4</td>
<td>$6</td>
</tr>
</tbody>
</table>

- Fixed direct payments
- Cotton Transition Assistance Payments (CTAP)
- Cotton Ginning Cost-Share (CGCS) Program
- Average Crop Revenue Election Program (ACRE)
- Price Loss Coverage (PLC)
- Agriculture Risk Coverage (ARC)
- Counter-cyclical payments
- Loan deficiency payments
- Marketing loan gains
- Milk income loss payments
- Dairy Margin Protection Program
- Conservation
- Supplemental and ad hoc disaster assistance
- Biomass Crop Assistance Program (BCAP)
- Miscellaneous programs

2014-18 Farm Safety Net (No Upland Cotton)

Marketing Loan National Rates:
- $355/ton Peanuts
- $5.00/bu Soybeans
- $1.95/bu Corn

The Agricultural Act of 2014, February 2014
ARC & PLC Programs

Covered Commodities for ARC & PLC

<table>
<thead>
<tr>
<th>Barley</th>
<th>Canola</th>
<th>Corn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crambe</td>
<td>Flaxseed</td>
<td>Garbanzo, Large</td>
</tr>
<tr>
<td>Garbanzo, Small</td>
<td>Grain Sorghum</td>
<td>Lentils</td>
</tr>
<tr>
<td>Mustard Seed</td>
<td>Oats</td>
<td>Peanuts</td>
</tr>
<tr>
<td>Peas, Dry</td>
<td>Rapeseed</td>
<td>Rice, Long Grain</td>
</tr>
<tr>
<td>Rice, Medium Grain</td>
<td>Safflowers</td>
<td>Sesame Seed</td>
</tr>
<tr>
<td>Soybeans</td>
<td>Sunflower Seed</td>
<td>Wheat</td>
</tr>
</tbody>
</table>

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)
  o ARC-CO: County revenue
  o ARC-IC : Individual Farm revenue
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

ARC and PLC Enrolled Acres

<table>
<thead>
<tr>
<th></th>
<th>US Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>PLC</td>
<td>55,137,845, 23%</td>
</tr>
<tr>
<td>ARC-IC</td>
<td>2,106,275, 1%</td>
</tr>
<tr>
<td>ARC-CO</td>
<td>185,119,381, 76%</td>
</tr>
</tbody>
</table>
ARC and PLC Enrolled Acres Iowa and Alabama

Iowa

- ARC-IC: 59,970; 0%
- ARC-CO: 21,949,515; 98%
- PLC: 518,735; 2%

Alabama

- ARC-IC: 377; 0%
- ARC-CO: 385,897; 44%
- PLC: 488,799; 56%

Base Acres Enrolled in ARC/PLC in Alabama by Commodity

Thousands

0 50 100 150 200 250 300

PLC ARC-CO ARC-IC

CORN GRAIN SORGHUM OATS PEANUTS SOYBEANS WHEAT
**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%
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.

<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>

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%
 ARC-CO & PLC Payments in Alabama

<table>
<thead>
<tr>
<th>Year</th>
<th>PLC</th>
<th>ARC-CO</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014/15</td>
<td></td>
<td>20</td>
</tr>
<tr>
<td>2015/16</td>
<td>60</td>
<td>10</td>
</tr>
<tr>
<td>2016/17</td>
<td>60</td>
<td>20</td>
</tr>
<tr>
<td>2017/18</td>
<td>30</td>
<td>5</td>
</tr>
</tbody>
</table>

2014-18 Farm Safety Net (No Upland Cotton)

Marketing Loan National Rates:
- $355/ton Peanuts
- $5.00/bu Soybeans
- $1.95/bu Corn

The Agricultural Act of 2014, February 2014
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)

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)
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

USDA/ERS Data 2017

Get to know farms in Alabama

<table>
<thead>
<tr>
<th>Farm facts</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of farms</td>
<td>43,800</td>
</tr>
<tr>
<td>Acres of farmland</td>
<td>8,900,000</td>
</tr>
<tr>
<td>Net farm income</td>
<td>$1,723,875,000</td>
</tr>
<tr>
<td>Government payments</td>
<td>$204,803,000</td>
</tr>
<tr>
<td>Federal insurance premiums</td>
<td>$23,697,000</td>
</tr>
<tr>
<td>Federal insurance indemnities</td>
<td>$32,943,000</td>
</tr>
</tbody>
</table>

6,823 policies cover 1.4 million acres and provide $566.6 million in protection
Alabama (USDA/ERS data)

Federal insurance premiums
2008-2017

$24,515,000

$23,697,000

Federal insurance indemnities
2008-2017

$47,790,000

$32,943,000

2018 RMA Crops’ Indemnities
(As of 11/26/2018)

2018 Indemnity by County

- No Indemnity ($0)
- $1 to $500,000
- $500,001 to $1,000,000
- $1,000,001 to $5,000,000
- $5,000,001 to $10,000,000
- Over $10,000,000

USDA Risk Management Agency
Crop Insurance Premiums (incl. SCO) Alabama 2017

Crop Insurance Premiums (incl. SCO) Alabama 2018
Crop Insurance Indemnities (incl. SCO) – Alabama 2017

Crop Insurance Indemnities (incl. SCO) – Alabama 2018
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)
Crop Insurance for COTTON
Alabama 2017

- Subsidized Premium
- Producer Premium

Millions

STAX
All Other Policies

Crop Insurance for COTTON
Alabama 2018

- Subsidized Premium
- Producer Premium

Millions

STAX
All Other Policies
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?

ARC-CO as Safety Net in Iowa?


- 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.
Thank you for your attention!
Questions?

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