Frequently Asked Questions:

Title I Programs of the 2014 Farm Bill

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Disclaimer: This publication is designed to aid farmers with their marketing and risk decisions. This information is based on the author’s interpretation of the 2014 Farm Bill. Some details may change after final rules and regulations are released by FSA. This information is intended for educational purposes only.

1. *What new programs are available with the 2014 Farm Bill?*

Farmers have the option of three programs; Agricultural Risk Coverage at the County Level (ARC-CO), Agricultural Risk Coverage at the Individual Level (ARC-IC), and Price Loss Coverage (PLC). If not enrolled in an ARC program, they also have the opportunity to purchase a Supplemental Coverage Option (SCO) as additional coverage to their crop insurance contract.

2. *What programs are no longer available with the 2014 Farm Bill?*

Direct Payments, Countercyclical Payments, and the Average Crop Revenue Election (ACRE) were repealed.

3. *How is the PLC guarantee set?*

The PLC guarantee is written in the statutes of the 2014 Farm Bill, and is essentially a price floor. This “strike” or “reference” price for common Kansas commodities is $5.50 for wheat, $3.95 for sorghum, $3.70 for corn, and $8.40 for soybeans.

4. *When is a PLC payment received?*

Payment is made if the Marketing Year Average (MYA) price *(see Question 10)* falls below the PLC reference price. The payment is calculated by taking the difference in the MYA price and the reference price, multiplied by the farm’s program yield, multiplied by 85% of base acreage. PLC payments are dependent on national commodity price and not related to actual yield, therefore this program offers **price protection** only. Payment is made on base acres of that commodity; planted acres with no base will receive no payments.

5. *How is the ARC guarantee set?*

The ARC program offers **revenue** protection. The ARC-CO guarantee is set by multiplying the 5-year moving Olympic average *(see Question 11)* MYA price by the 5-year moving Olympic average County Yield and then by 86% (to factor in a 14% deductible). Each commodity in each county will have a separate revenue guarantee.

With ARC-IC the guarantee is a whole farm revenue guarantee, based on a 5-year moving Olympic average of revenues. Historical revenues are calculated by multiplying the MYA price by the farm’s actual yields of each covered commodity. The current year guarantee is set in proportion to *planted* acres of each commodity in that year. All covered commodities are combined to determine the guarantee and losses are paid at the whole farm level.

6. *When is an ARC payment received?*

If a farmer selects ARC-CO, the farmer will receive payment if the actual county revenue is less than the guarantee. Actual county revenue is determined by the current year’s MYA price multiplied by the current year’s county yield. Payment is made on 85% of the base acres in that commodity.

If ARC-IC is selected, a payment will be received if whole farm revenue is below the guarantee. The payment will be in the amount of the difference between the guarantee and the actual revenue, times 65% of the total base acres.

Both ARC-CO and ARC-IC are subject to a 10% stop loss that will cap the payment *(See Question 7)*.

ARC payments are dependent on revenue, so losses in price or yield (or both) can trigger a payment.

7. *What does 10% stop loss on ARC payments mean?*

The maximum payment per acre that a producer can receive from ARC (both county and individual) is 10% of the benchmark revenue, which is the revenue amount that is determined before the 14% deductible is applied. For example, if the 5-year Olympic average price on corn is $5.29, and the 5-year Olympic average county yield is 100 bushels, the benchmark revenue is $529.00. The 10% stop loss, or maximum payment that could be received per acre, would be $52.29. As a side note in this example, ARC payments would start kicking in when actual revenue fell below $454.94 (after the 14% deductible on benchmark revenue).

8. *What is the difference between ARC at the county level versus the individual level?*

If a farmer enrolls in ARC at the county level (ARC-CO), they will receive payment on 85% of their base acres determined by the difference in current year county level revenue and the guarantee *(see Questions 5 & 6)*. They will also have the freedom to enroll some commodities in ARC and some in PLC.

If a farmer chooses ARC at the individual level (ARC-IC), they will only receive payment on 65% of the total base acreage determined by the difference between farm revenue and the guarantee. To choose this option, all crops by farm serial number must be enrolled. If a farmer has multiple farms with multiple serial numbers, all production from all farm serial numbers enrolled in ARC-IC, by state, will be combined together to count against the guarantee.

9. *What is the Supplemental Coverage Option (SCO)?*

SCO is designed to cover some of the deductible on the crop insurance contract, up to 86%. For example, if an insurance policy provides 75% coverage, SCO may be purchased for an additional 11% of coverage (86%-75%). SCO covers all planted acres, not base acreage. SCO also triggers off *county* losses, not actual farm losses. It will take on the characteristics of the underlying insurance contract. For example, if the farmer purchases Revenue Protection (RP) SCO will be a revenue protection product. Conversely if the farmer purchases Yield Protection (YP), SCO will be a yield protection product.

There are no payment limits and SCO is not subject to budget sequestration. It can be purchased by talking to your crop insurance agent. Farmers must be in conservation compliance to be eligible for this program, have a crop insurance contract, and *not be enrolled in ARC*. If the farm does not have base acreage in the planted commodity, but it is a covered commodity, they can still purchase SCO with their crop insurance even though their base acreage is enrolled in ARC with a different commodity. SCO is only available on certain commodities in certain counties.

10. *How is the Marketing Year Average (MYA) Calculated?*

Marketing years correspond to when the crop was harvested until the next harvest. For corn, sorghum, and soybeans, the Marketing Year starts on September 1 and ends on August 31 of the next year. For wheat, the Marketing Year starts on June 1 and ends on May 31 of the next year. Wheat is most heavily marketed in the first three months after harvest and then varies in amount thereafter; consequently the Marketing Year Average is weighted by the percentage of the crop that is marketed each month. Corn, soybeans, and corn carry the largest weights in the first 5 months of the marketing year. The National Average price each month is multiplied by the percentage of the crop marketed that month and then these weighted prices are added up to become the Marketing Year Average. Because the Marketing Year Average will not be known until the next harvest, payments for PLC and ARC programs (if any) will not be received until after the next harvest.

11. What is an Olympic Average?

Olympic Averages are used in a number of different places in the 2014 Farm Bill. Out of 5 years, the highest and lowest numbers are dropped and the remaining 3 numbers are averaged together. This reduces volatility in the average. For example, an Olympic average of the last 5 year's MYA prices is used in setting the ARC benchmark revenue. The lowest and highest prices would be dropped and the remaining 3 prices would be averaged.

If it is a "moving" average, this means the guarantee will move with subsequent years. For example, the 2014 ARC guarantee will be set using prices and yields from 2009-2013. In 2015, the "moving Olympic average" will use 2010-2014 figures.

12. Once a farmer signs up for a program can they change their decision?

When choosing between ARC-CO, ARC-IC, and PLC, no. The farmer will be locked in for at least 5 years or until the next Farm Bill. The option to purchase SCO, along with PLC, is an *annual* decision, so changes can be made numerous times until the next Farm Bill.

13. When will sign-up start and when will it go into effect?

Program election started November 17th, 2014 and will run through March 31st, 2015. The program selected will make payments (if any) on 2014 crops, which is the wheat harvested summer 2014, and crops harvested in fall of 2014. Payments (if any) will be received by the farmer likely in fall of 2015, after the marketing year has ended.

The option to reallocate base and/or update payment yield will end February 27th, 2015.

14. What is the maximum payment amount a farmer can receive with a program?

Both ARC and PLC have a $125,000 limit per individual actively involved in farming per year (including any marketing loan gains or loan deficiency payments (LDP), but farmers may forfeit the grain under loan). Spouses may collect an additional $125,000. Crop insurance payments and SCO are not subject to payment limits. Any individual with a 3-year average Adjusted Gross Income (AGI) over $900,000 (farm and non-farm combined) is ineligible to receive farm program payments, but are eligible to purchase federally backed crop insurance.

15. Which farm program(s) and features should be chosen?

Basically what it comes down to is the risk preference of the farmer. PLC offers protection against catastrophic price decline, and does not max out until $125,000 or $250,000 with a spouse. ARC offers revenue coverage (protection against low prices and/or yields) but is a shallow loss program, since it caps out at 10% of benchmark revenue.

While there is no way to predict the markets exactly over the course of the program, there are tools to help producers choose what is best for their operation. Current publications on a host of topics are available on www.AgManager.info on the Farm Bill page (click the big Farm Bill icon on the homepage). There is also an Excel spreadsheet tool developed between Oklahoma State University and Kansas State University that allows the user to input their own farm's numbers and look at different scenarios with forecasted prices. This is also available on the Farm Bill page of www.AgManager.info. Check often or signup for the free email from KSU that will notify when new information is posted on AgManager.

16. Does the landlord or tenant decide the program?

There are a few items to think about in answering this question:

- Whichever program is selected (ARC/PLC), this will be the program on that piece of ground for the life of this Farm Bill. If tenants change after program election, there will be no option to select a different program.
- Base acre reallocation and yield update are the LANDOWNERS decision, unless the tenant has FSA Power of Attorney for them.
    - FSA will have historical plantings for reallocating base, so this is a yes or no decision.
    - Payment Yield update will require historical records on yields for that specific farm from 2008-2012. These need to be verifiable. It is likely if a tenant is taking on new ground or someone purchases a new piece of ground, the previous farmer will not be willing to provide these records. If this is the case, payment yield update will not be an option. Keep in mind this only effects the PLC program however.
- Program Election (PLC or ARC) is the decision of the person that has the risk on the operation. If it is a cash lease, it is the tenant's decision (even if tenants may change later on). If it is a crop-share or flex-rent or other arrangement where risk is shared, all parties involved (landlord and tenant) have to agree on a program. Program election is by FSA Farm number, so only those involved with that farm number will have to agree. If an agreement cannot be reached, the farm will default to PLC and forego any payments for 2014.

17. Can base acres be reallocated?

Yes. Farmers are offered a one-time opportunity to reallocate a farm's base acres based on the ratio of covered commodities planted in 2009-2012, however farmers cannot build base. This is a strict yes or no to keep current base or take the reallocated amount. Landowners will have to make this decision based on their risk preference. Assuming they will plant a similar rotation to current planting in the future, reallocating will match base acres more closely with actual production. If maximizing payments is the objective, then the landowner will have to decide which base (current or reallocated) might pay the most over the life of the Farm Bill. This will be difficult to do. The decision to reallocate base can be made up until February 27th, 2015. For more information on this, see "*Reallocating Base Acres: 2014 Farm Bill*" on www.AgManager.info

18. Can payment yields be updated?

Yes, there is a one-time opportunity to update payment yield, which is used in the PLC program. The updated yield amount is an average of farm yields from 2008-2012, times 90%. There are also "plug yields" that are used to replace a bad year of yields on the farm level. These plugs are equal to 75% of the county average from 2008-2012.

Farmers will need proof of their yields, if they get spot checked. Crop insurance records will work, as long as yields can be shown on specific farm numbers. The choice to update payment yield is straightforward; take the higher of the current payment yield or the updated payment yield. Even if a farmer does not sign up for PLC, payment yields may be used in future Farm Bill programs, so it would be good to update.

For more information on this, see "*Updating Payment Yields: 2014 Farm Bill*" on www.AgManager.info

19. If a farmer does not sign up for a program, what will happen?

PLC is the default option if a farmer/landlord does not elect a program. They also will give up any 2014 payments.

20. Should crop insurance still be purchased even though a farmer is signed up for ARC or PLC?

ARC and PLC are not replacements for crop insurance. ARC-CO "insures" only about 7% of revenue, since it only pays on 85% of the base acres, has an 86% deductible, and has a 10% stop-loss. Also, there is no actual harvest price on ARC, so higher MYA prices may offset lower yields and eliminate any payment. PLC only protects against price loss and offers no protection against yield loss. Crop insurance is still needed for risk protection.

21. What changes were made to crop insurance?

Talk to your crop insurance agent for specifics, but some of the major changes with the new farm bill include:

- The condition that farmers meet conservation compliance requirements in order to have RMA pay a share of the premium cost (subsidy).
- The government will pay an additional 10 percentage points of the premium for beginning farmers (less than 5 years of experience). Young farmers should check this provision with their crop insurance agents to see if they qualify.
- Enterprise units may be separated by dryland versus irrigated acreage of the same crop and different coverage levels selected (this will take effect for spring 2015 crops)
- If a county suffers at 50% yield loss, the farmers in that county and contiguous counties are allowed to exclude that year's low yield from their APH history. If the county trigger is met more than once in the past 10 years, farmers may also exclude those years from their APH history. This is to help maintain APH during multiple years of catastrophic losses. (this will take effect for spring 2015 crops)
- Supplemental coverage option (SCO) is available on some crops in some counties *(see Question 9)*.