YOUR GUIDE
TO UNDERSTANDING THE 2014 FARM BILL

KANSAS STATE UNIVERSITY

STEP 1:

2014 FARM BILL DECISION MAKING STEPS

KANSAS STATE UNIVERSITY
DEPARTMENT OF AGRICULTURAL ECONOMICS
www.AgManager.info

STEP #1 DETERMINE IF YOU CAN UPDATE PAYMENT YIELD

Decision to be made: Update Payment Yield to 90% of 2008-2012 average farm yields OR retain current Payment Yield Decision can be made separately for each crop with base acres.

Strategy: If you can prove that the current yields on your farm are higher than your established FSA Payment Yield (listed on letter sent in August), you should update them. These are used in the Price Loss Program (PLC) of the 2014 Farm Bill, so a higher Payment Yield will increase your PLC payments, if they are triggered. Even if you choose Agricultural Risk Coverage (ARC), you should still update your payment yields because they will stay with the farm for future Farm Bills.

What is needed: You will need to certify your 2008-2012 yields with FSA for each covered commodity, for each FSA farm number. You are subject to spot checks, so these yields need to be verifiable with crop insurance records or other documentation. Your updated Payment Yield will be calculated as an average of yields from 2008-2012, including substitute yields in years of catastrophic yield losses.

Timeline: You can update Payment Yields with FSA through March 31st, 2015.

More Information: Read "*Updating Payment Yield"* publication on Farm Bill page of www.AgManager.info

STEP #2 DECIDE IF YOU WANT TO REALLOCATE BASE ACRES

Decision to be made: Retain current base acres or reallocate to average plantings from 2009-2012. You cannot build base acres, just reassign them to different proportions of the commodities you are growing.

Strategy: Although this is step #2, the decision should be made along with Step #3. There are two ways of looking at this decision.

- RISK MANAGEMENT: If you want your potential program payments to match the commodities that you are actually planting, you would reallocate, assuming what you planted in 2009-2012 is similar to your crop rotation going forward.
- PAYMENT MAXIMAZATION: Choose which base (reallocated or current) that you anticipate to receive the highest payments for the life of the Farm Bill. This is not easy to do. Use the decision tool to help you evaluate (on www.AgManager.info)

What is needed: FSA already has your reported plantings from 2009-2012, which will be used to calculate your average plantings for reallocating base acres.

Timeline: You can reallocate Base Acres with FSA through March 31st, 2015.

More Information: Read "*Reallocating Base Acres"* publication on Farm Bill page of www.AgManager.info and go through OSU-KSU Decision Tool or other decision aid.

STEP #3 SELECT FARM BILL PROGRAM(S)

Decision to be made: Price Loss Coverage (PLC) or County Agricultural Risk Coverage (ARC-CO) ***for each commodity***

–OR- Individual Agricultural Risk Coverage (ARC-IC) ***for entire farm***

Strategy: There are many issues to think about when selecting a farm program.

- RISK MANAGEMENT: If you are worried about catastrophic price loss, PLC will offer the most risk protection. It does not cap out until $125,000 ($250,000 with spouse) per year and will pay when Marketing Year national prices are below the reference prices set for the life of the Farm Bill. ARC provides protection for revenue losses (losses in price and/or yield) but caps out quickly at 10% of benchmark revenue. It also has a 14% deductible before it kicks in, so only losses from 76% to 86% of benchmark revenue are covered. To hedge your bets, you may consider putting some commodities in PLC and some in ARC-CO.

- PAYMENT MAXIMAZATION: Compare the likelihood of payments under each program. Look at long-term projections for national Marketing Year prices and consider your own forecasts. If you think national prices will be quite a bit lower than PLC reference prices, choose PLC. If you think national prices will be the same as those reference prices or higher, ARC is likely to pay more.

- ARC COUNTY VS. INDIVIDUAL: ARC-IC only pays of 65% of entire farm base, where PLC or ARC-CO would pay on 85% of base in each commodity with base. This is a large difference to overcome, so most farmers will not consider ARC-IC. Farmers with very high yields (at least 30% higher) compared to the county yield may consider ARC-IC since benchmark revenue will be higher. This will create larger payments per acre before ARC caps out at 10% of benchmark revenue. However, if the farm is diversified (planting many different covered commodities), they may prefer the ARC at the county level, since losses will be paid commodity by commodity. Losses in one commodity will not be offset by good revenue from another, which could happen in ARC-IC. There are some special situations where ARC-IC will be advantageous, so run a Decision Tool to evaluate.

What is needed: You will need to ***elect*** a program with FSA, which you will be locked into for the life of the Farm Bill. You will need to ***enroll*** each year to verify you are still farming and are eligible for payments.

Timeline: You can elect a program through March 31st, 2015. If you fail to do so, you will give up any 2014 payments and be defaulted to PLC. Enrollment will occur after this, and in a similar time period in coming years. The timeline for enrollment will be announced at a later time.

More Information: There are many publications on Farm Bill page of www.AgManager.info including the OSU-KSU Decision Tool and announcements on upcoming educational meetings.

This publication is brought to you by the Kansas State University Farm Bill Team:

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