

Farm Bill Extension Allows Farmers Another ARC/PLC Decision for 2024/2025 Marketing Year

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With the extension of the 2018 Farm Bill for another year, farmers are now able to make an election decision between commodity programs on their base acres. The decision between Agricultural Risk Coverage (ARC) or Price Loss Coverage (PLC) needs to be made by March 15th, 2024, and will be for the crop harvested in 2024, with payment being made (if any) in October of 2025.

To give a brief review of these programs, PLC is much like the old countercyclical payment program where payments are made when the Marketing Year Average price (MYA) drops below a certain threshold, called the effective reference price. The difference between the effective reference price and the MYA price is the payment rate, which is multiplied by the established farm yield (PLC yield) with Farm Service Agency (FSA) and then by 85% of the base acres of that commodity. Payments are capped when the MYA falls below the loan rate, making them quite large in years that the MYA is low.

For the first time ever, **this effective reference price will increase for corn, grain sorghum and soybeans** as the escalator built into the program with the 2018 Farm Bill has come into play. This escalator uses a formula similar to the ARC program where past MYA's are averaged, reduced by certain percentages, and then used to set a new PLC effective reference price. Don't get your hopes up too much though; this effective reference price cannot go higher than 115% of statutory reference prices making it quite limited in how much it can increase. Nevertheless, PLC will have a slightly better guarantee this year for most major Kansas commodities.

Note that wheat will not see an increased PLC reference price in 2024. This is because the formula is still capturing relatively lower wheat prices in 2018 through 2020, so the effective reference price will remain at the statutory price of \$5.50 per bushel.

Table 1. Wheat Effective Reference Price

Commodity	2018/19 MYA Price	2019/20 MYA Price	2020/21 MYA Price	2021/22 MYA Price	2022/23 MYA Price	85% of 5-year avg, dropping high and low prices	2024 Effective Reference Price
Wheat	\$5.16	\$4.58	\$5.05	\$7.63	\$8.83	\$5.05	\$5.50



Table 2 shows 2024 effective reference prices compared to statutory prices. The commodities highlighted in red are those that have increased PLC reference prices for 2024.

Table 1. Effective Reference Prices setting the PLC guarantee for 2024 Crop Year compared to Statutory and Maximum allowed Reference Prices

Commodity	Unit	Statutory Reference Price	115% of Statutory Reference Price (Max Effective Reference Price)	2024 Effective Reference Price for PLC Guarantee
Barley	Bushel	\$4.95	\$5.69	\$4.95
Corn	Bushel	\$3.70	\$4.26	\$4.01
Grain Sorghum	Bushel	\$3.95	\$4.54	\$4.06
Oats	Bushel	\$2.40	\$2.76	\$2.76
Seed Cotton	Pound	\$0.3670	\$0.4221	\$0.3670
Soybeans	Bushel	\$8.40	\$9.66	\$9.26
Sunflower Seed	Pound	\$0.2015	\$0.2317	\$0.2015
Wheat	Bushel	\$5.50	\$6.33	\$5.50

Turning to a review of ARC, recall that ARC can either be selected at the county level, which pays on 85% of base in the commodity, or individual level, in which all crops on the farm are enrolled and payments are made on 65% of the entire base. ARC-County (ARC-CO) will only be discussed here, as ARC-Individual has had very little use in Kansas. ARC-CO is a revenue program, where 5 years of national MYA price and 5 years of county-level yield are used to set a benchmark revenue value, with the guarantee being 86% of that benchmark. If the current year revenue (national MYA price * actual county yield) falls below the guarantee, payment is made in the amount of the difference, up to 10% of the benchmark revenue. The payment being capped at 10% of the benchmark revenue is really the downfall of this program and in years of low prices can make PLC the better choice. Historical payments in the ARC-County program are crop and county-specific but can be found here: <https://www.agmanager.info/ag-policy/arc-co-historical-payment-maps>.

As with PLC, higher commodity prices in the last few years are also making better ARC price guarantees. Table 3 shows the 2024 ARC price guarantees. If the county yield for 2024 came in right at average, ARC would start paying at 86% of these prices, hence these prices are also listed in the table.

Table 3. ARC Benchmark Prices for 2024 Compared to PLC Effective Reference Prices

Crop Name	Barley	Corn	Grain Sorghum	Oats	Seed Cotton	Soybeans	Sunflower Seed	Wheat
2024 ARC Benchmark	\$5.07	\$4.85	\$5.01	\$3.38	\$0.40	\$11.12	\$0.23	\$6.21
86% of ARC Benchmark	\$4.36	\$4.17	\$4.31	\$2.91	\$0.34	\$9.56	\$0.20	\$5.34
PLC Effective Ref. Price	\$4.95	\$4.01	\$4.06	\$2.76	\$0.3670	\$9.26	\$0.2015	\$5.50

When considering ARC-CO or PLC, in most commodities for 2024 the PLC effective reference price and 86% of the ARC Price benchmark are not that different. Drought in Kansas the last two years has produced large ARC-County payments, even with higher prices. It is likely farmers will still favor ARC-County because of the recent history of large payments, and the ARC-County yield guarantee will still be decent because the last two years of county yields will not enter the yield benchmark yet (because of the lag year and throwing out the high/low in the Olympic average). However, if commodity prices do start falling below current levels, farmers may reconsider PLC for better price protection. While the marketing year is a long ways off yet, several sources of 2024/2025 MYA prices are available, updated regularly, and compiled here: <https://www.agmanager.info/crop-insurance/risk-management-strategies/projections-and-sources-mya-prices-arc-and-plc-commodity>

Another major point to understand about this decision is when the marketing year actually starts and when the payments (if any) will be received. For fall crops (corn, soybeans, grain sorghum), the marketing year will not start until September 1st, 2024 and will run through August 31st, 2025. Each month, the national price released by National Agricultural Statistics Service (NASS) will be weighted based on the amount of grain sold in that month, to determine a single national price for the entire 2024/2025 marketing season. Similarly, the wheat marketing year will start June 1st, 2024 and run through May 31st, 2025 and payments, if any, will be received in October of 2025. The current commodity prices that we see now may not necessarily hold for the life of this current decision.

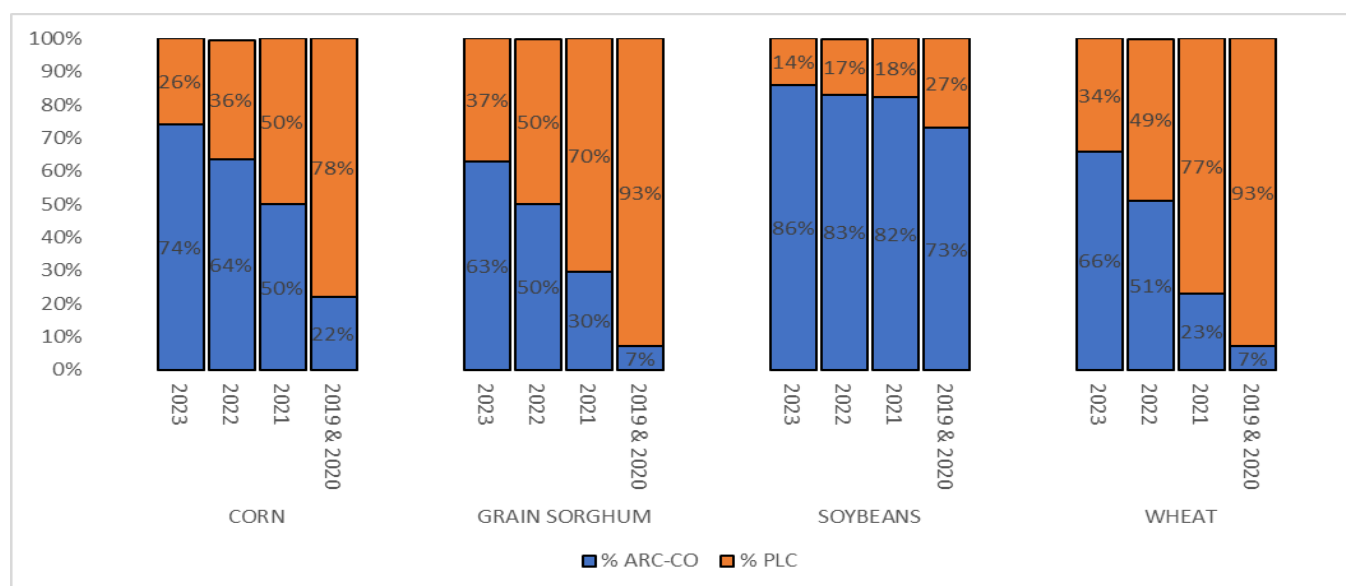
The other factor in the ARC/PLC decision is whether you want to use the Supplemental Coverage Option (SCO) on your crop insurance. SCO provides coverage from your individual crop insurance level up to 86% of your projected revenue. SCO triggers off of the county yield however and cannot be used if the base acres of the farm are enrolled in ARC-CO for that commodity. SCO premiums are subsidized at a 65% level, leaving the producer only needing to pay 35% of the premium. While it is county-based coverage and not individual, the subsidy level would lead a person to believe it should pay off in the long-run (assuming the product is properly rated). The premiums may still be cost-prohibitive for many farmers, however.

Finally, remember that these decisions are made at the farm level, meaning a different decision can be made for each FSA farm number. If one wants to put some base in each program for each crop, that can be a good

strategy with multiple FSA farm numbers. Farms that have a higher program yield would be the preferred farms for PLC.

While history does not necessary help farmers make a forward-looking decision, the trends in program election since the 2018 Farm Bill have been interesting. The most recent farm program election farmers made was March 15th, 2023, which covered the 2023 harvested crops (which we are currently in the marketing year for). When looking at the percentage of commodity base that was elected between ARC-CO and PLC, commodities have been trending more and more towards ARC-CO (Figure 1) because of the higher commodity prices and less likelihood of PLC triggering. Approximately 2/3 of the wheat and grain sorghum base selected ARC-CO last year and 74% of corn base. Soybeans have always favored ARC-CO, with over 85% electing that program in Kansas last year.

Figure 1. Farm Program elections in Kansas since the 2018 Farm Bill



A great tool for assessing potential ARC-CO versus PLC payments at various MYA price levels and county yields is the Tradeoff spreadsheet found here: <https://www.agmanager.info/tradeoff-between-20242025-arc-and-plc>.

The example of Saline County, KS non-irrigated soybeans is shown from this tool in Figure 2. All payments are shown per acre, which would be paid on 85% of the soybean base acres of the farm. The first column gives various MYA prices that could occur in the 2024/2025 marketing year. The second column shows PLC payments at these various MYA price levels. Notice PLC payments do not start until the MYA price falls below \$9.26 (the effective reference price). ARC-County payments make up the remainder of the table. At the various county yields across the top and MYA prices in the first column, revenue shortfalls produce the payment listed in the table. Note with an average yield (37 bushels in this county), ARC payment will not start until a MYA price below



\$9.68. The MYA would need to be less than \$7.95 for PLC to pay more than the ARC-County maximum, showing that once again soybean base will likely favor the ARC-County program over PLC. This tool is available for all covered commodities and all counties in the U.S.

Figure 2. Snapshot of KSU Tradeoff Spreadsheet Tool with Saline County Soybean example

ARC Payments vs. PLC Payments Under Different Yields and Prices for 2024/2025 Marketing Year										
State:	Kansas									
County:	Saline		Crop:	Soybeans		Type:	Nonirrigated			
			ARC						PLC	
5 Yr. Olympic Avg. County Yield			36.89	Bushels	Program Yield			31.3	Bushels	
5 Yr. Olympic Avg. MYA Price			\$11.12		Eff. Reference Price			\$9.26		
Benchmark Revenue			\$410.22							
Guaranteed Revenue			\$352.79			PLC > ARC-CO max @		\$7.95		
Yield										
		12	15	19	24	30	37	41	44	
MYA Price	PLC Payment				ARC Payment					
\$15.73	\$0.00	\$41.02	\$41.02	\$41.02	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
\$15.05	\$0.00	\$41.02	\$41.02	\$41.02	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
\$14.40	\$0.00	\$41.02	\$41.02	\$41.02	\$7.19	\$0.00	\$0.00	\$0.00	\$0.00	
\$13.78	\$0.00	\$41.02	\$41.02	\$41.02	\$22.07	\$0.00	\$0.00	\$0.00	\$0.00	
\$13.19	\$0.00	\$41.02	\$41.02	\$41.02	\$36.23	\$0.00	\$0.00	\$0.00	\$0.00	
\$12.62	\$0.00	\$41.02	\$41.02	\$41.02	\$41.02	\$0.00	\$0.00	\$0.00	\$0.00	
\$12.08	\$0.00	\$41.02	\$41.02	\$41.02	\$41.02	\$0.00	\$0.00	\$0.00	\$0.00	
\$11.56	\$0.00	\$41.02	\$41.02	\$41.02	\$41.02	\$5.99	\$0.00	\$0.00	\$0.00	
\$11.06	\$0.00	\$41.02	\$41.02	\$41.02	\$41.02	\$20.99	\$0.00	\$0.00	\$0.00	
\$10.58	\$0.00	\$41.02	\$41.02	\$41.02	\$41.02	\$35.39	\$0.00	\$0.00	\$0.00	
\$10.12	\$0.00	\$41.02	\$41.02	\$41.02	\$41.02	\$41.02	\$0.00	\$0.00	\$0.00	
\$9.68	\$0.00	\$41.02	\$41.02	\$41.02	\$41.02	\$41.02	\$0.00	\$0.00	\$0.00	
\$9.26	\$0.00	\$41.02	\$41.02	\$41.02	\$41.02	\$41.02	\$10.17	\$0.00	\$0.00	
\$8.94	\$10.02	\$41.02	\$41.02	\$41.02	\$41.02	\$41.02	\$22.01	\$0.00	\$0.00	
\$8.63	\$19.73	\$41.02	\$41.02	\$41.02	\$41.02	\$41.02	\$33.48	\$0.00	\$0.00	
\$8.33	\$29.12	\$41.02	\$41.02	\$41.02	\$41.02	\$41.02	\$41.02	\$11.26	\$0.00	
\$8.04	\$38.20	\$41.02	\$41.02	\$41.02	\$41.02	\$41.02	\$41.02	\$23.15	\$0.00	
\$7.76	\$46.97	\$41.02	\$41.02	\$41.02	\$41.02	\$41.02	\$41.02	\$34.63	\$11.35	

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