Highlights: ARC vs. PLC Decision Tool

By Robin Reid, Extension Farm Economist, robinreid@ksu.edu, 785-532-0964

1. Introduction

- The tool is available through **AgManager.info** under the Ag Policy section and the Farm Bill resources.
- The purpose is not to predict exactly what will happen, but to help producers understand the **trade-offs between ARC and PLC under different price and yield scenarios**.

2. Getting Started with the Tool

- The spreadsheet is designed to work for **every state, county, and crop** where Farm Service Agency data are available.
- Start by selecting:
  - State, County, Crop, Irrigation type
- Pay attention to the irrigation selection.
  - Some counties have separate guarantees for irrigated and non-irrigated production.
  - Other counties combine the two.
  - If the table displays "N/A," it may simply mean that the irrigation category selected isn't available for that county.
- Make sure the appropriate option is selected before interpreting the results.

3. Understanding the ARC-County Side

- ARC-County is based on **county-level revenue**.
- The first major component is the county's **five-year Olympic average yield**.
- The price part of the ARC guarantee is also a five-year Olympic average of **national marketing year prices**
- The tool combines that yield with the applicable marketing-year average price to calculate the **benchmark revenue**.
- The benchmark revenue is then reduced by the program's **10% deductible**.

- What remains is the **ARC guarantee per acre**.
- This is important because ARC is not simply a price program—it considers both **price and county yield**.

4. Understanding the PLC Side

- PLC works differently from ARC.
- The key yield number for PLC is the farm's **individual program yield** established with the Farm Service Agency that can be found on form 156EZ
- Producers should replace the default yield in the spreadsheet with their farm's actual program yield that can be found on form 156EZ from the FSA office
- Using the farm's actual program yield makes the PLC calculation specific to that operation.
- PLC uses an **effective reference price** as the price floor
- When the marketing-year average price falls below that reference price, PLC payments begin.
- The lower the marketing-year average price goes, the larger the potential PLC payment becomes.

5. Understanding the Trade-Off Table

- The heart of the spreadsheet is the **trade-off table**.
- The table lays out a range of possible marketing-year average prices, which represents what could occur during the marketing year after the crop is harvested.
- For each price scenario, the spreadsheet estimates:
  - The potential PLC payment.
  - Potential ARC-County payments under different county-yield scenarios.
- Payment amounts displayed **are per acre, and will be paid on 85% of the farms base acres** in that commodity, not what they planted in 2026.

6. How PLC Responds to Price Declines

- The PLC reference price is an important starting point.
- If the marketing-year average price is at or above the reference price, there is no PLC payment.
- As the price falls below the reference price, the PLC payment increases.
- The payment is based on the difference between:

  - The effective reference price, and
  - The actual marketing-year average price,
  - Multiplied by the farm's program yield.
- Therefore, **PLC becomes more attractive when there is risk of significant price declines**

7. How ARC Responds to Price and Yield

- ARC-County has two moving pieces:
  - The marketing-year average price.
  - The county's actual yield
- If the county has an average yield, ARC payments may begin once prices fall sufficiently.
- If the county has an **above-average yield**, ARC payments become much less likely because higher production raises current-year county revenue.
- Conversely, a significant county yield decline can generate an ARC payment even when prices are relatively strong.
- 2026 is a unique year in that election between ARC and PLC is much later, and some information is known about yield. For some crops such as wheat, the 2026 crop has already been harvested. For many other crops, harvest may be near and a general idea of yields may be known.
- This is why I have added a feature to the left that shows the yield history of the county. These are yields determined by FSA, but have had a trend adjustment applied.

8. ARC's Payment Limitation

- ARC-County payments are limited.
- The maximum ARC-County payment is **12% of benchmark revenue**.
- In the example, the maximum ARC payment is $54.66 per acre.
- Because of this, a key value titled “PLC>ARC-CO max @” is displayed that tells you at what Marketing Year Average Price PLC payments will become greater than ARC. In this example, this is $3.87 per bushel.

9. Comparing the Two Programs

- The spreadsheet identifies the price level at which PLC would begin to provide a larger payment than ARC.

- This is useful because the decision isn't necessarily about which program is “better” in every situation.
- Instead, it is about understanding **which type of risk is most likely to matter**.
- PLC generally becomes more valuable when prices experience a substantial decline.
- ARC becomes more valuable when there is a combination of price weakness and/or a significant decline in county yields.
- Producers should look at several scenarios rather than relying on just one expected price or yield.

10. The Importance of Price Uncertainty

- One of the biggest cautions with this analysis is that **marketing-year prices are uncertain**.
- Price forecasts used when making the decision may be far in advance of the end of the marketing year.
- The actual marketing-year average price may end up being substantially different from today's expectations.
- For that reason, the tool is most useful as a **scenario-analysis tool**, rather than as a prediction of the final payment.

11. Thinking About the Decision in Practical Terms

- A useful way to explain the decision to producers is:
    - **PLC = stronger protection against a major price decline.**
    - **ARC-County = protection against a combination of lower prices and lower county yields.**
- If commodity prices remain relatively high, neither program may generate a payment.
- If prices remain high but the county experiences a major yield loss, ARC could still generate a payment.
- If prices experience a catastrophic decline, PLC could become the stronger program.
- The key is to understand the range of possible outcomes rather than focusing only on the most likely outcome.