



## Questions you should be asking yourself about your crop program decisions

### 2014-2015 Agricultural Policy and Outlook Conference Series

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**Background:** Understanding the questions one should ask is always important — it is hard to get to the best answer if the question is wrong; but questions are even more important when uncertainty is sizable, such as with the program choice decision. This article contains a list of questions producers should consider asking themselves. References, PowerPoints and video are available at: <http://aede.osu.edu/crop-program-decisions>.

#### **Crop Yield Update Decision** (payment yield update article and video)

- ▶ *Can I prove my yields if selected by Farm Service Agency (FSA) to verify them?*
  - You have to assume you will be audited some time before the 2018 crop year ends.
  - Penalties are possible if audited yields are lower than reported yields.
- ▶ *Which is higher? (1) current countercyclical yield, (2) updated FSA farm program yield (90% of 2008-12 yields), or (3) updated yield using FSA update replacement yield (90% of 75% of 2008-12 county average yield) — 3 especially viable if cannot or do not want to prove yields.*

#### **Farm Program Base Acre Allocation Decision** (program acre allocation article and video)

- ▶ *What is difference between my current program acres and reallocated program acres (based on 2009-2012 plantings to program crops)?*
  - For some FSA owners and operators, this will be the most important of the 3 decisions.
- ▶ *Is my objective for this decision to choose a program acre allocation that (a) is closest to expected planted acres on the FSA farm over 2015-18, (b) differs most from planted acres to create a diversified income source, or (c) maximizes farm program payments?*
  - No right or wrong objective; but it is important to be honest about your objective.

#### **Program Choice Decision** (ARC-CO and PLC, and ARC-IC articles; program videos)

- ▶ Overarching program decision question is: *“Over 2014-2018, for my FSA farm(s) is expected ARC-CO payments + expected net payments from any insurance chosen with ARC-CO greater or less than expected ARC-IC payments + expected net payments from any insurance chosen with ARC-IC greater or less than expected PLC payments + expected net payments from any insurance chosen with PLC + expected net payments from SCO if also chosen.”*
  - Removing insurance simplifies the question, but insurance should be considered since SCO is excluded with ARC and SCO requires individual insurance.
  - Expected means: a risk of concern has a probability of occurring and causing payments.
- ▶ *Should 2014 crop year payments have a higher weight in your decision?*
  - They will be reasonably well-known by the crop program deadline of March 31, 2015 while payments for later years are uncertain?
- ▶ *If you have multiple FSA farms, should program choice be diversified across FSA farms?*
  - Each program option best targets a different risk: ARC-CO, multiple year shallow loss, ARC-IC, individual farm loss; PLC, multiple years of price well below reference price.

- Key difference between ARC-CO and PLC: ARC-CO pays for multiple year declines in revenue that occur at any yield and price level but is capped at 10%; PLC pays only if price is below the reference price but has a much higher payment cap.
- Diversification is a standard technique for managing decisions involving uncertainty.
- ARC-CO and PLC can be mixed and matched across crops and FSA farms; in contrast, ARC-IC is elected for the entire FSA farm.
- ▶ *How do various benchmark yields compare?* ([yield and program decision article](#))
  - Olympic 5 year county yield for ARC-CO vs. Olympic 5 year FSA farm yield for ARC-IC vs. program yield for PLC
  - If program diversification is desired, consider yield as a potential guide: choose PLC for FSA farms with highest ratio of program yield to county yield; choose ARC-CO for FSA farms with highest ratio of county to program yield; choose ARC-IC for FSA farm if its yield is 30% higher than county yield ([ARC-IC article](#))
- ▶ *Does ARC-IC fit my farm?* ([ARC-IC article](#)) Among situations to consider ARC-IC
  1. FSA farm yield is 30% higher than county yield (offsets 20% fewer payment acres).
  2. production on ARC-IC farm varies highly — more attractive if only 1 FSA farm and 1 crop per year because it increases higher probability of payment and no payment exists
  3. fruits/vegetables may be planted on ARC-IC farm unit

### Insurance Decisions ([SCO article](#))

- ▶ *If higher insurance coverage is desired, is SCO or individual farm insurance better choice?*
  - Key factor is availability of 80% or 85% enterprise insurance coverage.
- ▶ *Will I buy the same insurance with each program option?*
  - Answer may be no as each program has different risk assistance strengths (see above)

### Resources available at: <http://aede.osu.edu/crop-program-decisions>

- [Policy Brief - Key Questions](#)
- [Farm Yield Update](#)
- [Yield Update video - 7:27 minutes - October 2014](#)
- [Base Acre Allocation](#)
- [Base Acre Allocation Video - 8:36 minutes - October 2014](#)
- [ARC-Individual](#)
- [ARC-County vs. PLC Decision](#)
- [ARC-CO and PLC Payment Indicator for 2014](#)
- [Yield and Farm Program Decisions](#)
- [SCO](#)
- [Program Choice Video - 54:05 minutes - October 2014](#)
- [2014 Crop Program Decisions PowerPoint](#)
- [Compilation \(All Crop Decision Articles\)](#)
- [Payment Limits](#)
- [Full Video - All 2014 Decisions - 1:09:30 minutes - October 2014](#)
- Program Calculator: [National Coalition for Producer Education \(NCPE\), led by University of Illinois](#)
- Program Calculator: [National Association of Agricultural and Food Policy \(NAAFP\) led by Food and Agricultural Policy Research Institute \(FAPRI\) at University of Missouri, and Agricultural and Food Policy Center \(AFPC\) at Texas A&M University](#)
- Program Calculator: [Kansas State University, Oklahoma State University, Southern Risk Management Education Center](#)
- [USDA Farm Service Agency ARC/PLC Programs](#)
- [USDA Farm Service Agency AskFSA](#)