

## PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

### Insurance and the new farm bill

Though members of Congress often have every intention of enacting a new farm bill well before farmers have to make planting decisions, so farmers can take the new policies into consideration in their planning process, very often planting is under way before the legislation is completed and signed into law by the President. This farm-bill year is no different.

Winter wheat farmers planted their crop months ago, hoping that the rules would not change too drastically.

The regulations needed for the new cotton program, STAX, have not been released for public comment, so cotton producers will receive a lowered level of Direct Payments for the 2014 crop year.

For the program crops covered by crop insurance, the programs that were in effect in 2013 will still be in effect in 2014 with no major changes. Farmers will still be able to protect themselves against declines in price and yield. The yields will be based on historic yields, while the prices will be based on prices in effect during the period in which the insured price is set. Because current prices are much lower than they were a year ago, the level of price protection farmers will be able to obtain in 2014 will be lower as well.

The government's share of the premium will remain the same as it has been in the past. With lower prices, the premium cost for revenue insurance will be lower than it was last year. With lower premium levels for a given product, farmers may choose to buy higher levels of protection than they did in 2013.

Beginning with the 2014 crop, conservation compliance is tied to receiving the government supplement for crop insurance. For most farmers that will have little impact on their operations because they previously participated in the Direct Payment program which required conservation compliance as well.

While farmers don't have to worry about major changes in the crop insurance program this spring—other than the impact of lower prices—they do have crucial decisions to make with regard to which one of two programs—available in the 2014 Farm Bill—they enroll in for each of their major crops. The crop-by-crop decisions are crucial because they will have to be lived with for the five-year length of the 2014 Farm Bill.

The two choices are Agricultural Risk Coverage (ARC) and Price Loss Coverage (PLC).

As we wrote two weeks ago, the "ARC guarantee for a covered commodity in a crop year is 86 percent of the benchmark revenue, which for county coverage is the product obtained by multiplying the average historical yield for the most recent 5 crop years, excluding

the high and the low [the Olympic average], by the [Olympic average of the] national average market price received by producers during the 12-month marketing year for the most recent 5 crop years."

Payments for a crop for which ARC was chosen are paid on 85 percent of the farm's base acres plus any former cotton base acres planted to the crop. These payments are capped at 10 percent of the benchmark revenue. Farmers can also choose ARC at the farm level as well the individual crop

The PLC program operates much like the previous counter-cyclical-payment program with a fixed reference price—known as the target price in the 2008 Farm Bill—for each covered crop. When the season average price for any covered crop falls below the reference price farmers are paid the difference between that crop's reference price and national season average price times the farm's payment yield times 85 percent of the base acres for the covered crop plus former cotton base acres planted to the covered crop.

Reference prices for the PLC program are wheat, \$5.50/bushel; corn, \$3.70/bushel; grain sorghum, \$3.95/bushel; barley, \$4.95/bushel; oats, \$2.40/bushel; long grain rice, \$14.00/hundredweight (cwt.); medium grain rice, \$14.00/cwt.; soybeans, \$8.40/bushel; other oilseeds, \$20.15/cwt.; peanuts \$535.00/ton; dry peas, \$11.00/cwt.; lentils, \$19.97/cwt.; small chickpeas, \$19.04/cwt.; and large chickpeas, \$21.54/cwt.

As is common for decisions like these, a number of factors will figure into the crop-by-crop enrollment decisions. Factors like crop yield expectations/history/variability, rotation considerations, landlord wishes and/or cash rent commitments, bankers' directives on receiving production loans, expectations about future production costs, risk tolerance—both psychological and financial—and so on.

But perhaps most important of all will be producers' expectations about crop price trends, and crop-price variability, over the term of the farm bill. Will future crop prices remain above the reference prices in most years or is there a significant risk that prices will fall substantially below the reference prices during the duration of the 2014 Farm Bill. Answering that question is critical but it is important to take all considerations into account and to work through the numbers.

Spreadsheet templates and decision aids are available from many of the state extension offices to help you do the analyses for the crop-by-crop ARC vs. PLC decisions.

As for the level of crop insurance to carry for this crop-year, many farmers will make that decision in

**Cont. on p. 2**

Originally published in *MidAmerica Farmer Grower*, Vol. 35, No. 9, February 28, 2014  
 2) Copy of reproduction sent to Information Specialist, Agricultural Policy Analysis Center, 309 Morgan Hall, Knoxville, TN 37996-4519  
 Reproduction Permission Granted with 1) full attribution to Daryll E. Ray and the Agricultural Policy Analysis Center, University of Tennessee, Knoxville, TN;

Insurance and the new farm bill

**Cont. from p. 1**

consultation with their bankers. We are sure producers will be more than casually interested in their bankers' views about crop prices beyond this crop season as well.

Daryll E. Ray holds the Blasingame Chair of Excel-

lence in Agricultural Policy, Institute of Agriculture, University of Tennessee, and is the Director of UT's Agricultural Policy Analysis Center (APAC). Harwood D. Schaffer is a Research Assistant Professor at APAC. (865) 974-7407; Fax: (865) 974-7298; [dray@utk.edu](mailto:dray@utk.edu) and [hdschaffer@utk.edu](mailto:hdschaffer@utk.edu); <http://www.agpolicy.org>.