New Farm Bill, New Decisions, New Tools

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THE AGRICULTURE Improvement Act of 2018 (2018 Farm Bill) introduced major changes to the Agricultural Risk Coverage (ARC) and the Price Loss Coverage (PLC) programs, and Iowa State University Extension and Outreach has developed new tools to help farmers and landowners make informed decisions about these programs.

ARC/PLC
The 2018 Farm Bill re-authorized the ARC and PLC programs for 2019–2023. Farm operators still have to elect one program and enroll annually in ARC/PLC; however, Congress introduced several tweaks to add flexibility and improve the probability of receiving higher payments for producers affected by low commodity prices or crop failures.

ARC is offered at the county level (ARC-CO) and at the individual level (ARC-IC), and ARC program payments are triggered by actual revenue dipping below the revenue guarantee. ARC-CO uses historical county yields and national cash prices to determine the revenue guarantee. ARC-IC uses farm-specific historical yields across all farms enrolled in ARC-IC in the state operated by the same farmer and national cash prices to determine the revenue guarantee for that farmer. The revenue guarantees in both programs amount to 86% of their respective five-year Olympic average revenue. While, at first, ARC-IC seems to be more relevant to managing risk at the farm level than does ARC-CO, the payment acres in the ARC-IC program are only 65% of the farm’s total covered commodity base acres, while ARC-CO payment acres are 85% of the farm- and commodity-specific base acres. Furthermore, while ARC-CO is a commodity-specific program (in the sense that corn base acres in a farm can be enrolled in ARC-CO while soybean base acres on the same farm can be enrolled in PLC), ARC-IC averages out all sources of revenue across all covered commodities and all ARC-IC enrolled farms in the state to calculate the revenue guarantee and the actual revenue. From 2015 to 2018, about 98% of all corn and soybean base acres in Iowa were elected into ARC-CO. PLC payments are triggered when annual commodity prices fall below specific reference prices.

One of the major changes introduced by the 2018 Farm Bill is shortening the period in which a farm is tied to a particular program. Farmers can now switch programs for a particular farm before the end of the life of the farm bill. A farm can be elected into ARC or PLC for 2019 and 2020 before the March 15, 2020, deadline. However, starting in 2021, program election will be an annual choice.

Another major tweak is the one-time opportunity in 2020 for farmland owners (not tenants) to update farm PLC yields for payment years 2020–2023. As producers can now switch programs during the life of the farm bill, updating the PLC program yields before the September 30, 2020 deadline may prove beneficial later on. The choice to update yields is one that owners and operators should consider closely.

Minor changes introduced to program payment formulas that tend to increase the probability of occurrence and the amount of program payments if market conditions improve through time, include the use of higher “plug” yields, the use of trend-adjusted yield factors, and a reference price “escalator.”

The calculation of the ARC-CO revenue guarantee involves the five-year Olympic average county yield. In the 2014 formula, any year when county yields were below 70% of the transitional yield, the latter would be used as a “plug” yield instead of the actual yield. In the 2018 formula, the new “plug” yield is equivalent to 80% of the transitional yield. Furthermore, the 2018 formula uses county-specific trend-adjusted yield factors (similar to the ones used in crop insurance) instead of observed county yields in the revenue guarantee calculation, potentially resulting in “inflated” guarantees for some counties.

The calculation of the ARC-CO revenue guarantee also involves the five-year Olympic average price for each commodity. The 2018 formula allows the use of the Effective Reference Price (ERP) as a price “plug” in years when the commodity price is lower than the ERP. In turn, the ERP is the highest of the 2014 Statutory Reference Price ($3.70 for corn and $8.40 for soybeans) and 85% of the five-year Olympic average price, up to 115% of the Statutory Reference Price ($4.26 for corn and $9.66 for soybeans). Starting in 2019, the ERP is effectively the new triggering price point for PLC payments. Although current price projections for 2020–2023 seem to suggest that ERP will equal the Statutory Reference Price over the life of the 2018 Farm Bill, the tweaking of the price formulas allows for a built-in reference price “escalator” mechanism for whenever prices shoot up.

The 2018 Farm Bill left the crop insurance program mostly unchanged, continued on page 9