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# Enrollment in ACRE related to farm size, risk management

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# Ag Decision Maker

## A Business Newsletter for Agriculture

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### Enrollment in ACRE related to farm size, risk management

by William Edwards, extension economist, 515-294-6161, [wedwards@iastate.edu](mailto:wedwards@iastate.edu)

A year ago Iowa farmers were faced with the decision of whether to continue with the traditional version of the Direct and Counter-cyclical commodity risk program (DCP) from the Farm Service Agency, or to enroll in a new option called the Average Crop Revenue Election (ACRE). The new program offered a chance to put a floor under gross revenue instead of price, but also required producers to give up some of the benefits of the old program.

The majority of Iowa crop farmers elected to continue with the existing DCP program. Just under 12 percent of FSA farm units were enrolled in ACRE for the 2009 crop year. However, over 16 percent of the eligible acres were enrolled, which indicates that the farm units that were enrolled were larger than the ones that were not, on average.

Iowa State University (ISU) Extension specialists recently sent out a mail survey to 3,384 randomly selected Iowa producers who were enrolled in FSA commodity pay-

ment programs. A total of 365 usable replies were received. Survey questions concerned how farmers received information about ACRE, and what factors influenced their decision to enroll or not.

#### Sources of information

Not surprisingly, FSA newsletters and personnel were the most common source of information about ACRE, used by 89 percent of the respondents. The next most common source was the farm press (79 percent), followed by ISU Extension meetings, websites and articles (68 percent). A quarter of the respondents had used an electronic spreadsheet to analyze the potential effects of the ACRE program. The most common sources of the spreadsheets were ISU Extension (52 percent) and FSA (30 percent).

The producers who responded to the survey had enrolled 20 percent of their FSA farm units in ACRE, a higher rate than for the state as a whole. They were more likely to enroll farms that they owned them-

selves (24 percent) than farms they were renting from another owner (17 percent). Over one-fourth of the respondents said that they enrolled at least one of the farm units that they operated in 2009, either owned or rented.

#### Reasons for enrolling

Those who enrolled at least one farm in ACRE were asked to rate

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#### Handbook updates

For those of you subscribing to the handbook, the following updates are included.

**Corn Price Basis** -- A2-41 (11 pages)

**Soybean Price Basis** -- A2-42 (11 pages)

Please add these files to your handbook and remove the out-of-date material.

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the importance of several possible reasons for doing so. The responses are summarized in Table 1. Two reasons stood out from the rest: a desire for more risk protection against falling revenue, and a belief that the payments received under ACRE would exceed the value of the FSA direct payments given up over the four years of enrollment. High yield variability, advice from a farm lender or manager, and encouragement from a landlord were also cited as reasons for enrolling.

**Reasons for not enrolling**

On the other side of the coin, respondents who enrolled none or only some of their farms in ACRE (87 percent) were asked to rate the importance of various reasons for not doing so. As shown in Table 2, two reasons again were significantly more important than the others. The factor that was given the most importance was that the program was too complex, and the process for calculating the guarantees and payments was too

complicated. The second most important reason for not enrolling was to avoid giving up 20 percent of the FSA direct payment.

**Characteristics**

Some information was gathered about farm characteristics and other risk management tools that the farmers who answered the survey were using. The farmers who enrolled at least some of their farms in ACRE were then compared to those who did not enroll any farms for 2009. The data in Table 3 show that the farmers who enrolled in ACRE were farming significantly more crop acres (1,095 to 682) and received a higher percent of their farm income from crops. They also insured a higher percent of their crop acres, at a slightly higher coverage level, and tended to price more of their crop prior to harvest. There was no significant difference between the two groups in their farm debt-to-asset level or age, however. In general, farmers who enrolled in ACRE seemed to be more concerned about controlling crop financial risk in their farming operations than those who did not.

Respondents were also given the opportunity to make suggestions about how to improve the ACRE program. About 11 percent said it should be simplified, while about 5 percent said it should be eliminated altogether.

ISU Extension wishes to thank the Iowa farmers who took the time to provide information on how this important management decision was made.

**Table 1. Reasons for enrolling in ACRE**

	Score*
Wanted more risk protection	3.9
Believed ACRE payments would exceed 20% of the direct payment given up	3.2
Farm had high yield variability	1.8
Lender or farm manager advised it	1.6
Landlord wanted to enroll farm	1.4

\*Reasons were rated from 0 to 5 in increasing order of importance.

**Table 2. Reasons for not enrolling in ACRE**

	Score*
Program was too complex	3.8
Didn't want to give up 20% of direct payment	3.6
Would lose possible loan deficiency payments	3.0
Too hard to explain to landlord	3.0
Unlikely to get a payment	2.9
Farm yields don't track with state	2.7
Marketing loan rate would be lower	2.4
Lacked farm yield information	2.2
Did not need more risk protection	2.1
Landlord did not want to enroll	2.1

\*Reasons were rated from 0 to 5 in increasing order of importance.

**Table 3. Farmers who enrolled in ACRE and those who did not**

	Enrolled	Did not enroll
Crop acres farmed in 2009	1,095	682
% of farm income from crops	83%	76%
% of crop acres insured	92%	85%
Average insurance coverage	77%	75%
% of crop pre-harvest priced	30%	25%
% debt-to-asset ratio	27%	28%
Operator age	56	55