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The New ACRE Program: Frequently Asked Questions

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ACRE, which is an acronym for Average Crop Revenue Election, is a new commodity program included in the Food, Conservation and Energy Act of 2008 (the 2008 farm bill). Farmers can choose to participate in ACRE or they can continue to enroll in traditional commodity programs. ACRE is designed to provide revenue support to farmers as an alternative to the price support that farmers are used to receiving from commodity programs. Here, we answer some frequently asked questions about this new program.

Program Details

Which crops are eligible for ACRE? Corn, soybeans, wheat, cotton, sorghum, barley, rice, oats, peanuts, other oilseeds, dry peas, lentils, and chickpeas.

Does ACRE replace other commodity programs? Farmers who choose ACRE must give up 20 percent of their direct payments and all countercyclical payments. ACRE participants will continue to be eligible for marketing loans but their loan rates are reduced by 30 percent.

Can farmers pick and choose which crops they sign up for ACRE? No. A farmer enrolls either all eligible crops or none.

Can farmers move in and out of ACRE? No. Once ACRE is chosen, the choice applies to all subsequent years covered by this legislation (2009–2012).

When can farmers sign up for ACRE? The USDA has not yet released information about sign-ups. But farmers will be given multiple opportunities to sign up for ACRE.

Does ACRE provide farm-level revenue support? Not directly. ACRE payments are calculated on a crop-by-crop basis at the state level. If actual state revenue falls below the state revenue guarantee, then all farmers who have signed up for ACRE are potentially eligible for payments. All these potentially eligible farmers who also suffer a farm loss will receive an ACRE payment.

What is the ACRE state revenue guarantee? The guarantee equals 90 percent of the product of the ACRE yield and the ACRE price. The ACRE yield is the average of the state yields during the previous five years after the highest and lowest yield in the five years are eliminated. So, for example, if state yields for corn in 2004 through 2008 were respectively 180, 140, 150, 160, and 100 bushels per acre, the ACRE yield for 2009 would be 150, which is the average of 140, 150, and 160. The ACRE price is the average of the two previous years' season average prices as reported by the National Agricultural Statistics Service. So for 2009, the ACRE price used to set the 2009 guarantee will equal the season average prices for the 2007/08 marketing year and the 2008/09 marketing year.

How is actual state revenue calculated? Actual state revenue equals the product of the state average yield and the season average price. For example, in 2009, actual state revenue will equal the state average yield for the 2009 crop multiplied by the season average price for the 2009/10 marketing year.

How are ACRE payments calculated? Per acre ACRE payments equal the difference, if positive, between the ACRE guarantee and actual state revenue. ACRE payments are capped so that if the difference between the revenue guarantee and actual revenue is greater than 25 percent of the ACRE guarantee, then the ACRE payment equals 25 percent of the ACRE guarantee.

Which state average yields are used in ACRE? All ACRE yields are average yield per planted acre.

How fast can ACRE guarantees adjust to changing market conditions? Year-to-year adjustments in the ACRE guarantee are limited to 10 percent.

How can farmers who sign up for ACRE determine if they had a farm-level loss? A farm-level loss is deemed to have occurred for ACRE payment calculations if actual farm revenue is less than expected farm revenue plus the farmer-paid crop insurance premium for those who buy crop insurance. Actual farm revenue equals the product of yield per planted acre and the season average price. Expected farm revenue is calculated analogously to the ACRE guarantee in that the modified five-year average farm yield is multiplied by the two previous years' season average price.

Are ACRE payments paid on base or planted acres? ACRE payments are made on a portion of planted acres (83.3 percent in 2009–2011, 85 percent in 2012) subject to a limit that the sum of planted acres is less than or equal to the sum of base acres on a farm.

Farmer Sign-Up Decisions

Which farmers should sign up for ACRE? Naturally, the most important factor that will deter-

mine whether farmers sign up for ACRE will be their expectations about whether their payments will increase or decrease under ACRE. To help farmers make relevant calculations, CARD researchers have put together a spreadsheet calculator that shows the likely payments under ACRE under a wide variety of possible outcomes. The CARD ACRE calculator is available at www.card.iastate.edu/ag_risk_tools/.

How can farmers decide if ACRE payments will be higher or lower than payments under traditional programs? Because ACRE payments equal the difference between the state revenue guarantee and actual state revenue, ACRE will generate large payments when state revenue is low. Significant declines in market prices can generate substantial payments for all farmers of a crop in all states. Thus, a situation in which the ACRE guarantee builds to a high level through a series of high prices followed by significantly falling prices will generate substantial payments.

Because nobody can determine what future prices and yields will be, the CARD calculator allows corn, soybean, and wheat farmers in all states to experiment with different scenarios. Users can enter prices and yields for the 2008 crop year that when combined with the 2007 season average price and recent state average yields will determine the 2009 ACRE guarantee. The calculator then allows users to enter either a 2009 market price (the “what if” option) or a 2009 expected market price. The tool then calculates average ACRE payments and the accompanying reduced loan deficiency and direct payments and compares these payments to average loan deficiency, countercyclical, and direct payments from the traditional programs. By changing the 2008 price, farmers can vary the 2009 guarantee. The calculator uses 2009

trend-adjusted actual state yields from 1980 to 2007 to represent the range and likelihood of state yields for each crop.

What situations favor the traditional programs? We could find only one set of circumstances under which traditional programs would provide more payments than ACRE: if market prices in 2009, 2010, 2011, and 2012 remain above the average levels in 2007 and 2008. If prices remain strong or increase throughout this period, then farmers in states with low yield variability would find that ACRE would make few if any payments. Of course, in this situation, the only payments that farmers would receive from the traditional programs would be direct payments because loan rates and target prices would remain far below market prices. If ACRE payments are zero or quite low, then farmers who choose ACRE will not recoup the 20 percent reduction in direct payments.

What situations favor ACRE? If prices fall below their 2007 and 2008 average level, then ACRE payments will be significantly greater than those under traditional programs.

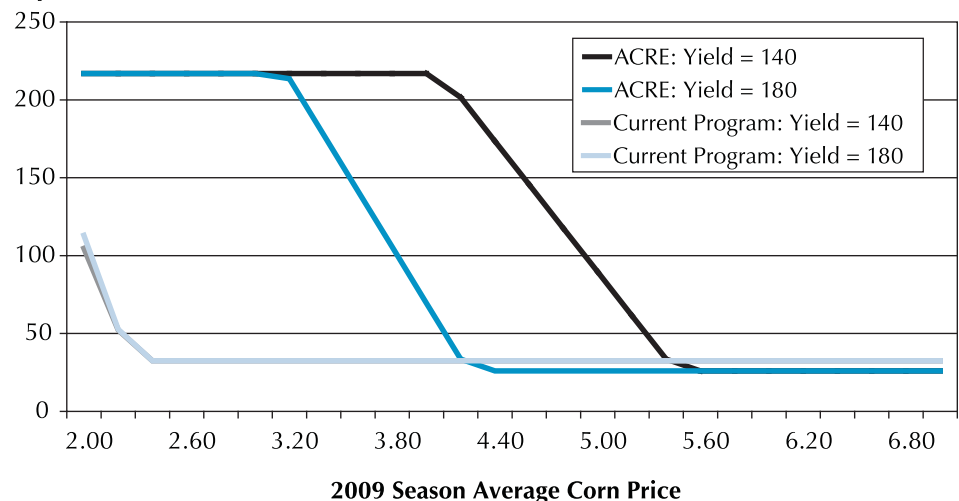
The only way that ACRE payments would not be large in this circumstance is if the state average yield was significantly higher than the ACRE yield.

Should farmers choose ACRE? Because nobody can know with certainty what the future holds for prices and yields, farmers should perhaps regard ACRE as an insurance policy. In exchange for an annual insurance premium that equals 20 percent of direct payments, the farmer receives a revenue guarantee for all years covered by the new farm legislation. Given uncertainty about price levels and yields, many corn, soybean, and wheat farmers will find that the high ACRE revenue guarantees will be more valuable to them than the 20 percent loss in direct payments. Even if market prices fall below target prices and loan rates, the size of ACRE payments to most farmers will exceed those of loan deficiency and countercyclical payments.

The graph shows the potential payout from ACRE and current commodity programs for Iowa corn farmers under alternative prices in

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\$/planted acre



Impact of price and yield on possible Iowa corn payments in 2009 (2008 season average price set to \$5.80)

ACRE FAQs

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2009 and for two different state average yields. The 2008 season average price used to set the ACRE guarantee is \$5.80/bu, which is the mid-point of the range of corn prices projected by the USDA in the middle of June. As stated earlier, the only situation that favors current commodity programs is that in which ACRE payments are zero. Because ACRE is similar to revenue insurance, the price at which ACRE payments begin to be made depends on the state yield. When the state yield is 180, ACRE payments begin when the price falls below \$4.40. When the state yield is 140, ACRE payments begin when the price falls below \$5.60.

The second point illustrated by this graph is that ACRE will generate more payments than current commodity programs even at corn prices that trigger countercycli-

cal and loan deficiency payments. ACRE payments will be double the level of traditional programs even if the season average corn price falls to \$2.00 per bushel.

The important trade-off to consider when choosing between ACRE and traditional commodity programs is the distinction between the reduction in payments that occurs under ACRE given high prices versus the large potential ACRE payments should prices drop. For corn farmers who believe that ACRE payments will be zero because corn prices are going to remain above \$6.00 for the life of the farm legislation and state yields will always be at or above trend levels, it would be better to choose the current programs to avoid a 20 percent cut in direct payments. But for farmers who believe that there is a chance that price or yield will drop unexpectedly, the large payments under

ACRE (up to a maximum of \$216.90/acre, which includes direct payments) will make the new program the preferred option.

The pattern of payments shown in the graph for Iowa corn is nearly identical to the situation for corn in other states and for wheat and soybeans in all states. This suggests that a large proportion of U.S. farmers will find ACRE much more attractive than current commodity programs. ♦

Authors' note: This information about ACRE is as accurate as possible at this time. However, significant changes to the program could come about as the USDA implements ACRE.

This article is taken from a document meant to accompany the spreadsheet calculator (available at www.card.iastate.edu/ag_risk_tools/) that CARD researchers put together to enable farmers to determine if ACRE makes sense for them.

New Permanent Disaster Assistance

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season-average prices for crops. Because these prices are determined over the course of the marketing year, they may not be known until well after the disaster occurs. For example, the recent flooding affected the 2008 crop year production for corn and soybeans. The 2008 season-average prices for both crops will not be known until October 2009 at the earliest. So while

SURE is available for the 2008 crops and could provide support based on the recent flooding, the SURE payments will not reach producers until late in 2009, nearly a year and a half after the disaster.

One final note: another article (page 4) examines the new ACRE program. If crop losses in a state are widespread enough to trigger ACRE payments, then it will be ACRE that compensates farmers for crop losses, not SURE. Furthermore, farmers who suffer farm-level

losses in a year that triggers ACRE payments will receive double indemnities because crop insurance indemnities are not subtracted from ACRE payments as they are in SURE. Because most crop losses in Corn Belt states are triggered by widespread drought or excess rainfall, most farmers will find that ACRE will provide more assistance when disaster strikes than the new disaster assistance program. ♦