

## **ACRE DECISION STRATEGY: diversify election of farm program suite**

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**ACRE and traditional farm programs provide different types of risk management assistance (price vs. state revenue target; fixed vs. market-oriented target). Thus, they have different payment flows.**

- ▶ Numerous scenarios exist to consider when assessing the traditional and ACRE farm program suites. However, most can be grouped into one of three major categories.
  - State revenue increases, remains constant, or does not decline by more than 10% from 2009 through 2012 – traditional program suite has higher payments
    - ACRE has 20% less direct payments and does not make revenue payments.
    - This scenario likely creates little farm financial risk.
  - Price declines to, but not below the effective target price (price at which counter-cyclical payments begin) – ACRE program suite usually has higher payments
    - ACRE revenue payments increase as price approaches the effective target price. Counter-cyclical and marketing loan payments are close to zero.
  - Price declines below loan rate – traditional suite usually has higher payments
    - ACRE revenue program makes large payments.
    - Traditional program suite makes even larger payments. Marketing loan and counter-cyclical payments occur. No limit exists on marketing loan payments.

**Preferred risk management assistance depends upon on which revenue-price scenario occurs. Strong evidence exists that very few people can forecast prices.**

- ▶ Classic risk management strategy when predictive ability is limited is a diversified portfolio.
  - In this case, a diversified portfolio is participation in the traditional and ACRE programs.
    - Election of ACRE is by FSA farm number.
    - This strategy is feasible if the farmer or land owner has more than one FSA farm.
- ▶ This strategy also allows a decision maker to learn about the ACRE revenue program.

**Considerations in selecting which FSA farm(s) to enroll in ACRE include:**

- ▶ Size of direct payment reduction on a FSA farm
  - For corn-soybean-wheat farms, the reduction in direct payment per planted acre usually will be smaller, the greater the share of base acres that are soybeans.
- ▶ Comparison of crops planted on a FSA farm to the distribution of base acres by crop
  - Compared to the counter-cyclical program, ACRE better matches current production risk because its payment is based on planted acres (up to the farm's total base acres).
- ▶ Yield on a FSA farm relative to the state's yield for the crop
  - The higher a farm's 5-year Olympic moving average yield, relative to the state's 5-year Olympic average yield for a crop, the higher the farm's ACRE revenue payment.
- ▶ Yield on a FSA farm relative to its base yield for the crop
  - The more yield has increased the higher will be a FSA farm's Olympic average yield.
    - For example, recently tilled fields may have greater yield increases.
- ▶ How close does the change in yield on the FSA farm track the change in the state's yield?
  - The closer changes in yield on a FSA farm and state move together, the more similar is changes in farm and state revenue, implying better risk protection from ACRE.
- ▶ Availability of records to document a FSA farm's yield.

**A single combined limit exists on ACRE revenue and counter-cyclical payments: \$65,000 plus the reduction in direct payments from electing ACRE**