# Questions you should be asking yourself about your crop program decisions

## 2014-2015 Agricultural Policy and Outlook Conference Series

**Professor Carl Zulauf (zulauf.1@osu.edu)**

**Background:** Understanding the questions one should ask is always important — it is hard to get to the best answer if the question is wrong; but questions are even more important when uncertainty is sizable, such as with the program choice decision. This article contains a list of questions producers should consider asking themselves. References, PowerPoints and video are available at: http://aede.osu.edu/crop-program-decisions.

**Crop Yield Update Decision** (payment yield update article and video)

- ► *Can I prove my yields if selected by Farm Service Agency (FSA) to verify them?*
  - ■ You have to assume you will be audited some time before the 2018 crop year ends.
  - ■ Penalties are possible if audited yields are lower than reported yields.
- ► *Which is higher?* (1) current countercyclical yield, (2) updated FSA farm program yield (90% of 2008-12 yields), or (3) updated yield using FSA update replacement yield (90% of 75% of 2008-12 county average yield) — 3 especially viable if cannot or do not want to prove yields.

**Farm Program Base Acre Allocation Decision** (program acre allocation article and video)

- ► *What difference exists between my current program acres and reallocated program acres? (reallocated acres based on 2009-2012 plantings to program crops)*
  - ■ For some FSA owners and operators, this will be the most important of the 3 decisions.
- ► *Is my objective for this decision to choose a program acre allocation that (a) is closest to expected planted acres on the FSA farm over 2015-18, (b) differs most from planted acres to create a diversified income source, or (c) maximizes farm program payments?*
  - ■ No right or wrong objective; but it is important to be honest about your objective.

**Program Choice Decision** (ARC-CO and PLC, and ARC-IC articles; program videos)

- ► Overarching program decision question is: *"Over 2014-2018, for my FSA farm(s) is expected ARC-CO payments + expected net payments from any insurance chosen with ARC-CO <u>greater or less</u> than expected ARC-IC payments + expected net payments from any insurance chosen with ARC-IC <u>greater or less</u> than expected PLC payments + expected net payments from any insurance chosen with PLC + expected net payments from SCO if also chosen."*
  - ■ Removing insurance simplifies the question, but insurance should be considered since SCO is excluded with ARC and SCO requires the purchase of individual insurance.
  - ■ Expected means: a risk of concern has a probability of occurring and causing payments.
- ► *Should 2014 crop year payments have a higher weight in your decision?*
  - ■ Payments for 2014 will be reasonably well-known by the crop program decision deadline of March 31, 2015 while payments for later years are uncertain.
- ► *If you have multiple FSA farms, should program choice be diversified across FSA farms?*
  - ■ Each program option best targets a different risk: ARC-CO, multiple year shallow loss, ARC-IC, individual farm loss; PLC, multiple years of price well below reference price.

--- over ---

        - Key difference between ARC-CO and PLC: ARC-CO pays for multiple year declines in revenue that occur at any yield and price level but is capped at 10%; PLC pays only if price is below the reference price but has a much higher payment cap.
    - Diversification is a standard technique for managing decisions involving uncertainty.
    - ARC-CO and PLC can be mixed and matched across crops and FSA farms; in contrast, ARC-IC is elected for the entire FSA farm.
- *How do various benchmark yields compare?* (yield and program decision article)
    - Olympic 5 year county yield for ARC-CO vs. Olympic 5 year FSA farm yield for ARC-IC vs. program yield for PLC
    - If program diversification is desired, consider using yield as a guide: lean toward PLC for FSA farms with highest ratio of program yield to county yield; lean toward ARC-CO for FSA farms with highest ratio of county to program yield; lean toward ARC-IC for FSA farm if its yield is 30% higher than county yield or highly variable (ARC-IC article)
- *Does ARC-IC fit my farm?* (ARC-IC article)
    - ARC-IC's payment acres are 20% fewer. A factor needs to offset this disadvantage. on average. Possibilities: (1) ARC-IC farm yield is 30% higher than county yield, (2) ARC-IC farm production is highly variable, and (3) fruits/vegetables may be planted on ARC-IC farm. First two are more attractive if only 1 FSA farm comprise the ARC-IC farm and 1 crop is grown per year because averaging reduces the probability of payment.

**Insurance Decisions** (SCO article)
- *If higher insurance coverage is desired, is SCO or individual farm insurance a better choice?*
    - Key factor is availability of 80% or 85% enterprise insurance coverage.
- *Will I buy the same insurance with each program option?*
    - Answer may be no as each program has different risk assistance strengths (see above)

**Resources available at** http://aede.osu.edu/crop-program-decisions
- Policy Brief - Key Questions
- Farm Yield Update
- Yield Update video - 7:27 minutes - October 2014
- Base Acre Allocation
- Base Acre Allocation Video - 8:36 minutes - October 2014
- ARC-Individual
- ARC-County vs. PLC Decision
- ARC-CO and PLC Payment Indicator for 2014
- Yield and Farm Program Decisions
- SCO
- Program Choice Video - 54:05 minutes - October 2014
- 2014 Crop Program Decisions PowerPoint
- Compilation (All Crop Decision Articles)
- Payment Limits
- Full Video - All 2014 Decisions - 1:09:30 minutes - October 2014
- Program Calculator: National Coalition for Producer Education (NCPE), led by University of Illinois
- Program Calculator: National Association of Agricultural and Food Policy (NAAFP) led by Food and Agricultural Policy Research Institute (FAPRI) at University of Missouri, and Agricultural and Food Policy Center (AFPC) at Texas A&M University
- Program Calculator: Kansas State University, Oklahoma State University, Southern Risk Management Education Center
- USDA Farm Service Agency ARC/PLC Programs
- USDA Farm Service Agency AskFSA