# Agriculture Risk Coverage - Individual Level

# ARC-IC

# Agricultural Risk Coverage - Background

❑ ARC is a revenue-based program

❑ Covers a portion of a farmer's "out-of-pocket" loss (shallow loss 76%-86%)

❑ When current year revenues fall below benchmark revenue levels

❑ Crop insurance – is not required (linkage) nor is revenue from indemnities assessed to the farm's revenue

# Agricultural Risk Coverage – Individual Coverage

❑ ARC-IC is "Elected" for ALL covered commodities at the farm level

❑ PLC and ARC-CO can not be elected on this farm

## Agricultural Risk Coverage – Individual Coverage

❑ ARC-IC – revenues and payments are based on a farm(s) having been <u>both Elected and Enrolled</u> into ARC-IC

❑ Includes all ARC-IC farms <u>elected and enrolled</u> (annually) in the State

Understanding the **2014 FARM BILL**

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## Agricultural Risk Coverage – Individual Coverage

❑ ARC-IC benchmarks, guarantees and payment rates are calculated at the farm level and **weighted to the producer's share of the covered commodities planted** on the ARC-IC farm

❑ Weighting to the producer share, is the "bucket concept"

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# Agricultural Risk Coverage – Individual Coverage

❑ **ARC-Individual Coverage requires:**

✓ <u>Election</u> of ARC-IC

✓ <u>Enrollment</u>

✓ <u>Planting</u> of covered commodities

> Prevented Planted (PP) acres are not included in ARC-IC Calculations, except when 100% of covered commodities are PP

✓ <u>Production</u> reports of covered commodities

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# Agricultural Risk Coverage – Individual Coverage

❑ ARC-IC is a revenue-based "farm" level program, weighted to the producer share level, across **all** ARC-IC farms enrolled in the State

❑ Revenue loss occurs when the actual farm revenue falls below the farm guarantee (86% of farm benchmark)

# Agricultural Risk Coverage – Individual Coverage

❑ Farm benchmark revenues are the 5- year Olympic average of **revenues** for covered commodities planted on the farm, as weighted

# ARC-IC Payment Calculation

| ARC-IC Steps | |
|---|---|
| Step 1 | Calculate Benchmark Revenue |
| Step 2 | Calculate ARC-IC Guarantee |
| Step 3 | Calculate Actual Crop Revenue |
| Step 4 | Determine if a Revenue Loss Occurred |
| Step 5 | Determine if Revenue Loss EXCEEDS 10% Payment Cap |
| Step 6 | Calculate ARC-IC Payment Rate – Producer Bucket |

# Agricultural Risk Coverage – Individual Coverage

❑ **ARC-IC Benchmark Revenue** is calculated using the 5-year Olympic Average of **"annual revenues"** for each covered commodity, as weighted

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**Agricultural Risk Coverage – Individual Coverage**

❑ The **"annual revenue"** for each covered commodity is calculated, by *multiplying*:

➢ **The covered commodity's annual yield:**
   *higher of* the individual farm yield or
   70% of the transitional yield (Substitute Yield),
   **TIMES**

➢ **The covered commodity's annual price:**
   *higher of* the Market Year Average (MYA) price or
   the Reference Price for the covered commodity
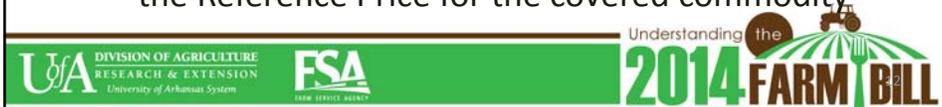
# Agricultural Risk Coverage – Individual Coverage

❑ **ARC-IC Weighted Farm Benchmark Revenue**:

➤ Is the value of the applicable covered commodity's ARC-IC farm benchmark revenue, based on:

➤ the number of "**acres planted**" to each covered commodity on the farm

➤ in comparison to the **"total number"** of acres planted to all covered commodities on the ARC-IC enrolled farm

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# Agricultural Risk Coverage – Individual Coverage

**ARC-IC Weighted Farm Benchmark Revenue –**

**Example of a 100% producer**:

| Covered Commodities On ACR-IC Farm | PLANTED ACRES | Planted / Total Planted | % Of Covered Commodity Planted |
|---|---|---|---|
| Corn | 110 | (110 / 160) | 68.75% |
| Soybeans | 50 | (50 / 160) | 31.25% |
| Total | 160 | | |

## Agricultural Risk Coverage – Individual Coverage

❑ **Calculation of Weighted Farm Benchmark (BM) Revenue – Example of a 100% producer:**

Corn BM Revenue: ($579.47 X 68.75%) = $398.39

Soybean BM Revenue: ($418.36 X 31.25%) = $130.74

Weighted Farm Benchmark Revenue $529.13

❑ Example above is of a 100% share producer and that producer's benchmark revenue

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## Agricultural Risk Coverage – Individual Coverage

❑ **ARC-IC Guarantee**:

➤ Calculated at 86% of the ARC-IC Benchmark Revenue, as weighted across all covered commodities

➤ Recalculated each year, 2014 through 2018

➤ Is calculated on a per acre level

➤ Weighted to the producer's share level

# Agricultural Risk Coverage – Individual Coverage

❑ **Actual Year Revenue is** calculated by *Multiplying*:
  ➢ "**Actual Yield**" for the farm of each covered commodity
    *times*
  ➢ *higher of*: Marketing Year Average(MYA) price or National Loan Rate for the covered commodity

❑ **Summing Revenues of:**

    All Covered Commodities across all ARC-IC enrolled farms
    Divided by total planted acres of All Covered Commodities of All ARC-IC enrolled farms in the State

❑ **Weighted to the producer's share level**

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# Agricultural Risk Coverage – Individual Coverage

❑ **ARC-IC Payment Rate CAP:**

✓ The ARC-IC payment rate is "capped" at 10% of the **ARC-IC farm benchmark revenue** calculated for the ARC-IC enrolled farm(s)

✓ The 10% Cap is weighted to the producer's share level

# Agricultural Risk Coverage – Individual Coverage

❑ **ARC-IC Payment Shares**:
- ➢ Are based on each producer's interest in the covered commodities planted on enrolled ARC-IC farms
- ➢ Are driven from the shares of the covered commodities as reported on FSA-578
- ➢ Are a blended share of all covered commodities the producer has an interest in, on the applicable ARC-IC enrolled farm

❑ Producers, including owners, who do not share in covered commodities, are not eligible for ARC-IC payment

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# Agricultural Risk Coverage – Individual Coverage

❑ **ARC-IC Payment Shares – Example:**

Corn – 110.0 acres (Shared 100% OP)

Soybeans – 50.0 acres (Shared 50/50 OP and OW)

ARC-IC Farm Level Payment Shares:

Operator:  135.0/160.0 = 84.38%

Owner: 25.0/160.0 = 15.62%

❑ If the Owner did not share in a planted covered commodity, the Owner will not receive an ARC-IC payment

# Agricultural Risk Coverage – Individual Coverage

❑ **ARC-IC - Producer Payment Rate – "Buckets":**

  ❑ Each producer sharing in ARC-IC covered commodities will have different payment rates determined based on their weighted shares of the farm

  ❑ It is possible for the Operator to trigger an ARC-IC payment and an Owner to not trigger an ARC-IC payment on the same farm

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# Agricultural Risk Coverage – Individual Coverage

❑ **ARC-IC payments are triggered for a producer:**

  ❑ When the "Actual" farm crop revenue, as weighted for the producer's share is

  **less than**

  ❑ the ARC-IC Farm Guarantee, as weighted for the producer's share for the year

1/29/2015

## Agricultural Risk Coverage – Individual Coverage

❑ ARC-IC requires production reports from producers for both:
- ✓ benchmark revenues and
- ✓ actual revenues

and are computed using farm level yield data

❑ ARC-IC payments are dependent on planting of covered commodities

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## Agricultural Risk Coverage – Individual Coverage

❑ The ARC-IC payment for a producer, is:

❑ the producer's payment rate, *times*

❑ each of the producer's ARC-IC enrolled farm's total base acres, *times*

❑ 65%, *times*

❑ the producer's crop share on each ARC-IC farm in the State

# Agricultural Risk Coverage – Individual Coverage

❑ The ARC-IC payment rate for the producer is the same for all ARC-IC enrolled farms the producer has interest in

❑ A producer's payment rate is capped at 10% of the producer's benchmark revenue, as weighted

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# Agricultural Risk Coverage – Individual Coverage

❑ **ARC-IC farm level yield data, stays with the farm**

❑ Farm level yield data will remain with the farm regardless of who obtains the farm in a subsequent year

# Agricultural Risk Coverage – Individual Coverage

❑ ARC-IC revenue calculations, in both benchmark and current year, do **NOT include Prevented Planted acres, with one exception….**

❑ A Prevented Planted exception applies **ONLY** when an ARC-IC farm is **100%** prevented planting of covered commodities

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# Agricultural Risk Coverage – Individual Coverage

❑ **ARC-IC Yield Calculation:**
   ✓ The "individual farm" yield per planted acre for the covered commodity on the farm
   ✓ For the current and most recent 5 crop years in the benchmark
   ✓ Yields remain with the farm, not the producer
   ✓ Yields are based on:
      ❑ Individual farm yields
      ❑ Substituted Yield at 70% of T-Yield.
      ❑ Assigned yield at 100% of County NASS yield

# ARC-IC Calculations

### 2014 Benchmark Yield Example 1 - All planted acre years – Substitute Yields

| Corn | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| **Farm Yield** | 180 | 194 | 191 | ~~110~~ | 131 |
| **70% of Transitional Yield** | ~~113~~ | ~~113~~ | ~~113~~ | 113 | ~~113~~ |

# ARC-IC Calculations

### 2014 Benchmark Yield Example 2 – No Planted acre years in benchmark – Assigned Yields:

| Corn | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| **Farm Yield** | 0 | 0 | 0 | 0 | 0 |
| **100% of County Average Yield** | 160 | 160 | 160 | 160 | 160 |

# ARC-IC Calculations

❑ **ARC-IC Benchmark Price Calculation:**

➢ ARC-IC benchmark price of each of the 5 most recent years will be the higher of either of the following:

  ➢Marketing Year Average Price for the covered commodity

  ➢The reference price set by Statute

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# ARC-IC Calculations

Benchmark Price Example:

| Corn | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| **Marketing Year Average Price** | ~~$3.55~~ | $5.18 | $6.22 | $6.89 | $4.50 |
| **Reference Price** | $3.70 | ~~$3.70~~ | ~~$3.70~~ | ~~$3.70~~ | ~~$3.70~~ |

# ARC-IC Calculations

❑ ARC-IC Farm Benchmark Revenue is the 5 year Olympic average of the farm's annual benchmark revenue as weighted across all covered commodities on the ARC-IC enrolled farm

❑ ARC-IC Farm Benchmark Revenue for each year for the covered commodity is:

➢ calculated by multiplying the Yield *(higher of the farm yield or 70% of T-Yield)* for the specific covered commodity on the farm, *TIMES*

➢ the *(higher of Marketing Year Average price or Reference price)* for the specific covered commodity

➢ weighted to the producer's share level

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# ARC-IC Calculations
## ARC-IC Benchmark Revenue  Example:

| Corn | 2009 | 2010 | 2011 | 2012 | 2013 | |
|---|---|---|---|---|---|---|
| Farm Yield | 180 | 194 | 191 | ~~110~~ | 131 | |
| 70% of Transitional Yield | ~~113~~ | ~~113~~ | ~~113~~ | 113 | ~~113~~ | |
| | | | | | | |
| Corn | 2009 | 2010 | 2011 | 2012 | 2013 | |
| Marketing Year Average Price | ~~$3.55~~ | $5.18 | $6.22 | $6.89 | $4.50 | |
| Reference Price | $3.70 | ~~$3.70~~ | ~~$3.70~~ | ~~$3.70~~ | ~~$3.70~~ | |
| | | | | | | |
| Corn | 2009 | 2010 | 2011 | 2012 | 2013 | |
| ARC-IC Farm Revenue | $666 | $1005 | ~~$1188~~ | $779 | ~~$590~~ | **$817 Olympic Average Revenue** |
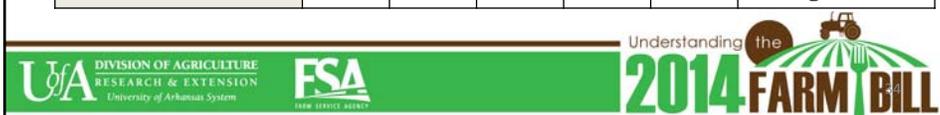
# ARC-IC Calculations

❑ ARC-IC Guarantee:

   ❑ Calculated by multiplying the ARC-IC Farm Benchmark Revenue times 86 percent

Example:

| ARC-IC Farm Benchmark Revenue | ARC-IC Farm Guarantee | |
|---|---|---|
| $817 | X 86% | $703 |

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# ARC-IC Calculations

❑ **ARC-IC Actual Crop "current year" Revenue:**

   ❑ Calculated by multiplying the **"Actual Farm"** yield/acre for all covered commodities on the ARC-IC enrolled farm **times** the *higher of*:

      ➢ Marketing Year Average (MYA) price for the covered commodity    OR

      ➢ National Loan Rate for the covered commodity

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## ARC-IC Calculations

### ARC-IC Actual Farm Revenue Example:

| Crop | Actual Farm Yield | MYA Price | National Loan Rate | ARC-IC Actual Crop Revenue |
|------|-------------------|-----------|--------------------|----------------------------|
| Corn | 165 bu/acre | $4.00/bu | ~~$1.95/bu~~ | $660/acre |

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## ARC-IC Calculations

❑ **ARC-IC Producer Payment Calculation:**

➢ ARC-IC producer payment is equal to 65% of the farm(s) total base acres, *times*

➢ the producer's calculated ARC-IC payment rate, *times*

➢ the producer's blended shares of covered commodities as reported on the FSA-578, Report of Acres for the farm

# ARC-IC Calculations

ARC-IC Payment Calculation Example 1

(Corn – only ARC-IC Crop):

| ARC-IC Farm Guarantee | Actual Crop Revenue/per acre | Crop Revenue Loss 1/ |
|---|---|---|
| $703 | $660 | $43/acre |
| 1/ Payment rate is lesser of the calculated payment rate above ($43/acre) OR 10% of the benchmark revenue    (CAP: $817 X 10% = $81.70/acre) | | |

| Total Base Acres | 65% of Total Base Acres | Share on Contract | Crop Revenue Loss | Producer Payment |
|---|---|---|---|---|
| 126.5 | 82.2 | 100% | $43 | $3535 |

# ARC-IC Calculations

| ARC-IC Steps | |
|---|---|
| Step 1 | Calculate Benchmark Revenue |
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| Step 3 | Calculate Actual Crop Revenue |
| Step 4 | Determine if a Revenue Loss Occurred |
| Step 5 | Determine if Revenue Loss EXCEEDS 10% Payment Cap |
| Step 6 | Calculate ARC-IC Payment Rate – Producer Bucket |

# ARC-IC Summary

- ❑ **ARC-IC Step 1:**
  - ❑ **Calculate Farm Benchmark Revenue for each year by multiplying each of the last:**
    - ✓ **5 Years of average YIELDS** using the *higher of* the actual yield OR 70% of the county transitional yield (Substitute Yield), *times*
    - ✓ **5 Years of PRICES** using the *higher of* the Market Year Average price OR the Reference Price for the covered commodity
  - ❑ **Olympic average of 5 years of farm revenue** for each covered commodity
  - ❑ **Weighted to the producer's share level**

# ARC-IC Summary

- ❑ **ARC-IC Step 2:**
  - ❑ **Calculate ARC-IC Farm Guarantee**
    - ✓ Calculated at 86 percent of the ARC-IC Farm Benchmark Revenue calculation, which is recalculated each year, 2014 through 2018
  - ❑ Weighted to the producer's share level

# ARC-IC Summary

❑ **ARC-IC Step 3:**

   ❑ **Calculate ARC-IC Farm Actual Year Revenue**

      ✓ Calculated by multiplying the "Actual Farm" yield for the covered commodity times the *higher of*:

      ✓ Marketing Year Average price for the covered commodity or

   ❑ National Loan Rate for the covered commodity

   ❑ Weighted to the producer's share level

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# ARC-IC Summary

❑ **ARC-IC Step 4:**

   ❑ **Determine if a ARC-IC Farm "Revenue" Loss Occurred**

      ✓ Calculated by subtracting the producer's share level of the ARC-IC farm's **"Actual Revenue"** from the producer's share of the **"ARC-IC Farm's Guarantee"**

   ❑ If a "Negative" amount then NO LOSS

# ARC-IC Summary

❑ **ARC-IC Step 5:**

   ❑ **Determine if the ARC-IC farm "Revenue" Loss EXCEEDS 10% Payment Cap**

      ❑ A producer's ARC-IC payment rate CANNOT exceed 10% of the weighted producer's share of the ARC-IC farm Benchmark Revenue

         ❑ If the calculated "Revenue" loss is greater than 10% of the Benchmark Revenue (CAP), then the 10% cap payment rate is used

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# ARC-IC Summary

❑ **ARC-IC Step 6 – Producer Bucket:**

   ❑ **Calculate ARC-IC Farm Payment**

      ✓ Producer ARC-IC payment rate per acre, *times*

      ✓ the total covered commodity base acres of the ARC-IC farm, *times*

      ✓ 65%

# ARC-IC Summary

❑ **ARC-IC Step 6 – Producer Bucket:**

    ❑ **The ARC-IC Producer Bucket – is based on the:**

        ✓ **Producer's Weighted % of Planted Acres across all enrolled ARC-IC Farms**

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# FSA Website – ARC/PLC

Go to: **fsa.usda.gov**

Under "Popular Topics", click on:

**"Agricultural Risk Coverage / Price Loss Coverage"**