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 both Elected and Enrolled into ARC-IC

- Includes all ARC-IC farms elected and enrolled (annually) in the State

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”
Agricultural Risk Coverage – Individual Coverage

- ARC-Individual Coverage requires:
  - Election of ARC-IC
  - Enrollment
  - Planting of covered commodities
    Prevented Planted (PP) acres are not included in ARC-IC Calculations, except when 100% of covered commodities are PP
  - Production reports of covered commodities

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

<table>
<thead>
<tr>
<th>ARC-IC Steps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Step 1 Calculate Benchmark Revenue</td>
</tr>
<tr>
<td>Step 2 Calculate ARC-IC Guarantee</td>
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<td>Step 3 Calculate Actual Crop Revenue</td>
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<td>Step 4 Determine if a Revenue Loss Occurred</td>
</tr>
<tr>
<td>Step 5 Determine if Revenue Loss EXCEEDS 10% Payment Cap</td>
</tr>
<tr>
<td>Step 6 Calculate ARC-IC Payment Rate – Producer Bucket</td>
</tr>
</tbody>
</table>
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

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

### Example of a 100% producer:

<table>
<thead>
<tr>
<th>Covered Commodities On ACR-IC Farm</th>
<th>PLANTED ACRES</th>
<th>Planted / Total Planted</th>
<th>% Of Covered Commodity Planted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>110</td>
<td>(110 / 160)</td>
<td>68.75%</td>
</tr>
<tr>
<td>Soybeans</td>
<td>50</td>
<td>(50 / 160)</td>
<td>31.25%</td>
</tr>
<tr>
<td>Total</td>
<td>160</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Agricultural Risk Coverage – Individual Coverage

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

Corn BM Revenue: ($579.47 \times 68.75\%) = $398.39
Soybean BM Revenue: ($418.36 \times 31.25\%) = $130.74
Weighted Farm Benchmark Revenue $529.13

- Example above is of a 100% share producer and that producer’s benchmark revenue

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

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
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

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.

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

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farm Yield</td>
<td>180</td>
<td>194</td>
<td>191</td>
<td>110</td>
<td>131</td>
</tr>
<tr>
<td>70% of Transitional Yield</td>
<td>113</td>
<td>113</td>
<td>113</td>
<td>113</td>
<td>113</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farm Yield</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>100% of County Average Yield</td>
<td>160</td>
<td>160</td>
<td>160</td>
<td>160</td>
<td>160</td>
</tr>
</tbody>
</table>
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

---

**ARC-IC Calculations**

**Benchmark Price Example:**

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Corn</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing Year Average Price</td>
<td>$3.55</td>
<td>$5.18</td>
<td>$6.22</td>
<td>$6.89</td>
<td>$4.50</td>
</tr>
<tr>
<td>Reference Price</td>
<td>$3.70</td>
<td>$3.70</td>
<td>$3.70</td>
<td>$3.70</td>
<td>$3.70</td>
</tr>
</tbody>
</table>
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

ARC-IC Calculations

ARC-IC Benchmark Revenue Example:

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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<td>$3.70</td>
</tr>
<tr>
<td>Corn</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ARC-IC Farm Revenue</td>
<td>$666</td>
<td>$1005</td>
<td>$1188</td>
<td>$779</td>
<td>$590</td>
</tr>
</tbody>
</table>
ARC-IC Calculations

- ARC-IC Guarantee:
  - Calculated by multiplying the ARC-IC Farm Benchmark Revenue times 86 percent
  - Example:

<table>
<thead>
<tr>
<th>ARC-IC Farm Benchmark Revenue</th>
<th>ARC-IC Farm Guarantee</th>
</tr>
</thead>
<tbody>
<tr>
<td>$817</td>
<td>X 86%</td>
</tr>
</tbody>
</table>

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
ARC-IC Calculations

ARC-IC Actual Farm Revenue Example:

<table>
<thead>
<tr>
<th>Crop</th>
<th>Actual Farm Yield</th>
<th>MYA Price</th>
<th>National Loan Rate</th>
<th>ARC-IC Actual Crop Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>165 bu/acre</td>
<td>$4.00/bu</td>
<td>$1.95/bu</td>
<td>$660/acre</td>
</tr>
</tbody>
</table>

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):

<table>
<thead>
<tr>
<th>ARC-IC Farm Guarantee</th>
<th>Actual Crop Revenue/per acre</th>
<th>Crop Revenue Loss 1/</th>
</tr>
</thead>
<tbody>
<tr>
<td>$703</td>
<td>$660</td>
<td>$43/acre</td>
</tr>
</tbody>
</table>

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)

<table>
<thead>
<tr>
<th>Total Base Acres</th>
<th>65% of Total Base Acres</th>
<th>Share on Contract</th>
<th>Crop Revenue Loss</th>
<th>Producer Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>126.5</td>
<td>82.2</td>
<td>100%</td>
<td>$43</td>
<td>$3535</td>
</tr>
</tbody>
</table>

ARC-IC Calculations

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
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

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

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

FSA Website – ARC/PLC

Go to: [fsa.usda.gov](http://fsa.usda.gov)

Under “Popular Topics”, click on:

“Agricultural Risk Coverage / Price Loss Coverage”