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2018 Farm Bill

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What is Agricultural Risk Coverage-Individual Coverage and How Is It Working?

BACKGROUND

The Agricultural Risk Coverage-Individual Coverage option (ARC-IC) program provides whole farm level revenue loss coverage. Revenue from all covered commodities is combined across all Farm Service Agency (FSA) farms within a state that farmers have a share in and that have selected ARC-IC. Producers that have interests in multiple farms in multiple states and are enrolled in ARC-IC have a separate ARC-IC farm in each state.

The ARC-IC farm's guarantee equals 86 percent of the ARC-IC farm's individual revenue benchmark, defined as the five-year Olympic Average of ARC-IC farm's benchmark revenue (farm's yield for each crop year, multiplied by the higher of the reference price or the Marketing Year Average (MYA) price) for all covered commodities, excluding the high and low annual revenues. Actual revenue for each individual crop year is computed using the ARC-IC farm's actual yield for that crop year times the higher of the MYA price or the national average loan rate.

ARC-IC revenue loss payments are made when the current year revenue for all covered commodities planted on the ARC-IC farm falls below 86 percent of the farm benchmark revenue.

All ARC-IC farms in the state in which the producer has an interest are included in a single ARC-IC revenue calculation to determine a payment rate. Payments are only made on 65 percent of the farm's base acres, as opposed to the county level ARC-CO program option. The payment rate for the ARC-IC farm is capped at 10 percent of the farm's benchmark revenue.

ISSUE

ARC-IC was the least popular safety net choice of the three offered in the 2014 enrollment process. Only 0.9 percent of all base acres for all covered commodities in the U.S. chose ARC-IC as compared to 76 percent of all base acres selecting ARC-CO and 23 percent choosing the Price Loss Coverage (PLC) option.

Only 0.3 percent of corn and 0.4 percent of soybean base were covered by ARC-IC. While corn and soybean coverage was not considered the primary target in the development of ARC-IC, this extremely low percentage of use in the individual farm coverage option for corn and soybeans is contradictory to how corn and soybean farmers purchase crop insurance coverage and does provide a basis for discussion concerning how farmers and landowners prefer covering their risks.

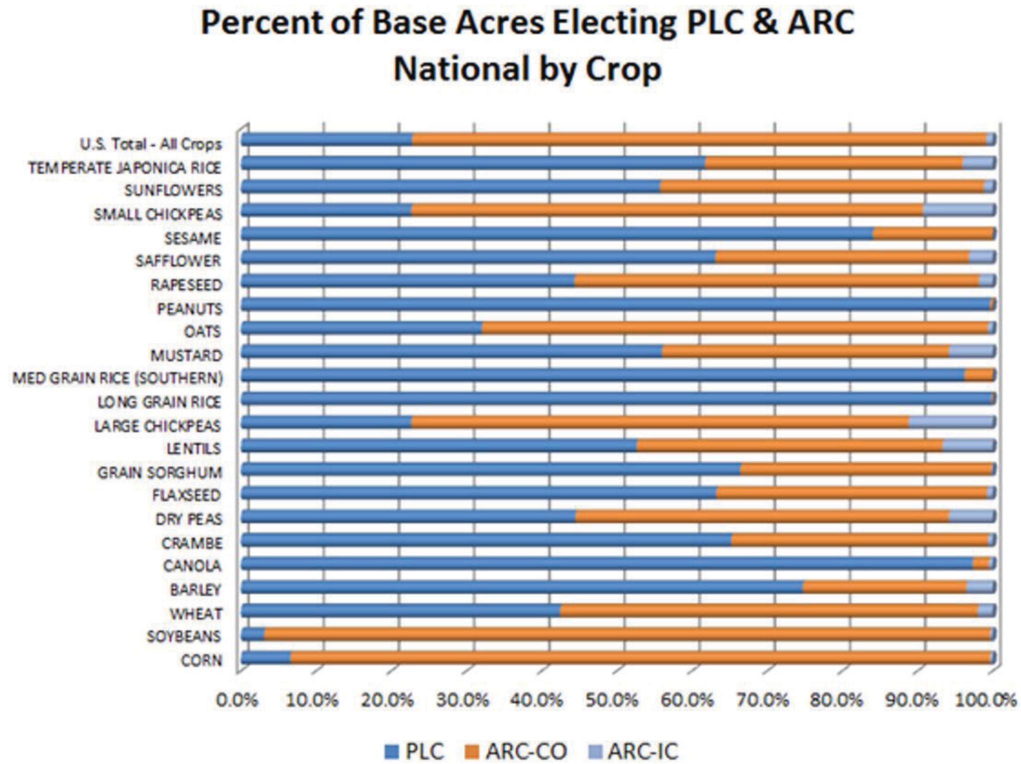
For example, nationally, 98 percent of all corn and soybean policies purchased in 2015 were individual farm policies and only two percent used an area (county) based form of insurance, even though county-based coverage can oftentimes be a cheaper form of coverage. This is in sharp contrast to the 0.3 and 0.4 percent of all base acres covered under ARC-IC for corn and soybeans respectively.

Since farmers may alter their crop insurance selection each year, that annual process is a good indicator of the type of coverage farmers and landowners prefer.

The following concerns are often cited by farmers/landowners as reasons for not choosing ARC-IC:

- Complexity
- 65 percent payment rate is considered a very large deductible.
- Requirement that all ARC-IC farms that they have a share in must be combined into one common guarantee.
- Farmers and landowners were not allowed to reconstitute FSA farms prior to enrollment. In past years farmers and landowners were often requested and sometimes required to combine separate farms into one FSA farm number by their local FSA offices. They were not given the opportunity to reconstitute or separate these farms back into individual tracts prior to the PLC/ARC selection deadline. If that opportunity were allowed, certain individual farms or tracts may have been better served with ARC-IC as opposed to ARC-CO. Some farmers and landowners felt they could not even consider ARC-IC due to the inability to separate the tracts and make a more finely tuned selection.

Percent of Base Acres Electing PLC, ARC-CO, ARC-IC, National by Crop			
	PLC	**ARC-CO**	**ARC-IC**
Corn	6.6%	93.1%	0.3%
Soybeans	3.1%	96.6%	0.4%
Wheat	42.5%	55.6%	2.0%
Barley	74.8%	21.7%	3.5%
Canola	97.3%	2.2%	0.5%
Crambe	65.2%	34.2%	0.6%
Dry Peas	44.5%	49.7%	5.8%
Flaxseed	63.2%	36.0%	0.8%
Grain Sorghum	66.4%	33.4%	0.2%
Lentils	52.6%	40.7%	6.7%
Large Chickpeas	22.7%	66.1%	11.2%
Long Grain Rice	99.8%	0.2%	0.0%
Med Grain Rice (Southern)	96.2%	3.8%	0.0%
Mustard	56.0%	38.2%	5.8%
Oats	32.0%	67.3%	0.7%
Peanuts	99.7%	0.3%	0.0%
Rapeseed	44.4%	53.8%	1.8%
Safflower	63.1%	33.7%	3.2%
Sesame	84.1%	15.9%	0.0%
Small Chickpeas	22.7%	68.0%	9.3%
Sunflowers	55.8%	43.0%	1.2%
Temperate Japonica Rice	61.7%	34.3%	4.0%
U.S. Total - All Crops	**22.8%**	**76.4%**	**0.9%**



Source: Farm Service Agency

OPTION #1

As currently structured, ARC-IC has had limited interest, but it does seem to serve the needs of some producers. Should the requirement to combine all farms in an entire state be eliminated?

OPTION #2

Should we allow farms/tracts that have been previously combined into one common FSA farm number to reconstitute back to individual tracts prior to the selection and enrollment process?

OPTION #3

Should we increase the coverage level above the current 65 percent?

OPTION #4

Should a longer Olympic Average be used when calculating ARC-IC benchmark revenue?

OPTION #5

Should a more localized price be used rather than a national average price in order to make coverage more meaningful and impactful?

OPTION #6

Since there is limited interest in ARC-IC, should the entire program be eliminated?