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Weekly Farm Economics: Decisions Concerning the 2018 Farm Bill and SCO

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Decision deadlines are approaching under the 2018 Farm Bill. This article covers deadlines and lists considerations when choosing between the commodity title alternatives of Agricultural Risk Coverage (ARC) and Price Loss Coverage (PLC). Supplemental Coverage Option (SCO) is an insurance product that is available if PLC is chosen. SCO considerations also are described in this article.

2018 Farm Bill Page

farmdoc information relative to the 2018 Farm Bill page have been collected and placed on the 2018 Farm Bill Toolbox. On this page there are links to online tools, YouTube videos describing alternatives, and *farmdoc daily* articles.

Important Deadlines

There are six deadlines under the 2018 Farm Bill (see Table 1). By March 15, 2020, decisions concerning ARC and PLC will need to be made, with those choices being in effect for the 2019 and 2020 program years. More detail on these choices is provided below. Also, by March 15th, FSA farms must be enrolled for the 2019 program year.

By June 30, 2020, farms must be enrolled for the 2020 year. The commodity title choices concerning ARC and PLC cannot be changed for the 2020 program year.

Until September 30, 2020, yields used to calculate PLC yields can be updated. Yield update information can be supplied to Farm Service Agency (FSA) now through September 30. More detail on yield updating is provided in a December 3 *farmdoc daily* article.

By March 15, 2021, ARC/PLC decisions can be changed for the 2021 program year. FSA farms also will need to be enrolled for the 2021 program year. Similar March 15 deadlines and decisions exist for the 2022 and 2023 program years.

Table 1. Deadlines Under the 2018 Farm BIll.

March 15, 2020	1. Make the choice between ARC and PLC for 2019 and 2020 year 2. Enroll for 2019 program year
June 30, 2020	Enrolling for 2020 program year
September 30, 2020	Deadline for updating farm PLC yields for 2020 and future program years (Can do this now)
March 15, 2021	Enroll and change ARC/PLC for 2021 year
March 15, 2022	Enroll and change ARC/PLC for 2022 year
March 15, 2023	Enroll and change ARC/PLC for 2023 year

Source: Farm Service Agency

ARC/PLC Decision with Information Available in December

By March 15, 2020, the following alternatives can be selected for each FSA farm:

1. ARC-IC at the farm level. This will cause all program crops on the farm to be covered in a farm guarantee (see *farmdoc daily*, October 29, 2019 for more information).

2. Price Loss Coverage (PLC). PLC provides payments when market year average (MYA) price is below an effective reference price (see f *farmdoc daily*, September 24, 2019 for more information).

3. Agricultural Risk Coverage — County Level (ARC-CO). ARC-CO will make payments when county revenue is below a county guarantee (see *farmdoc daily*, September 17, 2019 for more information).

If ARC-IC is not selected, different ARC-CO and PLC decisions can be made for each program crop on a farm. For example, PLC could be used for corn and wheat and ARC-CO could be used for soybeans.

The 2019 marketing years are well underway for corn, soybeans, and wheat. As the year progresses, more information will become available to aid in making decisions. Tools for making the decision include the

1. Gardner ARC/PLC Premium Calculator (https://fd-tools.ncsa.illinois.edu), a web-based tool that shows expected payments from ARC and PLC

2. 2018 Farm Bill Tool (https://farmdoc.illinois.edu/2018-farm-bill), a Microsoft Excel spreadsheet that has various decision aids, including a scenario analysis for ARC and PLC, and a PLC yield updating sheet. An ARC-IC payment calculator will soon be added.

A video discussing the choices given information available in December is available here: https://youtu.be/wzxcKUjjDUI

At this point, the following general advice can be given:

1. ARC-IC may be a good alternative in 2019 for FSA farms that are totally prevent plant or have very low yields. If a farm is entirely prevented plant, ARC-IC will make the maximum payment. Expectations would be for ARC-IC will not make payments in 2020.

2. For corn, PLC likely will not make payments in 2019. ARC-CO could make payments in some counties with low county yields, but those counties likely will be the exception rather than the rule.

When USDA releases county yields in February, more concrete statements will be able to be made on which counties may receive ARC-CO payments in 2019. PLC may be the preferred alternative as low prices could prevail in 2020. The reference price for corn is $3.70. Corn prices this low are possible in 2020.

3. For soybeans, PLC likely will not make payments in 2019. ARC-CO could make payments in some counties with lower yields. When USDA releases county yields in February, more concrete statements will be able to be made on which counties may receive ARC-CO payments. The reference price is $8.40 per bushel for soybeans. MYA prices this low are possible, but not likely.

Supplemental Coverage Option

SCO is available to farmers who choose PLC. SCO is not available when ARC is chosen (*farmdoc daily*, June 16, 2015). SCO provides protection in a band from 86% down to the coverage level of an underlying COMBO product. If, for example, a farmer selects a 75% Revenue Protection (RP) product, SCO could be purchased from 86% to the 75% RP coverage level (see *farmdoc daily*, December 17, 2014; April 24, 2014).

The SCO band of coverage is based on county revenue is given that the underlying COMBO product is RP. That is, county revenue must fall below 86% of expected revenue before SCO makes a payment. As a result, the RP-SCO combination provides mixed coverage: Farm-level coverage is provided from the RP coverage level downward while county-level coverage is provided between 86% to the coverage level of the RP product.

The primary advantage to SCO is that total farmer-paid crop insurance premium can be reduced using SCO (see *farmdoc daily*, February 12, 2019).

There are two disadvantages to SCO. First, choosing SCO and lowering the coverage level on the COMBO product will lower the potential to prevent plant payment. As a result, the economic advisability of taking prevent plant payments decreases with lower coverage levels. Second, the RP-SCO combination, where the county-level coverage does not match losses on a farm. Sometimes a farm may have a loss while SCO will not trigger a payment. Conversely, it is possible for the farm not have a loss while the county-based SCO product triggers a payment.

More information on SCO is available in a March 12, 2019 *farmdoc daily* article. This article includes YouTube visions describing aspects of the SCO policy.

The availability of SCO should not be the most important factor in the ARC/PLC decision for those farmers purchasing RP at 80% or 85% coverage levels. SCO will not greatly increase risk protection offered to these farmers. Farmers in this position likely should focus on the merits of ARC and PLC when making the commodity choice decisions.

On the other hand, SCO can increase risk protection to those farmers purchasing RP at 75% and lower coverage levels. Farmers in this position likely are on lower productivity farmland. If an SCO purchase would be considered, PLC should be given preference over ARC.

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