Risk Mitigation When Considering Farm Bill Decisions for 2023 Production

It is that time of year again to consider your Farm Bill decisions to elect for your farms. Some of you have probably already made these decisions but for those a little behind, here are some things to think about. Chris Bruynis, Extension Educator, Ross County noted in a recent Ohio State University Extension Ohio Ag Manager article even without knowing future yield and prices, we should be able to determine what risks we face, and which are mitigated by the different farm bill programs. Each farm might have its own inherent risk related to yield and price, making the farm bill program election different for each FSA farm number.

Bruynis shares some thoughts on the options we may consider for 2023:

Price Loss Coverage (PLC) – PLC is considered a disaster loss program and covers price risk when the market year average price falls below the reference price. The reference price can adjust over time, but even with the higher prices in recent years, they will remain the same for 2023 at Corn $3.70; Soybeans $8.40; and Wheat $5.50. The market year average price (MYA) for the 2023 crops is from harvest to the following year's harvest (July through June for Wheat and September through August for Corn and Soybeans). PLC is paid on 85% of program (base) acres not planted acres as well as the program (base) yields not actual yields. If your actual planted acres vary significantly from the base acres, this may not cover your actual risk. In a November 2022 article from Chad Hart, Extension Economist from Iowa State University, prices were projected to be $5.70 for corn and $13.00 for soybeans. You can go to the following website at Iowa State University to read this article,
https://www.extension.iastohioate.edu/agdm/articles/hart/HartNov22.html
These projections are clearly above the PLC reference prices for corn and soybeans.

Agricultural Risk Coverage County (ARC-CO) – ARC County is a revenue risk management program compared to the price loss component of PLC. It is considered a shallow loss program that works well when there is a 1- or 2-year revenue decline. Is compares actual revenue to a calculated county revenue guarantee which is different in each county. The ARC-CO benchmark revenue is the 5-year Olympic average MYA price multiplied by the 5-year Olympic average county yield. Benchmark yields and MYA's are calculated using the 5 years preceding the year prior to the program year. The ARC-CO guarantee is determined by multiplying the ARC-CO benchmark revenue by 86%. Payments under this program are also tied to 85% of the base acres and not actual planted acres. Calculating the eighty-six percent of the revenue guarantee, using an Ohio average yield and the estimated MYA for 2023, results in a $645.65 guarantee for corn and $466.35 guarantee for soybeans. With the previously mention projected prices, it is unlikely that ARC-CO will make a payment for the 2023 crop year unless there are significant production issues.

Agricultural Risk Coverage Individual (ARC-IC) – ARC Individual is similar to ARC County with a few adjustments. This program still compares a benchmark revenue calculated the same way as ARC County with the 86% reduction factor. The difference is this program uses 65% of the base acres to calculate payments. Additionally, the actual revenue is based on the actual planted crops, not the base acre crops, tying this closer to actual crop income. This is a good option under certain circumstances such as high year-to-year production variability or relatively large acreage of fruits and vegetables.

2023 Program Year Decision – If crop yields and market prices were predictable, then electing the farm bill program that protects the farm business best would be easy. The question one should be asking is which component of revenue am I more concerned with, price or yield? If one believes that prices will not fall below the reference prices, then one of the ARC programs would be a better election. This is especially true if one believes that yields in 2023 may be reduced by weather conditions such as a widespread drought. However, if one uses the Supplemental Crop Insurance (SCO) product in their crop insurance portfolio, then PLC would need to be elected. The reason is that SCO insurance and ARC Farm Bill programs cover similar risk and the USDA will not permit farms to participate in both at the same time on the same acres. Either Farm Bill election, PLC or ARC, is not expected to make a payment with the current price and trend yield projections for 2023. The real question is will price and yield expectations be realized in 2023?

If you want additional information on the Farm Bill programs, I suggest you go to https://www.fsa.usda.gov/programs-and-services/arcplc_program/index.

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