

Risk Management in Challenging Times:

Farmer Safety-Net Programs and Crop Insurance Updates



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Goals for Today

- Coronavirus Food Assistance Program 2 (CFAP 2)
- Commodity Program Updates
 - ARC & PLC
- Disaster Assistance Programs
- Crop Insurance Updates



Introduction

- Unprecedented times with new “risks” affecting agriculture (i.e., on top of weather-related risks)
 - Trade war & COVID-19 pandemic
- Increased reliance on ad-hoc government safety-net programs (on top of crop insurance and existing disaster programs)
 - Market Facilitation Program (MFP) & CFAP
- Not ideal for producers, but need to be informed about these programs

CFAP 2.0

- USDA announced up to an additional \$14 billion for CFAP 2.0
 - On top of the ~\$10B in payments for CFAP 1
- Targeted for producers who continue to face market disruptions and associated marketing costs because of COVID-19
- **Sign-up Period: Sept 21. to Dec. 11, 2020**
 - But sign-up ASAP (funds might go fast!)

CFAP 2.0

- Apply with **Farm Service Agency (FSA)**
 - Online or Manual (handwritten) or Excel spreadsheet
 - One application (for all commodities)
- Program based on **self-certification**
 - Need info. on **2020 planted acreage** (but no need to submit records); need to show records only if audited
- Payment limit: \$250k per individual or entity
 - Can increase to \$500k or \$750k for corporations, LLCs, if >2 members in labor/mgt

CFAP 2.0

- Payment Categories:
 - Price Trigger Commodities
 - Commodities meeting a min. 5% price decline from Jan to July 2020
 - Row crops (corn, soybeans, etc.), livestock, dairy
 - Flat-rate Crops
 - Commodities not meeting the 5% price drop or no data
 - Alfalfa, canola, hemp, millet, oats, peanuts (among others)
 - Sales Commodities
 - Sales-based approach with five payment gradations associated with 2019 sales
 - Fruits & vegetables, tobacco, nursery, etc.

CFAP 2.0 for Row Crops

- Major row crops are Price Trigger Commodities
- Formula:

Price trigger payment per acre = Effective Payment Rate x
2020 Actual Production History (APH) yield

- EPR = crop marketing % x payment rate (i.e., established by FSA)
- 2020 APH is from crop insurance (if no APH use 85% of ARC-CO benchmark county yield)

(but if price trigger payment per acre < \$15, use \$15 per acre)

Total payment = price trigger payment per acre x eligible acres

CFAP 2.0 for Row Crops

Effective payment rates for major row crops:

Crop (units)	Price decline (Jan to Jul, \$/unit)	Payment Rate (80% of decline)	Marketing % (expected % of 2020 prodn sold by year end)	Effective Payment Rate (\$/unit)
Corn (bu)	0.73	0.58	40%	0.23
Soybeans (bu)	0.72	0.58	54%	0.31
Wheat (bu)	0.68	0.54	73%	0.40
Cotton (lbs)	0.10	0.08	46%	0.04

CFAP 2.0 for Row Crops

- Example:
 - Franklin county, NC farm with 1000 acres corn and 1000 acres soy
 - APH corn yield = 115.5 bu/ac; APH soy yield = 33.45 bu/ac

Crop (units)	Effective Payment Rate (\$/unit)	APH Yield (units/ac)	Payment per acre (\$/ac)	Total farm payment (\$)
Corn (bu)	0.23	115.5	26.565	\$26,565
Soybeans (bu)	0.31	33.45	15.00*	\$15,000
			Grand Total:	\$41,565

* $0.31 \times 33.45 = 10.369$ is less than \$15, so use \$15 payment per acre

CFAP 2.0 for Row Crops

- Example:
 - Warren county, NC farm with 1000 acres corn and 1000 acres soy
 - APH corn yield = 108.5 bu/ac; APH soy yield = 32.77 bu/ac

Crop (units)	Effective Payment Rate (\$/unit)	APH Yield (units/ac)	Payment per acre (\$/ac)	Total farm payment (\$)
Corn (bu)	0.23	108.5	24.851	\$24,851
Soybeans (bu)	0.31	32.77	15.00*	\$15,000
			Grand Total:	\$39,851

* $0.31 \times 32.77 = 10.159$ is less than \$15, so use \$15 payment per acre

CFAP 2.0 for Row Crops

- Payments for **Flat-rate row crops** (e.g., alfalfa, canola, hemp, peanuts, oats, etc.)
 - **Flat rate payment per acre = \$15 per acre x APH yield**
 - Total flat rate payment = flat rate payment per acre x eligible acres
- Note: there are some crops that are ineligible for CFAP 2.0 payments
 - Hay (except alfalfa) and crops for grazing
 - Clover, vetch, etc.

CFAP 2.0 for Livestock & Poultry

- Eligible commodities:
 - Beef cattle, hogs and pigs, lambs & sheep
 - Broilers and eggs
 - Dairy
- Equine, animals raised for breeding stock, companion or comfort animals, pets, and animals raised for hunting or game purposes are not eligible for CFAP 2.
 - Contract growers who do not share in price risk also not eligible

CFAP 2.0 for Livestock & Poultry

- Beef cattle, hogs and pigs, lambs & sheep
 - Payments based on **highest owned inventory on a date selected by the producer from April 16, 2020 to Aug. 31, 2020**, multiplied by the payment rate

Commodity	Units	Payment rate (\$/unit)
Beef Cattle	Head	\$55
Hogs and Pigs	Head	\$23
Lambs and Sheep	head	\$27

CFAP 2.0 for Livestock & Poultry

- Broilers
 - Payments equal to **75% of 2019 broiler production** multiplied by \$1.01/bird payment rate
- Eggs
 - Payments equal to **75% of 2019 egg production** multiplied by payment rate

Commodity	Units	Payment rate (\$/unit)
Shell Eggs	dozen	\$0.05
Liquid Eggs	pounds	\$0.04
Dried Eggs	pounds	\$0.14

CFAP 2.0 for Livestock & Poultry

- Dairy
 - Payments based on sum of:
 - Total milk production from April 1 to Aug. 31, 2002 multiplied by \$1.20/cwt
 - Total estimated milk production from Sept. 1 to Dec. 31, 2002 multiplied by \$1.20/cwt
 - Estimated milk production established by FSA from daily ave. production from April to Aug. multiplied by days in operation from Sept. to Dec.
 - Eligible dairies – those commercially marketing milk at time of production
 - Operations that closed are eligible for prorated payments

CFAP 2.0 for Others

- Sales Commodities (fruits & vegetables, tobacco)
 - Payments based on 5 payment gradations associated with 2019 sales of the commodities

2019 Sales Range	Percent Payment Factor
Up to \$49,999	10.6
\$50,000 - \$99,999	9.9
\$100,000 - \$499,000	9.7
\$500,000 - \$999,000	9.0
All sales over \$1 million	8.8

CFAP 2.0 for Others

- Sales Commodities (fruits & vegetables, tobacco)
 - Example:
 - 2019 sales of tobacco totaled \$75,000
 - Payment calculated as follows:
 - $\$49,999 \times 0.106 = \$5,300$
 - $(\$75k - 49,999) \times 0.099 = \$25,000 \times 0.099 = \$2,475$
 - Total sales-based payment = \$7,775

CFAP 2.0

- Sign-up as soon as possible (Dec. 11 deadline)
- See CFAP website: <https://www.farmers.gov/cfap>

Apply for Coronavirus Food Assistance Program 2

USDA's Farm Service Agency offers multiple options for producers to apply for CFAP 2. Those include:

Apply Online +	Manually Complete Applications +	Fill Application with Payment Calculator +
USDA Service Center Completes Application +		

To complete the CFAP 2 application, producers will need to reference their sales, inventory, and other records. However, since CFAP 2 is a self-certification program, this documentation will not need to be submitted with the application. Because applications are subject to County Committee review and spot check, some producers will be required to provide documentation. Producers should retain the records and documentation they use to complete the application. Information on additional documents is provided at [farmers.gov/cfap/apply](https://www.farmers.gov/cfap/apply).

ARC & PLC Updates

- Agricultural Risk Coverage (ARC) and Price Loss Coverage (PLC) programs were re-authorized under the 2018 Farm Bill
 - ARC offers revenue protection
 - ARC-CO makes a payment on 85% of base acres when county revenue falls below the county revenue guarantee
 - ARC-I makes a payment on 65% of base acres when individual farm revenue falls below the individual revenue guarantee
 - PLC offers price protection
 - PLC makes a payment when MYAP is below effective reference price

ARC & PLC Updates

- Important enrollment information:
 - Need to enroll every year

Contract Year	Enrollment Dates
2019	September 3, 2019 through March 15, 2020
2020	October 7, 2019 through June 30, 2020
2021	October 2020 through March 15, 2021
2022	October 2021 through March 15, 2022
2023	October 2022 through March 15, 2023

- One ARC vs PLC choice for 2019 & 2020, with chance to change in 2021, 2022, & 2023 – more flexibility!

ARC & PLC Updates

- Important considerations:
 - **Expected returns** from ARC-CO vs PLC
 - Depends on individual expectations on prices and yields
 - **Coverage preference**
 - Revenue vs price protection
 - **Payment caps & limits**
 - ARC-CO limit at 10% of average county revenue; PLC is loan rate
 - \$125,000 payment limit on all payments from commodity programs
 - Preference for **SCO** “shallow loss” coverage
 - With ARC-CO, you cannot purchase SCO, but with PLC you can
 - **Wait to enroll** near deadline - reduce uncertainty

ARC& PLC Decision Tools

- Two simulation-based decision tools available:
 - U. of Illinois: <https://fd-tools.ncsa.illinois.edu/>
 - Texas A&M: <https://www.afpc.tamu.edu/tools/farm/farbill/2018/>
- Illinois:
 - Focus on corn, soybeans, and wheat
 - 5 year payment estimates using 1000 model runs
- Texas A&M:
 - All commodity crops
 - 2 year payment estimates using 500 model runs

ARC & PLC Updates

State: **North Carolina**

County: **Franklin**

Crop: **Corn** Reference Price: **\$ 3.7**

Forecast Model: **COVID**

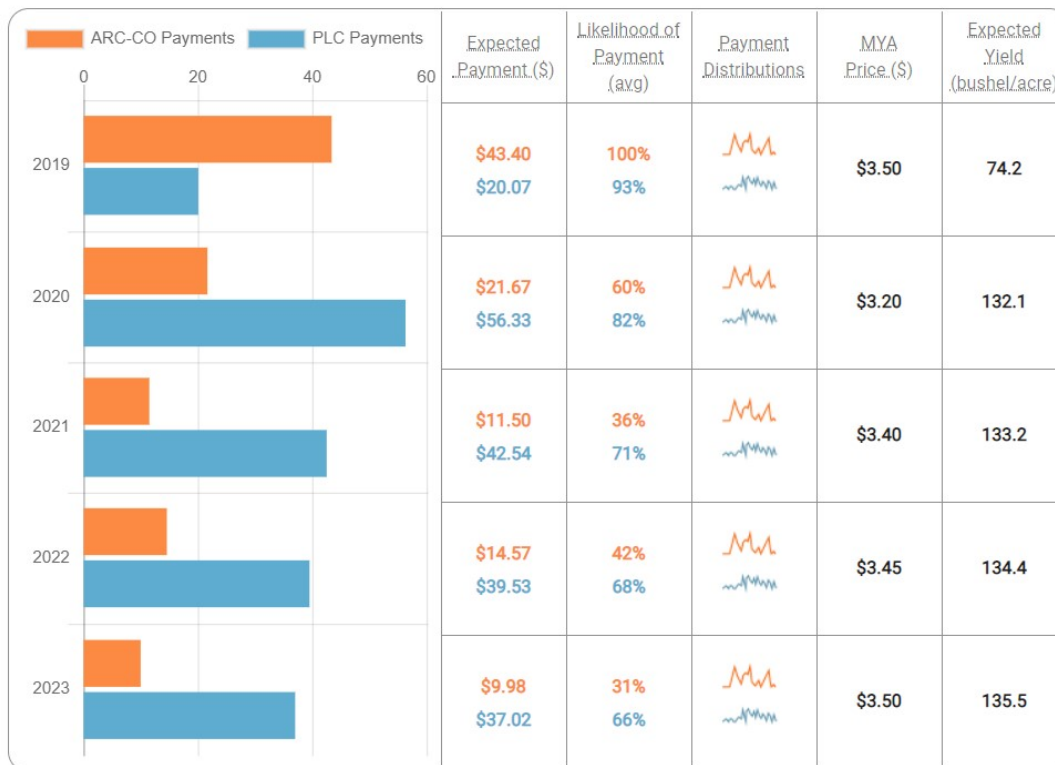
PLC Payment Yield*: **115.5** bu/acre

ARC Trend Yield*: **1.14** bu/acre

ARC/PLC Program Inputs

ARC Coverage Level	86 %
ARC Coverage Range	10 %
Payment Acres	85 %

RUN MODEL



Model data last updated: Jun 15, 2020

2019 corn and soybean expected yields have been updated based on NASS yields, where NASS has provided yields

ARC & PLC Updates

State: **North Carolina**

County: **Warren**

Crop: **Corn** Reference Price: **\$ 3.7**

Forecast Model: **COVID**

PLC Payment Yield*: **108.5** bu/acre

ARC Trend Yield*: **0.95** bu/acre

ARC/PLC Program Inputs	
ARC Coverage Level	86 %
ARC Coverage Range	10 %
Payment Acres	85 %

▶ RUN MODEL



Model data last updated: Jun 15, 2020

2019 corn and soybean expected yields have been updated based on NASS yields, where NASS has provided yields

Disaster Assistance Programs

- Some FSA-administered programs:
 - 1) Livestock Forage Disaster Program (**LFP**)
 - 2) Livestock Indemnity Program (**LIP**)
 - 3) Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Program (**ELAP**)
 - 4) Noninsured Crop Disaster Assistance Program (**NAP**)
 - 5) Others: Emergency Loan Program and Farmland Damage Program

Crop Insurance Updates

- **Enhanced Coverage Option (ECO)**
 - Provides area-based coverage for a portion of the deductible of your underlying policy in a manner similar to the Supplemental Coverage Option (SCO)
- **Pasture, Rangeland, & Forage (PRF) insurance**
 - Area-based insurance plan that covers pasture, rangeland or forage used to feed livestock by insuring against the lack of precipitation
 - Losses based on a county-level rainfall index

Take Home Messages

- Sign-up for CFAP 2.0 and other safety-net programs currently available through FSA
 - Contact your local FSA office personnel
- Talk to your crop insurance agent
 - Discuss **ECO** (for crops) and **PRF** (for livestock)



Thank you!

- **Questions?**

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- **Website:**

- **Agricultural Policy and Farm Bill Extension Website at NC Dept. of Ag. & Resource Economics:**

- <https://cals.ncsu.edu/are-extension/policy-and-regulation/agricultural-policy-and-farm-bill/>