PLC or ARC? ARC-County or SCO??

Over the last few weeks our offices have fielded several questions revolving around the upcoming March 15th deadline at FSA to change your PLC and ARC elections, due to the recent change in the new farm bill allowing yearly selection of coverages instead of selection for the length of the farm bill. The truth of the matter is, we won't really know until its over which way we "should have" gone. But rather than waiting until the end of the day to look back and see which program paid more total net dollars, consider selecting the program that provides you with the most security in your risk management plan. For example: I know the prices look pretty good today, which would make a person want to lean towards ARC-County, but what if some of the countries who have purchased grain do not take possession of it, can you live with $2.90 milo again? Everybody's answer is going to be different.

Then, of course, how does your selection work with your crop insurance policy and that side of your risk management plan? That is where we come in! Here are some things that I am going to consider when looking at my personal farming operation, which is going to look at both PLC and ARC (FSA Programs) and SCO and ECO (crop insurance programs). A quick look at those four programs:

- **ARC-County** (Area Risk Coverage-County) is a low revenue program which pays when revenue below 86% of the county benchmark which is calculated by the 2015-2019 olympic average yield by the olympic average price (which means you kick out the highest price/yield and the lowest price/yield and average the other three).
- **PLC** (Price Loss Coverage) is a low-price program that pays when prices fall below the national reference prices set forth in the Farm Bill.
- **SCO** (Supplemental Coverage Option) is a supplemental coverage to your MPCI policy which covers the difference between your selected coverage level and 86% based on the area yields. Insureds who elect this coverage cannot have with ARC-County but can have this coverage with PLC.
- **ECO** (Enhanced Coverage Option) is an enhancement to your MPCI policy which covers between 86% and either 90 or 95% of the county yield. Insureds who elect this coverage can have with ARC-County or PLC.

What other information do we know as of today?

- ARC and PLC pay on base acres and not planted acres. The county base acre information is historic and may not be based on your own operation. For example: I have a farm that has barley and wheat base acres, but I plan to plant it to grain sorghum. So, really neither ARC nor PLC are providing me much coverage on my actual planted crop.
- ARC and PLC are paying on 85% of your base acres and subject to a +/- 6% sequestration.
- PLC Reference prices are: Wheat- $5.50, Corn- $3.70, Grain Sorghum- $3.95
- ARC-County is based on 2015-2019 olympic average yield and olympic average price.
- SCO protections and coverage percentage are determined by the underlying MPCI policy coverage levels, SCO pays based on the county yield but is adjusted by your individual yields. Producers with higher yields will have more SCO coverage than those with lower yields. This coverage could be higher than any ARC payment could be.
- Since SCO pays on the difference between your MPCI coverage level and 86%- if you are carrying an 80 or 85% MPCI policy, your coverage percentage on SCO will probably be less than ARC-County Coverage percentage.

- Since SCO coverage mirrors the underlying MPCI policy, if an insured is carrying an RP policy and the harvest price is higher than projected, coverage will increase based on the actual harvest price. Adversely, ARC-County coverage is set based on olympic average historic yields/harvest prices.
- ECO is good coverage, but because of how it pays out the rate is very high.

Let's look at an example, taking Prowers County Non-Irrigated Grain Sorghum.

ARC County Yields:

- 2015- 44.67bu. 2016-45.08 bu. 2017-54.05bu. 2018- 36.19bu. 2019-33.0 bu.
- Olympic yield is 41.98 and Olympic price is $3.95, which gives you $165.82 an acre in coverage, capped at 10% or $16.58.
- If you take a 70% RP MPCI policy with the SCO election, with a 40-bushel yield, you have $27.14 gross coverage, or $22.61 net coverage.
    - Based on a 20-bushel final county yield, you would trigger the full $27.14.
    - However- this is the huge takeaway to me, if the harvest price goes to $5.24, you would have a loss of $33.54- which is 2X what the ARC-County max payment is.

Let us look at an example, taking Prowers County Irrigated Corn.

ARC County Yields:

- 2015- 177.62 bu. 2016- 178.15 bu. 2017- 170.75 bu. 2018- 134.41 bu. 2019- 148.53 bu.
- Olympic yield is 165.63 and price is $3.70, which gives you $612.83 an acre coverage, capped at 10% or $61.28.
- If you take a 70% RP MPCI policy with the SCO election, with a 172-bushel yield, you have $118.34 gross coverage, or $107.31 net coverage.
    - Based on a 110-bushel final count yield, you would trigger a payment of $71.87.
    - If harvest price goes to $5.30, you would have a loss of $88.58.

At the end of the day, if you pick PLC you have the safety net plus you can buy SCO, which is more apt to pay because its based on the actual market conditions. The ARC/PLC decision is not clear. If you go PLC, it certainly provides protection if the bottom falls out again. If prices stay remotely in the current ranges, maybe opt for ARC. But that is where I argue, depending on your yields, SCO may give you way more protection and since SCO is based on planted acres and not base acres, its tailored to your risk management plan on the actual growing crops.

As we prepare to mail out our March 15th Sales Closing Date packets, we encourage everyone to come into our offices and walk through some of these "what-if" scenarios so we can set your crop insurance to provide optimal coverage in conjunction with selecting the FSA program that fits your overall farm plan.