PURDUE UNIVERSITY | Center for Commercial Agriculture

2014 Farm Bill Fact Sheet

Agricultural Risk Coverage-Individual (ARC-IC)

Overview

Agricultural Risk Coverage-Individual (ARC-IC) is a new program in the 2014 Farm Bill. ARC-IC payments are made when a farm's current revenue for all covered commodities falls below the farm's guarantee revenue. The guarantee revenue is set to a value of 86% of the benchmark established by the last five years of farm revenue performance. ARC-IC payments are limited to 10% of the farm's benchmark revenue and payments are made on 65% of base acres. Note that only ARC-IC has this 65% of base acres factor, both ARC-CO and PLC pay on 85% of base acres.

Notes

- Program choice in the 2014 Farm Bill is referred to as program election. The ARC-IC program is a whole farm program meaning that all covered commodities planted that year will be part of the calculations for possible payments. Remember that for PLC and ARC-Co election is on a crop by crop basis (see PLC and ARC-CO fact sheets).
- Election decisions must be made by March 31, 2015. Once an election is made for ARC-IC, the farm is in this program for the life of the farm bill (through 2018 crop year). Producers must still enroll each year and those electing ARC-IC will have to report planted acres and yields annually to USDA-FSA.

DEFINITIONS

ARC-IC		The acronym for the Agricultural Risk Coverage-Individual Coverage program, a new payment program in the 2014 farm bill.
Current Revenue		The average per acre revenue for all covered commodities on a farm for a crop year. The farm's current revenue is calculated as the national marketing year average price multiplied by the farm's yield for each crop.
Benchmark Revenue		A five year average revenue for the farm is used as the basis of establishing a whole farm guarantee revenue. • Each commodity has a farm specific benchmark revenue calculated as the five year Olympic (highest and lowest annual revenues are dropped) average of revenue for that commodity. • Using the commodity benchmark revenues and the shares of planted acres for the current year, a whole farm benchmark revenue is established for the current year.
Guarantee Revenue		Eighty six percent of the benchmark revenue for the farm. • Payments are made when current revenue falls below the guarantee. • Payments increase as the current year revenue falls, until they reach a limit of ten percent of the benchmark revenue.
Base Acres		The land area of an FSA farm number that is eligible to receive payments. Each base acre is allocated to a specific commodity. • A farm enrolled in ARC-IC receives payments on only 65% of its base acreage. This is a 35% reduction of the calculated per acre payment.

APEX Ag Policy Explained

The APEX: Ag Policy EXplained publication series is maintained by Dr. Roman Keeney, rkeeney@purdue.edu.

For updates about new APEX information items follow @APEX_AgPolicy on Twitter.

Calculating an ARC-IC Payment

The ARC-IC calculation depends on three measures of revenue defined on the first page. The ARC-IC payment is <u>unique in the current farm bill for its use of planted acreage</u> in determining the level of payment received. The ARC-IC is also unique in that it only allows for payments on 65% of a farm's base acres.

ARC-IC Pmt = 0.65 x minimum of the Guarantee Rev - Current Rev or 0.10 x Benchmark Rev}

Guarantee Rev = 0.86 x Benchmark Rev

Benchmark Rev = Planting share weighted average of Crop Revenues

Current Rev = Planting share weighted average of Current Revenues

Olympic average revenues are calculated for each commodity on the farm by averaging the last five years of revenue performance with the highest and lowest revenues dropped from the calculation. An example set of revenues for corn and soybeans is given below. A strike through in the table indicates a high or low that is omitted in the average).

	2009	2010	2011	2012	2013	Olympic Avg	Planted Acres
Corn Rev	~~$ 607~~	$ 813	~~$ 908~~	$ 682	$ 787	$ 761	60
Soybean Rev	~~$ 470~~	$ 548	$ 569	$ 634	~~$ 660~~	$ 584	40

<u>Payment Example</u>

In the following example for corn <u>we assume a national MYA price of $3.50 and a farm yield of 195 bushels</u>. For soybeans <u>we assume a national MYA price of $9.00 and a farm yield of 50 bushels</u>. We begin by calculating the three revenue measures used in the ARC-CO calculation. The values 0.6 and 0.4 are the shares of planted acres for each program crop.

Benchmark Rev = 0.6*($ 761) + 0.4*($ 584) = $ 690.20

Guarantee Rev = 0.86 x $ 690.20 = $ 593.57

Current Rev = 0.6*($3.50 x 195) + 0.4*($9.00 x 50) = $ 589.50

ARC-IC Pmt = 0.65 x minimum of {$593.57 – $589.50 or 0.10 x $ 690.20}

= 0.65 x minimum of {$4.07 or $68.98}

= 0.65 x $ 4.07 **= $ 2.65**

Additional information on 2014 Farm Bill programs can be found on the Policy resources page hosted by the Purdue Center for Commercial Agriculture.

https://www.agecon.purdue.edu/commercialag/resources/policy/index.html

Disclaimer: This document is provided for education purposes. The information in this fact sheet is intended to assist farm operators and land owners as they form their own decisions based on the specifics of their operations as well as their own management objectives and risk attitudes.