ARC or PLC? – That is the Question

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The 2018 Farm Bill allows a new farm program decision between Agricultural Risk Coverage (ARC) or Price Loss Coverage (PLC) by March 15, 2022, and each year thereafter until 2023. Higher commodity prices are causing many farmers who have collected PLC payments in the past to now give consideration to ARC.

To give a brief review of these programs, PLC is a program where payments are made when the Marketing Year Average price (MYA) drops below a certain threshold, called the effective reference price. For corn this is $3.70, soybeans $8.40, wheat $5.50 and grain sorghum $3.95. The difference between the effective reference price and the MYA price is the payment rate, which is multiplied by the established farm yield (PLC yield) with Farm Service Agency (FSA) and then by 85% of the base acres of that commodity. Large payments have been seen for wheat and grain sorghum base, with smaller payments in corn and no payments to date for soybeans.

ARC can either be selected at the county level, which pays on 85% of base in the commodity, or individual level, in which all crops on the farm are enrolled and payments are made on 65% of the entire base. ARC-County will only be discussed here, as ARC-Individual has had very little use outside of farms that had prevented planting in 2019. ARC-County is a revenue program, where 5 years of national MYA price and 5 years of county-level yield are used to set a benchmark revenue value, with the guarantee being 86% of that benchmark. If the current year revenue (national MYA price * actual county yield) falls below the guarantee, payment is made in the amount of the difference, up to 10% of the benchmark revenue. Two downfalls of this program are the 10% cap on payments and the low prices in recent years causing a low guarantee.

Historical payments in the ARC-County program are crop and county-specific but can be found here: https://www.agmanager.info/ag-policy/arc-co-historical-payment-maps.

When considering ARC-County or PLC, the first major point to understand about this decision is when the marketing year actually starts and when the payments (if any) will be received. For fall crops (corn, soybeans, grain sorghum), the marketing year will not start until September 1, 2022 and will run through August 31, 2023. Each month, the national price released by National Ag. Statistics Service (NASS) will be weighted based on the amount of grain sold in that month, to determine a single national price for the entire 2022/2023 marketing season. Similarly, the wheat marketing year will start June 1, 2022 and run through May 31, 2023 and payments, if any, will be received in October of 2023. The higher commodity prices that we see now may not necessarily hold for the life of this current decision.

An argument for either program could be made based on the farmer’s risk preferences and market expectations going forward. Here are scenarios that could play out for the 2022/2023 marketing year:

1. Commodity prices remain higher than reference prices, county yields are average or above so no PLC or ARC payments would be received.
2. Commodity prices remain higher than reference prices, county yields are below average so no PLC payments would be received, but ARC-County payments are likely.
3. Commodity prices fall to below reference prices, county yields are average or above so PLC payments are received but likely no ARC-County payments unless prices are very low.
4. Commodity prices fall to below reference prices, county yields are below average, PLC payments are received and ARC-County payments are received but may not be as large as PLC payments.
Arguably, Scenario #1 would be the best-case scenario, where payments are not received for either program and farmers can sell a good amount of bushels for a favorable price. However, ARC and PLC will offer risk protection if this does not occur. Several sources of 2022/2023 MYA prices are available, updated regularly, and compiled here: https://www.agmanager.info/crop-insurance/risk-management-strategies/projections-and-sources-mya-prices-arc-and-plc-commodity

Unfortunately choosing between ARC-County and PLC is not as clear-cut a decision as it has been in the past for some commodities. One needs to decide if they want the downside price protection of PLC for risk management, or ARC-County to potentially receive a payment with a low county yield. A great tool for assessing potential ARC-County vs. PLC payments at various MYA price levels and county yields can be found here: Tradeoff Between 2022/2023 ARC and PLC | AgManager.info

Finally, remember that these decisions are made at the farm level, meaning a different decision can be made for each FSA farm number. If one wants to put some base in each program for each crop, that can be a good strategy with multiple FSA farm numbers. Farms that have a higher program yield would be the preferred farms for PLC.

For more information, please contact the local K-State Research and Extension Office. K-State Research and Extension is an equal opportunity provider and employer. Information provided by: Robin Reid, K-State Department of Agricultural Economics, https://www.agmanager.info/ag-policy/2018-farm-bill ARC or PLC question-0