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ARC-PLC Farm Bill Decision 2021

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Starting in 2018, grain farmers have had the ability to decide on a yearly basis between the ARC and PLC Farm Bill programs. The decision needs to be made for each base-acre crop type (corn, soybeans, wheat) on each FSA farm. You can choose PLC for one crop type, and ARC for another crop type on the same farm. The decision for the 2021 crop year needs to be made by March 15. A summary and technical details for the programs can be found in Will Snell's article "[ARC vs PLC – The Basics](#)".

In general, the decision for 2021 will not be nearly as important as in most years, as the likelihood for a payout with either program is fairly low with all crop-types. Below are my estimates for the national-level prices given future's prices for the 2021 crops and likely national basis, along with the reference prices, below which PLC will start to payout.

	<u>Est. National Price</u>	<u>Reference Price</u>
Corn	\$4.25/bu	\$3.70/bu
Soybeans	\$11.40/bu	\$8.40/bu
Wheat	\$5.75/bu	\$5.50/bu

Note that these are national-level prices and not Kentucky prices. Given our location adjacent to the major shipping corridors on the Ohio and Mississippi Rivers, our basis is much better than the national average. As an example, you can forward contract soybeans for fall delivery at or above \$12/bu in many locations in Kentucky right now (mid-February). Also note that wheat price is a compilation of all wheat classes in the US (includes hard red winter wheat, Durham wheat, etc.) and thus cannot be equated 1-1 with our prices for soft red winter wheat here in Kentucky.

Table 1 shows an example of the ARC-PLC trade-off for corn base in Ballard County for 2021. The left-most column shows final national average prices for the 2021 crop year. The corresponding PLC payment (per base acre) based on this final price is in the right-most column. In the middle columns

are the county yields associated with each of these national prices that would be required to get ARC payments of: \$1/acre (where it is just starting to pay), 50% of the maximum ARC payment (\$33.32 in Ballard County), and the maximum payment (\$66.63 in Ballard County). As an example, if the national price stayed at \$4.20/bu, the Ballard County yield would have to drop to 129 bu/acre to get an ARC payment of \$33.32/base acre. There would be no PLC payment in this situation. If the national price dropped to \$3.40/bu, the Ballard County yield would only have to drop to 159 bu/acre to get an ARC payment of \$33.32/base acre. There would be a \$46.50/base acre PLC payment in this situation.

Table 1: ARC-PLC Expected Payments 2021 Corn Base (Feb. 2021)
Ballard County

Olympic Avg Yield		180.1	PLC Program Yield		155
2021 Final National Price \$/bu	Change Price (\$/bu)	2021 Final County Yield \$1 ARC Payment	2021 Final County Yield 50% Max ARC Payment	2021 Final County Yield Max ARC Payment	PLC Payment
		\$1.00	\$33.32	\$66.63	
\$4.20	\$0.00	136	129	121	\$0.00
\$4.00	-\$0.20	143	135	127	\$0.00
\$3.80	-\$0.40	151	142	133	\$0.00
\$3.60	-\$0.60	159	150	141	\$15.50
\$3.40	-\$0.80	168	159	149	\$46.50
\$3.20	-\$1.00	179	169	158	\$77.50

Note: Prices are national average marketing year prices, not local prices. Think in terms of overall price drop from current level, which should be about the same.

You can use Table 1 to look at those price-yield situations you are most worried about and determine which program provides the better payout. In general, PLC will provide better coverage for steep price declines, while ARC will provide the only coverage for steep drops in county-level yields.

Again, the probability for a payout with any of the base-acre crops (corn, soybeans, wheat) is small for 2021, so the decision this year is not as critical as most years. Remember also that you will be able to change your allocation again for the 2022 crop. That said, below are my general recommendations (with a required disclaimer) based on the counties I've evaluated in detail so far. Realize that ARC payout is dependent on county-specific yields, so these recommendations will change to some degree based on your county dynamics.

Recommendations - Corn: I believe a toss-up. Poor yields in KY will have no impact on national prices and ARC could provide downside protection in this case: I would choose ARC if worried about this scenario. PLC otherwise.

Recommendations - Soybeans: ARC looks to be the best choice, but neither program is likely to pay.

Recommendations - Wheat: I believe a toss-up. Poor yields in KY will have no impact on national prices and ARC could provide downside protection in this case: I would choose ARC if worried about this scenario. PLC otherwise.

For farms that are considering purchasing the Supplemental Coverage Option (SCO) for crop insurance, this would push the decision toward the PLC program. Base acres enrolled in ARC are ineligible for SCO coverage.

I have 35 acres of corn base in southern Woodford County that I personally had to make an ARC-PLC decision. What program did I pick? I enrolled in PLC, but only because it was already enrolled in the PLC program for the 2020 crop year and I realized it was not going to be a critical decision. I did not want to create more paperwork by potentially switching to ARC. Otherwise, I would have probably flipped a coin. My advice for the 2021 decision is to not spend so much time thinking about the ARC-PLC decision that it takes away time and energy spent on your marketing decisions. Your marketing strategy and decisions will likely have a far greater impact on your profitability than your farm bill decision for the 2021 crop.

Disclaimer: The analyses/recommendations presented here are based on a number of assumptions about future market conditions. While these assumptions are reasonable given current market conditions, unforeseen events can cause commodity prices to change dramatically between sign-up for these programs and the time when program payments are actually calculated.

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