The ARC-CO/PLC Decision isn't as Easy as You Think

Producers have until March 15th to select their Title I safety net coverage at their local county FSA office. Current futures prices for many U.S. covered commodities are well above the reference prices which has most producers thinking there will be no payments for the Price Loss Coverage (PLC) so they should choose the revenue coverage provided by Agriculture Risk Coverage-County Option (ARC-CO). The combination of price and yield protection provided by ARC-CO should be somewhat more likely to trigger a payment than just the price protection provided by PLC. On the surface this seems quite reasonable, however, as is the case with most decisions in life, this one is much more complicated than that.

First, with a 2022 yield equal to the 2022 county benchmark yield, ARC-CO would not trigger a payment until market prices fall below $3.18/bu for corn, $7.84/bu for soybeans, $3.40/bu for grain sorghum, and $4.73/bu for wheat (Figure 1). These trigger prices are considerably lower than the effective reference prices for each crop. So, what if the yield isn't average? Across these 4 commodities, it would take a 14 percent yield decline relative to the 2022 county benchmark yield just to increase each commodity's ARC-CO trigger price to the effective reference price (i.e., $3.70 for corn, etc).

Second, the supplemental coverage option (SCO) is only available on the crops for which a producer chooses PLC as their Title I safety net program. Given the extremely high futures prices that currently are in place during price discovery, if a producer is looking for a shallow loss revenue protection option, SCO often provides significantly more revenue protection than ARC-CO which uses marketing year average prices to determine revenue benchmarks. While SCO has a premium that must be paid, many producers may find the coverage difference well worth the cost.

Finally, the current high futures prices for most commodities are good indicators that market prices will be quite strong this harvest. However, both ARC-CO and PLC use marketing year average prices to determine whether a payment is triggered. The 2022-23 marketing year for corn begins September 1, 2022 and continues through August 31, 2023. While not likely to crash, a lot can happen between now and August 2023. Purchasing SCO allows a producer to elect PLC for the covered commodity, effectively establishing a free put option at the reference price (at least on those base acres and program yields).

Figure 1. Example ARC-CO and PLC Parameters for the 2022 Decision.

Crop Name	2016 County Yield	2017 County Yield	2018 County Yield	2019 County Yield	2020 County Yield	2022 Benchmark County Yield	2022 Benchmark Price	2022 Benchmark Revenue	2022 Guarantee Revenue	Price below which ARC-CO is Triggered with an Avg Yield	2022 Effective Reference Price (ERP)
Corn	129.62	144.90	168.80	137.45	157.42	146.59	$3.70	$542.38	$466.45	$3.18	$3.70
Grain Sorghum	97.93	109.10	120.02	93.14	93.48	100.17	$3.95	$395.67	$340.28	$3.40	$3.95
Soybeans	49.46	44.56	51.96	39.06	45.11	46.38	$9.12	$422.99	$363.77	$7.84	$8.40
Wheat	74.45	86.24	61.69	61.77	64.21	66.81	$5.50	$367.46	$316.02	$4.73	$5.50

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