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A Mid-December Look at 2024 Crop Safety Net Payments

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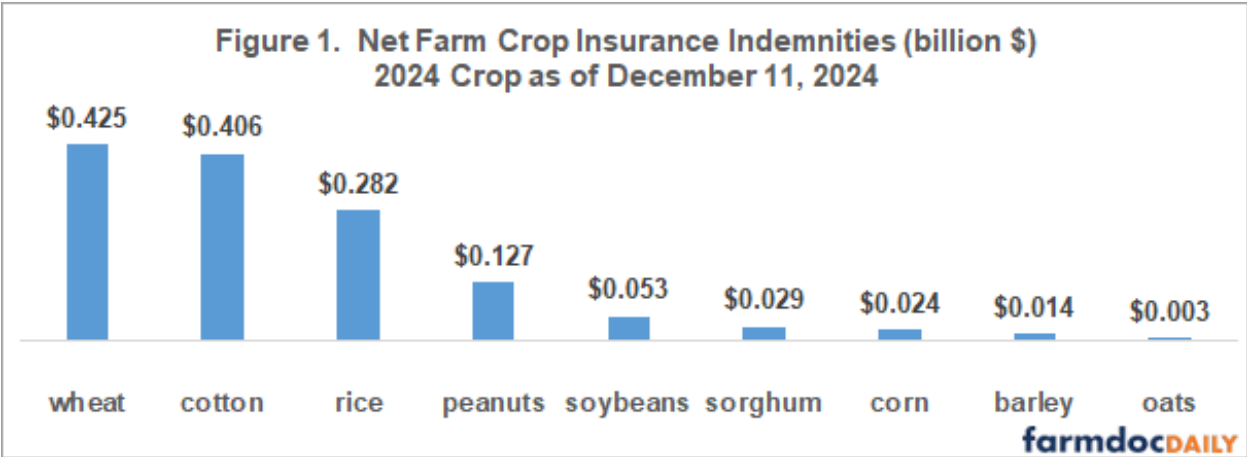
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Discussion is occurring over *ad hoc* assistance for economic losses by crop producers resulting from the combination of low crop prices and continuing high production costs. *Ad hoc* assistance adds to assistance provided by the existing safety net of commodity programs and crop insurance. As of December 11, 2022, existing safety net payments are likely to be highest for wheat, rice, peanuts, and, especially, seed cotton. Good policy requires that these payments, along with any *ad hoc* assistance for production losses, be taken into account when designing *ad hoc* assistance for economic losses. Otherwise, combined payments may be higher or lower than intended. Neither is good policy.

Net Crop Insurance Indemnities

As of December 11, 2024; indemnities paid by crop insurance exceed farm-paid premiums for the nine crops in this study. Net farm indemnities range from \$0.003 billion for oats to \$0.425 billion for wheat (see Figure 1). Total net farm indemnities for the nine crops are \$1.369 billion. The amounts in Figure 1 will increase, especially for the fall-harvested crops of corn, cotton, peanuts, rice, sorghum, and soybeans. Indemnities paid to date are mostly for acres prevented from being planted and for revenue or yield loss on individual farm insurance. Source for the data in Figure 1 is USDA, RMA (US Department of Agriculture, Risk Management Agency) *Summary of Business*.

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Assessing Net Indemnities from Area Add-Up Insurance

Area add-up insurance insure losses between the add-up product’s coverage level and the lower coverage level purchased for an underlying individual farm insurance product. Area insurance makes payments after area yields are released by RMA, which recently has been in mid-June. However, an indication of area add-up insurance payments can be gained by examining percent deviation of the (a) harvest insurance price from projected insurance price and (b) US harvest yield from its trend value. Except for peanuts and rice, 2024 harvest insurance price is at least 11% below 2024 projected insurance price (see Figure 2). US 2024 harvest yield is below trend for peanuts, rice, and, in particular, sorghum and upland cotton. These percent deviations suggest payments are likely by the area add-up insurance products of ECO (Enhanced Coverage Option) at its 95% coverage level for barley, corn, upland cotton, sorghum, soybeans, and wheat and by STAX (Stacked Income Protection Plan) at its 90% coverage level for upland cotton. STAX is a cotton only insurance product. The procedures used to estimate the percent deviations are described in Data Note 1.

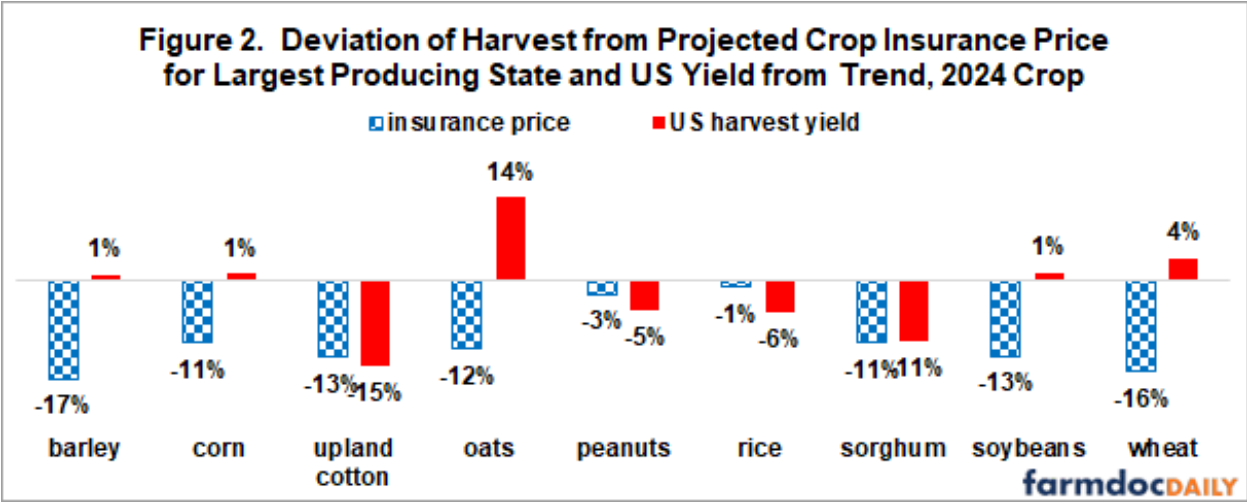
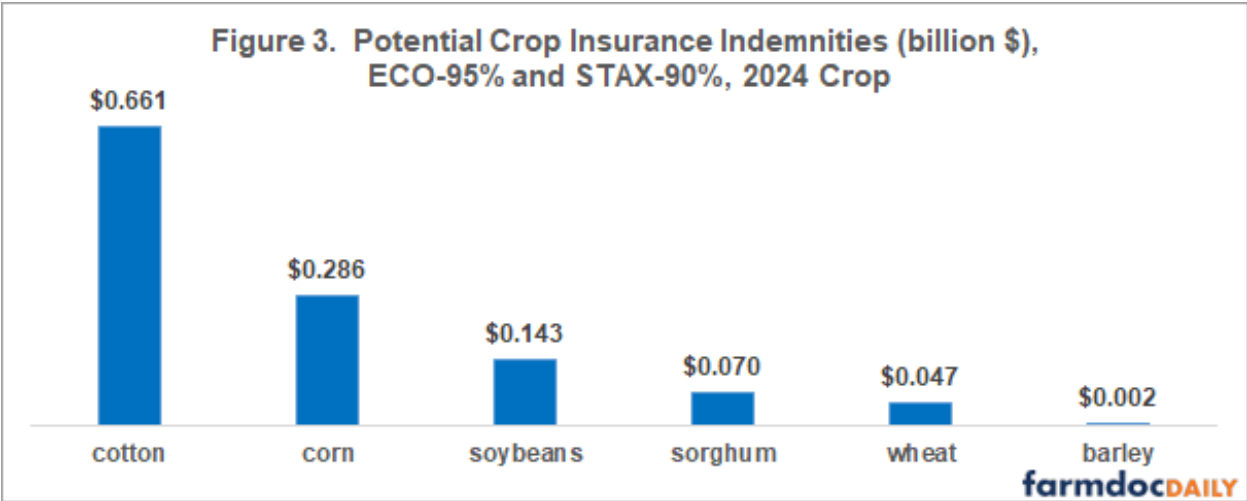
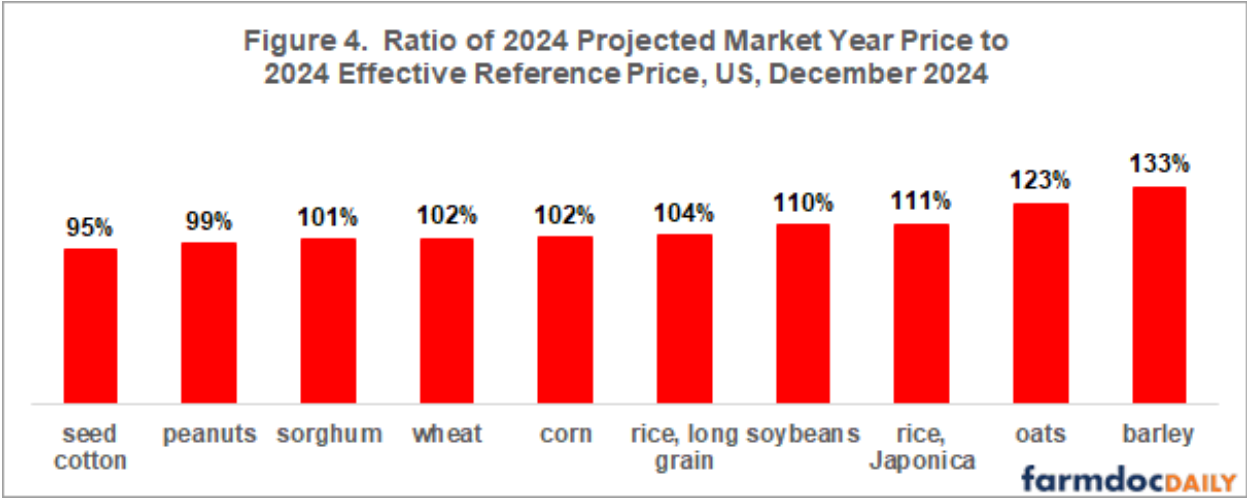


Figure 3 presents the insured liability net of farm-paid premiums in ECO-95% and STAX-90% purchased for 2024 barley, corn, cotton, soybeans, sorghum, and wheat. Insured liability is an insurance product’s maximum potential payment. The net indemnities in Figure 3 are thus likely overstated. On the other hand, Figure 3 does not contain potential payments by other ECO and STAX coverage levels as well as by SCO (Supplemental Coverage Option) area add-up insurance. SCO’s coverage level is 86%. Source for the data in Figure 3 is USDA, RMA *Summary of Business*.



Assessing 2024 PLC (Price Loss Coverage) Program Payments

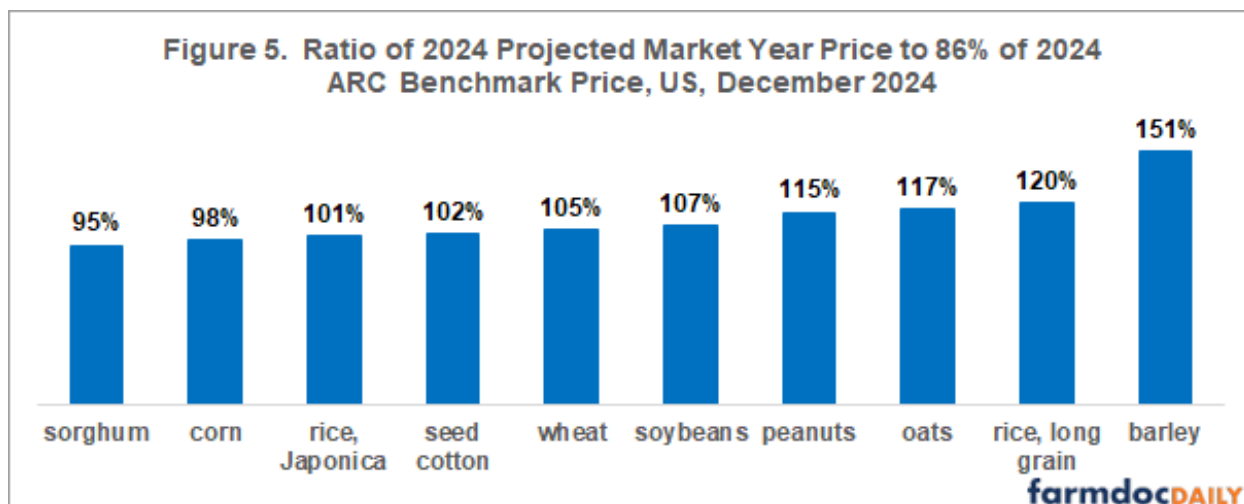
Per unit PLC payment rate for 2024 will equal the higher of \$0 or (2024 effective reference price minus US 2024 market year price). Comparing the December 2024 estimates of market year prices from FSA with the 2024 effective reference prices also from FSA, a PLC payment is currently expected for seed cotton and peanuts (i.e., ratio is less than 100% - see Figure 4). FSA currently estimates the 2024 PLC payment rate at \$0.0197 and \$0.0025 per pound of seed cotton and peanuts, respectively. PLC will also make a 2024 payment for corn, sorghum, and wheat if their final market year price ends up more than 2% below the December estimate of their 2024 market year price.



Assessing 2024 ARC-CO (Agricultural Risk Coverage – County) Program Payments

Per acre ARC-CO payment for 2024 will equal the higher of \$0 or (86% of 2024 ARC-CO benchmark revenue for a county minus 2024 county revenue), with a 10% payment cap. County yields for ARC-CO are not released until February for fall-harvested crops. However, assuming county yield equals trend yield, an indicator of potential ARC-CO payment is the US market year price compared to 86% of the 2024 ARC-CO benchmark price, which is available from FSA. This comparison indicates that, as of December 2024, ARC-CO is expected to, in general, make payments for sorghum and corn (i.e., ratio is less than 100%). A 2% or more decline in 2024 US market year price from its December 2024 estimate would also result in ARC-CO payments, in general, for Japonica rice and seed cotton. Besides this price

deviation comparison, ARC-CO payments will also depend on (a) the deviation of county yield from trend and (b) the correlation between the price and yield deviations.



Discussion

This mid-December examination finds that considerable variation is likely in payments by the existing safety net of commodity and crop insurance programs across 2024 crops. For example, payments to seed cotton will likely exceed \$1 billion from crop insurance alone. In contrast, total safety net payments to oats and barley are likely to be close to nothing.

Ad hoc assistance to crop farmers for economic losses needs to take into account payments by the existing crop safety net as well as any *ad hoc* assistance for production losses. Otherwise, combined payments may exceed or fall short of the intended level of assistance for crop farmers.

The increasing provision of *ad hoc* assistance for a current crop year raises important policy design issues. As of mid-December, payments are incomplete by individual farm crop insurance, especially for fall harvested crops; half a year away by area add-up insurance; and 10 months away by commodity programs.

The delay in area insurance payments requires quicker determination of area yields. Methods to achieve this should be explored. Addressing this issue is likely to become even more important should subsidy levels for area add-up insurance be increased, as appears likely.

As discussed in the *farmdoc daily* of October 30, 2024, payments by commodity programs can be moved to harvest instead of waiting until after the crop year ends by using futures prices / insurance prices instead of market year prices. This policy design change would mean that commodity program payments would likely be known before any *ad hoc* assistance is authorized.

Data Note 1

Projected and harvest insurance prices are from USDA, RMA's price discovery tool. The prices are for conventional crop practice in the state with the largest or close to largest production of a crop: North Dakota for barley and hard red spring and durum wheat; Illinois for corn, soybeans, and soft red winter wheat; Georgia for peanuts; Arkansas for rice; Texas for upland cotton; and Kansas for sorghum and hard red winter wheat. The latest insurance sale closing date is used. Percent change in wheat insurance price varied only from -18% (soft red winter) to -15% (other three varieties). Thus, the simple average of the four percent changes is reported in Figure 2.

US harvest yield for 2024 is the yield reported in the November and December 2024 crop production reports from USDA,(NASS (National Agricultural Statistics Service). Trend harvest yield for 2024 is estimated as a linear trend of harvest yield for the 50 crop years from 1974 through 2023. Source for the yields is USDA, NASS's *Quick Stats* electronic database.

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