



What's in the 2014 Farm Bill for Farm Service Agency Customers

The Agricultural Act of 2014 (the Act), also known as the 2014 Farm Bill, was signed by President Obama on Feb. 7, 2014. The Act repeals certain programs, continues some programs with modifications, and authorizes several new programs administered by the Farm Service Agency (FSA). Most of these programs are authorized and funded through 2018.

OVERVIEW

The Direct and Counter-Cyclical Program and the Average Crop Revenue Election program are repealed and replaced by two new programs: Price Loss Coverage (PLC) and Agricultural Risk Coverage (ARC). Upland cotton is the only covered commodity that is no longer eligible to participate in these programs, but rather, becomes eligible for the new Stacked Income Protection Plan (STAX) offered by the Risk Management Agency (RMA). Until STAX becomes available, upland cotton is eligible for transition payments made by FSA for 2014 and 2015 crops.

The Marketing Assistance Loan program and sugar loans continue mostly unchanged. The Milk Income Loss Contract Program continues through Sept. 1, 2014, unless it is replaced by the Dairy Margin Protection Program prior to that date.

The Conservation Reserve Program (CRP), USDA's largest conservation program, continues through 2018 with an annually decreasing enrolled acreage cap. The contract portion of the Grassland Reserve Program enrollment has been merged with CRP. The Biomass Crop Assistance Program is extended and funded at \$25 million per year.

The Noninsured Crop Disaster Assistance Program has been expanded to include protection at higher coverage levels, similar to buy-up provisions offered under the federal crop insurance program. The Livestock Forage Disaster Program, the Livestock Indemnity Program, the Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish, and the Tree Assistance Program are continued, with modifications starting in October 2011, and succeeding years. The Supplemental Revenue Assistance Program (SURE), which covered

losses through Sept. 30, 2011, is not reauthorized.

The credit title of the Act continues and improves the direct and guaranteed loan programs that provide thousands of America's farmers and ranchers the opportunity to obtain the credit they need to begin and continue their operations. The changes in the Act provide FSA greater flexibility in determining eligibility including expanded definitions of eligible entities, years of experience for farm ownership loans, and allowing youth loan applicants from urban areas to access loans. FSA's popular microloan and down payment loan programs, important to furthering the Administration's objective of assisting beginning farmers, have been improved by raising loan limits and emphasizing beginning and socially disadvantaged producers. The Act also provides greater enhancements for lenders to participate in the guaranteed conservation loan program and eliminates term limits for the guaranteed operating program, allowing farmers and ranchers the opportunity for continued credit in cases where financial setbacks may have prevented them from obtaining commercial credit.

ADJUSTED GROSS INCOME

Adjusted gross income (AGI) provisions have been simplified and modified. Producers whose average AGI exceeds \$900,000 are not eligible to receive payments or benefits from most programs administered by FSA and the Natural Resources Conservation Service (NRCS). Previous AGI provisions distinguished between farm and non-farm AGI.

PAYMENT LIMITATIONS

The total amount of payments received, directly and indirectly, by a person or legal entity (except joint ventures or general partnerships) for Price Loss Coverage, Agricultural Risk Coverage, marketing loan gains, and loan deficiency payments (other than for peanuts), may not exceed \$125,000 per crop year. A person or legal entity that receives payments for peanuts has a separate \$125,000 payment limitation.

Cotton transition payments are limited to \$40,000 per year. For the livestock disaster programs, a total \$125,000 annual limitation applies for payments under the Livestock Indemnity Program, the Livestock Forage Program, and the Emergency Assistance for Livestock, Honey Bees and Farm-Raised Fish program. A separate \$125,000 annual limitation applies to payments under the Tree Assistance Program.

ACTIVELY ENGAGED IN FARMING

Producers who participate in the Price Loss Coverage or Agricultural Risk Coverage programs are required to provide significant contributions to the farming operation to be considered as "actively engaged in farming." The Act requires the Secretary to promulgate regulations to define "significant contribution of active personal management" as part of this determination.

COMPLIANCE

The Act continues to require an acreage report for all cropland on the farm. The acreage report is required to be eligible for Price Loss Coverage; Agriculture Risk Coverage; transition assistance for producers of upland cotton; marketing assistance loans; and loan deficiency payments.

Compliance with Highly Erodible Land Conservation (HELC) and Wetland Conservation (WC) provisions continues to be required for participation in most FSA and NRCS programs. These provisions place restrictions on the planting of an agricultural commodity on highly erodible land or wetlands. Further, they prohibit the conversion of a wetland to make possible the production of an agricultural commodity.

The Act adds premium assistance for crop insurance as a benefit subject to compliance with HELC and WC provisions. New provisions are created for determinations, administration, and penalties relating to HELC and WC provisions that are unique to crop insurance. FSA will make HELC/WC eligibility determinations for crop insurance participants based on NRCS technical determinations of HELC/WC compliance.

PRICE LOSS COVERAGE (PLC) AND AGRICULTURAL RISK COVERAGE (ARC)

Base Reallocation and Yield Updates: Owners of farms that participate in PLC or ARC programs for the 2014-2018 crops have a one-time opportunity to: (1) maintain the farm's 2013 bases through 2018; or (2) reallocate base acres (excluding cotton bases). Covered commodities include wheat, oats, barley, corn, grain sorghum, rice, soybeans, sunflower seed, rapeseed, canola, safflower, flaxseed, mustard seed, crambe and sesame seed, dry peas, lentils, small chickpeas, large chickpeas and peanuts. Upland cotton is no longer considered a covered commodity, but the upland cotton base acres on the farm are renamed "generic" base acres. Producers may receive payments on generic base acres if those acres are planted to a covered commodity.

A producer also has the opportunity to update the program payment yield for each covered commodity based on 90 percent of the farm's 2008-2012 average yield per planted acre, excluding any year when no acreage was planted to the covered commodity. Program payment yields are used to determine payment amounts for the Price Loss Coverage program.

Price Loss Coverage: Payments are issued when the effective price of a covered commodity is less than the respective reference price for that commodity established in the statute. The payment is equal to 85 percent of the base acres of the covered commodity times the difference between the reference price and the effective price times the program payment yield for the covered commodity.

County ARC: Payments are issued when the actual county crop revenue of a covered commodity is less than the ARC county guarantee for the covered commodity and are based on county data, not farm data. The ARC county guarantee equals 86 percent of the previous five-year average national farm price, excluding the years with the highest and lowest price (the ARC guarantee price), times the five-year average county yield, excluding the years with the highest and lowest yield (the ARC county guarantee yield). Both the guarantee and actual revenue are computed using base acres, not planted acres. The payment is equal to 85 percent of the base acres of the covered commodity times the difference between

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the county guarantee and the actual county crop revenue for the covered commodity. Payments may not exceed 10 percent of the benchmark county revenue (the ARC guarantee price times the ARC county guarantee yield).

Individual ARC: Payments are issued when the actual individual crop revenues, summed across all covered commodities on the farm, are less than ARC individual guarantees summed across those covered commodities on the farm. The farm for individual ARC purposes is the sum of the producer's interest in all ARC farms in the state. The farm's ARC individual guarantee equals 86 percent of the farm's individual benchmark guarantee, which is defined as the ARC guarantee price times the five-year average individual yield, excluding the years with the highest and lowest yields, and summing across all crops on the farm. The actual revenue is computed in a similar fashion, with both the guarantee and actual revenue computed using planted acreage on the farm. The individual ARC payment equals: 65 percent of the sum of the base acres of all covered commodities on the farm, times the difference between the individual guarantee revenue and the actual individual crop revenue across all covered commodities planted on the farm. Payments may not exceed 10 percent of the individual benchmark revenue.

Election Required: All of the producers on a farm must make a one-time, unanimous election of: (1) PLC/County ARC on a covered-commodity-by-covered-commodity basis; or (2) Individual ARC for all covered commodities on the farm. If the producers on the farm elect PLC/County ARC, the producers must also make a one-time election to select which base acres on the farm are enrolled in PLC and which base acres are enrolled in County ARC. Alternatively, if individual ARC is selected, then every covered commodity on the farm must participate in individual ARC. The election between ARC and PLC is made in 2014 and is in effect for the 2014 – 2018 crop years. If an election is not made in 2014, the farm may not participate in either PLC or ARC for the 2014 crop year and the producers on the farm are deemed to have elected PLC for subsequent crop years, but must still enroll their farm to receive coverage. If the sum of the base acres on a farm is 10 acres or less, the producer on that farm may not receive PLC or ARC payments, unless the producer is a socially disadvantaged farmer or rancher or is a limited resource farmer or rancher. Payments for

PLC and ARC are issued after the end of the respective crop year, but not before Oct. 1.

In 2015, producers in PLC have an additional option. Producers enrolling in PLC, and who also participate in the federal crop insurance program, may, beginning with the 2015 crop, make the annual choice whether to purchase additional crop insurance coverage called the Supplemental Coverage Option (SCO). SCO provides the producer the option of covering a portion of his or her crop insurance deductible and is based on expected county yields or revenue. The cost of SCO is subsidized and indemnities are determined by the yield or revenue loss for the county or area.

Crops for which the producer has elected to receive ARC are not eligible for SCO benefits.

Producers who enroll their 2015 crop of winter wheat in SCO may elect to withdraw from SCO prior to their acreage reporting date without any penalty. This allows producers additional time to make an informed decision related to whether to enroll in the Average Crop Revenue Program (ARC) or the Price Loss Coverage (PLC) program. If they choose ARC, they will not be charged a crop insurance premium so long as they withdraw from SCO prior to their acreage reporting date.

COTTON TRANSITION PAYMENTS

For the 2014 crop year, transition payments are provided to cotton producers on farms that had cotton base acres in 2013. For the 2015 crop year, transition payments will only be offered in counties where STAX is unavailable.

MARKETING ASSISTANCE LOANS (MALS) AND SUGAR LOANS

The Act extends the authority for sugar loans for the 2014 – 2018 crop years and nonrecourse marketing assistance loans (MALs) and loan deficiency payment (LDPs) for the 2014 – 2018 crops of wheat, corn, grain sorghum, barley, oats, upland cotton, extra-long staple cotton, long grain rice, medium grain rice, soybeans, other oilseeds (including sunflower seed, rapeseed, canola, safflower, flaxseed, mustard seed, crambe and sesame seed), dry peas, lentils, small chickpeas, large chickpeas, graded and nongraded wool, mohair, honey, unshorn pelts and peanuts. Provisions are mostly unchanged from the 2008 Farm

Bill, except marketing loan gains and loan deficiency payments are subject to payment limitations.

DAIRY PROGRAMS

The Act extends the Milk Income Loss Contract Program (MILC) from Oct. 1, 2013, through the earlier of the date on which the Secretary certifies that the Dairy Margin Protection Program is operational or Sept. 1, 2014. Dairy producers who were enrolled in 2013 do not need to re-apply. MILC payments are issued when the Boston Class I milk price falls below \$16.94 per hundredweight (cwt), as adjusted by a dairy feed ration formula.

The Dairy Margin Protection Program replaces MILC and will be effective not later than Sept. 1, 2014, through Dec. 31, 2018. The margin protection program offers dairy producers: (1) catastrophic coverage, at no cost to the producer, other than an annual \$100 administrative fee; and (2) various levels of buy-up coverage. Catastrophic coverage provides payments to participating producers when the national dairy production margin is less than \$4 per hundredweight (cwt). The national dairy production margin is the difference between the all-milk price and average feed costs. Producers may purchase buy-up coverage that provides payments when margins are between \$4 and \$8 per cwt. To participate in buy-up coverage, a producer must pay a premium that varies with the level of protection the producer elects.

In addition, the Act creates the Dairy Product Donation Program. This program is triggered in times of low operating margins for dairy producers, and requires USDA to purchase dairy products for donation to food banks and other feeding programs.

Dairy Indemnity Payment Program (DIPP)

The DIPP provides payments to dairy producers when a public regulatory agency directs them to remove their raw milk from the commercial market because it has been contaminated by pesticides and other residues.

CONSERVATION RESERVE PROGRAM (CRP)

The Act continues CRP with modifications. The

acreage cap is gradually lowered to 24 million acres for fiscal years 2017 and 2018. The requirement to reduce rental payments under emergency haying and grazing is eliminated. Rental payment reductions of not less than 25 percent are required for managed haying and grazing.

Producers also are given the opportunity for an "early-out" from their CRP contracts, but only in fiscal year 2015. The rental payment portion of the Grassland Reserve Program enrollment has been incorporated into the CRP.

The Transition Incentive Program (TIP) continues to allow for the transition of CRP land to a beginning or socially disadvantaged farmer or rancher so land can be returned to sustainable grazing or crop production. TIP now includes eligibility for military veterans (i.e., veteran farmers).

BIOMASS CROP ASSISTANCE PROGRAM (BCAP)

BCAP provides incentives to farmers, ranchers and forest landowners to establish, cultivate and harvest eligible biomass for heat, power, bio-based products, research and advanced biofuels. Crop producers and bioenergy facilities can team together to submit proposals to USDA for selection as a BCAP project area. BCAP has been extended through 2018 and is funded at \$25 million per fiscal year.

NONINSURED CROP DISASTER ASSISTANCE PROGRAM (NAP)

NAP has been expanded to include buy-up protection, similar to buy-up provisions offered under the federal crop insurance program. Producers may elect coverage for each individual crop between 50 and 65 percent, in 5 percent increments, at 100 percent of the average market price. Producers also pay a fixed premium equal to 5.25 percent of the liability. The waiver of service fees has been expanded from just limited resource farmers also to include beginning farmers and socially disadvantaged farmers. The premiums for buy-up coverage are reduced by 50 percent for those same farmers. Grazing land is not eligible for buy-up coverage. NAP is also made available to producers that suffered a loss to a 2012 annual fruit crop grown on a bush or tree in a county declared

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a disaster by the Secretary due to a freeze or frost.

RTCP FOR GEOGRAPHICALLY DISADVANTAGED FARMERS AND RANCHERS

The Reimbursement Transportation Cost Payment Program (RTCP) is re-authorized to provide assistance to geographically disadvantaged farmers and ranchers for a portion of the transportation cost of certain agricultural commodities or inputs.

EMERGENCY LOANS

A Secretarial disaster designation or a Presidential declaration provides producers with emergency loans to help cover the recovery costs for physical and production losses. Farm bill revisions expand the type of entities eligible for loans.

FARM OPERATING LOANS AND MICROLOANS

Farm Operating Direct and Guaranteed Loan Programs provide low-interest financing for producers to purchase farm and ranch operating inputs. The FSA is authorized to implement the program through the Consolidated Farm and Rural Development Act, also known as the Con Act. The 2014 Farm Bill revisions expand the types of entities eligible, provide favorable interest rates for joint financing arrangements, increase loan limits for microloans, make youth loans available in urban areas, and eliminate term limits for guaranteed operating loans.

FARM OWNERSHIP LOANS

Farm Ownership Direct and Guaranteed Loan Programs provide low-interest financing for producers to purchase farms and ranches and other real estate related needs. The FSA is authorized to implement the program through the Consolidated Farm and Rural Development Act, often referred to as the Con Act. The 2014 Farm Bill revisions expand the types of entities eligible, provide favorable interest rates for joint financing arrangements, provide a larger percent guarantee on guaranteed conservation loans, increase the loan limits for the down payment program, and authorize a relending program to assist Native

American producers purchase fractionated interests of land.

DISASTER PROGRAMS

The following four disaster programs authorized by the 2008 Farm Bill have been extended indefinitely (beyond the horizon of the Act). The programs are made retroactive to Oct. 1, 2011. Producers are no longer required to purchase crop insurance or NAP coverage to be eligible for these programs (the risk management purchase requirement) as mandated by the 2008 Farm Bill.

Livestock Forage Disaster Program (LFP):

LFP provides compensation to eligible livestock producers that have suffered grazing losses due to drought or fire on land that is native or improved pastureland with permanent vegetative cover or that is planted specifically for grazing. LFP payments for drought are equal to 60 percent of the monthly feed cost for up to five months, depending upon the severity of the drought. LFP payments for fire on federally managed rangeland are equal to 50 percent of the monthly feed cost for the number of days the producer is prohibited from grazing the managed rangeland, not to exceed 180 calendar days.

Livestock Indemnity Program (LIP):

LIP provides benefits to livestock producers for livestock deaths in excess of normal mortality caused by adverse weather or by attacks by animals reintroduced into the wild by the federal government. LIP payments are equal to 75 percent of the average fair market value of the livestock.

Emergency Assistance for Livestock, Honey

Bees, and Farm-Raised Fish (ELAP): ELAP provides emergency assistance to eligible producers of livestock, honeybees and farm-raised fish for losses due to disease (including cattle tick fever), adverse weather, or other conditions, such as blizzards and wildfires, not covered by LFP and LIP. Total payments are capped at \$20 million in a fiscal year.

Tree Assistance Program (TAP):

TAP provides financial assistance to qualifying orchardists and nursery tree growers to replant or rehabilitate eligible trees, bushes, and vines damaged by natural disasters.

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FEEDSTOCK FLEXIBILITY PROGRAM (FFP)

FFP is continued through fiscal year 2018. Congress authorized the FFP in the 2008 Farm Bill, allowing for the purchase of sugar to be sold for the production of bioenergy in order to avoid forfeitures of sugar loan collateral under the Sugar Program.

NON-FARM BILL PROGRAMS

The following programs continue under laws other than the 2014 Farm Bill.

Emergency Conservation Program (ECP)

ECP is authorized by Title IV of the Agricultural Credit Act of 1978, Section 401 (P.L. 95-334) (16 U.S.C. 2201). ECP provides emergency cost-share assistance to farmers and ranchers to help rehabilitate farmland and rangeland damaged by natural disasters and to carry out water conservation measures during periods of severe drought. Cost-share assistance may be offered only for emergency conservation practices to restore land to a condition similar to that existing prior to the natural disaster.

Emergency Forest Restoration Program (EFRP)

EFRP is authorized by Title IV of the Agricultural Credit Act of 1978, Section 407 (16 U.S.C. 2206). EFRP was established to provide financial and technical assistance to owners of non-industrial private forest land damaged by natural disaster to carry out emergency measures to restore damaged forests and rehabilitate forest resources.

Farm Storage Facility Loan Program (FSFL)

FSFL provides low-interest financing for producers to build or upgrade farm storage and handling facilities.

Sugar Storage Facility Loan Program (SSFL)

SSFL provides low-interest financing for processors to build or upgrade farm storage and handling facilities for raw or refined sugar.

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UNITED STATES DEPARTMENT OF AGRICULTURE
RISK MANAGEMENT AGENCY

2014 Farm Bill

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New Farm Bill Offers Modifications to Crop Insurance Programs

OVERVIEW

The 2014 Farm Bill, signed by President Obama on Feb. 7, 2014, continues programs with modifications and authorizes several new programs administered by the Risk Management Agency (RMA).

The Farm Bill strengthens crop insurance by providing more risk management options for farmers and ranchers and by making crop insurance more affordable for beginning farmers. It continues the growth of the crop insurance program, and provides avenues to expand farm safety net options for organic producers and specialty crop producers. It provides for increased program integrity, guaranteeing that tax dollars are used effectively and efficiently as we expand the farm safety net.

There are many changes to the crop insurance program. Some of the major changes are outlined below.

EXPANSION AND INNOVATION

Supplemental Coverage Option (SCO)

SCO is a county level revenue or yield based optional endorsement that covers a portion of losses not covered by the same crop's underlying crop insurance policy. Indemnities will be payable once a 14 percent loss has occurred in the county, and individual payments will depend upon coverage levels selected by producers. Crops on a farm enrolled in ARC (as well as acreage when enrolled in STAX) will not be eligible for SCO coverage. However, a crop on a farm may be enrolled in both SCO and Price Loss Coverage, another program administered by FSA.

The Farm Bill requires SCO to be made available beginning with the 2015 crop year. Producers who enroll their winter wheat in SCO may elect to withdraw from SCO prior to their acreage reporting date without any penalty. This allows producers additional time to make an informed decision related to whether to enroll in the ARC or the Price Loss Coverage (PLC) program. If they choose ARC, they will not be charged a crop insurance premium so long as their SCO coverage is voided prior to their acreage reporting date.

RMA is making every effort to offer SCO to as many producers as possible. SCO will be available for corn, cotton, grain sorghum, rice, soybeans, spring wheat, and winter wheat in selected counties for the 2015 crop year. Program details and eligible counties will be made available in the summer of 2014.

STAX

STAX is a standalone/supplemental insurance policy for cotton only. STAX protects against county-wide revenue losses and can supplement a producer's underlying cotton policy, or be purchased as a standalone policy. Producers can elect coverage of up to 20 percent of expected county revenue, depending on the coverage level of their individual cotton insurance policy. STAX payments begin when county revenue falls below 90 percent of its expected level. The premium subsidy for this coverage is 80 percent.

RMA is making every effort to offer STAX to as many producers as possible. STAX will be available in selected counties for the 2015 crop year. Program details and eligible counties will be made available in the summer of 2014.

Crops on a farm enrolled in ARC (as well as acreage when enrolled in STAX) will not be eligible for SCO coverage.

Whole Farm Policy

RMA is developing a new whole-farm insurance product that combines AGR and AGR-Lite with improvements to target the following types of farms: (1) Highly diversified farms and (2) Farms selling 2-5 commodities to wholesale markets.

The new product takes into consideration direction provided in the Farm Bill. Whole-farm insurance covers all commodities on the farm including specialty crops. The new whole-farm insurance product was sent for a contracted external expert review by the FCIC Board which is part of the new product development process.

RMA will continue to work on developing a whole farm policy that meets the needs of producers that grow diverse crops. The Farm Bill provides specific requirements for the whole farm policy if the Board does not approve a policy by 2016.

Beginning Farmer Provisions

Beginning farmers will receive increased assistance, which will give them access to risk management tools that are vitally important for beginning farmers. Changes will exempt beginning farmers from paying the \$300 administrative fee for catastrophic policies and provide them, in certain instances, the ability to use the production history of entities where they were previously employed or helped to manage. It will also increase the premium subsidy rates for beginning farmers by ten percentage points during their first five years of farming.

If covered beginning farmers experience a poor yielding crop,

they may replace the poor yield in their yield history for determining next year's guarantee with 80 percent of the county T-Yield, which is 20 percentage points higher than they previously would have received.

Coverage Level by Practice

This change provides a producer that produces an agricultural commodity on both dry land and irrigated land the option to elect a different coverage level for each production practice.

Change in T-Yield

When a crop in a county suffers over a 50 percent yield loss, producers in that county and adjacent counties may omit their yield for that year's production. For this provision, the Federal Crop Insurance Corporation may make a separate determination for irrigated and non-irrigated acreage.

Organic Expansion

Previous to the passage of the Farm Bill, RMA had taken steps to improve coverage for organic producers. These steps continue to be strengthened by the bill.

RMA has removed the 5 percent surcharge for organic price options. RMA has extended policies for organic price coverage. The agency added organic price elections for 2014 for eight additional crops (oats, peppermint, apricots, apples, blueberries, almonds, pears, and grapes for juice), bringing the total number of crops with organic price elections to sixteen. This allows producers the option to choose to insure their crops at an organic or conventional policy coverage price set by RMA.

RMA has issued The Contract Price Addendum (CPA) that allows an organic producer who has a written contract from a buyer by the acreage reporting date, the ability to insure an organic crop at the contract price. Producers can now buy a Federal crop insurance guarantee that is more reflective of the actual value of your organic crop.

Peanut Revenue Policy

RMA was directed to provide a revenue crop insurance policy for peanut producers. A private submitter has been working on a policy and if the submission is approved by the FCIC Board this spring it is possible to have this available in the future.

ENVIRONMENTAL BENEFIT

Conservation Compliance

In order to receive premium assistance from the federal government for crop insurance, producers will have to comply with highly erodible land and wetland conservation requirements that most already have to comply with as a result of participating in FSA and NRCS programs. RMA will work to utilize the

verification process in place to ensure that producers are not overly burdened by this requirement.

The 2014 Farm Bill built on the conservation practices underway on farms and ranches by re-linking conservation compliance with the premium subsidy provided under the crop insurance program. Conservation compliance requires producers to have a conservation plan if they plant annually tilled crops on highly erodible soil and prohibits producers from planting on or destroying wetlands for crop production.

Producers who do not comply with conservation compliance can still purchase crop insurance, however, they will no longer be eligible to receive the government paid premium subsidy. Producers who destroy a wetland after enactment of the 2014 Farm Bill (February 7, 2014) risk losing their crop insurance premium subsidy, consistent with the new conservation compliance requirements of the 2014 Farm Bill. This affects eligibility not only for crop insurance premium subsidies but also commodity, conservation, and disaster program benefits. Producers who were eligible for commodity, conservation, or disaster programs under FSA or NRCS will remain eligible for the government paid crop insurance premium subsidy. The changes related to the crop insurance premium subsidy do not change the existing conservation compliance requirements and ramifications for violations for commodity, disaster, or conservation programs offered by FSA or NRCS.

In the fall of 2014, USDA will publish a rule that will provide the details involved with connecting conservation compliance with crop insurance.

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Supplemental Coverage Option for Federal Crop Insurance

July 2014

What Is The Supplemental Coverage Option?

The Supplemental Coverage Option (SCO) is a new crop insurance option that provides additional coverage for a portion of your underlying crop insurance policy deductible. You must buy it as an endorsement to either the Yield Protection, Revenue Protection, or Revenue Protection with the Harvest Price Exclusion policies. The Federal Government pays 65 percent of the premium cost for SCO.

SCO is available, starting with the 2015 crop year, in select counties for spring barley, corn, soybeans, wheat, sorghum, cotton, and rice.

How Do I Buy SCO?

First, you must choose;

- Yield Protection;
- Revenue Protection; or
- Revenue Protection with the Harvest Price Exclusion. This is your 'underlying policy'.

Next, you choose SCO as an endorsement to the underlying policy. You must make this choice by the sales closing date for your underlying policy, and with the same insurance company. Any crop on a farm that you elect to participate in the Agriculture Risk Coverage (ARC) program (a new program started in the 2014 Farm Bill, administered by the Farm Service Agency) is not eligible, for SCO coverage.

How Does SCO Work?

SCO follows the coverage of your underlying policy. If you choose Yield Protection, then SCO covers yield loss. If you choose Revenue Protection, then SCO covers revenue loss.

The amount of SCO coverage depends on the liability, coverage level, and approved yield for your underlying policy. However, SCO differs from the underlying policy in how a loss payment is triggered. The underlying policy pays a loss on an individual basis and an indemnity is triggered when you have an individual loss in yield or revenue. SCO pays a loss on an area basis, and an indemnity is triggered when there is a county level loss in yield or revenue.

It is easiest to explain how coverage is determined through an example. Suppose a grower's corn crop has an expected value of \$765.00 per acre (170 bushels at \$4.50 per bushel). Assume the grower buys a Revenue Protection policy with a 75-percent coverage level (this is the 'underlying policy'). The underlying policy covers 75 percent (or \$573.75) of the expected crop value and leaves 25 percent (or \$191.25) uncovered as a deductible.

At this point, the grower has the option to buy SCO coverage. Since the underlying policy is Revenue Protection, SCO will also provide revenue protection, except that payments will be determined at a county level. SCO revenue coverage is described in the following table.

Step	SCO Coverage Calculation	
A	SCO Endorsement begins to pay when county revenue falls below this percent of its expected level (the percent is the same for all SCO policies – set by law)	86%
B	SCO Endorsement pays out its full amount when county revenue falls to the coverage level percent of its expected level (always equal to the coverage level of the underlying policy)	75%
C	Percent of expected crop value covered by SCO (A – B, or 86% – 75%)	11%
D	Amount of SCO Protection (C • Expected Crop Value, or 11% • \$765)	\$84.15

The SCO Endorsement begins to pay when county average revenue falls below 86 percent of its expected level. The full amount of the SCO coverage is paid out when the county average revenue falls to the coverage level of the underlying policy - in this example, it is 75 percent (shown on line B in the table).

SCO payments are determined only by county average revenue or yield, and are not affected by whether you receive a payment from your underlying policy. So it is possible for you to experience an individual loss but to not receive an SCO payment, or vice-versa.

The dollar amount of SCO coverage is based on the percent of crop value covered. In this example there are

11 percentage points of coverage (from 86 percent to 75 percent). Eleven percent of the expected crop value is \$84.15 (or 11 percent • \$765.00). The SCO policy can cover up to \$84.15 of the \$191.25 deductible amount not covered by your underlying policy.

How Much Does SCO Cost?

The Federal Government pays 65 percent of the premium. The exact premium cost depends on the crop, county, coverage level you choose, and the type of coverage you choose, such as Yield Protection or Revenue Protection. You should talk to your crop insurance agent for more information.

How Do I Decide If I Should Buy SCO?

When considering SCO, you must first consider whether to elect to participate in the ARC program. Crops for which ARC is elected on a farm are not eligible for SCO coverage.

For those crops and farms eligible for SCO coverage, the type and amount of SCO coverage are determined by the type and coverage level you choose for the underlying policy. You should talk to your crop insurance agent to determine what best meets your individual risk management needs.

Where Is SCO Available?

SCO is available, starting with the 2015 crop year, in select counties for spring barley, corn, soybeans, wheat, sorghum, cotton, and rice.

The choice of counties selected for 2015 is based on the availability of county yield data from USDA's National Agricultural Statistics Service (NASS), subject to the following criteria designed to maximize the availability of SCO while maintaining actuarial soundness and program integrity. These criteria are similar to what is used for area-based, insurance programs administered by the Risk Management Agency (RMA). In general, the criteria are:

- NASS county yield estimates are available for at least 20 of the last 30 years. This provides a minimum amount of data needed to establish expected yields similar to the existing yield trend approaches used for related area-based insurance programs;
- NASS county yield estimates are available for at least 8 of the last 10 years, with an average of at least 10,000 planted acres over those years. This limits SCO to counties where county yield data has been consistently available, so that there is a reasonable expectation that a county yield will be available at the end of the growing season to determine losses; and
- There are at least 50 or more farming entities for the crop in the county according to the most recent Census of Agriculture. This limits the possibility for a single

producer (or small group) to skew or influence the county estimate for a given year and limits SCO to counties where NASS is likely to receive adequate reports to publish a county estimate.

Will SCO Be Available for More Crops?

Starting with the 2016 crop year, RMA will be making greater use of crop insurance data to expand SCO coverage into more areas, more crops, and to make SCO coverage more practice-specific, (for example, irrigated in comparison to non-irrigated). RMA will expand the program to more crops (and counties) as the program continues.

What Happens If I Choose SCO and Sign Up for ARC?

SCO will first be available for the 2015 crop year's winter wheat, where you must make your crop insurance coverage decisions for fall-planted crops (including SCO) by the sales closing date (generally September 30, 2014).

Producers who applied for SCO for their winter wheat for 2015 may elect to withdraw coverage on any farm where they have elected or where they intend to elect ARC for winter wheat by the earlier of their acreage reporting date or December 15 without penalty. This allows producers additional time to make an informed decision related to whether to elect to participate in either the ARC or Price Loss Coverage (PLC) programs for their winter wheat which will happen later this winter.

If producers withdraw SCO coverage for a farm by the earlier of their acreage reporting date or December 15, they will not be charged a crop insurance premium. In order to withdraw coverage without penalty, producers must notify their agents of their intended election for ARC by the earlier of their winter wheat acreage reporting date or December 15. This is a one-time exemption that is only allowed for the 2015 crop year's winter wheat to coordinate with ARC program sign-up rules.

After this one-time exemption for the 2015 crop year's winter wheat, if you choose SCO on a farm, but elect ARC for winter wheat on the same farm, such acres on the farm will not be covered under your SCO Endorsement and you will be required to pay 20 percent of your SCO premium to cover administrative expenses. Your underlying policy will still be in effect.

Where to Buy Crop Insurance

All multi-peril crop insurance, including Catastrophic Risk Protection and SCO policies, are available from crop insurance agents. A list of crop insurance agents is available at all USDA service centers and on the RMA website at: www3.rma.usda.gov/apps/agents/.

Stacked Income Protection Plan (STAX) for Upland Cotton

August 2014

What is the Stacked Income Protection Plan?

The Stacked Income Protection Plan (STAX) is a new crop insurance product for upland cotton that provides coverage for a portion of the expected revenue for your area. Most often your area will be your county, but it may include other counties or even practices as necessary to obtain a credible amount of data to establish an expected yield and premium rate.

STAX may be purchased on its own, or in conjunction with another policy — including Yield Protection, Revenue Protection, Revenue Protection with the Harvest Price Exclusion, and any of the Area Risk Protection Insurance policies. We refer to this as a “companion policy.” The Federal government will pay for 80 percent of the premium cost for STAX.

STAX will be available, starting with the 2015 crop year, in all counties where Federal crop insurance coverage for upland cotton is currently offered.

How does STAX work?

STAX provides coverage for up to 20 percent of the expected area revenue in increments of 5, 10, 15 or 20 percent. Loss payments begin when area revenue falls below 90 percent of its expected level — although a lower loss trigger may be selected. Loss payments reach their maximum when area revenue falls to 70 percent of its expected level — unless your companion policy has a coverage level above 70 percent in which case payments end sooner. Like other area plans of insurance, the amount of coverage may also be increased or decreased by selection of a protection factor so that growers may better tailor their coverage to their risks.

The amount of STAX coverage depends on the expected yield, projected price, coverage range, and protection factor. The expected yield for STAX will be based on the historical average of yields in the county reported to RMA by insured growers. In areas where the yield data are thin, counties will be combined in order to

accumulate enough data to determine expected yields and premium rates. STAX pays a loss on an area wide basis, and an indemnity is triggered when there is an area loss in revenue.

It is easiest to explain how STAX coverage is determined through an example shown in the tables below. We'll use cotton with an expected crop value for the area of \$538.20 per acre (690 pounds at \$0.78 per pound). Assume the grower also purchases a Revenue Protection policy with a 75 percent coverage level — this is the ‘companion policy’. (The purchase of the Revenue Protection policy is not necessary to purchase STAX.)

The calculation of STAX coverage is described in the following table:

Step	STAX Coverage Calculation	
A	STAX begins to pay when area revenue falls below this percent of its expected level (grower may select from 90% down to 75%)	90%
B	STAX Endorsement pays out its full amount (liability) when area revenue falls to this percent of its expected level (equal to the higher of 70% or the coverage level percentage of the companion policy. In this case the companion revenue policy brings this to 75%)	75%
C	Coverage Range of STAX (A – B)	15%
D	Protection factor (grower may change the amount of coverage by selecting a protection factor from 0.80 to 1.20)	1.20
E	Amount of STAX Protection (C x D x \$538.20)	\$96.88

In this example, the STAX Endorsement begins to pay when area revenue falls below 90 percent of its expected level. The full amount of the STAX coverage is paid out when the area average revenue falls to 75 percent.

The dollar amount of STAX coverage is based on the coverage range and protection factor selected. In this example there are 15 percentage points of coverage — from 90 percent down to 75 percent -- and the protection factor selected is 1.20. 15 percent of the expected area

revenue, times the selected protection factor of 1.20, is \$96.88 (or 15 percent x 1.20 x \$538.20). Thus, the STAX policy can cover up to \$96.88 in addition to what is covered by the companion policy.

STAX payments are determined only by area average revenue, and are not affected by whether a grower receives a payment on their companion policy (if purchased). So it is possible for a grower to experience an individual loss on his or her companion policy, but not trigger an area-based STAX payment (i.e. grower does poorly but the overall area does well), or vice-versa.

How do I purchase STAX?

You may purchase STAX the same way as for any crop insurance policy, through your crop insurance agent. You must also decide if you want to purchase STAX alone or with another crop insurance policy as identified above.

If you choose to purchase STAX with a companion policy, it must be done by the sales closing date and with the same insurance company. The coverage level of the companion policy can affect the amount of coverage that STAX provides.

How much does STAX cost?

The Federal government will pay 80 percent of the premium. The exact premium cost will depend on the area, coverage range selected, and protection factor selected. You should consult your crop insurance agent for detailed price quotes.

Where will STAX be available?

STAX will be available, starting with the 2015 crop year, in all counties where insurance coverage for upland cotton is currently offered. It will also be offered by practice (irrigated or non-irrigated) where possible.

When will the expected yields and premium rates for STAX be available?

The expected yields and premium rates will be available in the fall of 2014, when the actuarial documents for STAX are released.

Where to Buy Crop Insurance

All multi-peril crop insurance, including STAX policies, are available from private crop insurance agents. A list of crop insurance agents is available at all USDA service centers and on the RMA website at: www3.rma.usda.gov/apps/agents/.

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