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Federal Programs for Agricultural Risk Management

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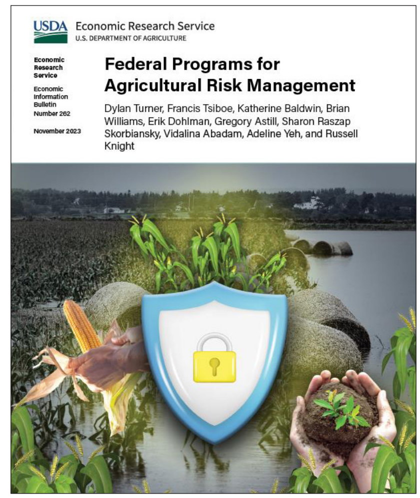

What Is the Issue?

A variety of Federal programs exist that help agricultural producers manage risks to yields, revenues, and profit margins. These programs vary over time and provide a diverse suite of options to mitigate risk in a variety of market conditions and production situations. The risk management tools that are most appropriate for a given producer often depend on the producer's unique production characteristics, including what agricultural outputs are being produced, location, input prices, and enrollment in other Federal programs. This report provides an overview of Federal risk management programs and discusses the mechanics of each program, including eligibility criteria, payment calculations, interaction with other risk management programs, and the implications of various market conditions on select programs' risk reduction potential.

What Did the Study Find?

- The Agriculture Risk Coverage-County Option (ARC-CO) and Agriculture Risk Coverage-Individual Option (ARC-IC) programs provide farmers with financial protection from declines in revenue, while the Price Loss Coverage (PLC) program provides financial protection for price declines. Following the 2018 Farm Bill, enrollment in ARC-CO decreased substantially, while enrollment in PLC increased. Participation in PLC relative to ARC subsequently declined in 2021 and 2022. By 2022, ARC-CO again had more enrolled base acres than PLC and ARC-IC.

- Marketing assistance loans (MALs), which provide interim financing to producers at harvest time to meet cash flow needs, are heavily used only by producers of a few specific commodities (primarily cotton and peanuts). Between the 2018/19 and 2020/21 crop years, marketing loan benefits (loan deficiency payments and marketing loan gains) averaged $60.27 million annually, peaking at $222.28 million in 2019/20 (mostly to cotton).

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- The Dairy Margin Coverage (DMC) program provides dairy operations with risk management coverage when margins fall below a selected coverage level. In 2021, payments to dairy operations under the DMC program totaled $1.188 billion, about a fivefold increase from 2020, due to higher feed costs and greater program participation. Additional retroactive payments were made for 2021 and 2022 through Supplemental DMC provisions.

- Among the standing disaster assistance programs for livestock producers—Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Program (ELAP) and Livestock Forage Disaster Program (LFP)—disbursed more aid in 2021 relative to recent years as a result of these programs, covering additional drought-related losses that have affected much of the United States since mid-2020.

- The majority of crop insurance liabilities are associated with individual revenue protection policies, followed by individual yield protection policies. Area and index-based plans represent a minority of insured liabilities.

- Insured acreage within the Federal Crop Insurance Program (FCIP) has grown steadily since 2016—driven primarily by the adoption of insurance policies for Pasture, Rangeland, and Forage (PRF).

- Supplemental crop insurance policies and endorsements can be combined with traditional policies to achieve a greater level of protection or mitigate a specific risk. Several new supplemental crop insurance policies and endorsements have been introduced since the passage of the 2018 Farm Bill, including the Enhanced Coverage Option (ECO), Hurricane Insurance Protection – Wind Index (HIP-WI), and the Post-Application Coverage Endorsement (PACE). Among supplemental policies that were introduced in the 2014 Farm Bill (Supplemental Coverage Option (SCO) and Stacked Income Protection Plan (STAX) for upland cotton), SCO saw notable increases in endorsed acres following the 2018 Farm Bill, while STAX saw a decline in endorsed acres. However, supplemental policies still represent a small portion of total insured acres.

- The Noninsured Crop Disaster Assistance Program (NAP) is small relative to the Federal Crop Insurance Program (FCIP) and offers protection for producers engaging in animal grazing and forage, along with specialty crop producers who otherwise may not have access to agricultural insurance.

How Was the Study Conducted?

Data on program enrollment and outlays were obtained from the USDA, Farm Service Agency and USDA, Risk Management Agency and used to create summary statistics and metrics to measure program participation and outlays.