

will continue to receive 80 percent of the direct payments that have been paid, regardless of actual prices or yields each year.

How much does ACRE cost?

Producers who sign up for ACRE will forfeit 20 percent of their current direct payments through 2012, so that is a fixed cost. They also will give up any potential counter-cyclical payments, and the loan rate used to calculate their loan deficiency payments or marketing loans will be lowered by 30 percent. The loss of potential CCPs and LDPs may not be too critical, because if market prices fall enough to trigger those payments it is likely that the ACRE payment would be at least as large. The only situation where that would not be true is a year in which prices were low but yields were high enough to keep revenue above the ACRE guarantees.

ACRE does not replace crop insurance

Although the ACRE program may resemble crop revenue insurance, there are some important differences. The ACRE guarantees are based on longer term average prices and yields, so they will not fluctuate as much from year to year as crop insurance guarantees. In fact, ACRE regulations state that the guarantees cannot increase or decrease more than 10 percent each year. This helps accomplish the fundamental goal of ACRE, which is to stabilize gross revenues over the next 4 years.

On the other hand, one of the two ACRE guarantees and the size of the payment are based on state level yields, not farm yields like most crop insurance policies. ACRE does not protect a farmer who has a poor production year when the state as a whole does not. In addition, ACRE revenue uses the marketing year cash price to calculate actual revenue while crop revenue insurance uses futures prices at harvest time. So, while ACRE payments can be a useful risk management tool for sharply falling prices or widespread yield losses, they do not replace farm level crop insurance protection.

Should I sign up?

Producers can sign up for the ACRE program beginning in any crop year from 2009 through 2012. Once enrolled, they must remain in the program through 2012. All program crops on the farm must be enrolled. The decision of whether or not to enroll is a classic insurance decision. Producers will give up a fixed amount of revenue, 20 percent of their direct payment, in exchange for a possible ACRE payment in a year when gross revenue is low. Payments could be zero in all four years, or they could be sizable.

One key factor is the level of guarantee established for the 2009 crop. The 2008 marketing year price will not be known until September 2009. However, it seems likely that the beginning guarantees will be quite high by historical standards, and they cannot decline by more than 10 percent each year afterward. This would make the ACRE program attractive, especially since target prices and loan rates are essentially frozen at the levels established in the 2003 farm bill.

Note that there has been some discussion of using the 2006 and 2007 marketing year prices to establish the 2009 guarantee in advance of the signup period. This would likely result in two-year average marketing prices of around \$3.52 for corn and \$8.42 for soybeans, and lower guarantees for 2009 and beyond.

The other key factor is the likely price trend over the next four years. If production is stable and prices either trend upward or are steady, no ACRE payments are likely, and the producer will simply lose part of the direct payment. However, if prices trend downward from present levels, ACRE will provide an important safety net for gross revenues. Each individual producer will have to assess his or her expectations for the future and need for financial risk protection before making the ACRE decision.

A decision tool is available to estimate payments under the ACRE program.

Example of ACRE for corn in Iowa

Assume 5-year Iowa Olympic average yield is 166 bushels.
 Assume 5-year farm Olympic average yield is 175 bushels.
 Assume 2007-2008 average marketing year price is \$4.50 per bushel.
 Assume average crop insurance premium per acre is \$20.00

- 2009 state revenue guarantee = $90\% \times 166 \text{ bu.} \times \$4.50 = \$672.30$
- 2009 farm level guarantee = $(175 \text{ bu.} \times \$4.50) + \$20.00 = \807.50

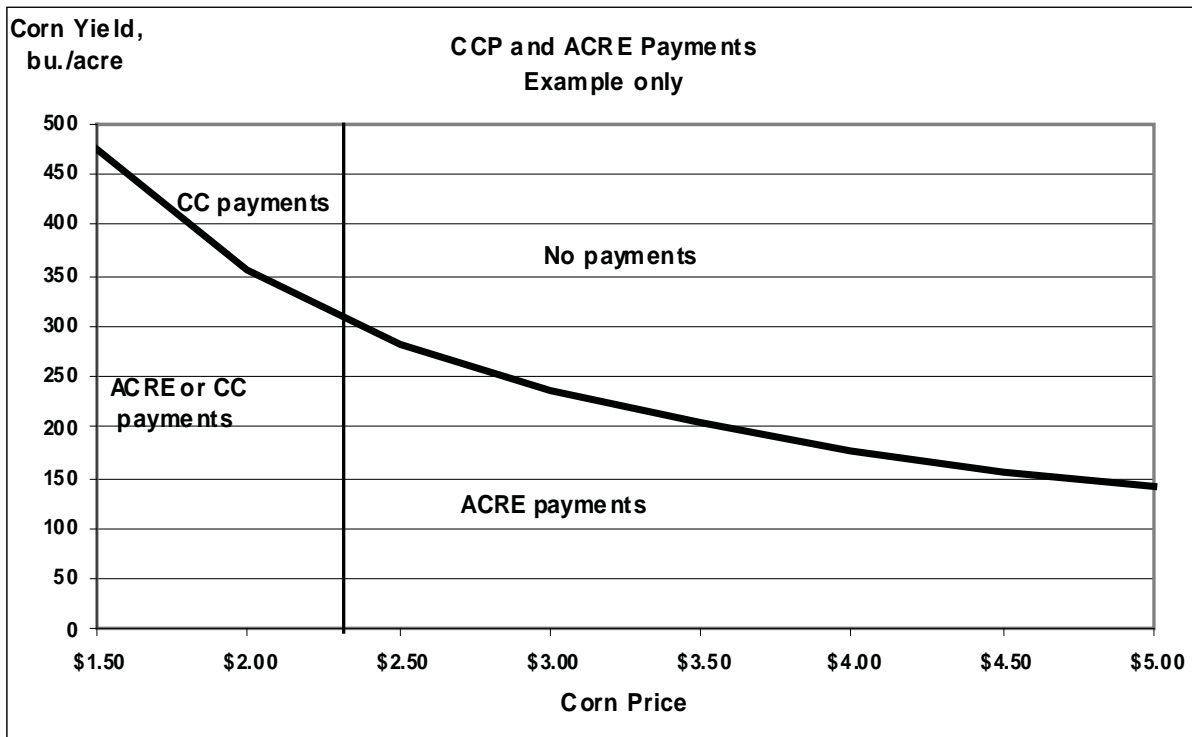
Assume the actual 2009 state yield is 150 bushels per acre.
 Assume the actual 2009 farm yield is 160 bushels per acre.
 Assume the 2009 marketing year price is \$4.00 per bushel.

- 2009 actual state revenue = $150 \text{ bu.} \times \$4.00 = \600.00
- 2009 actual farm revenue = $160 \text{ bu.} \times \$4.00 = \640.00

Since both the state and farm actual revenues are below their guarantees, an ACRE payment is earned.

- ACRE payment = $(\$672.30 - \$600.00) \times 83.3\% \times (175 \text{ bu.} / 166 \text{ bu.}) = \63.49 per acre

The difference between the state guarantee and the state actual revenue (\$72.30) is paid on 83.3 percent of the planted acres, and is adjusted for the farm yield being higher than the state yield.



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