

# AVERAGE CROP REVENUE ELECTION (ACRE) OVERVIEW

## **What is ACRE?**

ACRE is a new federal program that was introduced with the new farm bill. It is a mixture of crop insurance and disaster relief. It provides a disaster payment in the event that both the state and farm production fall below a certain guaranteed level. It is designed to assist with the risk of a decline in prices over a short period of time.

## **How is ACRE like insurance?**

In order for a program to be considered insurance, there must be some assumption of risk by both parties. For an insured, this usually takes the form of a deductible and the insured must pay a premium for the insurance coverage. With the ACRE program, there are thresholds that must be met before payment is made and thus the farmer is retaining risk. The government is assuming the risk associated with a catastrophic event. In return for assuming this risk, the farmer pays a premium. The premium is paid indirectly through the farmer agreeing to give up counter-cyclical payments, 20% of direct payments and agreeing to a 30% reduction in the Marketing Assistance Loan Rate.

## **If I choose ACRE will I still be able to receive Counter-Cyclical Disaster payments?**

No. The ACRE program is an alternative to the Counter-Cyclical payments.

## **If I choose the ACRE program can I opt out in future years?**

The current farm bill covers the crop years 2009-2012. Beginning with the 2009 crop year, each farmer may elect to enroll in the ACRE program. If they choose not to enroll, then they will again be given the option the following year. However, once enrolled in the ACRE program, the farmer will remain enrolled for the duration of the current farm bill, *i.e.* once you opt in, you may not opt out in future years.

## **How is an ACRE payment triggered?**

The ACRE program has two triggers. There is a State production trigger and a Farm production trigger. In order for the State trigger to be met, the actual state production must fall below the ACRE program guarantee, which is 90% of the state benchmark yield times the national average price for the last two years. In order for the farm trigger to be met, the actual farm revenue must fall below the farm ACRE benchmark revenue, which equals the average yield per planted acre times the ACRE guarantee price plus the amount of per acre crop insurance premium. Please note that both triggers must be met to receive a payment.

## **If I elect the ACRE option, do I still need to purchase crop insurance?**

As with all financial matters, the decision on the level of crop insurance purchased is one which each farmer will have to analyze on their own. That decision is made based on the farmers risk level and how much of that risk they are willing to assume. ACRE is only one of many tools that can be utilized in your risk strategy.

## **What is the likelihood I will receive a payment from ACRE?**

The likelihood of payment varies by state, crop and year. Researchers at Kansas State University have studied previous years' crop data by crop and state and have estimated how often and how much would have been paid if ACRE had been in effect. Information on this analysis can be found at [www.agmanager.info/crops/insurance](http://www.agmanager.info/crops/insurance). Based on their analysis, the expected payout is approximately equal to the amount of premium (20% of direct payments).

## **What is the unit basis for the ACRE program?**

The ACRE program is based on the FSA Farm Number.

### **How does ACRE compare with counter-cyclical payments?**

The ACRE program targets state revenue while the counter-cyclical program targets the U.S. season average price. For ACRE, the State Target Revenue changes each year with U.S. prices and state yield. For the counter-cyclical program, the U.S. target price is fixed by the Farm Bill and does not change with the market. In order to receive a payment under ACRE, both the state and farmer must experience a revenue loss relative to the respective guarantees. The counter cyclical payment is determined independent of individual farm revenue, however, given the current commodity prices, there is low likelihood of counter-cyclical payments for the foreseeable future.

### **How will the national average market price be determined?**

There is still some discussion on this point. The language in the farm bill states that the price will be determined from the last two crop years. It is unclear if that means the latest two completed crop years (2006/2007) or the latest two crop years (2007/2008). Hopefully, a determination will be made prior to the deadline for program participation. This consideration is important because of an additional rule in the farm bill that limits the change in the national average market price, as it pertains to the ACRE program, to a maximum of  $\pm 10\%$ , *i.e.* regardless of what the actual market price is, the national average market price used to determine the guarantee will be no more than 10% above or below the previous year's price.

### **How will the $\pm 10\%$ cap/cup affect the ACRE program?**

If the initial price is set for 2009 and it is such that no ACRE payment is likely, then because of the 10% cap, the chance there will be a payment made in successive years decreases. If the initial price is set for 2009 and it is such that an ACRE payment is likely, then because of the 10% cup, the chance a payment will be made in successive years increase.

### **Should I elect the ACRE option?**

As with the question of crop insurance, whether or not to elect the ACRE option is a decision you will have to make based on the specifics of your situation. It will also depend on how the market price is set and whether or not you think the actual price will fall below this price and whether that risk is commensurate with the reduction in direct payments.

### **Where can I find more information?**

There are a number of excellent articles that can provide insight into the ACRE program and its potential effect on your risk management strategy. Here are several links that may be of use.

2008 FARM BILL: WITH FOCUS ON ACRE AND SURE by Carl Zulauf, Ag. Economist, Ohio State University  
Updated: August 28, 2008. <<http://aede.osu.edu/resources/docs/pdf/36PTEB90-ZAFE-D7EU-INYPVQ8SF10GLNHK.pdf>>

RISK MANAGEMENT TOOLS AFFECTED BY THE 2008 FARM BILL, Dean Strasser, NCIS, Crop Insurance Today, Vol 41, No 3, August 2008 <<http://www.ag-risk.org/NCISPUBS/Today/2008/Today08-08.pdf>>

KSU Department of Agricultural Economics Website. [www.agmanager.info/crops/insurance](http://www.agmanager.info/crops/insurance)

### **Disclaimer:**

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