



**Gibson Insurance Group**

*"The Risk Management Specialists"*

**Gibson Insurance Group, Inc.**

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## Claims - Oh what a year!

I learned from ley Scherder, learned from to become seasoned professionals because of this year. Of course, anytime you name people by name you invariably leave a few out and I am sure that is what I have done.

Just like my first experience on a combine, this is a year the adjusters will never forget. The dust, the smell, and the plugging of the machine have all been part of the job. But it's memory pales to the satisfaction of doing a job well and the feeling of accomplishment when a job is through.

The point is, I am very proud of the job that the

field adjusters have done, not only to get to these claims in a timely fashion, but to have the accuracy in their work that the job requires. This office extends our thanks and gratitude to these people for a job well done!

The claim load is winding down, as of December 9 there are less than 100 claims that are still open and those are being closed rapidly. Like that combine story, they can see the end of the field, they are a little itchy on the back of the neck, they are a little tired (well maybe more than a little), and they may have

learned to cuss years like this, but ingrained in them is the pride and self-esteem in knowing that they did a good job for our producers who depend on them.

After this year we can all relate to the line in the FFA Creed - *"for I know the joys and discomforts of agricultural life and hold an inborn fondness for those associations which, even in hours of discouragement, I cannot deny"*

Thanks to all the adjusters for a job well done!!!!



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# Crop Insurance 2012

**Volume 12, Issue 7**

**December 2012**

*With the harvest season wrapping up, most of us are just now being able to take our first breather and reflect on the year that we have just experienced. Oh, what a ride it has been! Without a doubt, this has been the most challenging year that we have ever been through. This year in many ways mirrored 1980. Both corn and bean yields were down as low as many of us can remember. The main difference that comes to my mind is that in 1980 we were paying 18.5% interest and did not have the crop insurance safety net that we have today. These two things alone will prevent the agricultural industry from going the same direction that we did in the 80's.*

*Even with the challenges that we have mentioned, many producers will find that this has been a very profitable year. As in any business certain enterprises will have done better than others, but as a whole, agriculture has come through this year better than other sectors of the economy.*

*One of our producers came in around Thanksgiving with a newspaper in his hand. He was concerned with the headlines and the troubles that were being reported. This producer stated that we wouldn't have all these problems if more children were raised on the farm.*

*After a time of reflection I tend to agree with this farmer. In agriculture, we are the masters of our own destiny. We participate in a business that is rapidly changing with new technologies that require us to continually educate ourselves and learn new methods on a daily basis. We teach our children to be self reliant and to take responsibility for our own actions. We make deals based on a handshake and honor the terms. In farming there are times that we have to depend on neighbors and friends to get through storms, a wet harvest, or to get cows off the county road. In turn, our children have learned that we must help others in their time of need if we are to receive the same help when we have a problem.*

*Regardless of what type of farming we are involved in, our children have to be supplied with three very important things that they can build their future on. We have given them an education and shown them how to learn and evolve based on the problems at hand. These kids that were raised in agriculture will demonstrate a high morality and they will be responsible not only for their word but their actions as well. Finally, by example, they will develop a work ethic and realize that they too are masters of their own destiny whether they spend their time on the farm or not.*

*I feel blessed to be involved in agriculture and to work with persons that have these traits. Over the holiday season keep these thoughts in mind, and reflect on all of the good things that come with being a farmer.*

**Merry Christmas from all of us at Gibson Insurance**



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## Opportunity Knocking?

Many of us found ourselves cutting silage this year rather than harvesting corn for grain. Another group of us have planted cover crops on our grain ground to hold soil and to produce extra forage due to the dry weather. Whatever the case

may be, we have feed that needs to be marketed through livestock. There are currently good profits that can be locked in in the feeder cattle market. This may be short lived, but the opportunity is currently available.

Case in point; This last week we had a producer come in with his records and inventory to see what kind of profit could be guaranteed on a group of cattle. The following is the scenario that we came up with for him.

- The producer had the following feedstuffs on hand: 3500 bu. corn, 350 ton corn silage
- Corn was valued at \$7.61/bu and corn silage at \$65/ ton

Plugging these costs into his ration and using 6 lb/head of supplement, this producer can reasonably expect his feeder cattle to gain 2.5 lb daily gain with a cost of gain of 81.5¢ per pound.

On November 30 this producer purchased 200 head of weaned feeder cattle weighing 453 lbs @ \$149/cwt.

Number of calves		50	
<b>Starting calf</b>		<b>Selling calf</b>	
lbs.	450		\$700
price	\$ 149.00		\$143.35
value	\$ 670.50		\$ 1,003.56
Daily gain	2.50		
wks fed	14.29		
		Gain	250
		Value of gain lb.	\$ 1.33
		Cost of gain lb.	\$ 0.82
		Profit per lbs.	\$ 0.51
		Profit per calf	\$ 128.00
		Total Profit	\$ 25,599.20

	per head	per group	per/cwt
<b>Break even cost</b>	<b>\$875.56</b>	<b>\$43,778.08</b>	<b>\$125.07</b>

This producer decided to cover these cattle using a Livestock Risk Protection (LRP) policy. This policy sets a floor under these cattle to protect against a market drop but still allows any upside that the market has to offer between now and the sale of the cattle or the end of his insurance coverage.

As of November 30th we could guaranteed that the cattle index would not fall below \$143.35/cwt for

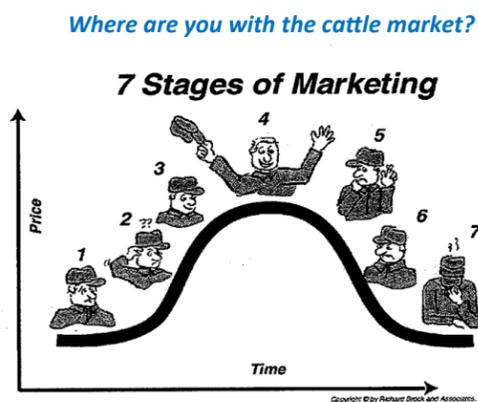
cattle weighing between 600 to 899 pounds. Using this coverage the producer was able to lock in minimum profits of \$128.00 per head at the end of this period. For the whole group this amounted to a \$25,599 profit in the next 100 days. The cost of this coverage ended up being \$10.92 to protect a profit of \$128 per head.

*Should this producer protect these profits or is this a time that we need to assume*

*additional price risk without coverage?*

This is a question that isn't hard to answer. It is my belief that there will be a correction in the markets that will take place between now and the end of the 1Q of 2013. Here's why.

In looking at the futures market we see some disturbing things at present. The APRIL Fed Cattle contract is trading at \$136.40. Even these cattle, using the figures of \$7.61 corn



## Opportunity Knocking? (continued)

and \$143 feeders, are going to lose money of about \$200 per head.

The LEAN HOGS APRIL contract is trading at \$91. This creates a spread between FED CATTLE and LEAN HOGS of \$43 per cwt. (**this spread historically should be under \$20**). This is a very wide spread historically but more importantly...what does it mean to the housewife when she goes to the store and buys meat for the family? Does she buy pork loin

at \$1.59 per pound or rib-eye at \$12.00 per pound?

Even though cattle numbers are at their lowest levels since the 1950's, we have to understand that the housewife will stretch the food dollar as far as possible and will most likely substitute pork or poultry for beef at these prices. This substitution will increase even more rapidly if our economy weakens.

The cattle finisher is already in a tight spot. He is current-

ly looking at a **-\$200** net margin and can easily see the price eroding further due to market factors. This particular finisher is already stuck with \$8 corn for the remainder of the year due to the drought with no relief in sight until the 2013 crop comes in this next fall. Because of this they are not going to be willing to bid up for feeder cattle because they are already losing money.



## Claims - Oh what a year !!!!

This year the number of claims turned in could be the highest number in history. This load stretched the abilities of the adjusting staff to the max. However, the job they have done in the short amount of time since harvest is truly amazing. Even today, if a finalized claim is signed off on by the farmer there would be a check out in 24 hours in most situations. This service is unsurpassed by anyone in the industry and the very reason that I have been loyal to RCIS.

The first combine I ever drove harvesting was a 55 John Deere. This combine did not have a cab and the header was probably no more than 6-8 feet. That year we had milo planted on a field we called the East Hill and was one of our larger fields and consisted of about 78 acres. As a young

boy I was so excited to run the combine relatively unsupervised for the first time. Even today, I can vividly remember the sound of the gasoline engine, the smell of the grain sorghum being cut and the dust always seemed to be in your face regardless of which way the wind was blowing. The first couple of hoppers were absolutely great fun. The first day was exciting, but with each pass the field seemed to get bigger and bigger. By the end of the field, over a week later, I had learned why most producers cursed milo! It was hard to thresh, it was itchy, and a 55 John Deere combine will plug up! I tell you this story from my past to compare it to the Missouri adjusters we have in the field today. This year we started with a high load of replant claims. These people in the field were

enthusiastic and made every effort to be at your farm in a timely fashion so as to not hold up the process of replanting. They worked evenings and weekends because of their own dedication to the job and because of their agriculture background, knew the importance of a timely planted crop. Our lead adjuster is Clarence Redden and he manages his adjusters by example. Many times a farmer will call me late at night and I would call Clarence and find him still working. Many of you will recognize the names of our more seasoned adjusting workhorses, Ranell Sawford, Tom Campbell, Glenn Howell. These are the leaders that our newer adjusters, Kirk Farris, Jake Stunkard, Shawn Jaegers, Cody Jordan, and Wes-



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## Lime - A Profit Making Decision

Every year I try to soil test at least a portion of my row crop acres. I think that this is particularly important since we are using more and more poultry litter and livestock waste in our crop operations.

With this practice it is possible to get the P and K out of balance and maybe do more harm than good in some cases. Because I have spread a lot of litter in the past, I thought that this year, with the open fall, it would be a great opportunity to do a thorough job of testing these fields. The results that I found were not surprising.

My soils have increased organic matter and the phosphate levels have increased considerably. The potash needs on the other hand will need to be addressed with chemical fertilizer to bring it back in line. The bigger surprise was the amount of lime some fields needed.

Lime on many fields in Missouri is probably the most limiting nutrient. Without the proper pH the plant is not able to take up the other nutrients that are available in the soil that it needs. Acidity of the soil can also adversely affect how well our chemicals work for controlling weeds. Failure to keep it in balance will mean additional money spent on chemicals and trips over the field to keep weed pressures under control.

This year most of my fields

needed at least 450 of ENM. Depending on where you get your lime this could amount to about 1.5 tons per acre. I had a couple of fields that we recently had broken out of pasture that needed over 1200 of ENM or about 3 ton of lime per acre. Even though these fields grew good wheat this spring, soybeans, on the other hand, would have suffered a 15% yield reduction at this level without the lime.

At 40 bushel per acre soybeans a 15% reduction in yield would equal 6 bushels per acre. This year with beans at \$15.00 at harvest this liming would have made me about \$90 per acre. The total cost to spread lime on my field, using 3 tons per acre, was \$33 per acre. This would have given me a 300% return on my investment to lime were it a normal year.

This was not a normal year, and I did not raise 40 bushel beans, however, I did apply lime this fall to prepare for next year. I generally look at lime needs about every 3-4 years but as you know sometimes we get busy and forget this important nutrient.

Soybeans do the best when the pH is between 5.6-7.2. Corn, milo and wheat can all tolerate a more acidic soil than beans. The range for these grass crops is from a pH of 5-7.2. Because we don't lime every year I try to bring the soil pH to 7 as this

is a good range for all the row crops.

Pasture and hay ground is probably the most neglected of all the crops when it comes to liming. We generally calculate our fertilizer needs based on the stocking rate or the amount of hay we have taken off in the previous year. Many of us haven't taken time to soil test our pastures and this could be costing us productivity and dollars. Pure grass stands can tolerate lower pH's, but if we try to interseed clovers or other legumes into these pastures we will have poor results if the ground needs liming. Red Clover, Sweet Clover and Alfalfa all need a soil pH over 6 for optimum growth.

If you don't soil test your fields yourself it is important to talk to your fertilizer dealer and get them to test your fields. Lime is a cheap input that can pay big returns on row crop, pasture and hay alike.



### Christmas Fact

There are two towns in the United States with the name Santa Claus, one in Indiana and one in Georgia. There is only one town named North Pole. In Alaska of course!



## The 2013 Fiscal Cliff & Estate Tax– What is all the fuss about?

By Bobby Medlin, CPA, Missouri Farm Tax Expert [www.bobbymedlincpa.com](http://www.bobbymedlincpa.com)



### Mistletoe

Is from the Anglo-Saxon word *misteltan*, which means "little dung twig" because the plant spreads through bird droppings.

Remember that when your standing under it the next time!!!



We keep hearing in the news that America is headed over a financial cliff at the end of 2012 because of tax laws that will expire. Should you be doing something before then?

Maybe you should. You see, for the last two years, the tax laws for estates have been the best ever for us. Before that, things had improved for a few years. Now, at the end of 2012, the law is scheduled to go back to the way it was over ten years ago and that is not so good! No one truly knows what Congress will do but you can bet a couple of nickels that taxes are going up no matter how you look at it.

One of the first places to be hit hard will be the "wealthy" Americans. If you own land, whether you think so or not, you are one

of those people. And the way estate taxes work, when you die, the government adds up the value of all that you own, subtracts the debt and if you have too much, your heirs pay tax, possibly up to 55% of the value of what you own.

For 2011 and 2012 a person could have about \$5,000,000 of value when they die and no tax would be due. But if these tax laws expire, that amount could go down to \$1,000,000 and tax would kick in on anything above that. It doesn't take much land, cattle, machinery and life insurance to hit that mark.

So what should you do? First, get a copy of your financial statement. If you don't have one, your bank probably does if you owe them any money. Take a

look and see if the values are reasonable. IRS will use appraised value, so if your neighbor has sold land for a high dollar per acre, your land will likely be worth just as much in the eyes of the IRS. If your financial statement shows a \$1,000,000 or more in net worth, see a tax expert soon. See an expert that knows farming and knows how to plan for keeping your farm in the family and out of hock with the government.

Talk to your family, get an idea of what you would like to have happen to your farm operation when you are gone, and get the planning started.

A little planning started now will reap a big reward later. Don't be caught by this fiscal cliff and fall into the tax traps. Act now.

*After reading Bobby Medlin's "2013 Fiscal Cliff" article, I have to wonder what is the future of the family farm?*

*If this law reverts back to the \$1 million threshold, there is little chance that most farms could stay intact after the passing of an owner. If this happens it will be a sad day in agriculture.*

*We as a nation have tried over the past several decades to implement policies that would insure an inexpensive food supply for the*

*people of this country. These new changes seem to me as a way to take land out of the hands of private individuals (family farmers) and put it into the holdings of corporate entities that will never die.*

*Can you imagine a nation where 3-4 major companies literally control the food supply for the country. If they did, what price could they demand for food? The thought of this is unimaginable to me.*

*What will the price of farm*

*land do? Will there be more farm sales to pay the inheritance taxes?*

*These are all questions that will be answered in the next few months. Like Bobby, I urge you to seek professional advice and develop a plan where your operation can transition from one generation to the next without having to be sold due to the new tax changes.*

Dean Gibson