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Crop Insurance 2013

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Profitability of Cover Crops

The drought of 2012 brought to light the importance and the economic benefits of using cover crops. Many producers in July of 2012 found themselves with bare fields as their crops had already been removed for silage. Some of these individuals planted cover crops to supplement their farm income or to provide an emergency livestock feed for their operations. In interviewing producers throughout the state, I got very positive feedback in general about the use of cover crops.

Everyone seemed to have a different "cocktail" mix that they used but the most common was to use some form of cereal rye or wheat along with forage turnips or tillage radishes. These crops can provide a great deal of fall and spring grazing for the diversified operation.

More experienced producers may use a crop like snow peas, hairy vetch, Italian rye, or winter oats. These crops seem to work better if the cover crop is going to be ensiled or hayed rather than grazed as livestock seem to damage a high percentage of the crop during grazing.

Over the past year I have tried to compile some eco-

nomie data from these producers and from various university extension systems. I want to use their experiences with cover crops to see if this crop does have economic significance or is it just another passing fad.

My limited research of this practice definitely shows that this crop has a lot of economic potential and I have decided to start this practice on my farm this fall. When a producer starts planting cover crops he must decide what the purpose of this crop is and what benefits does he want to achieve. This will vary from producer to producer. The crop only operator may want to capture nitrogen and other nutrients in the top layer of the soil while planting some type of tuber crop to enhance soil structure. The diversified producer may want these

benefits as well, but is also interested in providing fall and winter forage.

The system that is most compatible with my operation is one where livestock are used to graze the cover crops. This system has the fastest and most measureable returns for the producer.

A client in South Central Missouri shared his experiences with me. July 20, 2012 his corn harvest was completed by cutting his total corn acreage for silage. With the ground bare and dry he decided to plant cover crops to help hold the soil and to provide fall grazing for the calves that he would wean that fall. His choice of cover crop "cocktail" mix was 4 pounds of forage turnips, 1 pound of tillage radishes, and a bushel of cereal rye per acre.

He drilled the rye in the stub-

Continued on page 2



Profitability of Cover Crops (continued)



Tillage Radish



Hairy Vetch



Top: Turnip seeds
Bottom: Cereal Rye seeds

ble and then came over the top and spread the turnips and radishes with a grass seeder right on top of the ground. Within a couple of weeks enough rain was received to germinate this seed mix. By October 15 enough growth had been established to place his weaned calves on this ground. The calves weighed an average of 500 pounds and were stocked at a rate of 1 head per acre.

To start with, this client tried to divide the fields into 4 parts with electric fences to do some rotational grazing. This, he said, was a great idea in theory but took a lot of labor. Soon he abandoned this idea and let the cattle run over the entire area. The forage growth stayed ahead of the calves and he grazed them on these cover crops until the 20th of January.

When the cattle were sold he had put on 244 pounds per head in the 90 day grazing period. The rye, he thought, provided the most forage but he was impressed with the forage turnips as well. He stated that after the first killing freeze the cattle really went after the turnips, even rooting the bulbs out of the ground and eating them. This producer tried to hand feed the calves a couple of pounds of grain or cattle cubes a day in the feed bunks to keep them coming up where he could look at them. When the cattle start-

ed eating the turnips, they quit coming up and just kept grazing the cover crops.

The economics of his experience is what caught my attention. This producer removed a crop of silage and then invested only about \$30 per acre in cover crops. The return was that he was able to capture 244 pounds of gain per acre at a sale price of \$1.53/lb.

This producer marketed \$373.32 worth of gain from an investment of \$30 per acre. When these calves were sold the cover crop was still there and was actively growing through the spring. In April this producer considered baling the spring regrowth of rye but the wetter than normal spring made him choose to kill this crop chemically and plant into the stubble.

Not only did this producer capture the gain in the livestock from the cover crop, but he also captured a lot of nutrients that could have leached from the soil and deposited them back on top in the form of manure.

Even with all this positive information one must ask themselves: What is the down side?

In this producers situation the crop was harvested early in the form of silage. If this crop was taken to grain the cover crop would have been established a lot later and would not have produced nearly the amount of forage.

If the cover crops were

seeded by an airplane over the existing crop of corn an increased seeding rate would have to be used to achieve the same stand as a percentage of the seed would lay on top of the ground and not germinate without ideal conditions.

Another question is compaction. How much compaction would these cattle cause in a crop field under normal conditions? How much more would this increase under the conditions of a wet winter?

Regardless of these challenges, I think the economics of this practice merits exploration at least. This year on my operation I have decided to drill some cereal rye and turnips on one field, no-till the same combination into some existing pasture, and fly a similar combination over standing corn to see what kind of results can be achieved. Over the next several newsletters we are going to follow the progress of these fields and put some actual numbers to the cost of establishing these crops and from the returns achieved from this practice. Keep reading and together we will see how this pans out.



The Cover Crop Plot Project

Cover crops have become the hot issue these days in the ag world and rightfully so. It seems like you can't pick up an ag-related magazine or newspaper that there isn't an article about cover crops. With the severe drought in our area last year that forced producers to harvest the corn crop for silage, it left very little organic matter on fields

and left soil conditions with unused nutrients that needed to be captured.

All this emphasis on cover crops got us to thinking and there are a lot of questions that we wanted answers to. In order to find these answers we decided to create our own cover crop plot here at the office.



The Test Plot - 4 days after initial planting (initial plant date was August 23)
See the 10 day photo on back page

THE PLOT

The plot consists of 12 different types of cover crops that you might find planted in Missouri. The seeds were obtained from Doug Hartman of Missouri Southern Seeds Corp. in Rolla, Missouri. They were planted on

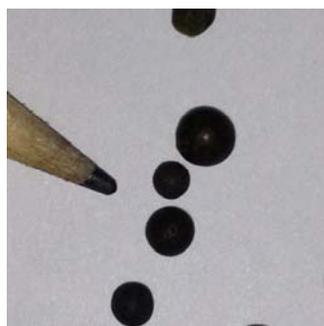
ground that was stripped of the existing grass and then lightly tilled. We did add some additional soil from a compost pile from a barn lot since the ground around the office is quite hard and we were not sure of the fertility.

The Crops:



Cereal Rye

hardest of the cereal grains. Quicker growing than wheat and absorbs more N than wheat.



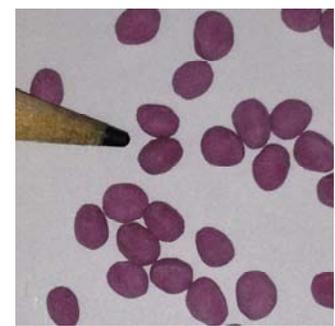
Hairy Vetch

a winter annual legume. Produces such a large amount of N that it can partially replace fertilizer for spring. It will improve top-soil tilth and is also a P scavenger.



Annual Rye

a very economic choice for cover crop. It has a very dense and deep root system



Ground Hog Radish

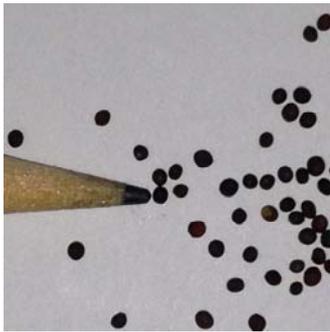
Its deep root system allows it to pull nitrogen and other nutrients deep within the soil back to the surface. Can be used as a forage crop.

The Cover Crop Plot Project (continued)



Jerry Spring Oats

produce more forage than winter oats but are not as winter hardy.



Purple Top Turnips

not only edible, but also great for alleviating soil compaction. They are great for water infiltration



Winter Oats

a quick growing cover crop. Will collect excess N and small amounts of other nutrients when planted early enough. Not as winter hardy as rye, wheat, or barley.



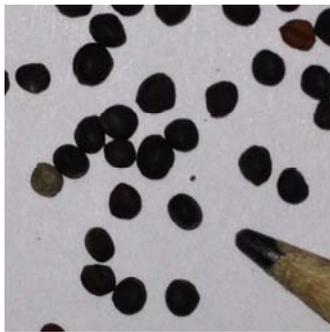
Austrian Winter Peas

a legume that is an excellent N source. Produces a large amount of biomass. Can withstand cold temperatures but doesn't always winter over.



Buckwheat

great short season cover crop. Matures in about 10-12 weeks. Helps suppress weeds and collect P. Also attracts beneficial insects and pollinators.



Rape Seed

most often used for forage but can also be used as a cover crop. Due to its rapid fall growth, it can capture a significant amount of N. Also a great weed suppressor.



Winter Wheat

a cash crop that in some areas is used for grazing as well.



Crimson Clover

a winter annual that can provide N for your next crop. Creates a good amount of biomass and has been found to grow well when combined with a companion crop.

What are we looking for?

We know what these crops can do for the grain producer. What we want to know is; how can we maximize the earning potential of acreage during a time when it is normally idle? With these crops, we have a selection of grasses and legumes, all of which can be grazed for forage in a livestock producer's backgrounding operation. In our next newsletters we will track the progress of the plot. We will document the rate of growth, how it handles what winter brings, and we will have analysis done on the nutritional value of each cover crop and

report these findings. Even though we are not using the proper guidelines for a test plot, we are nevertheless very interested in what our findings will be. If you find yourself in Tipton, drop by the office to look at the plot for yourself. It is located on the east side of the building. We will be glad to answer any of your questions. If you have planted another type of cover crop we would be glad to visit with you about your experience.

Is it Time To Lock in Minimum Prices for Feeders?

Over the last two months we have seen a surge of producers using the Livestock Risk protection (LRP) program to lock in good profits on feeder cattle that are being placed at this time. Does this mean that we think that the market is going to fall? No, this is not the case. In fact this is one market that can't seem to find a direction because of conflicting information.

First, with no drought, we thought that grains would be considerably cheaper than last year thus lowering the input cost of these cattle. With the late maturing crops and this dry spell in late summer that is reducing the yields daily, it is creating the potential for higher grain prices.

Secondly, we have historically low cattle inventories. This fact is well know and it is understood that the beef industry can't gain inventory nearly as fast as other segments of the meat industry. If we were to save a heifer back today we would have to wait 2 years to have an animal ready for slaughter. The poultry and pork industry on the other hand can react to inventory challenges very quickly, increasing the amount of meat on the market very rapidly.

These sectors look at the same cost figures as does the beef producer but can react a whole lot faster. Recent publications suggest that the white meat sector

is expanding which will bring more meat to the grocers shelves in a short amount of time. The downside for the beef industry is that with the expansion of these other markets and the increased supply of white meat the supply curve will shift to the left and bring the cost of beef down with the cost of these competing products.

If beef doesn't follow the costs of these other meats the consumer will at some point start substituting white meats in place of beef because of the price difference alone.

So will beef prices go up or down? Honestly we don't know at this point. What we do have a handle on is the cost that it takes to raise a pound of beef and how the feeder cattle market interacts with the fed market and with the grain markets as well.

Yesterday I had the opportunity to visit with one of my larger cattle finishers. He stated that he is operating with small margins at this time due to good purchases of inputs and through pre-pricing his cattle. This fall, on the other hand, these opportunities are slim depending on how the grain crops turn out in the upper Midwest.

Today we ran some numbers for this producer.

If he were to buy top quality 750# feeder steers in his local area they would cost

\$170/cwt worked and placed in his finish lots. With the current cost of corn, DDGs, and other ingredients, his cost of gain would be 85 cents per pound. We could lock a minimum price for fed cattle in April for \$132. Using these numbers as a worst case scenario, this producer would only be able to show a profit of \$1.50 per head. With this small margin it is unlikely that the finishing lots will get more aggressive in bidding up feeder cattle.

The backgrounding operations on the other hand are being able to pencil very good returns on the majority of operations depending on the available forage in the area. Within the last week we have worked with producers locking in minimum profits in excess of \$150 per head between weaning and 800 weight cattle. These are very good profits in any year and especially good profits coming off an historic drought year. Right now, for the time period mid November through the first of February, we can lock in a minimum price for feeder cattle in the range of \$156.88/cwt - \$154.02/cwt. We all know that commodity prices are very fluid and can change rapidly, for this reason many producers have put this floor under their feeder cattle. Sure this market can still have an upside depending on what happens to the grain mar-

Livestock Risk Protection



LRP is a very simple and cost effective way of locking in a minimum price floor for your livestock. Call us today so we can explain this program and its benefits to you and your operation.

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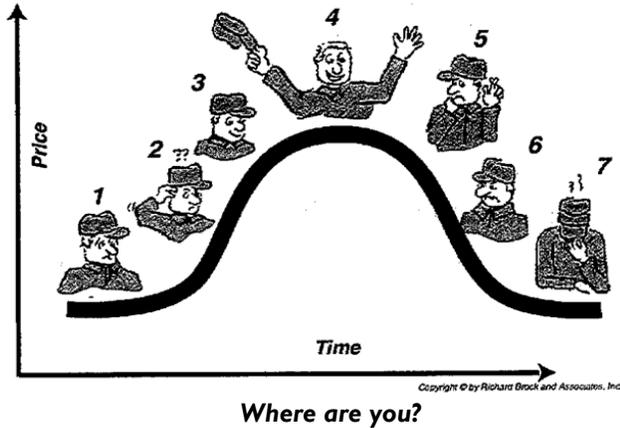
*Bulls make money.....
Bears make money.....
but Pigs get slaughtered*



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Is it time.....? (continued)

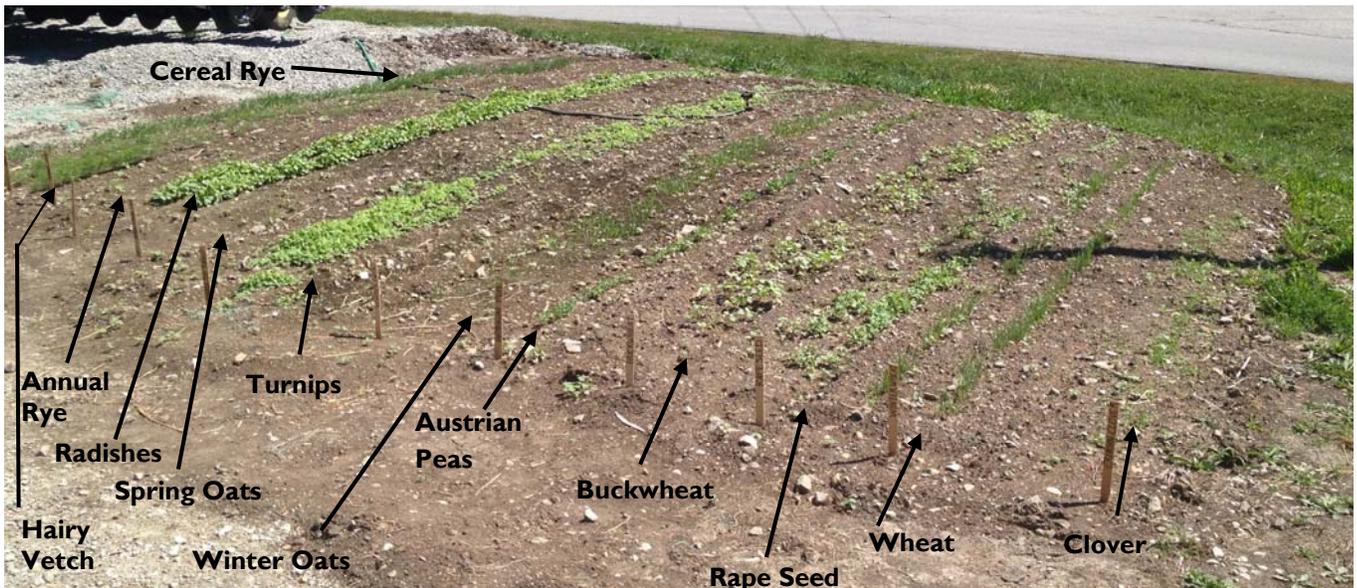
7 Stages of Marketing



kets. However it seems to me that the down side risk may be greater than the upside potential at this point in time.

I am currently placing feeder cattle for my operation and will lock in these minimum sale prices as soon as these cattle are placed on the operation. For the last several years we have used the cartoon of the 7 stages of marketing. In my operation I'm

placing myself at #4 on the graph and leaning to #5. It would be interesting to see where you place yourself in regards to feeder cattle prices.



Cover Crop Plot Update (picture taken September 2)

The photo at top is the plot 10 days after the initial planting. Starting at the far left we have planted (the stakes mark the rows): Cereal Rye (next to the pile of white chat), Hairy Vetch, Annual Rye, Ground Hog Radishes, Spring Oats, Purple Top Turnips, Winter Oats, Austrian Winter Peas, Buckwheat, Rape Seed,

Winter Wheat, and Crimson Clover. All of the seeds were planted by hand. The grass seeds were broadcast and then lightly covered with soil by raking. The legumes and Winter Wheat were planted in actual rows and then covered, except for the Crimson Clover and Turnips, which were broadcast. As you can see, we did water

the plot to help germination since the temperatures were in the high 90's and there had been no measurable rain for a few weeks here. We did not add any type of fertilizer to the plot. After 4 days the Cereal Rye, Radishes, Turnips, and Crimson Clover had already sprouted. Over the next 6 days all of the other crops had sprouted with the ex-

ception of the Spring Oats and Annual Rye. Since the added soil was taken out of a compost pile in a cattle lot, there are more than a few rocks strewn about. We are also seeing some weeds that have germinated in this soil. It will be interesting to see how the cover crops will do in suppressing these weeds.

Farm Estate Planning Series by Bobby Medlin, CPA

**How much do I have at risk of being taxed in my estate?
Cattle Producer vs. Grain Producer**

We hear it all the time around town, "I will never be affected by estate tax". Well, maybe you won't, but if you stick your head in the sand and do no planning, you can bet your heirs will feel the hurt.

Land prices get all of the attention these days. 2,000 acres worth \$5,000 per acre is enough to put a married couple within \$500,000 of the start of estate tax and that is at today's dollars. Add in other assets commonly owned by a farmer or rancher and it won't be long until 40% of those additional assets will be due and payable to Uncle Sam within nine months after death.

Here is how values could play out for two operators in rural mid-America:

<u>Grain Farmers Joe & Sally</u>		<u>Ranchers Bill & Dorothy</u>	
2,000 acres	\$10,000,000	1,750 acres	\$7,000,000
Bank accounts	100,000	Bank accounts	100,000
Grain inventory	600,000	Feed & grain on hand	350,000
Farm machinery	1,000,000	Farm machinery	1,000,000
Life insurance	1,000,000	Life insurance	1,000,000
Household items	<u>50,000</u>	400 cows	640,000
		700 calves	700,000
Totals	\$12,750,000	Household items	<u>50,000</u>
		Totals	\$10,840,000

As you can see, the amounts add up fast! For a married couple, if both died in 2013, and if (and this is an important "if") proper planning was in place with proper tax filings completed, \$10,500,000 can be passed on free of estate tax. Anything over that is taxed from 18% to 40%, with the full 40% rate kicking in rather quickly, at \$1,000,000 over the tax-free amount.

The math in our examples comes out like this: Joe and Sally's estate would be hit with \$791,600 tax and Bill and Dorothy's estate would have \$45,200 tax. Again, that is if proper filings take place. Dropping the ball and not completing tax returns as required or mishandling things would change the tax due in these examples to \$2,945,800 for Joe and Sally and to \$2,181,800 for Bill and Dorothy. Certainly, a lack of planning can be costly to your heirs. Many times failing to plan puts the entire farming operation at risk. Producers insure their equipment and their production, and should take steps necessary ensure estate and business plans are in place. A little money now spent on putting plans in place will ensure you reach your goals and will pay huge dividends not only in tax savings but by keeping the farm in the family for years to come.

In the upcoming months we will take a look at what basic steps should be considered and give you some practical advice on where to start. So be thinking about how you would like planning to play out for you. Involve your family members in the discussion so everyone is on the same page.

Bobby Medlin, CPA has a team of advisors with offices in Tipton, California and Lake Ozark



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2014 Wheat Price Discovery Period Ends

September 15

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September 30

**Last day to :
change coverages,
add coverages, or
cancel coverages
for Fall crops
to your policy**

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Cover Crops and the Rules

In the 2013 crop year we had some special rules that the RMA issued in response to the drought of 2012. These rules allowed grazing and haying of cover crop without affecting the insurability of the following crop.

For 2014 we do not know what rules will apply. We called the RMA offices in Topeka this morning and they stated that as we speak they are writing rule that will apply to the cover crops planted in the 2014 crop year.

Why is this important?

If a producer in Missouri plants a cover crop and harvests it for hay or silage regardless of the date and then plants this acreage to corn, this corn will be con-

sidered a second crop and will not be insurable as the rules stand right now. **Remember this rule is subject to change and may be liberalized like it was last year.**

This is especially important to the producers that are planting Hairy Vetch to replace the use of nitrogen fertilizer in their corn crop. As you know, this crop is very viney and is not a good candidate for grazing. The vines at the time of planting may prove to be very difficult to plant through without removing them from the field. Therefore it may become a catch 22 where the producers are trying reduce fertilizer applications and runoff by using cover crops and at the same time

are making themselves ineligible for crop insurance coverage on these acres.

We will bring you updates as information comes available. If you have particular questions regarding cover crops on your operation please contact us and we will work through them together.

The whole area of cover crops is new. We all have lots of questions about adopting this practice in our farming operations. We would encourage you to e-mail questions to dean@gibsoninsurancegroup.com and we will pass them along until we get the correct answer.



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