Gibson Insurance Group

"The Risk Management Specialists"

Crop Insurance 2015

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MARCH 15

Is the last day to either obtain a policy or make changes to your present insurance policy

Inside this issue:

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Yield Exclusion Option

This being the first of February, we are all tired of hearing about the 2014 farm bill. By the talk in the farm community we would believe that choosing between ARC and PLC would be the most important decisions that we would make this spring. Yes this decision is important, but for most producers the program that you pick will probably make very little difference to your bottom line over the life of this bill. In this article I will not talk about ARC or PLC which may or may not have monetary returns over the next 5 years. What I am going to write about is three provisions in the bill that will pay the producer each and every year.

The first is the chance to prove your yields and establish a higher CC yield for your operation that closer reflects the productive capacity of your farm. By updating this yield you could affect the value of your farm for not only this farm bill but for the next several bills that would follow. This process has to be completed by the 27th of February. If you have not updated your records by that time the opportunity will be gone.

The second item that is of great importance is to make sure that you have signed a 1026 on each of your farms and you are in compliance with your farm plan. Most government subsidies are tied to your conservation plan, and being compliant with your plan. If you are not, your crop insurance alone will cost over double what you are currently paying. This is just one of many programs that could be affected by neglecting to address this. I don't know a more diplomatic way of emphasizing this point.

The biggest change in the farm bill that will pay the highest returns over the life of the 2014 bill is the establishment of the **Yield Exclusion Option.** In all the farm-bill meetings that I have been to I have yet to hear this option being mentioned. This option is important to producers that have crop insurance coverage. More than 92% of all acres that are planted in the USA have crop insurance attached.

When you purchase crop insurance on your operation a producer has to submit their past yields. This is called an Actual Production History (APH). This history is used to determine how much revenue you will be guaranteed to cover on your operation by what yield your operation has produced in the past. The crop insurance product that you purchase will guarantee a percentage of your past production in various levels up to the 85% level. This coverage is based on at least the last 4 years of production and could go back the last 10 years that the crop was grown on that farm.

In writing this legislation, Congress addressed a problem certain areas were having after being in drought conditions for several years. These producers saw their yield deteriorating rapidly and the products we have to protect yield were better designed for a single year loss rather than for a prolonged drought. The answer

SUPPLEMENTAL REPLANT OPTION

DEADLINE MARCH 15

To add, change, or cancel coverages

This is a continuous policy. If you had the additional coverage last year you automatically have coverage for 2015

Yield Exclusion Option (continued)

that Congress came up with was the Yield Exclusion Option or YE.

Here is how the Yield Exclusion Option works. Any time a county yield falls to 50% of the expected county average, or an adjoining county has the yield fall to 50% of the expected county average, the producer can chose to remove these years from their data base. This in turn will increase the producers average yield thus allowing the producer to increase the yield that they are allowed to insure.

Initially a producer may not think that this is a big deal. However, over a great deal of the United States it makes a significant difference.

My farm lies in Cooper county. In Cooper county, for the crop of corn, I have had 3 different times over the life of my APH that I could have chosen to pull out of the database. Those years were 1999, 2005, and 2012.

In the database example below, the years of 99, 05, and 12 have been removed as allowed by the YE option. The producer's simple average was able to have a 39 bushel higher average.

If this producer was insuring his crop at the 75% level the database on the right, with the YE option, would guarantee 29 more bushels per acre. If we were to use a minimum price of $4 per bushel of corn we would be looking at $120 greater revenue guarantee per acre.

JOE FARMER APH Comparison

	Current APH	APH With YE
1999	12	~~12~~
2001	138	138
2002	157	157
2003	140	140
2005	21	~~21~~
2007	176	176
2008	38	38
2010	154	154
2012	8	~~8~~
2014	204	204
APH YIELD	**104.8**	**143.85**
	1048/10=104.8	1007/7=143.85

2014 Farm Bill - Part Deux

I have been writing newsletters for several years to communicate what is going on in the farm community to my customers. In looking back over the years, I found the old notes that I used to write about the 1990 Food, Agriculture, and Trade act and for each farm bill since that time.

In 1994, I wrote the first budget newsletter that I continue to write each year in the month of February. In scanning over these notes I marveled at how times have changed and continue to change each year in the agricultural industry. Each of the last five farm bills were important but none required

2014 Farm Bill - Part Deux (continued)

the farmer to consider as many changes as does the The Agricultural Act of 2014. In the 2014 farm bill all direct payments were discontinued and extra emphasis was put onto crop insurance to provide the safety net that farmers are going to depend on for the next several years. This has in turn put new responsibilities on the shoulders of the private sector and required the Risk Management Agency of the USDA to come up with new rules and programs in very short order. The changes that we have to make this year are monumental and should not be taken lightly. This year I am going to preface the budget article by informing you what I have done on my farm and the strategies that I will be using over the life of this bill to make my operation as profitable as possible. There are 6 steps to this program. Each one of these steps build on one another and I **have not** listed them in order of importance but will stress the importance of each.

1. The 2014 farm bill requires producers who wish to continue to receive federal subsidies to have a farm conservation plan in place and be compliant with that plan. To do this we have to go to FSA and have an AD-1026 signed, requesting the NRCS to establish a conservation plan on our operations and to stay in compliance with that plan. This is not just for farms that we own but also the farms that we operate, rent, or lease. If any one of these are not in compliance we are in jeopardy of losing federal subsidies.

   My operation works with 5 different farm numbers. I have checked on all 5 operations to make sure each one of these farm numbers had a 1026 in place. Four of the five did have a 1026 on file. The fifth farm number did not accept any government payments but to be on the safe side, I signed a 1026 on it as well to cover all operations in all counties from this point forward. On the other 4 farm numbers, I asked the NRCS to modify my farm plans to bring them up to date on how I intend to operate my farm in over the coming years.

2. **Proven Yields** - For the first time in many years, producers have the opportunity to update their counter-cyclical payment yields to closer reflect the productive capacities of their operations. To do this we had to look at our proven yields between 2008-2012 on each crop and take an Olympic average of these years per crop. This new average is taken times 90% and this becomes your new payment yield if it is higher than the yield that was previously assigned.

   On my operation, I did this on each farm number by crop and found that I could raise my counter-cyclical yields in most all cases.

3. **Reallocate Bases** - This farm bill gives producers the opportunity to reallocate the old base acres that you have on your farms to reflect the crops that you are planting today. Initially, this sounds like something all producers would want to do but after further investigation I realized that because of different payment rates per crop, it may be better to leave the base acres as they are.

   On my operation, I had a large wheat base, a corn base, a grain sorghum base, and a small soybean base. Wheat, corn, and grain sorghum bases are all expected to pay better than the soybean base. If I were to reallocate my base acres based on the crops that I had planted over the past few years, I found that I would be giving up corn and grain sorghum base acres for soybean base acres. Soybeans are expected to pay at a

FARM BILL

IMPORTANT DEADLINES

February 27
Reallocation of Base Acres
CC Yield update

March 31
PLC or ARC election

June 1
HEL and WC
AD-1026 deadline

March 15

DEADLINE FOR Adding

SCO

YE OPTION

2014 Farm Bill - Part Deux (continued)

lesser rate than the feed grains. Therefore I chose NOT to reallocate my base acres.

4. **Choosing between ARC and PLC**. Speaking in general terms the Agricultural Risk Coverage (ARC) program is very similar to the old ACRE program. This program is most advantageous when a producer has a high percentage of base acres as compared to planted acres. ARC guarantees revenue on 85% of base acres which takes in account both yield and price.

   Again speaking in general, the Price Loss Coverage (PLC) program is very similar to the old counter cyclical program that we are all familiar with. This program pays on 85% of the base acres, but this program has a price floor established. For corn this price floor has been set at $3.70, soybeans at $8.40, and wheat at $5.50. I like the fact that I have a floor placed under the commodity prices. This gives producers a constant that they can deal with in a worst case scenario instead of having to depend on continuing declining revenues. This program can be more advantageous to a producer that has a low percentage of base acres as compared to planted acres because of the Supplemental Coverage Option (SCO) that can be added as additional coverage. When SCO is added to the PLC program the extra coverage extends to <u>all the planted acres</u> that a producer has of that crop. This option also mimics his crop insurance policy giving him the same coverage that he has under his MPCI policy but on a group risk plan that is designed to protect the operation in the event of shallow losses.

   On my operation I chose to cover all of my operation under PLC. There may have been an opportunity to collect a little more money under ARC on one of the other crops but in running the numbers, the difference was so small that I chose to simplify the process and enroll all crops on all of my farms in PLC. The main reason for making this decision is that I have considerably more planted acres than I do base acres and by using the SCO option I can build better coverage for my operation. I will have to pay some additional premium for the SCO option but I am willing to do this because this option is highly subsidized at a rate of 65%.

   Working with producers preparing to sign up here at the office, I would venture to guess that it is a nearly 50/50 split on which program would be best. This could depend on several variables, but the most important variable is the relationship of base acres to planted acres.

5. **Yield Exclusion Option** - This is the **SINGLE MOST IMPORTANT** change in this farm bill to producers in this area. Any year that a county's yield was at or below 50% of the expected county average this option will allow producers in the county but also those in adjoining counties, to exclude that year's yield from their database. By removing these bad years, it raises the guaranteed yield on a producer's farm and increases the coverage that a producer is eligible for without raising levels of insurance. Over the majority of Missouri, 2012 yields will be removed. In central and southwest Missouri, 3-4 years will be removed from most databases depending on the county. It is very common for corn that this option will raise the revenue guarantee by $50 or more per acre (on every planted acre) without raising levels of crop insurance coverage. This option works the same way for soybeans. THIS IS VERY IMPORTANT. This option MUST be elected on your policy. It cannot be added without a timely (March 15) signed policy change form.

2014 Farm Bill - Part Deux (continued)

On my operation, I will sign and return the policy change form that includes the Yield Exclusion (YE) option on my policy. I have run the numbers on this option and it boosts my guarantee per acre greatly on both corn and soybeans and is expected to do the same for wheat in 2016.

6. **Adding Supplemental Coverage Option to crops enrolled in PLC**. This option carries a 65% subsidy. It bares mentioning again, but SCO is available ONLY on farm serial numbers that the producer has enrolled into the PLC program. It is not available for farms enrolled in ARC. This option makes a crop insurance policy that sets *beside* your current MPCI policy. It does not add any value to your MPCI policy. What it does do is to pay producers for shallow losses anytime the *county yields* falls below 86% of that county's expected yield to the point where your MPCI policy would start to pay. An example of this would be if I had an 80% MPCI policy then the SCO would start to pay anytime the county yield fell below 86% and stop paying at 80% where the MPCI policy would start. The higher the level of MPCI coverage a producer has the less that SCO would have to pay thus cheapening the cost of SCO.

   SCO has certain advantages to some producers over others. If your farm has irrigation or top quality ground and you are not subject to drought then SCO would work well for you if the rest of the county has a yield reduction and your operation does not. On the flip side, if your ground carries greater risk than the average of the county then this would be a less desirable option. For example, a producer that farms creek bottoms subject to frequent flooding. In this case the county may not have a loss but this producer may be wiped out by flooding and NOT receive an SCO payment.

   Because I have chosen PLC on all of my crops on all of my farms, I am eligible to purchase the SCO option. My farm is not of better quality than the other land in the county where it lies but I am convinced that this option will work for me. Based on the YE data, my county has had 50% or less of its expected yield 3 times over the life of the YE database. This, coupled with the 65% subsidy, makes this option very attractive for my farming operation.

Supplemental Coverage Option SCO

FACTS

- **Available ONLY for farms enrolled in PLC**
- **Must have a separate policy created by March 15**
- **Has it's own premium**
- **Protects against shallow losses**
- **Begins to pay when average county revenue falls below 86% of it's expected level**
- **Loss payments are paid on actual planted acres**
- **Subsidized at 65%**

2015 Budgets

February has always been the month that we print our budget issue for the coming year. As I was researching the input costs for 2015 I expected to find considerable cost savings over last year. Unfortunately this has not been the case. In fact, the costs of fertilizer, seed, and chemicals are nearly unchanged from 2014. We have always been led to believe that fertilizer cost as well as the costs of some chemicals were dependent on the price of crude oil and natural gas.

Today the price of Brent crude is nearly half of what it was at this time last year. Natural gas prices have also fallen significantly. They are currently running about 33% lower than they were at this time last year. Nitrogen prices, on the other hand, have remained very constant. At this time I could book anhydrous ammonia for 41 cent per lb. Last year at the same time the NH3 prices we running at 43 cents.

Ammonium nitrate prices for 2015 are running in the mid to low 60 cent range while urea is in the low 50's. Phosphate and potash prices this year are virtually unchanged, both coming in at 40-41 cents per lb.

2015 Budgets (continued)

In June and July of 2014 these prices softened somewhat but now have gradually inched back to what we are seeing today.

Fuel costs on the other hand are considerably lower than they were a year ago thus giving some relief to producers getting ready for spring planting. In the past several years producers have moved to less and less tillage due to high fuel costs. This year we may see a little more tillage than we have seen in the past as producers are trying to combat chemical resistant weeds.

It is important to remember that the costs in the charts on the next two pages are for variable cost. Because we have used custom rates for machinery cost, some labor is included in these figures. However, there has been no charge for land or management.

The price outlook for commodities in 2015 is lower than what we received in 2014. We are expecting corn to come in around 40 cents lower than the spring price of last year and soybeans are significantly less. It is important to remember that the minimum prices that we use for establishing coverage are first established in the month of February by averaging the daily closing price of the DEC15 corn contract. This will be the minimum price for crop insurance purposes. This same contract is averaged again in the month of October. This is called the harvest price. It is important to remember that producers are guaranteed the higher of these two prices.

In looking at the budgets above it is important to note that without upward price movement profits will remain slim for 2015. Our biggest saving grace is the changes in the 2014 farm bill that allow us to drop certain yields from our APH databases to improve our minimum guarantee per acre. This change is the YE option that we mentioned earlier in this newsletter and could very well add $50.00 or more revenue per acre to your crop insurance guarantee without increasing coverage levels.

What could change the market prices for 2015? This answer is many fold, but I do see several things that could change market direction over the next 12 months.

First, is the price differential between soybeans and corn. This relationship has historically been 2.5 times the price of corn to the price of soybeans. Today as I am writing this the ratio is running at 2.3 thus favoring the planting of more corn over beans for many producers. We have heard all fall and winter that farmers were going to plant a lot less corn due to the decline in price. Some people have gone on record and estimated that the acres that we expect to be planted to corn may be as low as 86 million. With the ratios running this low I would doubt that we cut acres by that much. My personal guess is that we will come in around the 88 to 89 million acre mark depending on planting conditions this spring. The earlier the season is the more corn we tend to plant.

Beans on the other hand were expected to be the largest crop we had ever planted. I agree that we will plant more beans, but if prices continue to erode fewer double crop acres and fewer marginal acres will be planted to this crop thus limiting this increase.

Secondly, the value of the dollar has a direct impact on the prices of grains. Exports are very important to the price of grain. Recently we have seen the dollar strengthen in value due to the European debt crisis.

SOYBEAN BUDGET

	2014 cost/ac	2015 cost/ac
Seed	$62.70	$62.70
Nitrogen		
Phosphate	$16.00	$16.00
Potash	$26.00	$26.00
Lime	$14.00	$14.00
Total	**$118.70**	**$118.70**
Chemical cost per acre		
Pre emerge	$18.00	$18.00
Post emerge	$24.00	$24.00
Insecticide	$5.00	$5.00
Total	**$47.00**	**$47.00**
Drying		
Machine	$76.00	$76.00
Custom App	$18.00	$18.00
Interest @6%	$11.02	$11.02
Insurance	$20.00	$20.00
Total	**$125.02**	**$125.02**
Total Variable Cost / ac	**$290.72**	**$290.72**

2015 Budgets (continued)

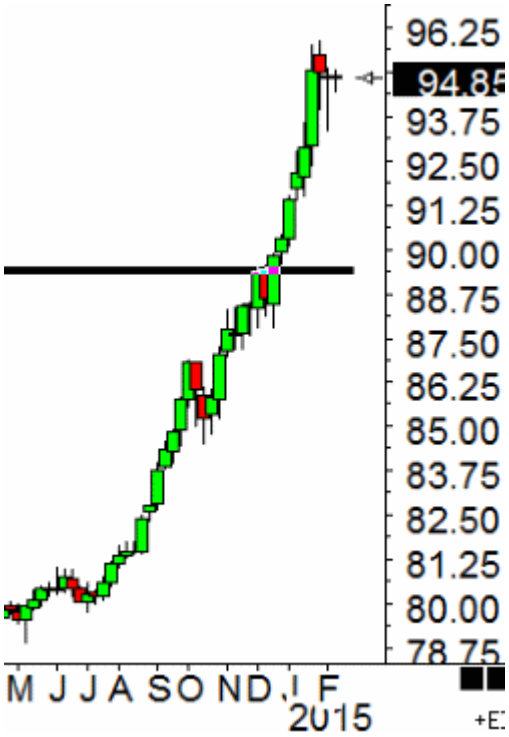
CORN BUDGET

	2014 cost/ac	2015 cost/ac
Seed	$84.00	$84.00
Nitrogen	$72.60	$67.65
Phosphate	$28.00	$28.00
Potash	$18.00	$18.00
Lime	$14.00	$14.00
Total	**$216.60**	**$211.65**
Chemicals		
Pre emerge	$18.00	$18.00
Post	$22.00	$22.00
Insect	$5.00	$5.00
Total	**$45.00**	**$45.00**
Drying	$22.50	$22.50
Machine	$76.00	$76.00
Custom App	$18.00	$18.00
Interest @6%	$13.14	$13.14
Insurance	$20.00	$20.00
Total	**$149.64**	**$149.64**
Total Variable Cost /AC	**$411.24**	**$406.29**

Investors have sold the currency of these countries in trouble and have bought the dollar as it is perceived to be a safer currency. When the value of the dollar as opposed to other currencies is high the more our agricultural products cost in these countries and the cheaper imports are to the United States. Much of the move we have seen this winter in grain markets can be attributed to the increased value of the dollar. This is especially true when it comes to the soybean market and the shift to South American purchases over the last couple of months.

As political tensions and the world debt crisis are addressed, we would expect the dollar to retract from the level that it is today and make our exports more attractive on the world market. This in turn, will increase the price of the grains in this country.

We do have large stock supplies of grains in this country to work through this year so it is impractical to think that we are going to return to the prices of 2013. Prices currently are trending lower, however, we cannot get into the mind set that this trend will remain forever. These markets will stabilize and we have marketing opportunities this crop year just not at the levels that we have seen in the past couple of years. The best information a producer could have is to know his cost of production and to develop a marketing plan from that point with that cost in mind.



Today's chart: US Dollar

About this chart: This is the weekly continuation chart of the US Dollar Index. You can see that from the May 2014 low at 78.93, the market has rallied over 21% to the high in January at 95.85. This market has been able to close higher 32 of the last 39 weeks. The horizontal black line at 89.40 indicates a minor 38% retracement target from the May low to the January high. This target would be the first level of support, then the 50% retracement mark of 87.40 is the next area of support. In the short term, the US dollar is due for a correction or a period where the market trades sideways and consolidates. I would like to see this correction or consolidation period happen in the next 2-3 months so that grains are able to rally during spring planting.

Reprinted from AM Update with Alan Kluis

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From Mischelle's Desk

Very shortly, you will be receiving in the mail a couple of documents that will need your attention.

The YE option that we have talked about in this newsletter is a policy option that requires a signature. We think that it is very important that producers add this to their policy. We are sending out policy change forms that you must sign and return to allow us to add this to your current policy. Sign and return this form immediately. We must have this form entered by March 15th for it to be in effect. This is very important.

Secondly, the 2010 Congress passed legislation called the Foreign Account Tax Compliance Act (FATCA). It was passed to ensure that U.S. persons with financial assets outside the U.S. are paying U.S. taxes. Even though the name of the act infers it being only for foreign accounts, some FACTA account-opening requirements do apply to accounts held in the U.S. New IRS regulations are requiring us to begin collecting these W-9 forms from each entity.

Beginning this year this form will have to be on file prior to loss payments being made. Therefore, we are collecting all of these forms at this time to insure that claim payments will not be delayed. Signing and returning this form now will be in your best interest and will speed up and simplify the claims process.

Simply fill in all of the highlighted areas, sign, and return these forms.

It is important not to put this off because these forms are time sensitive.

Our newest staff member Mischelle Gibson

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