Crop Insurance 2020

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Gibson Insurance Group

"The Risk Management Specialists"

MARCH 15
(February 28)
(Arkansas)
Is the last day to either obtain a policy or make changes to your present insurance policy

Inside this issue:

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ARC vs PLC

There have been some changes in the ARC and PLC programs since the last signup 5 years ago. It is important to note that what worked at the last sign up may not be the best in the next couple of years.

Most all of the changes are beneficial to the producer. The biggest change is that the ARC county yields are coming directly from crop insurance rather than from NASS. This is very important as the county yields will now accurately reflect what is produced in the county.

The second change is that this contract is not for the life of the farm bill. Producers will choose programs for 2019 and 2020 before March15 2020 then will have the opportunity to change each year after 2021.

The third major change is that producers will have a one time option to prove their yields thereby possibly increasing the payment yield for their farm. This is very important and should be done by all producers.

The final change is a calculation difference in how PLC payments are determined. This is not significant as it will reflect in the caluclations.

Choose your options by crop and by county, carefully. Let's review what both programs are and how they work.

ARC-COUNTY

This program would be best described as a revenue program that pays when county revenue guarantees are not received.

With the ARC- County (CO) program, crop revenue is estimated using county average yields. A payment is made if ARC-CO revenue is less than the ARC-CO guarantee.

ARC-CO revenue is the actual county yield times the maximum of the national marketing year price or the loan rate that is listed in the farm bill ($1.95 for corn, $5.00 for soybeans, and $ 2.94 for wheat).

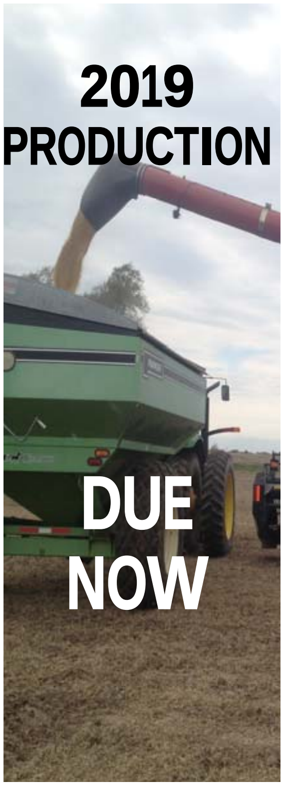
The ARC-CO guarantee is 86% of the Olympic – average of the past five years yields and prices. The highs and lows are thrown out and the three remaining are averaged to arrive at the guarantee. It is important to remember that under ARC-CO the payment per acre is limited to only 10% of the bench mark guarantee.

Under ARC-CO only 85% of the farms base acres are covered for each commodity.

ARC-INDIVIDUAL

This is a similar program to ARC county but uses the farm's history rather than the county. <u>This program will generally be used only by a handful of producers in river bottoms that took preventive plant on all acres of a farm number.</u>

Under ARC-IC coverage, a payment



ARC vs PLC (continued)

is made if the actual revenue from all covered commodities is less than the ARC-IC guarantee.

The actual revenue for each year is determined by the farm's yield multiplied by the maximum of the national marketing year price and the crop's reference price, summed over all covered commodities and divided by the farm's planted acreage that year.

- The ARC-IC guarantee is 86 percent of the ARC-IC benchmark revenue.
- The ARC-IC benchmark revenue is the most recent 5-year Olympic-average of the revenue from all covered commodities weighted by the ratio of the acreage planted to a covered commodity and the total acreage of all covered commodities.
- The revenue for each year is determined by the farm's yield multiplied by the maximum of the national marketing year price and the crop's reference price.
- The ARC-IC payment rate per acre is the difference between the ARC-IC guarantee and the ARC-IC actual revenue, but the payment rate cannot exceed 10 percent of the ARC-IC benchmark revenue.

Under ARC-IC, the payment for a farm is the ARC-IC payment rate for that farm times 65 percent of the farm's total base acres (compared to 85 percent for ARC-CO based coverage).

PLC (Price Loss Coverage)

This program is best described as price protection. Anytime market year average prices fall below the reference prices a payment will be made.

The Price Loss Coverage (PLC) program will make a payment if a covered commodity's national average marketing year price is below its reference price, the new term instead of target price.

The reference prices that were set in the 2014 farm bill were as follows.

Wheat	$5.50
Corn	$3.70
Soybeans	$8.40

- Payments will be made on a crop by crop basis.
- Under PLC, the payment is the difference between the national marketing year average (MYA) price and the effective price multiplied by the payment yield and 85% of the producer's base acres.

The effective price is the maximum of the MYA price and the loan rate.

I have put my farm and a couple of others through the calculator. It will be difficult to get an accurate figure at this time because we don't know what the county yields will come in at. This is a big question in any county where there was considerable flooding and preventive plant in river bottoms because we don't know how these yields will be handled.

For most every county wheat shows the best results going to PLC as the price is floored at $5.50 and yields have been really good for the past several years. Remember, this year a producer has the opportunity to prove their yields and raise up their payment rates if your production history is better than the previous history.

Corn and soybeans yields will also be able to be increased under PLC if you have had good yields recently. It is important that producers take their APH's with them when going to the FSA office to see if this works to your advantage.

At this time, I am leaning toward PLC on both corn and soybeans on my farm. In the calculator there is not a

2020
Initial Wheat
Price Guarantee
$4.94

Wheat price is set averaging the daily close of the September Futures on the CME

ARC vs PLC (continued)

great amount of difference as the county average yields have increased over the last few years. Because I have had good yields on my farm there is an advantage to proving these yields and getting a higher payment yield.

On my operation I add the SCO option to the PLC. The SCO product is an option to the basic crop policy that is subsidized by 65%. The SCO covers 86% of my acres with revenue coverage while the PLC covers 85% of my base acres with price protection. This gives me the best of both programs. It is important to note that SCO is only offered on farms that are signed into PLC. If a producer adds SCO coverage to ARC farms it will be ineligible for that coverage **and** will also be charged a large penalty. We have no way to identify what program has been selected on a farm so it will have to be the producer's responsibility to identify each farm they want SCO coverage on.

This decision will only affect my operation for the crop years 2019 and 2020. After this time we will be allowed to look at the programs and decide again which program best suits our operations.

Each producers' personal yields are going to be the biggest factor that effects this decision. County yields over the majority of the area have increased as well thus offsetting much of producer's personal gains.

After the first of the year we should all visit with the FSA office and see how the county yields have been recorded then we can compare our yields to the county. When we do this our decision will be very simple. We must all make this election prior to MARCH 15. Failure to do so will cause the producer to lose the 2019 payment and they will be automatically enrolled into the program they selected in the last farm bill.

Ensuring Your Farm is Around for the Next Few Decades

As 2020 brings along a new decade, do you know what your next decade will look like? What will it look like for your farming operation? How can you ensure your farming operation is around for the next 10 decades to come? Farm succession planning is the answer, but where to start? While succession planning can be overwhelming and stressful, it can also be the single most important thing you can do to ensure you are prepared for the next decade.

Farm succession planning can be important for many reasons, but one important reason is keeping the family farm going. In today's world farms are disappearing before our eyes and having a succession plan in place can help combat that issue. According to the Farm Journal 80% of farmers plan to leave their farm to the next generation, but only 20% believe that the current plan they have in place will be successful in the transition. On top of that, a

Ensuring Your Farm is Around for the Next Few Decades

8 Steps to a Successful Marketing Plan

1. *Establish realistic goals*
2. *Identify your decision making environment*
3. *Identify your beliefs*
4. *Develop a price outlook*
5. *Consider cost of production*
6. *Consider risk-bearing ability*
7. *Avoid emotional decisions*
8. *Don't let ego get in the way*

Richard Brock
"Grain Trading—Basics of Fundamental and Technical Analysis"

mere 16% of family farms survive a transition to the third generation due to poor/no succession planning. With these statistics in mind we are reminded that it is never too early to start planning.

Key Steps to Farm Succession Planning

1. Identify Your Assets- By listing your assets you can help ensure you aren't missing anything that's a part of your farming operation. This can include land, equipment, livestock, and other farming related items. While identifying these key things it is important to note whose name they are in. Are they listed with a LLC, trust, your individual name? This is important information to have for ease of planning.
2. Set Goals- What goals do you have for your farm, your retirement, or the next generation? These are all important things to take into account when doing succession planning. Goals are essential to helping you answer some of those hard questions that come up when talking about the future. Aim to have a variety of defined goals that revolve around many facets of your life and farming operation. By listing these goals you will be able to share them with those helping you in the process and know how you plan needs to look to achieve those goals.
3. Open Conversations- Farm succession planning is most often not on the forefront of people's minds for many reasons. One being it can be a stressful, awkward conversation to have with family or heirs. However, having open conversations with these key stakeholders is highly essential to ensure a smooth transition. These conversations need to include those that will be involved in the transition so everyone can be aware of the plan. Keeping the farm's interest at the center of the conversation when talking about these important decisions can help make the process easier.
4. Meet with a Professional- Planning the transition of the farm to the next generation can be stressful and confusing, but there are professionals to help. These can be attorneys, accountants, financial advisors, and other professionals that are experts on how to make the planning process as smooth as possible. When planning there are many laws and important tax information to take into consideration,

Ensuring Your Farm is Around for the Next Few Decades

these professionals can help you navigate on what is best to do for you and your operation.

Just like you haven't built your farm overnight, farm succession planning can't happen overnight either. By taking the needed steps you can ensure that your farm is safe for your great grandchildren's lifetime and more. Now is the time to set goals for the new year, make farm succession planning on the top of your list.

Welcome Maria Washburn to Gibson Insurance Group

Maria Washburn is the newest agent of Gibson Insurance Group. Maria comes to us from a 5th generation row crop and cattle farm from King City in northwest Missouri. She attended the University of Missouri- Columbia and graduated in 2017 with a bachelors in Agriculture Education and minors in Animal Science and Ag Economics.

After graduation she went to work for the Missouri Cattlemen's Association and the Missouri State Fair Foundation. Maria is going to be an account representative and will be splitting her time between the office and the field where she will be working directly with customers. She is excited to meet more farmers and be of service to them in their insurance needs. Maria welcomes you to give her a call anytime or stop by just to say hi.

Crop Insurance Options for 2020

With spring fast approaching it is important to look at additional options for your current crop insurance policy. Replant Option and Late Plant Option are two products that are of great value and should be considered for the upcoming year. Some additional options can become pricey, but the following two options are very cost effective and add value to your current policy.

Your current policy already has some replant coverage included. In your basic policy to qualify for a replant payment you must replant the lesser of 20 acres or 20% of the unit. If you qualify for a basic replant payment this pays 8 times the set spring corn price and 3 times the set spring soybean price. In 2019, this was approximately $32 per acre for corn and $28 per acre for soybeans. Even though this payment is helpful, it will not generally cover the costs of having to replant a crop.

The first option you can add to your policy is the Replant Option. With this product you can add up to $50 extra per acre to your replanting expenses. You are also not bound to the 20% or the 20 acre rule of your basic policy coverage meaning you can collect a replant payment regardless of how many acres you replant. The replant option also allows for early bird planting. With early bird planting you can plant up to 20 days in advance of the initial plant date. If you do however plant early you can only collect payment for the replant option and not payment that is included with your basic policy.

IMPORTANT

If your farming entity has changed from last year either by death, divorce, or business type you must notify the office for a policy change immediately. Failure to do so could have serious implications for your crop coverage.

If you are unsure that your policy(s) correctly identify your entity type please contact the office as soon as possible.

(This also includes any SBI's listed on your policy)

March 15 is the deadline for spring crops

(February 28 is the deadline for Arkansas)

Crop Insurance Options for 2020 (Continued)

Many customers, including myself, carry the replant option with the most popular level being an additional $30 of coverage per acre. The extra $30 of replant on top of your payment from your basic crop policy should coverage your expenses for having to replant. On average, $30 replant coverage costs $2.50 an acre varying by county. In 2019, this product was widely beneficial because of the wet spring affecting early planted crops. It is important to note that this product is also available for high risk ground at a small additional cost.

The second option you should consider adding to your basic policy is the Late Plant Option. This product is exclusive to RCIS. In your basic policy any crop planted after the final plant date is subject to 1% reduction in coverage per day. This late plant option extends the final plant date by 10 days with no reduction in coverage. This allows you 10 extra days to plant and still have full coverage, which as we saw in 2019 came as a major benefit. This option can cost as low as 50 cents an acre depending on your county. The late plant option is not available for high risk ground, ground under written agreement, or double crop acres. If another wet spring were to arise in 2020 this product would quickly pay for itself if a producer were to find himself planting after the final plant date.

Both the Replant Option and Late Plant Option can add significant value to your basic crop insurance policy. I will have both of these options attached to my crop insurance policy as I feel they add great value to my operation.

If you are interested in either of these products, please contact our office to get accurate quotes for your operation.

Revenue Protection Policy (RPP)

Revenue Protection Policy (RPP) is a product that increases a producer's price guarantee above the set spring price on the multi-peril cop insurance policy. RPP is an option that might look good for a select number of producers who are tied into high cash rents or just need to guarantee a higher revenue floor per acre.

For the producer at the 75% coverage level it is possible to add an additional 27% to the guaranteed spring price. This additional coverage will be added to the indemnity at the time of loss thus providing additional revenue to the producer.

I have used this product one time in my operation. I found that, depending on your location, this product could be pricey when compared to using a disciplined marketing plan. However, for a person that does not currently use a marketing plan or want to participate in hedging or forward pricing this might be a tool that could work.

The costs of this option vary greatly

Revenue Protection Policy (RPP)

depending on the state and county your operation is located. At this time the rates for this product have not yet been published for 2020. In the near future, we expect these rates to be released and will be able to calculate the costs and benefits for producers who think this product might be of interest to their operations.

If you are interested in this product, please contact our office to get an accurate quote for your operation.

UPCOMING IMPORTANT DATES

2019 Production Due	**NOW**
Price Guarantees Set (*Corn and Soybeans - Arkansas*)	**2/15**
Sales Closing Arkansas	**2/28**
Price Guarantees Set (*Corn and Soybeans - MO, KS, IA*)	**3/1**
Sales Closing - MO, KS, IA	**3/15**

Looking Ahead in 2020

There seems to be a lot of positive news as we start the new year. The first is that we may be winding down the trade conflict with China. This topic has been in the news so much that we are all tired of hearing about it. Regardless, if this agreement gets signed at least some normalcy will return to agricultural markets.

When this deal is finalized I do not expect the markets to rebound to previous levels. Anytime we lose demand to other export markets we seldom can expect to get all that demand back. This will be the case with the agricultural markets this time as well.

At the end of the year we have seen some encouraging rallies in most of the commodity markets. Both corn and soybeans have shown some positive strength but the real winner at this writing is the wheat market.

Since mid-August wheat prices have increased $1.04 per bushel. Wheat supplies still run high worldwide, but the demand also has been increasing enough to justify this price action. At $5.60 some producers are considering pricing some 2020 wheat production. This crop tends to have its share of challenges, however the pricing of a portion of an operation expected production looks rather attractive at these levels.

Corn and beans will both benefit when phase 1 of the trade deal is signed but most analysts do not expect limit moves up due to the large supplies on hand. Most think that there is room for upward movement but nothing earth shattering.

Corn is in a critical period between now and the first of March. It is expected by analysts that China will purchase considerable amounts of ethanol as

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Looking Ahead in 2020 (continued)

some of its first purchases. This will increase corn prices some but will also give some relief to the ethanol industry as it has been running in the red.

There is debate whether soybeans can follow corn if there is a market rally. Because of African Swine Fever (ASF) that has swept through China's swine industry, the demand for soybean meal will be down due to the lower number head of hogs on feed worldwide. Brazil is expected to have a record crop this year so this could temper the gain of soybeans as well.

We have been fortunate in the US as swine fever has not made it to the states. The customs inspection services and the USDA has done a good job so far protecting the swine industry. Currently the inventory of hogs is up 3% year to date and breeding herds are up 1.6%. This will give these producers the chance to fill the void that has been created by ASF world-wide and at the same time burn through as much of our corn and bean inventories domestically as possible.

Cattle numbers are higher than they have been since 2012. Even with these increased numbers the demand has remained strong and the desire for beef has continued to grow.

Poultry will also benefit from the ASF problems in 2020. It was recently announced that 30 different plants in the US have been approved for overseas shipments after a five-year ban on these products.

When we look at any of these mentioned markets it looks like the upside potential will outweigh the downside risks. Like all of you we are expecting a good and prosperous 2020.

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