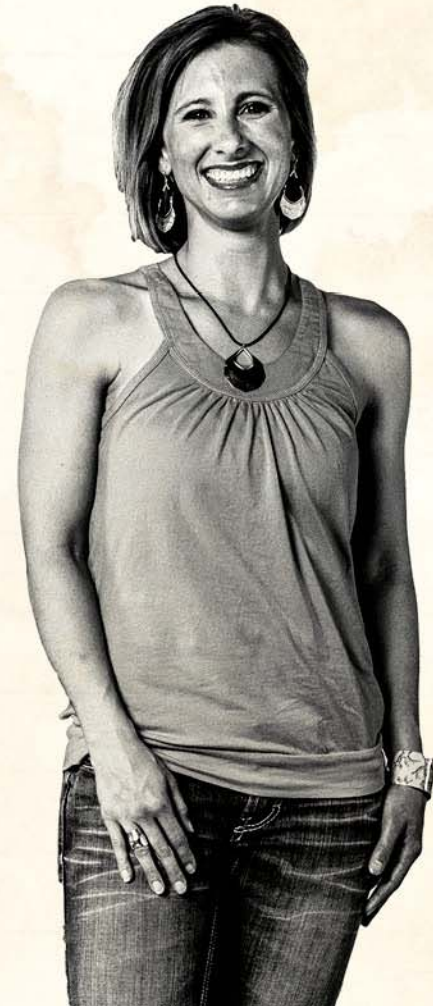


# RISK MANAGEMENT PLANNING

February 8, 2019

# AGRICULTURE WORKS HERE.





**Farm Credit Services  
of America**



**FRONTIER  
FARM CREDIT**

# MARYANN PEAK

FRONTIER FARM CREDIT

## HOW DID 2018 GO?



- **Spring**

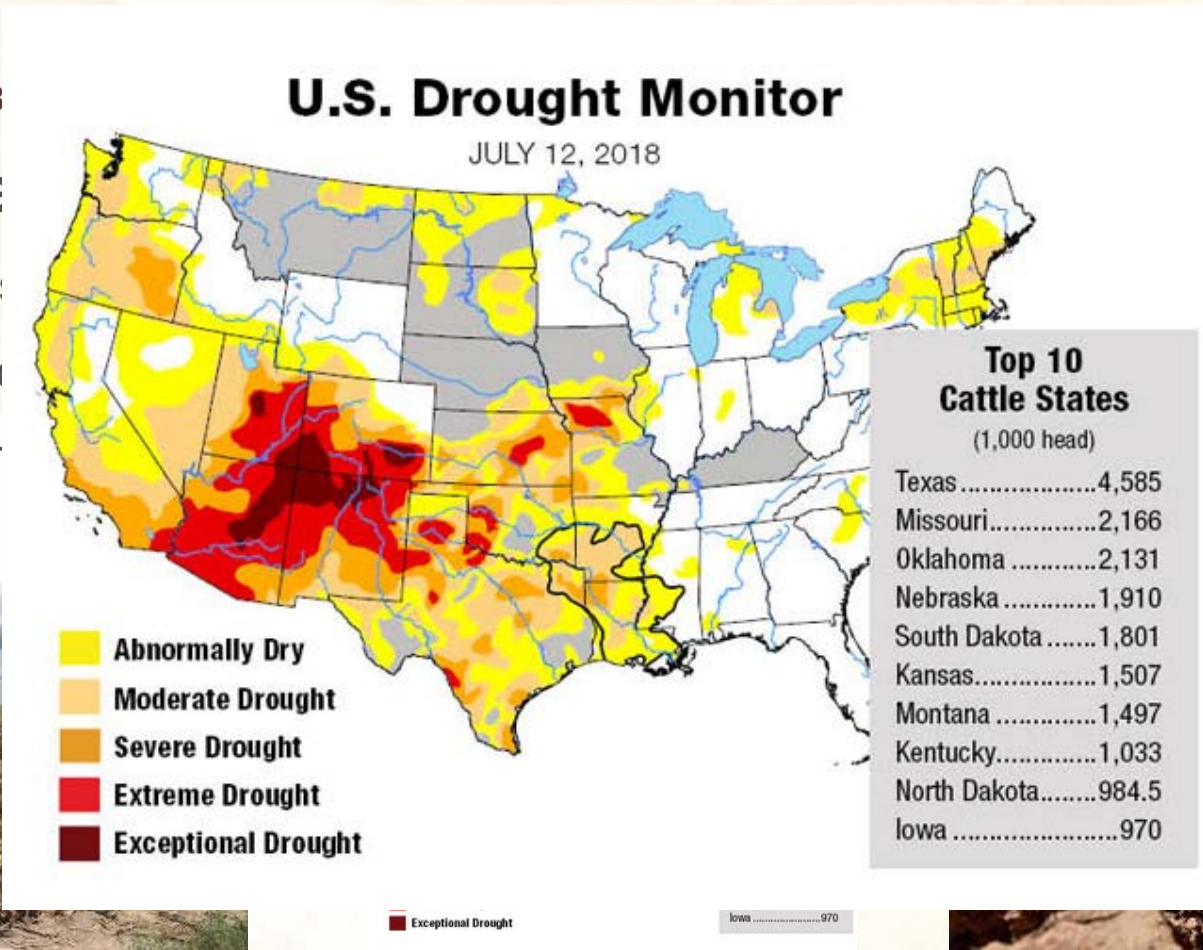
- Lower than average precipitation
- Uneventful planting season
- Good futures prices established (soybeans \$10.16)



HOW DID 2018

• Summer

- Exces
- Spora
- Rise in



d hail)



## HOW DID 2018 GO?



- **Fall**

- Excessive moisture causing delayed harvest, and wheat planting
- RMA Soybean price drop from \$10.16 to \$8.60
- Quality issues in crops



# REVENUE PROTECTION



- **Yield** and **Revenue** based protection
- Three components of the **revenue** guarantee:

## **10 year x Coverage Level x Price**

- Projected price set in February
- Harvest price set in October
- When Harvest price is high than projected price, we use harvest price to calculate a new guarantee
- 200% upside price cap / No downside price cap
- Replant and Prevent Plant Coverages

# REVENUE PROTECTION



- Projected price (set in February by the Risk Management Agency) is used to calculate:
  - Premium
  - Replant payment
    - Qualify for 20/20 Rule: Lesser of 20% of the unit or 20 acres
    - Corn: 8 bushels x spring price
    - Soybeans: 3 bushels x spring price
  - Prevented planting payment
    - A Percent of revenue guarantee is paid out

# KANSAS PRODUCER EXAMPLE



Year	Bushels/Acre
2009	46
2011	51
2012	16
2014	43
2015	49
2017	52
2018	26

- Add all of the production together, then divide by the number of years.  
 $283 / 7 = 40.42$
- Multiply Average by elected coverage level (50% - 85%)  
 $40.42 \times 0.75 = 30.32$
- Guaranteed Bushels = 30.32

\* Prices are set by RMA and **DO NOT** reflect your actual sale price or revenue.



# 2018 YEAR IN REVIEW



Bushel guarantee goes up with lower harvest price.

## Soybeans

<b>bu. APH Yield</b>		<b>40</b>	
<b>Coverage Level</b>	<b>x</b>	<b>75%</b>	
<b>Guaranteed Bushels</b>		<b>30</b>	
<b>Spring Price</b>	<b>x \$</b>	<b>10.16</b>	(Set in February)
<b>Spring Guarantee</b>	<b>\$</b>	<b>304.80</b>	
<b>Harvest Price</b>	<b>\$</b>	<b>8.60</b>	(Set in October)
<b>Harvest Guarantee</b>	<b>\$</b>	<b>304.80</b>	
<b>New Trigger Yield</b>		<b>35.4</b>	

Why is that important? It increases the number a bushels you can raise, and still have a claim.

# 2018 YEAR IN REVIEW



Soybean: Losses triggered when yield is below 35.44 bu.

bu. APH Yield		40
Coverage Level	x	75%
<b>Guaranteed Bushels</b>		30
Spring Price	x \$	10.16
<b>Revenue Guarantee</b>	\$	304.80
Bushels Produced		32
Bushels Above Original Trigger		2
Harvest Price	x \$	8.60
Revenue Produced	\$	275.20
<b>Claim Payment</b>	\$	29.60

\*Harvest price is set by RMA in October, it is NOT the price you received at the elevator.

\*Based off of your **Insurance Revenue Guarantee**, not your actual revenue.

# 2018 YEAR IN REVIEW



Losses triggered when yield is below 75 bu.

## Corn

<b>bu. APH Yield</b>		<b>100</b>	
<b>Coverage Level</b>	x	<b>75%</b>	
<b>Guaranteed Bushels</b>		<b>75</b>	
<b>Spring Price</b>	x \$	<b>3.96</b>	(Set in February)
<b>Revenue Guarantee</b>	\$	<b>297.00</b>	
<b>Bushels Produced</b>		<b>60</b>	
<b>Harvest Price</b>		<b>\$3.68</b>	(Set in October)
<b>Revenue</b>	x \$	<b>220.80</b>	(Bushels produced x harvest price)
<b>Claim Payment</b>	\$	<b>76.20</b>	(Revenue Guarantee – Actual Revenue)

Why is this important? Your guaranteed bushels are protected, even if there is not a significant change in price.

## 2018 YEAR IN REVIEW



- Soybean price dropped 15%, corn price dropped 7% in crop insurance
- Soybean revenue loss caused your bushel guarantee to go up.
- Corn price did not show drastic movement.
  - Bushel loss needed to get paid from your insurance

What do I need to protect myself in 2019?

- We need the ability to cover both a loss in harvest price, and a loss in bushels.

## WHY DOES THAT MATTER?



- When looking at your insurance policy, it is important to evaluate what matters most to you.
  - Protecting inputs, protecting bushels, avoiding catastrophe, Market Grain, etc.
- There is no one size fit all operation, and there is no one size fit all insurance policy
- As an insurance agent it is our job to customize your policy options based on what matters most to you, to build a personalized policy.
  - Things to consider: Coverage level, Unit structure, Additional options, and Hail insurance.

## UNIT STRUCTURE: OPTIONAL UNITS



### What Optional Units are:

- Units separated by **section** and **share**
- Each optional unit has an individual guarantee

### Why Optional Units are used:

- Strong desire to protect liquidity and owners equity
- Variable land quality
- Geographic variability (i.e. Land on opposite ends of the county)

## UNIT STRUCTURE: ENTERPRISE UNITS



- **What Enterprise Units are:**
  - One Guarantee by **crop** by **county**
- **Considerations when taking Enterprise Units:**
  - Inconsistent APH
  - Crop Rotation
  - Ground is spread out within a county
  - Disease and quality issues
  - Localized losses, such as hail, excessive moisture, etc.

**\*\*\*Use hail insurance to mitigate these risks**
- **Why Enterprise Units are used:**
  - Lower cost per acre
  - Consistent quality land
  - Geographically located in a close proximity

## 2019 COVERAGE STRATEGIES SUBSIDY LEVELS



	50%	55-60%	65-70%	75%	80%	85%
Optional Units	67%	64%	59%	55%	48%	38%
Enterprise Units	80%	80%	80%	77%	68%	53%

\*2018 Farm bill did NOT pass the AFFIRM act, which could have drastically reduced subsidy levels. This was a win for agriculture, and crop insurance.

\*It will be a continual battle to insure subsidy levels stay the same.



# CROP-HAIL INSURANCE

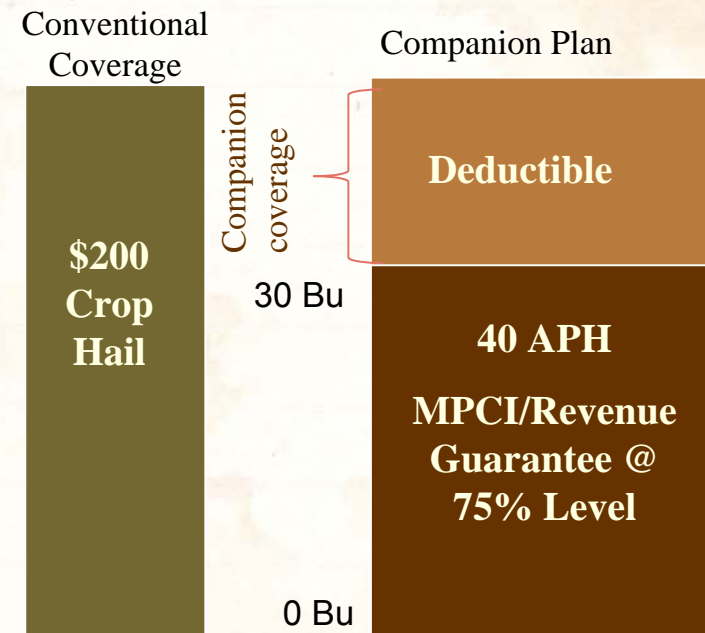


- State regulated product
- Sold and adjusted on a per acre basis
- Common hail coverage products
  - **Basic (no deductible) – Pays on a 1 to 1**
  - DXS5 (5% deductible) – Multiplied by a factor of 1.25
  - DXS10 (10% deductible) – Multiplied by a factor of 1.25
  - **Companion 2 – 5% deductible, multiplied by a factor of 2**
- Most provide some form of fire, transit and storage, and vandalism coverage

# COMPANION POLICIES



- Companion adds top-end coverage designed to payout before multi-peril coverage kicks in
- Multi-peril only covers bottom portion of crop
- Determined by % of loss not production
- Acre by acre coverage



# COMPANION POLICIES



Pays out by Increasing Payment Factor

Companion Hail 2 Example:

- Determine Percentage of Loss: 25%
- Excess Over 5% deductible: 20%
- Multiplied by the Elected Increasing Payment Factor: 2.0

**Companion Hail 2**

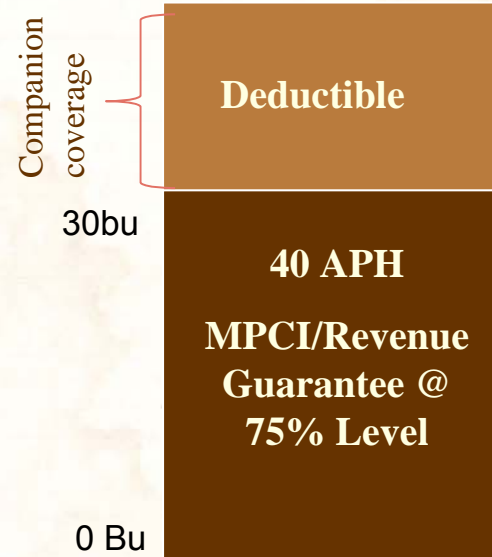
$$\begin{aligned} \text{math: } & (25\% - 5\%) * 2 \\ & = 20\% * 2 \\ & = 40\% \end{aligned}$$

**Percentage Payout = %40**

Conventional Coverage



Companion Plan



# HAIL EXAMPLE: LYON CO SOYBEANS



	Basic	5% Deductible	10% Deductible	COMP2
LIABILITY	\$200	\$200	\$200	\$200
PREMIUM PER ACRE	\$2.20	\$1.90	\$1.50	\$2.90
LOSS COMPARISON	\$50.00	\$50.00	\$37.50	\$80.00

Examples represent a 25% hail loss  
Examples use rates from Great American in 2018 for Lyon Co KS

# CROP HAIL INSURANCE



- Purchase hail coverage at the same time as your federal crop insurance
- One decision to appropriately cover your risks – not 2 decisions
- Cover the portion of your crop not covered by federal crop insurance

# COVER CROPS



- Things to consider when planting cover crops:
  - To insure cash crop planted after cover crop:
    - Cover crops must be destroyed at or before planting (or within 5 days after planting for far Eastern Kansas)
    - Cover crops **can** be grazed or harvested as hay or silage. Cover crops **cannot** be harvested for grain or seed.
    - If acreage is interplanted (and cannot be maintenance or harvest separately) the cash crop **will not** be insurable.
- Types of Cover Crops:
  - There is no approved list of cover crops
  - A cover crop is recognized as having a purpose related to conservation or soil improvement.

# PRF



- Pasture, Rangeland, Forage
  - Protection from a lack of rainfall
  - Precipitation is the **ONLY** peril
    - Area based coverage using NOAA precipitation data
  - Based on 2 month intervals
    - Elected by the customer
  
- How does it work?

# PRF



- Insurance elections must be made by November 15<sup>th</sup> 2019
  - Coverage runs from January to January 2020
- The insured chooses:
  - Number of acres – You do NOT have to insure all of your acreage.
  - Intervals – 2 months at a time
    - Spread risk through 6 intervals so every month is covered
  - Coverage level
    - Government subsidized
    - 70%-90%
  - Productivity Factor
    - 60% - 150% of county based value
    - What do you value your grass at?



## WHY CHOOSE PRF?



- The only way to protect your grass (grazing or haying)
  - Offset the cost of buying hay and hauling water
- You have the best chance at a claim by spreading your risk over the entire year
  - The past is our only way to make decisions for the future
- You control the cost - and coverages can be changed yearly
- You control how much land you want to insure

# INSURANCE CHECKLIST FOR 2019



- Revenue Protection
- Other options available
- Coverage Level
- Enterprise Units/Optional Units
- Crop Hail
- PRF

\*All changes to crop insurance must be made by March 15, 2019.



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# Thank You

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