Crop Insurance Concerns

Presented By

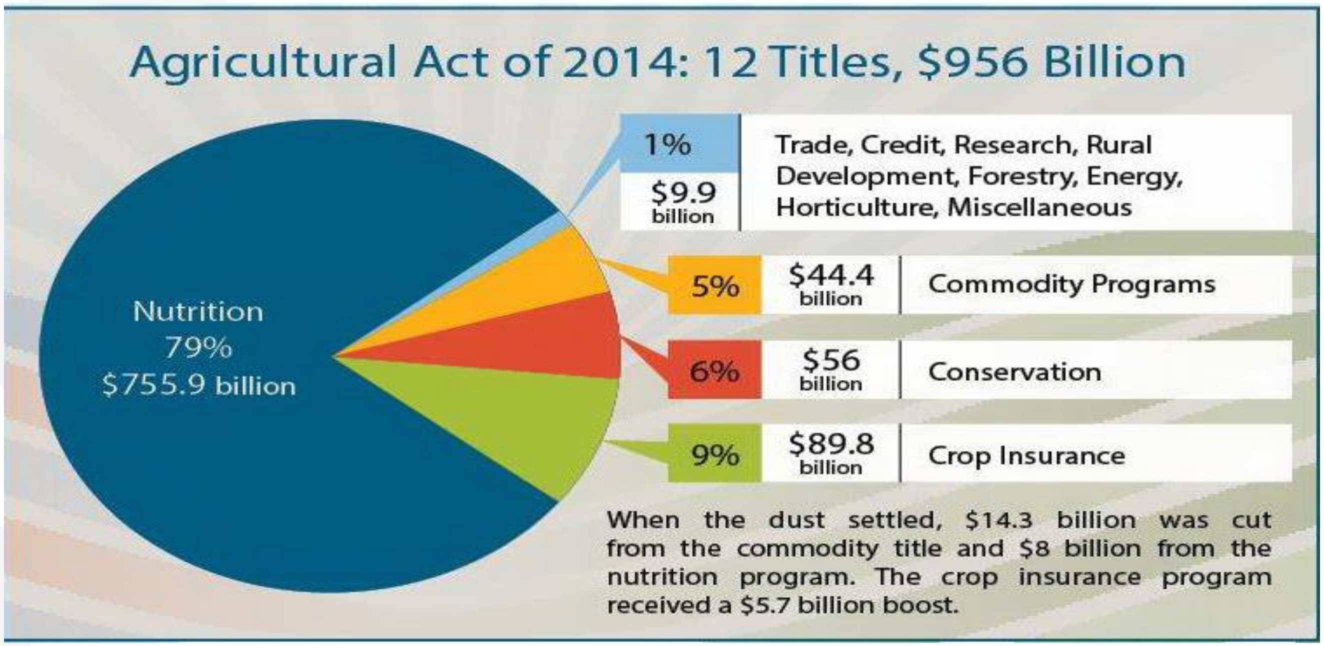
Matthew Farrell- KCoe Isom
Matt Morris- Diversified Crop Insurance Services

K·COE
ISOM

2018 Farm Bill
Priorities and Politics

- Republican Congress/ Republican President/Election Year
- Funding a bill
    - Budget Squeeze
        - Enviros on the left
        - Budget Hawks on the right
    - Divide and concur
- Does the shift to Conservation and Crop Insurance Continue?
- Political pressure to get a bill passed timely
    - Extension like 2014?

Estimated Outlays for 2014 Farm Bill ($956 Billion), 2014 to 2023



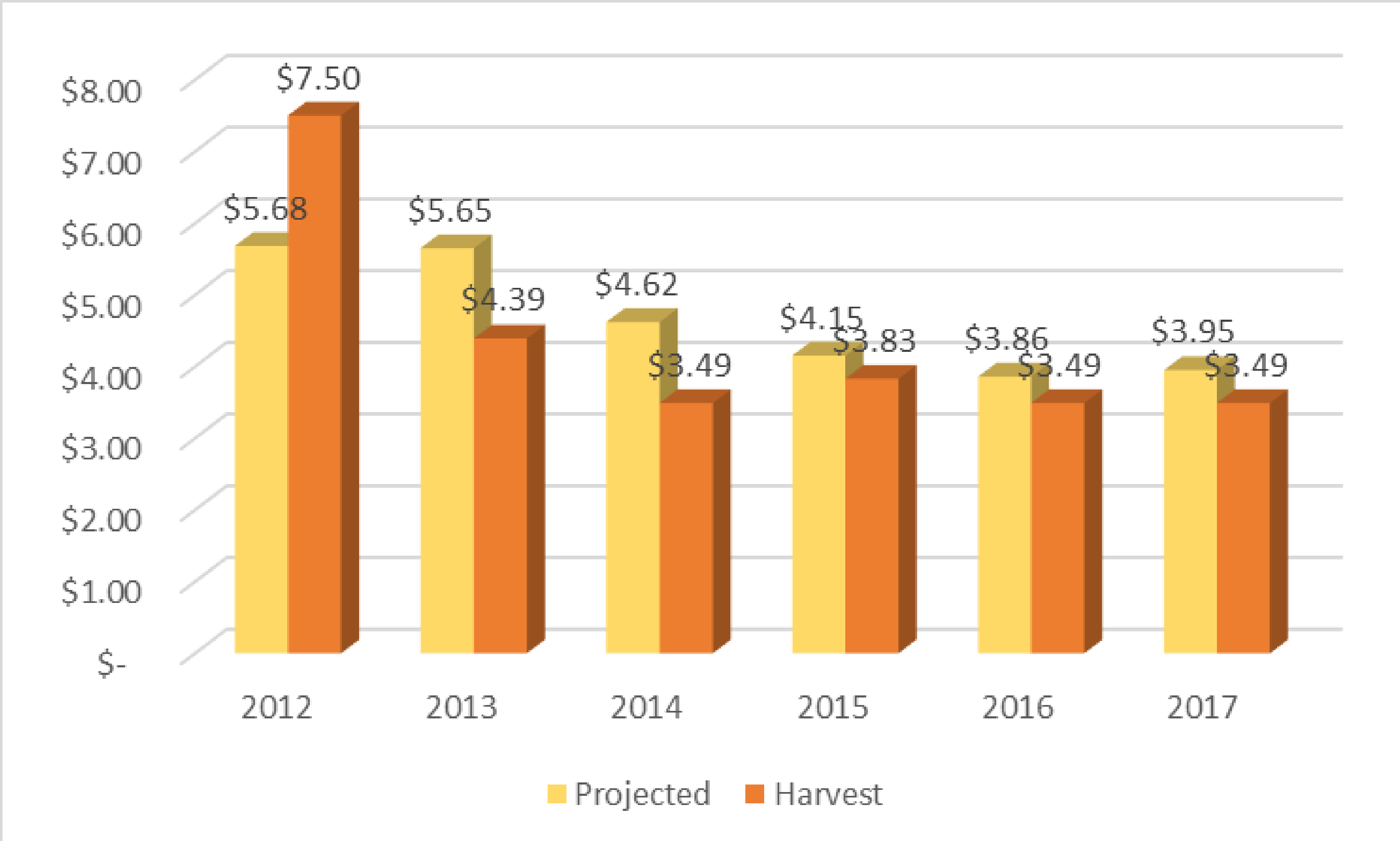
Proposed Crop Insurance Changes

- Elimination of Harvest Price Option
- $40,000 Cap on Crop Insurance premium Subsidy
- Adjusted Gross Income (AGI) limitation
- Subsidies cut on premiums
    - 25% prior to 1995
    - 60-62% Now
- Rate of Return cuts for Agencies

Harvest Price Option

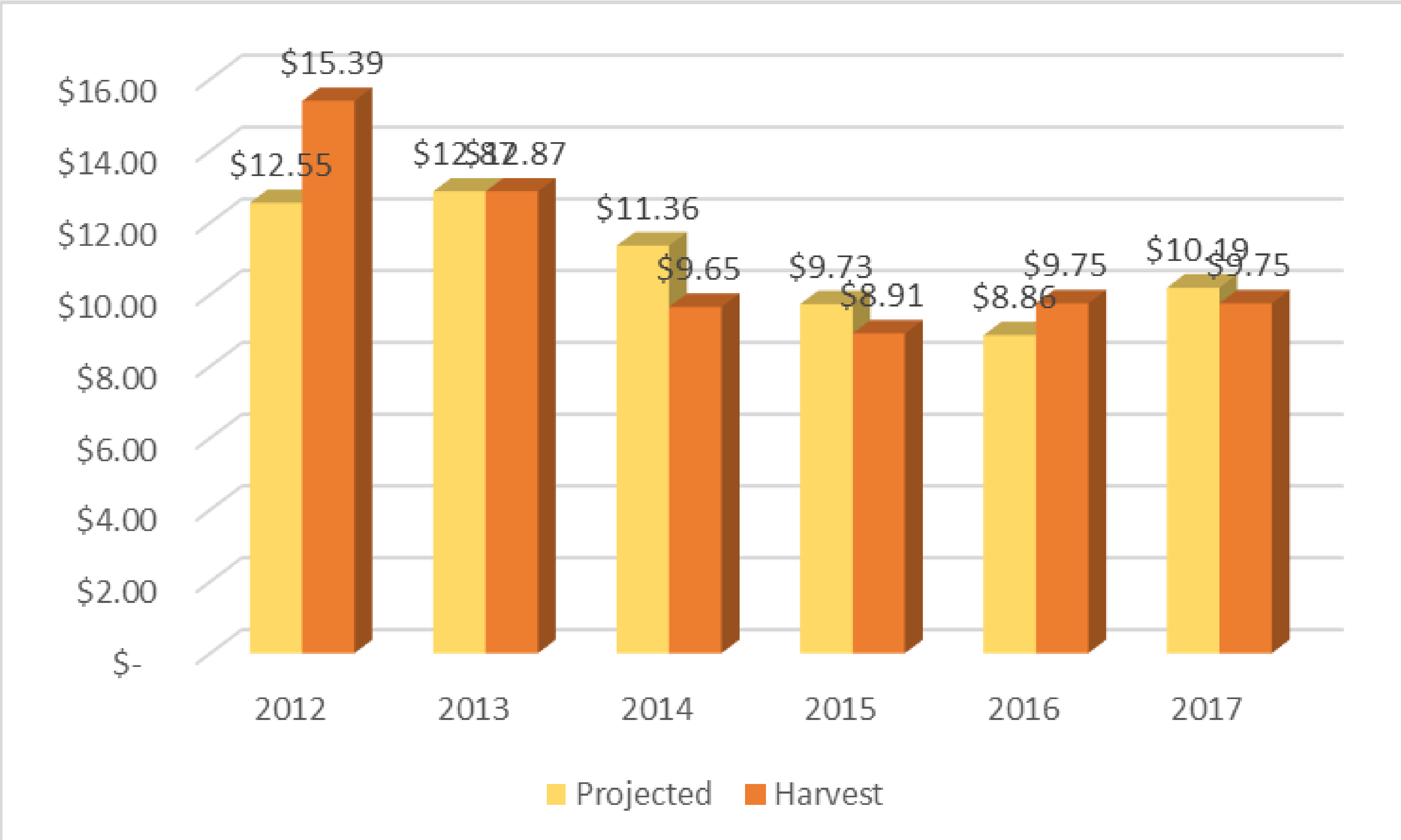
- Very popular addition to crop insurance
- Especially for:
  - Producers who heavily forward contract
  - Use crop to feed livestock
- Savings if Eliminated
  - Around $1B/year
- If not eliminated, offered as add-on
  - 100% of premium
  - May not be available in all states

Corn CI Price Projected vs Harvest



3/15 SCD

Soybean CI Price Project vs Harvest

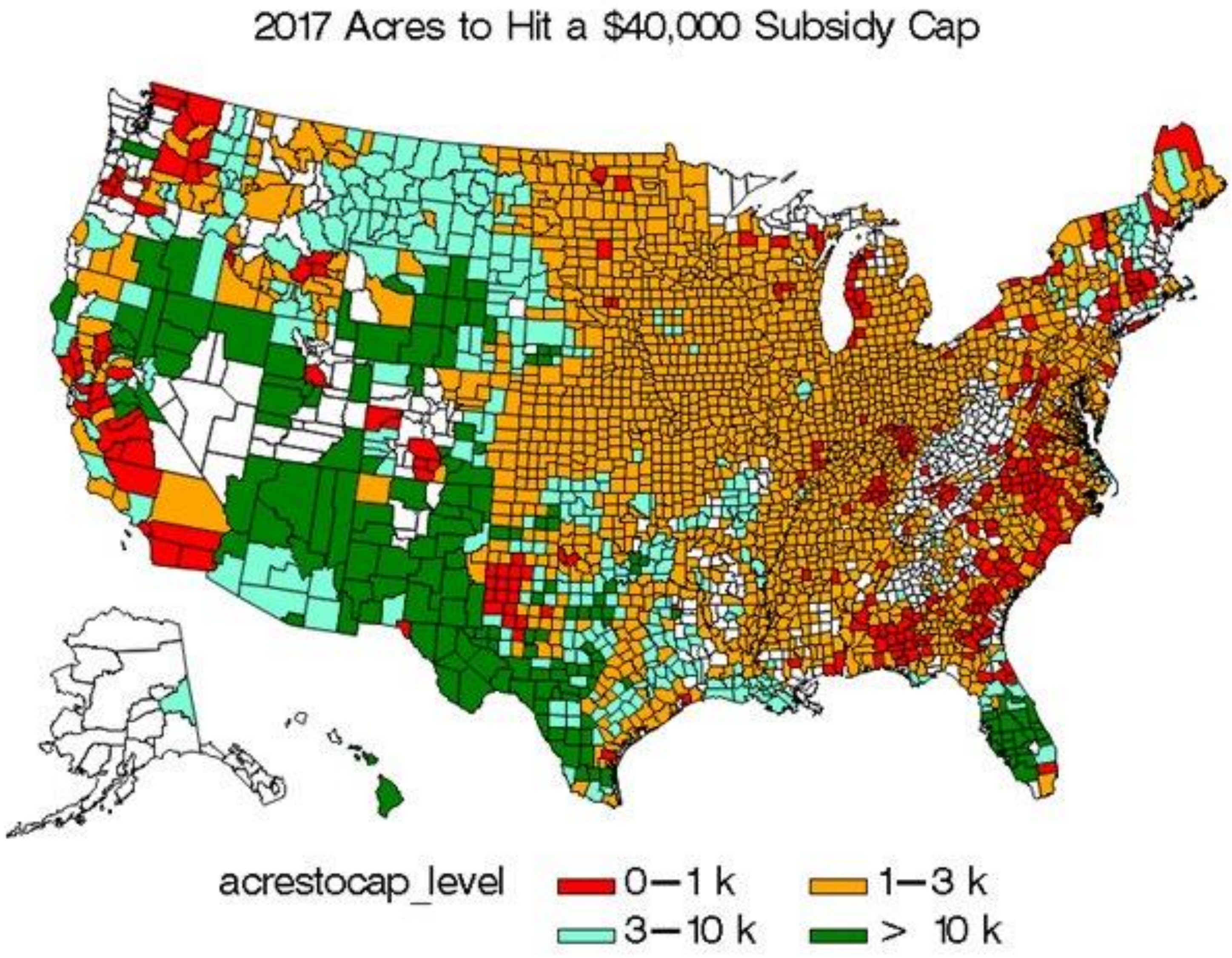


3/15 SCD

Premium Subsidy Cap

- Proposal: Premium subsidy capped at $40,000
  - Producer pays 100% after cap reached
- Eliminate $1.62B/year from budget
- Challenges:
  - Yearly price changes will affect
  - Budgeting nightmare
  - How is it applied, like a payment limit for FSA?
    - Policy
    - Entity
    - Owners

- Reactions from farmers:
  - Avoid purchasing crop insurance that put them over cap
    - Lower coverages
    - Leave some crops uninsured
    - Create “Sister Farms”
    - Private insurance
    - Cash/Share rent changes



Created by and used with the permission of Dr. Keith Coble with Mississippi State University

Adjusted Gross Income Limit

- Congress- $250,000
- Administration- $500,000

- Blue print with AGI limits with FSA Farm Programs

- Possibly extensive tax planning in years with high prices
- Will it apply to entity income alone? If General Partnership will it “pass through” to test partners’ income, down to individuals?
- On-farm and Off-farm income?

- Probably see the $40,000 subsidy limit kick in before the AGI limit

Farm Program Changes/Base Reallocation

Farm Program Changes

- ARC-Co now uses NASS yields for calculations, in data insufficient then calculate using RMA yields
  - Proposal would skip NASS and use RMA for all calculations
    - Could add a trend adjustment
- Use physical county yields instead of administering county
- Allow FSA State Committees to “smooth out” yield variations in adjoining counties
- Coverage percentage could be tweaked

Base Reallocation

- Base Reallocation like 2014 would cost $2B
  - Would provide better risk coverage with more recently planted crops

Program Elections

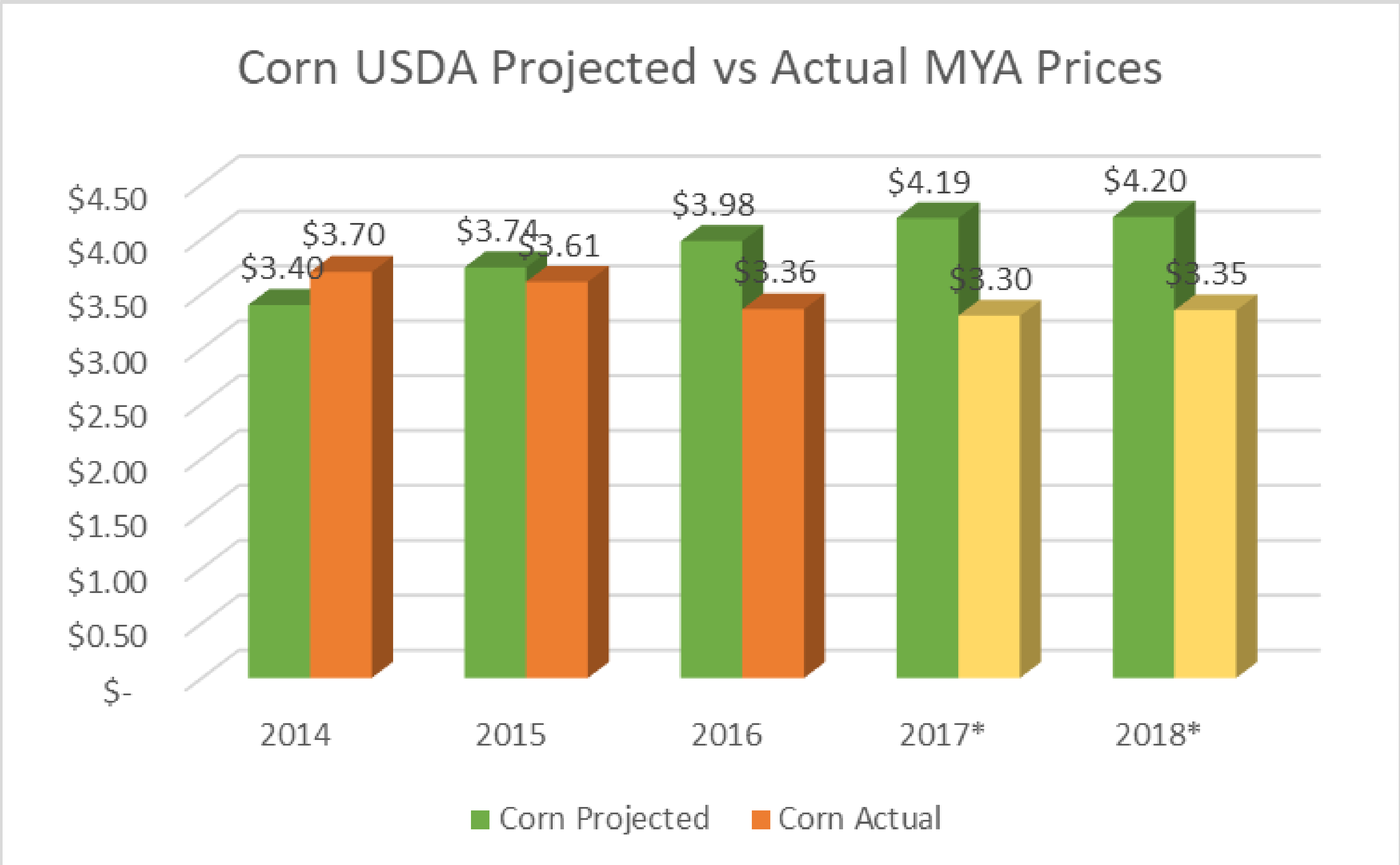
- With lower prices could make PLC more attractive
  - Supplemental coverage option would be more popular

Projected Prices

Marketing Year Average Projections					
Corn	2017	2018	2019	2020	2021
USDA	$ 3.30	$ 3.35	$ 3.35	$ 3.45	$ 3.50
CBO	$ 3.40	$ 3.59	$ 3.73	$ 3.96	$ 3.93
Soybeans	2017	2018	2019	2020	2021
USDA	$ 9.35	$ 9.40	$ 9.40	$ 9.45	$ 9.45
CBO	$ 9.30	$ 9.53	$ 9.67	$ 9.84	$ 9.87

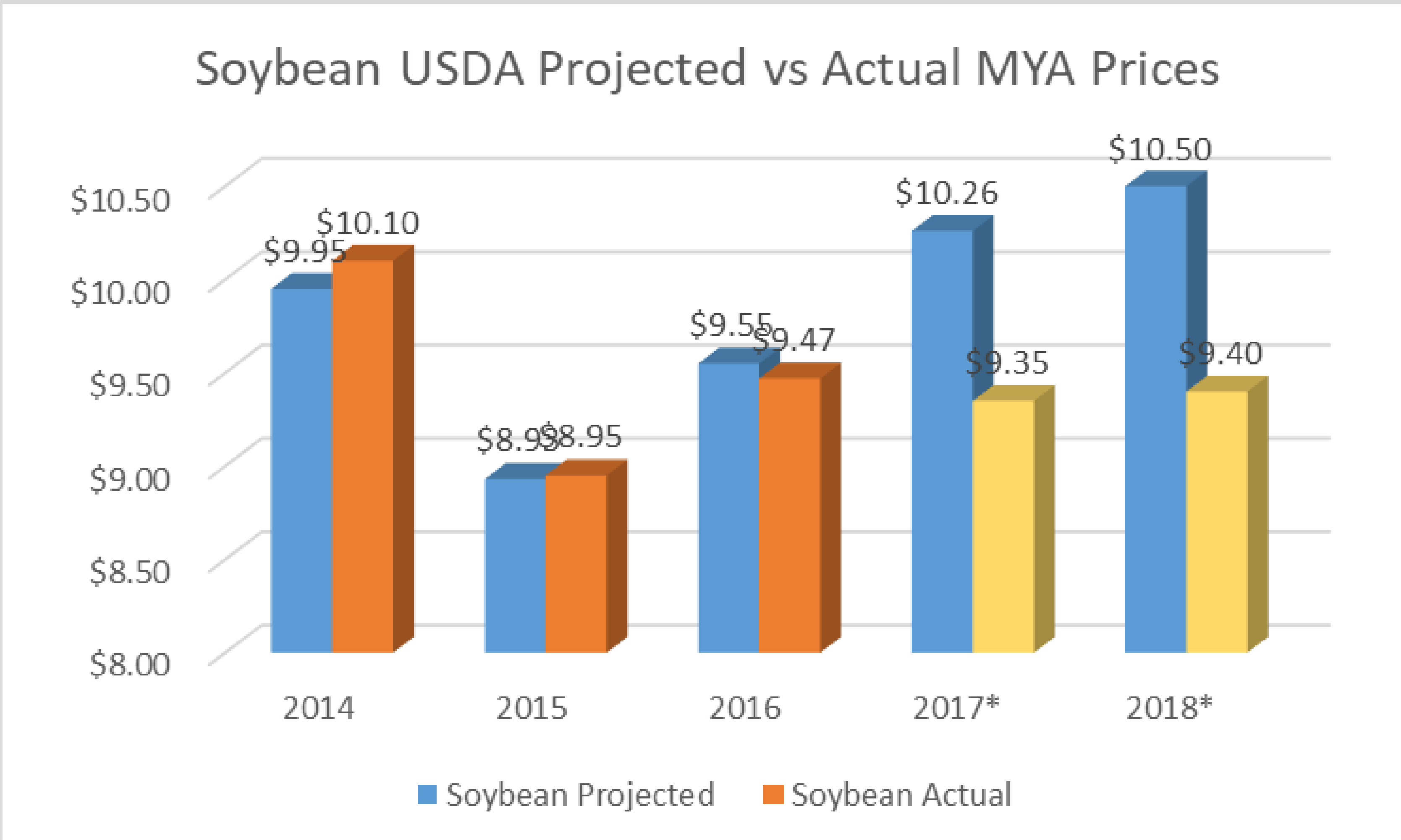
CBO scores are based on assumptions. CBO prices factor into the cost of bills. Lower prices means more farm program payouts, higher prices mean more subsidy payouts.

2014 Farm Bill Projected vs. Actual



*current projections

2014 Farm Bill Projected vs. Actual



Crop Insurance Concerns…

…from 10,000 feet!

Narrowing In...

POLICY TYPES

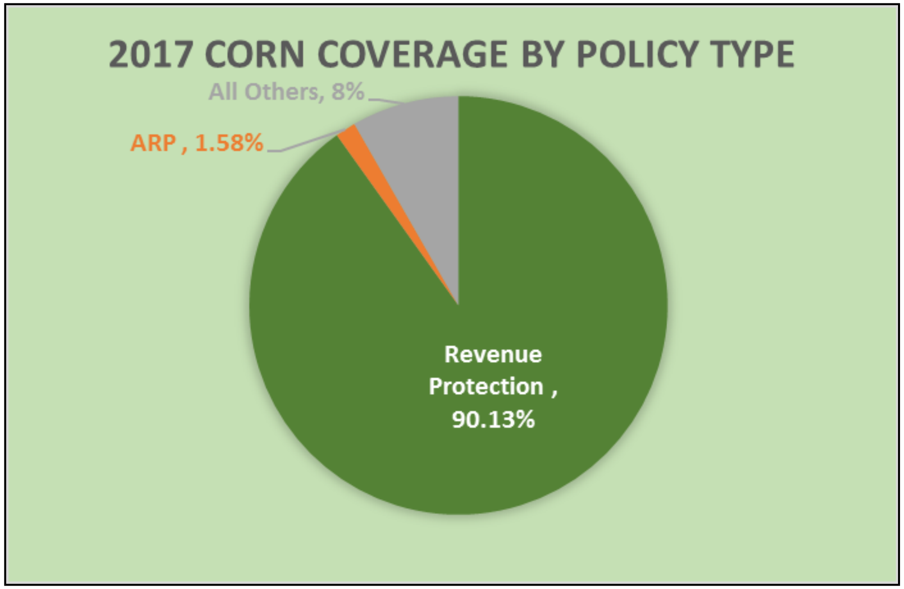
- Area Revenue Protection
- Area Revenue Protection HPE
- Area Yield Protection
- Margin Protection
- Stacked Income Protection Plan – Rev Prot
- Revenue Protection
- Revenue Protection HPE
- Yield Protection

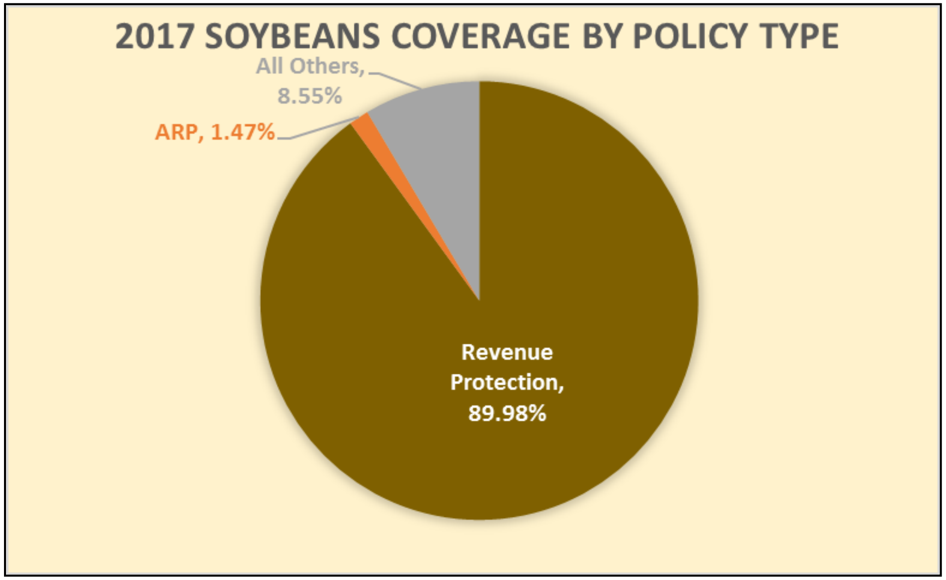
CROPS

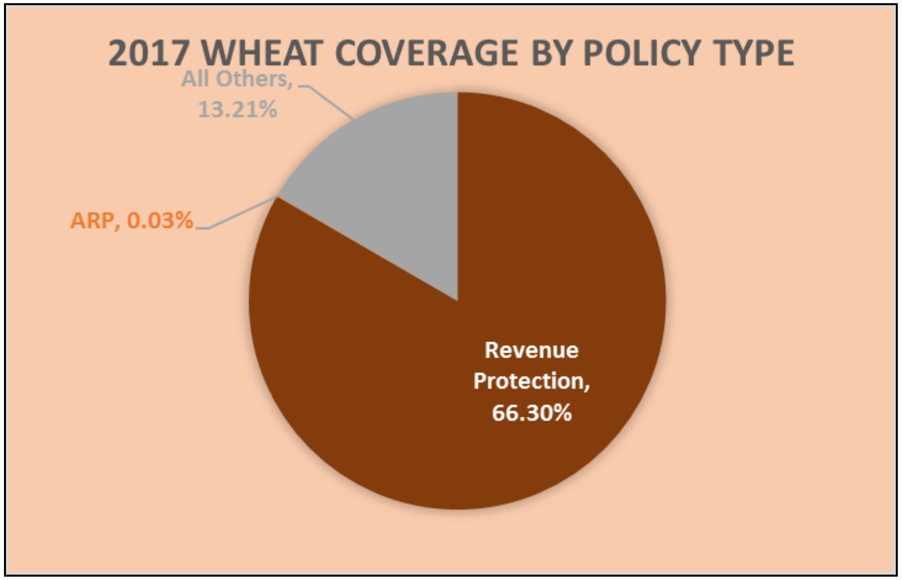
- Barley
- Canola
- Corn
- Cotton
- Grain Sorghum
- Peanuts
- Popcorn
- Rice
- Soybeans
- Sunflowers
- Wheat

SALES CLOSING

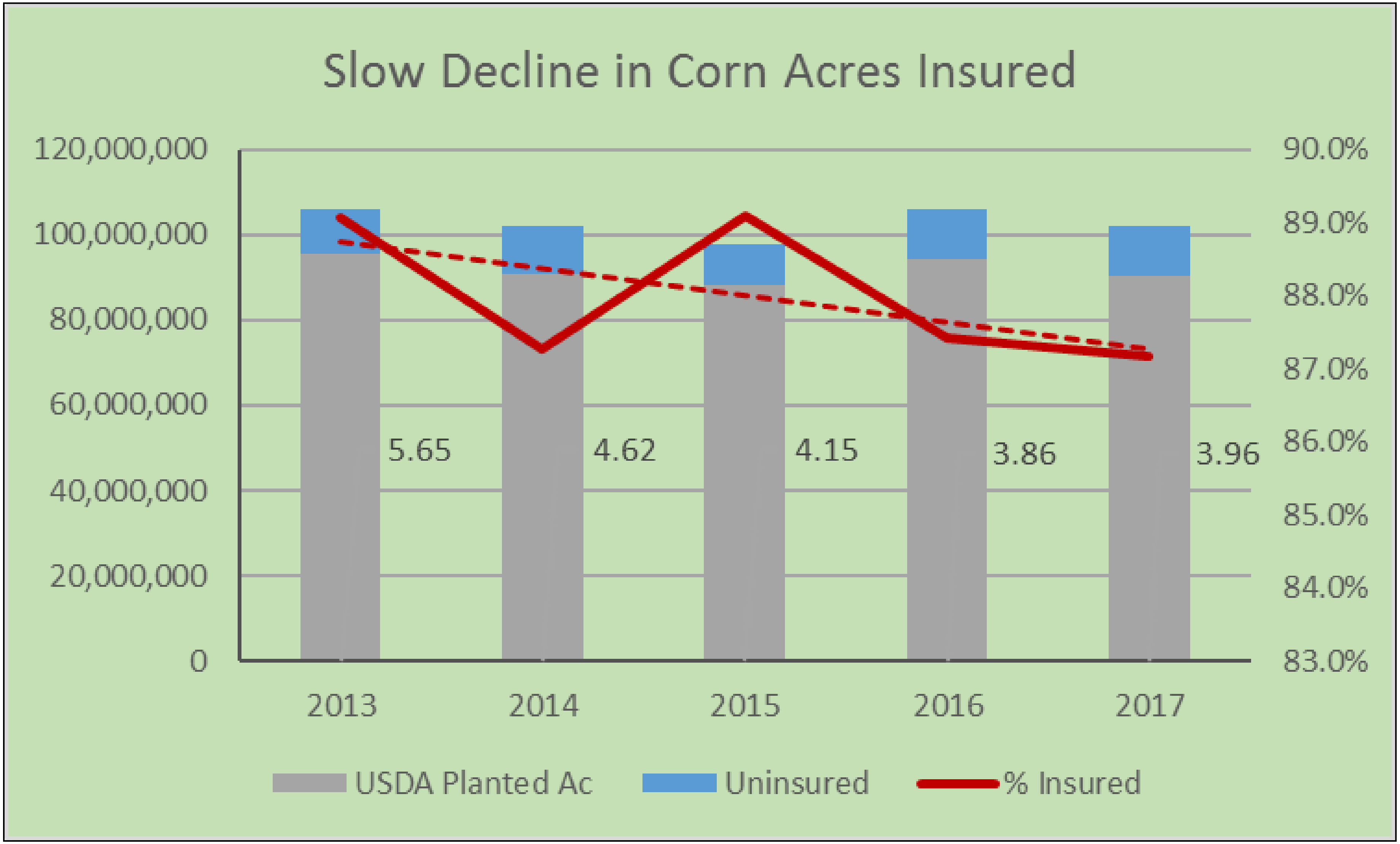
- Jan 31
- Feb 15
- Feb 28
- Mar 15
- Aug 31
- Sep 30
- Oct 31

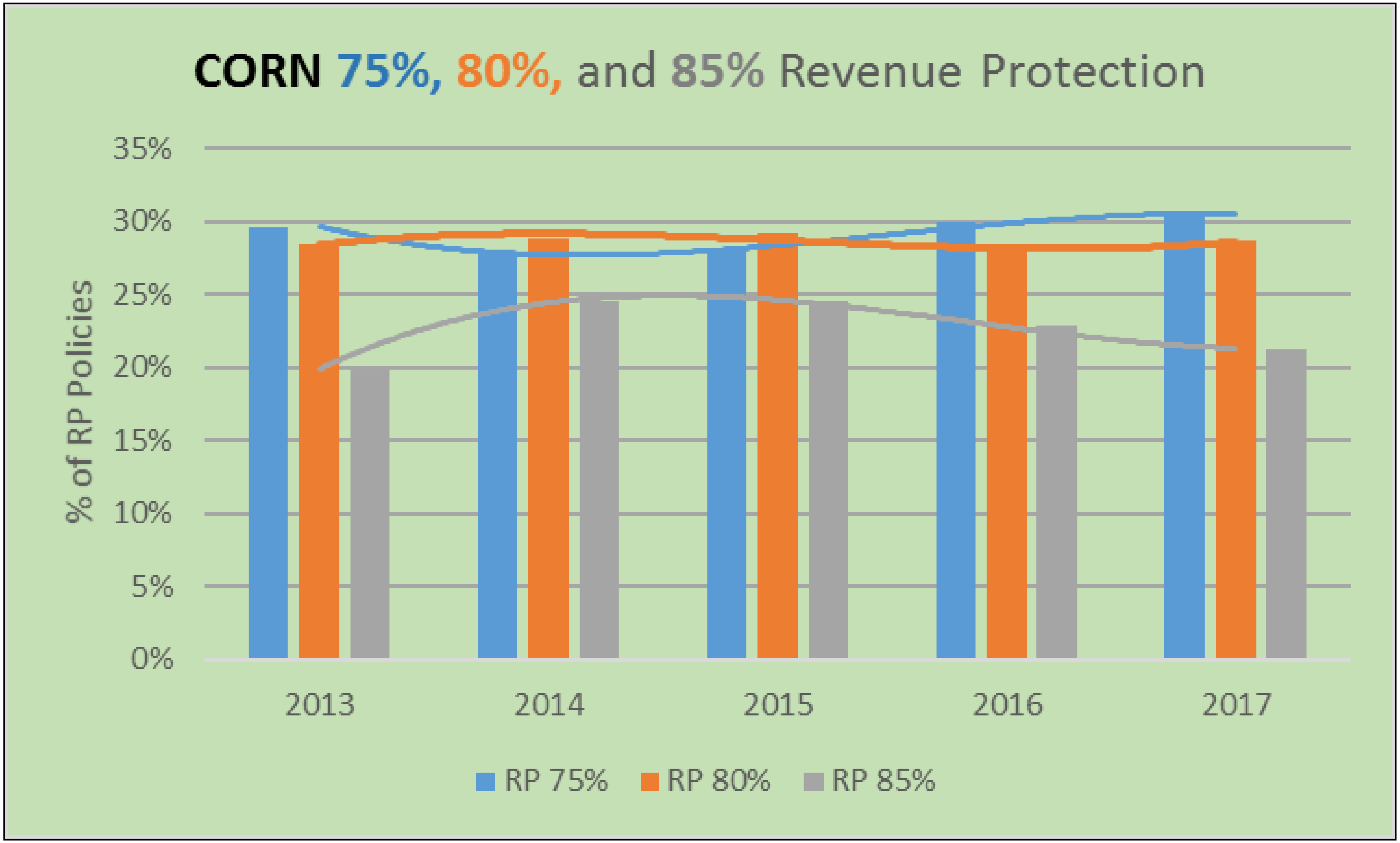

2017 CORN COVERAGE BY POLICY TYPE
All Others, 8%
ARP , 1.58%
Revenue Protection , 90.13%

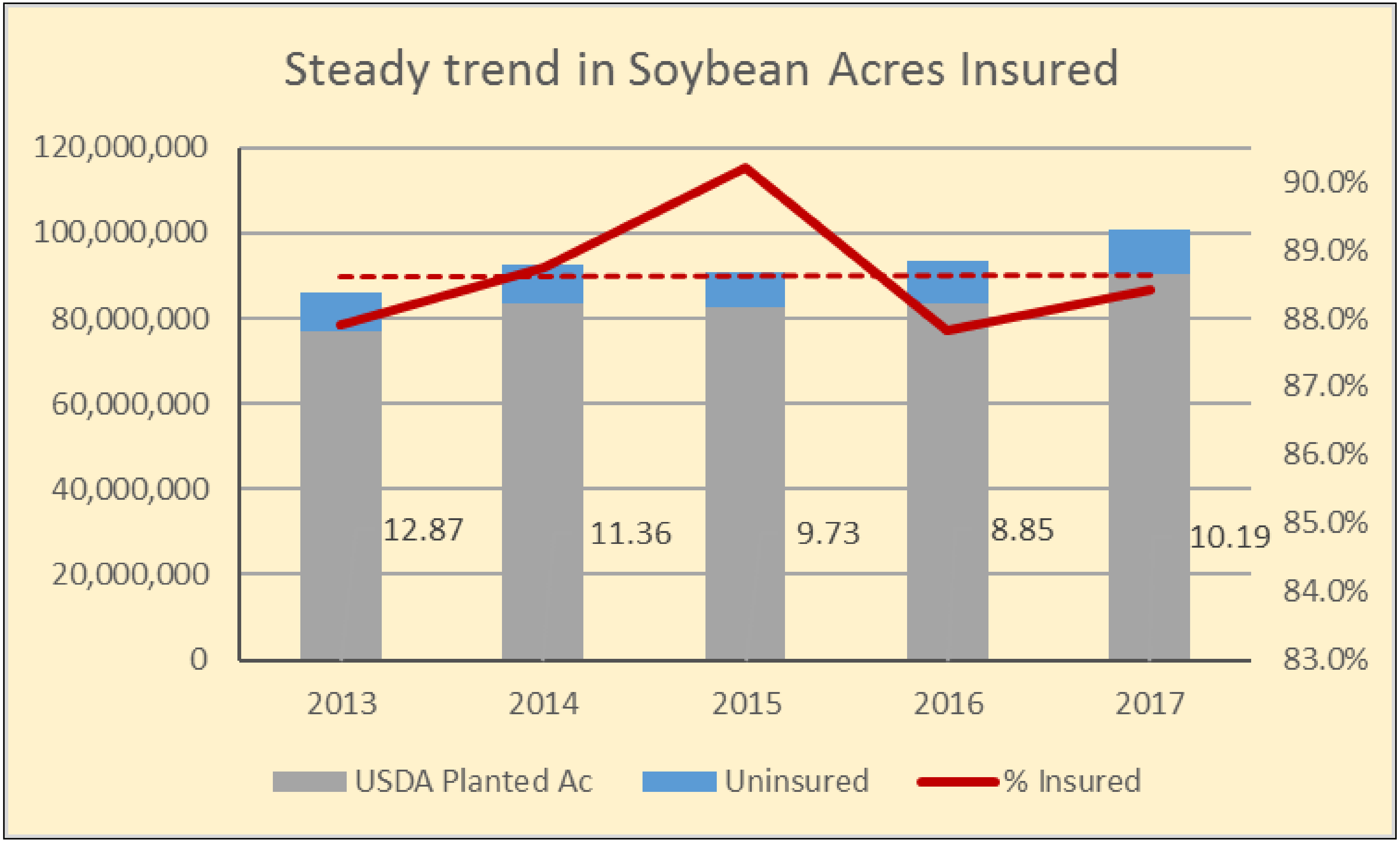

2017 SOYBEANS COVERAGE BY POLICY TYPE
All Others, 8.55%
ARP, 1.47%
Revenue Protection, 89.98%

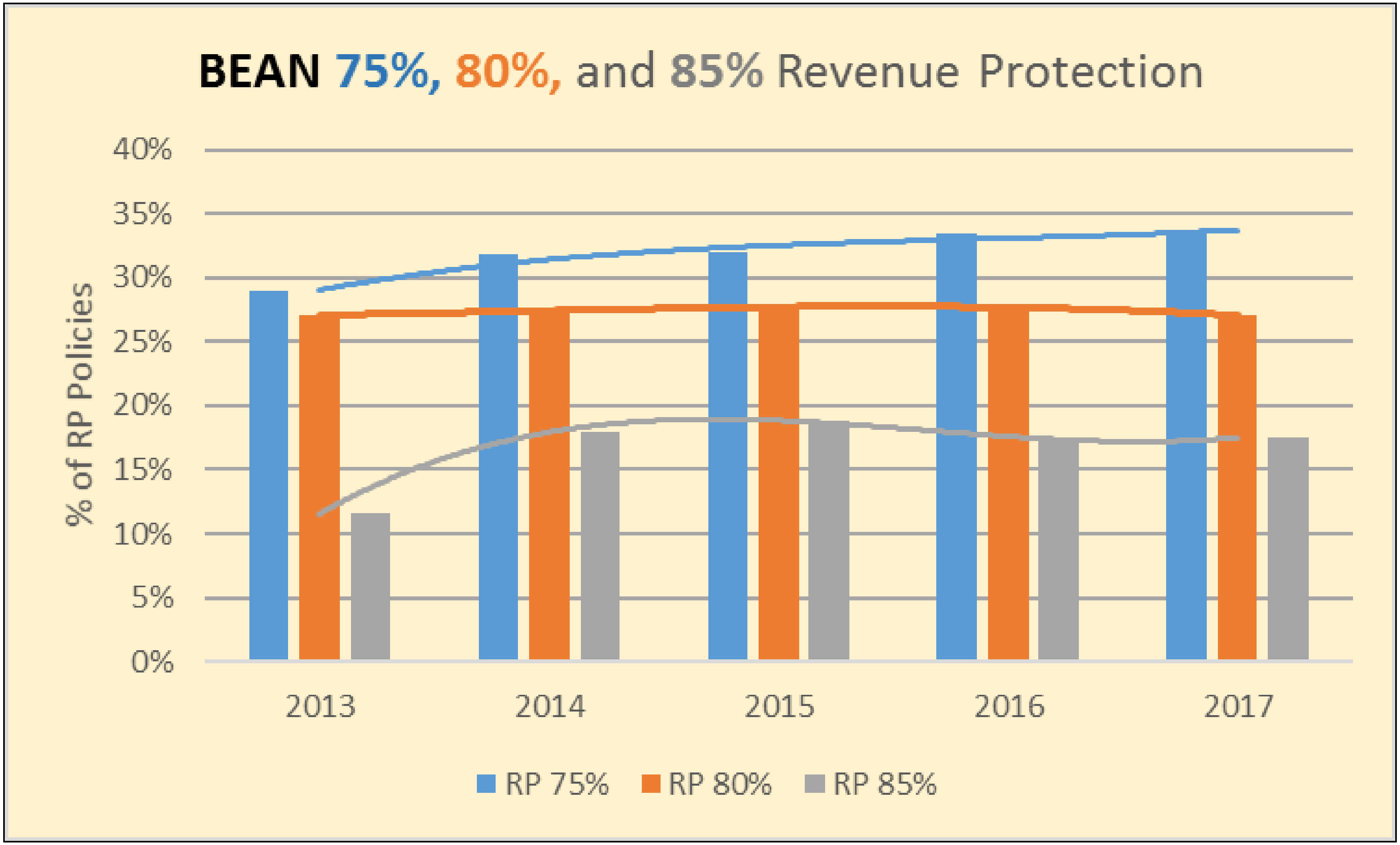

2017 WHEAT COVERAGE BY POLICY TYPE
All Others, 13.21%
ARP, 0.03%
Revenue Protection, 66.30%

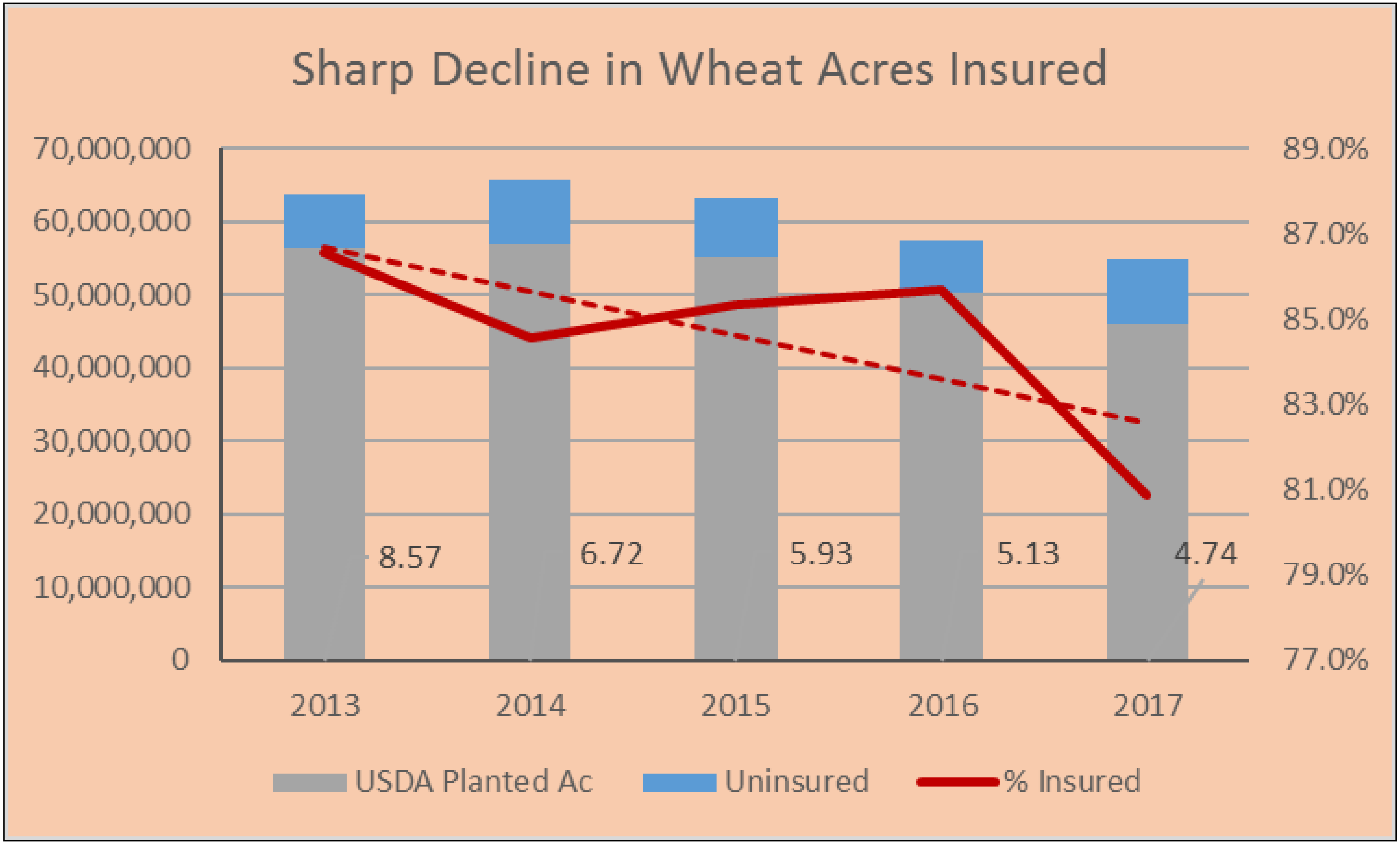
Trends in Crop Insurance

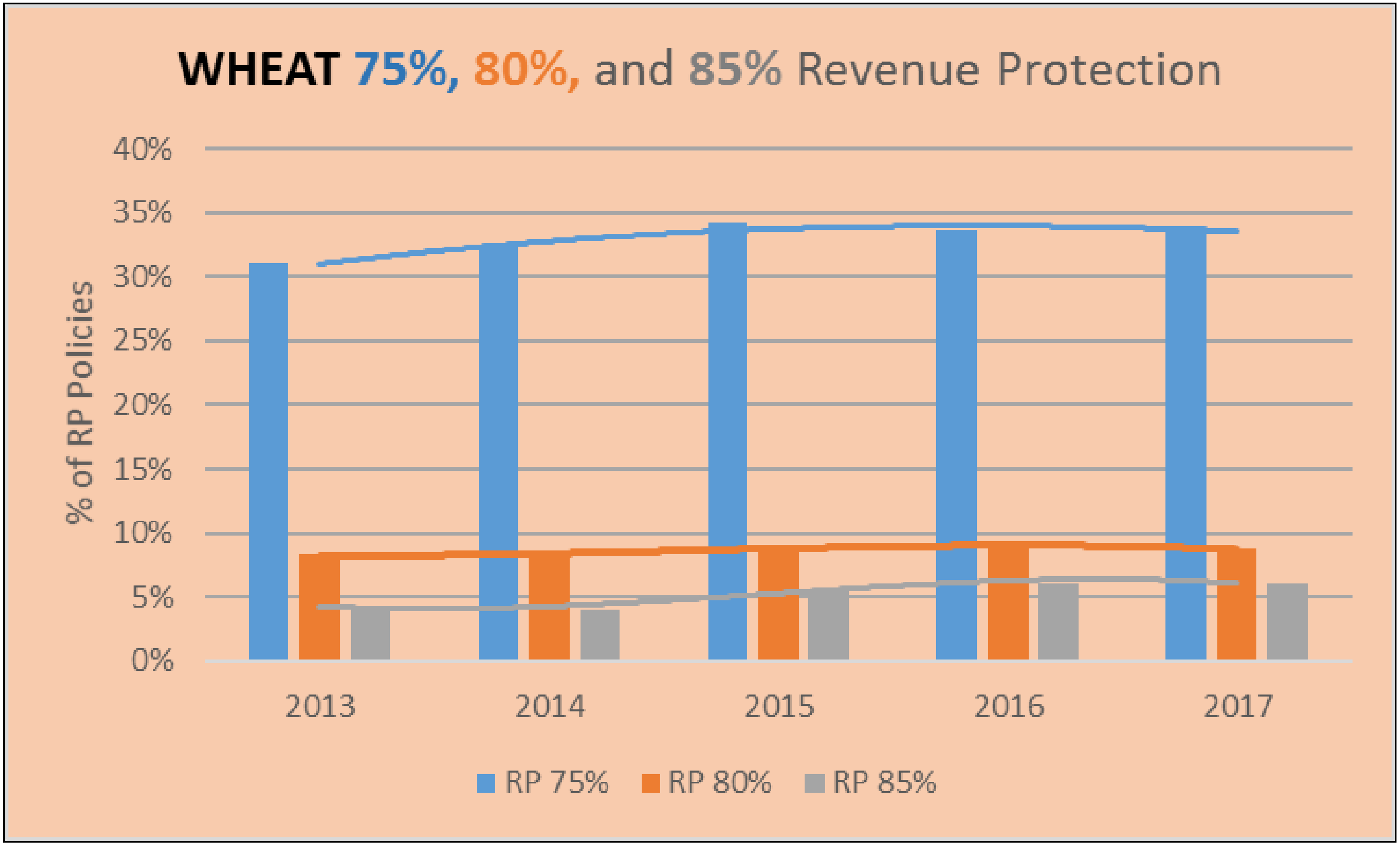

Slow Decline in Corn Acres Insured
120,000,000
100,000,000
80,000,000
60,000,000
40,000,000
20,000,000
0
90.0%
89.0%
88.0%
87.0%
86.0%
85.0%
84.0%
83.0%
5.65
4.62
4.15
3.86
3.96
2013
2014
2015
2016
2017
USDA Planted Ac
Uninsured
% Insured

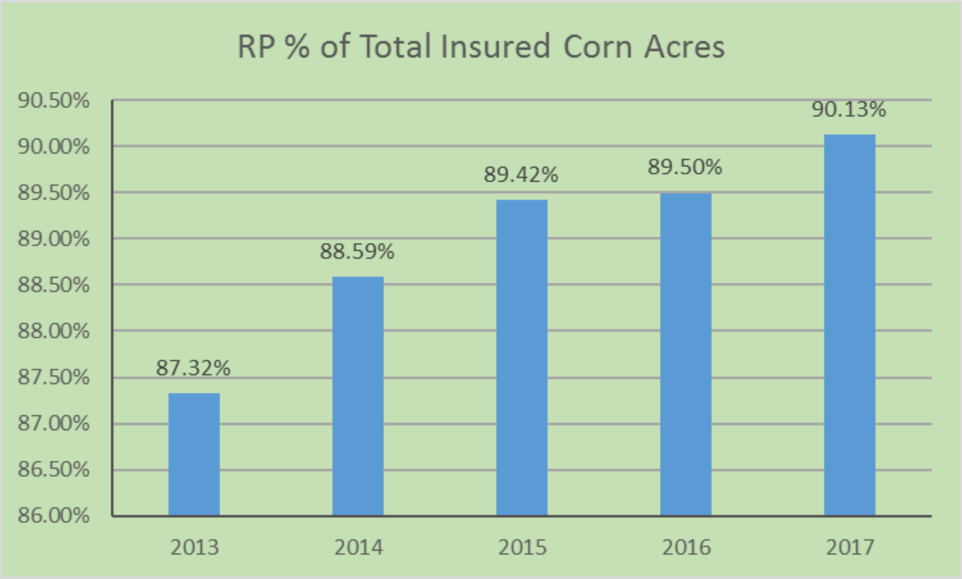

CORN 75%, 80%, and 85% Revenue Protection
% of RP Policies
35%
30%
25%
20%
15%
10%
5%
0%
2013
2014
2015
2016
2017
RP 75%
RP 80%
RP 85%

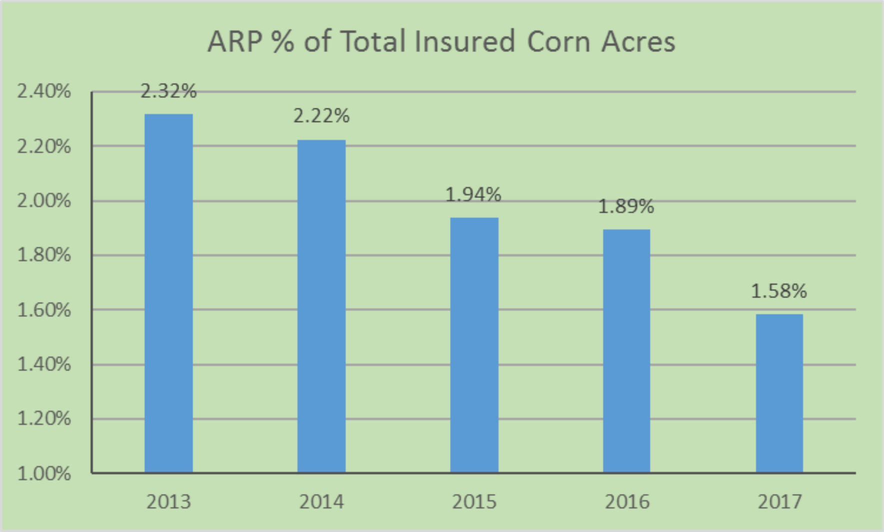

Steady trend in Soybean Acres Insured
120,000,000
100,000,000
80,000,000
60,000,000
40,000,000
20,000,000
0
90.0%
89.0%
88.0%
87.0%
86.0%
85.0%
84.0%
83.0%
12.87
11.36
9.73
8.85
10.19
2013
2014
2015
2016
2017
USDA Planted Ac
Uninsured
% Insured

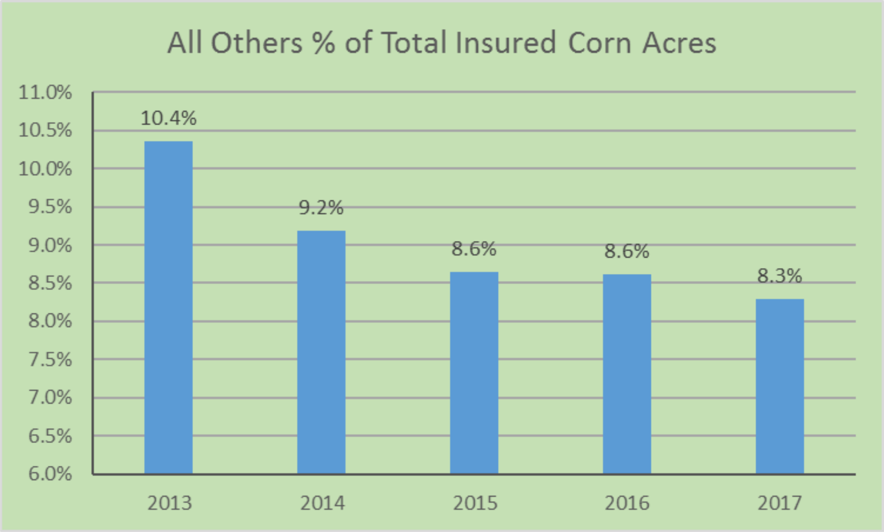

BEAN 75%, 80%, and 85% Revenue Protection
% of RP Policies
40%
35%
30%
25%
20%
15%
10%
5%
0%
2013
2014
2015
2016
2017
RP 75%
RP 80%
RP 85%

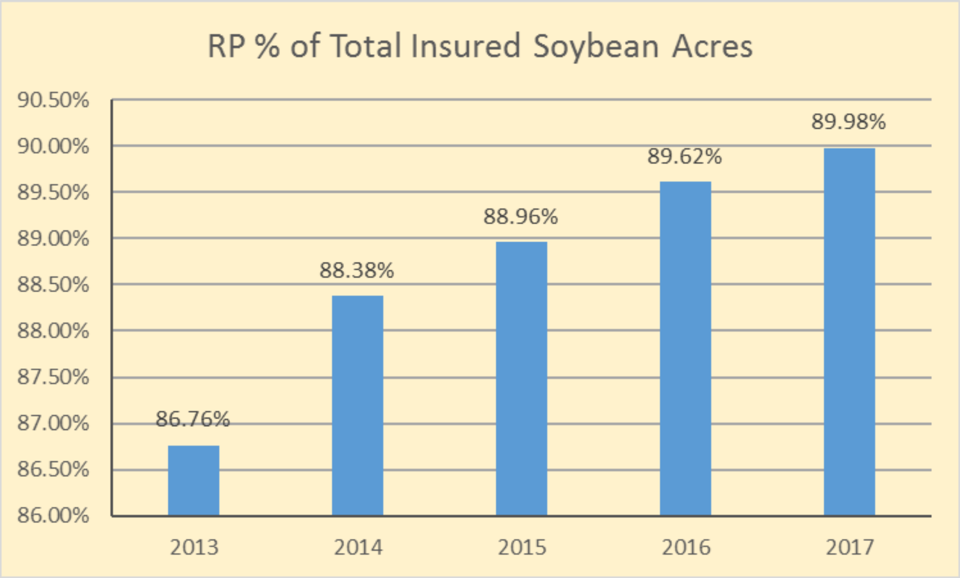

Sharp Decline in Wheat Acres Insured
70,000,000
60,000,000
50,000,000
40,000,000
30,000,000
20,000,000
10,000,000
0
89.0%
87.0%
85.0%
83.0%
81.0%
79.0%
77.0%
8.57
6.72
5.93
5.13
4.74
2013
2014
2015
2016
2017
USDA Planted Ac
Uninsured
% Insured

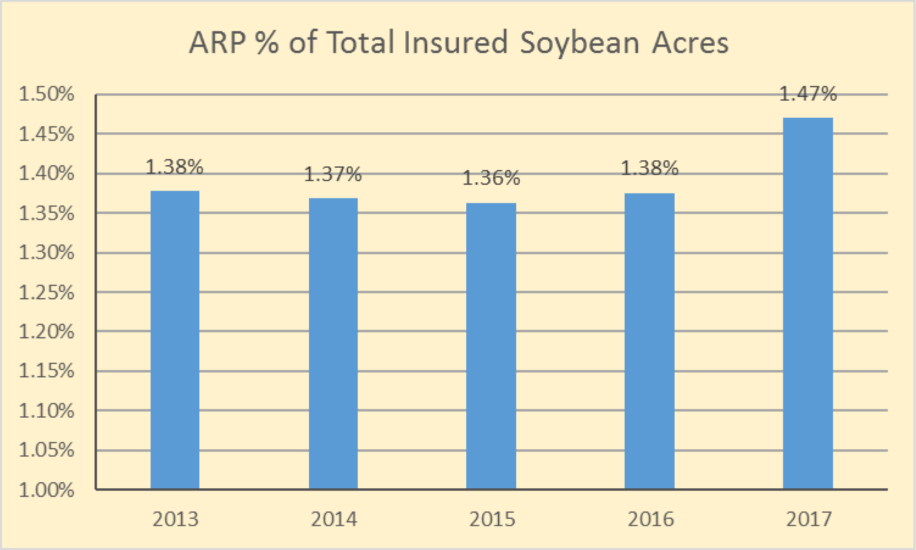

WHEAT 75%, 80%, and 85% Revenue Protection
% of RP Policies
40%
35%
30%
25%
20%
15%
10%
5%
0%
2013
2014
2015
2016
2017
RP 75%
RP 80%
RP 85%

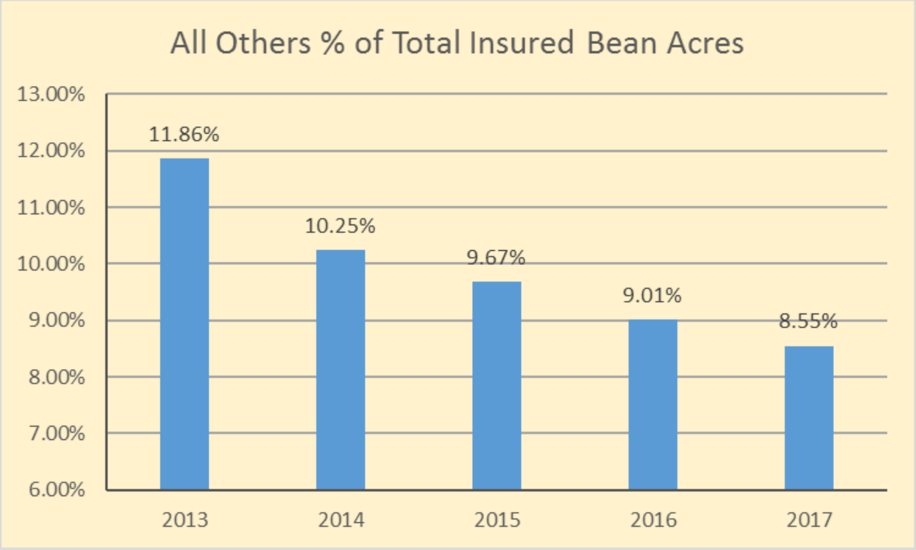

RP % of Total Insured Corn Acres
90.50%
90.00%
89.50%
89.00%
88.50%
88.00%
87.50%
87.00%
86.50%
86.00%
87.32%
88.59%
89.42%
89.50%
90.13%
2013
2014
2015
2016
2017


ARP % of Total Insured Corn Acres
2.40%
2.20%
2.00%
1.80%
1.60%
1.40%
1.20%
1.00%
2.32%
2.22%
1.94%
1.89%
1.58%
2013
2014
2015
2016
2017

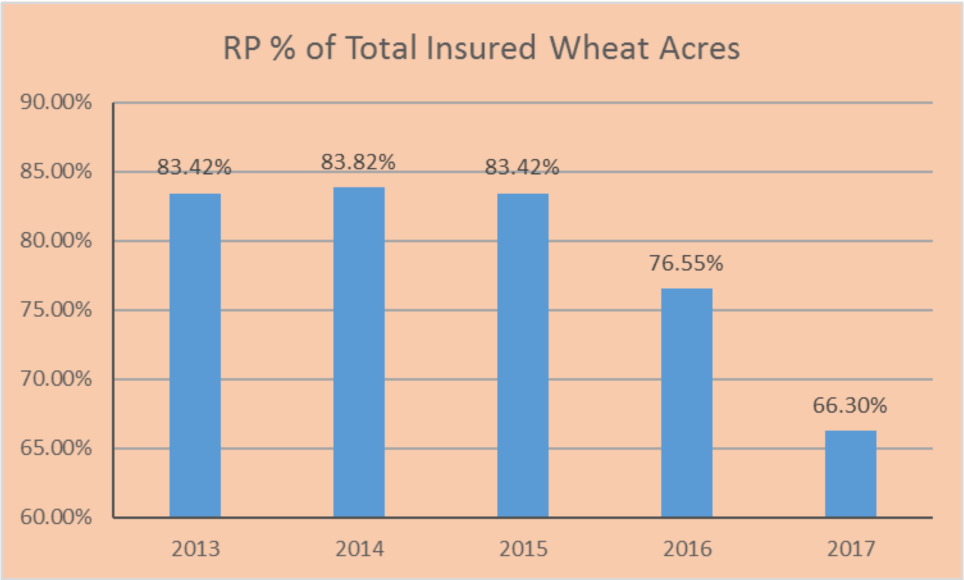

All Others % of Total Insured Corn Acres
11.0%
10.5%
10.0%
9.5%
9.0%
8.5%
8.0%
7.5%
7.0%
6.5%
6.0%
10.4%
9.2%
8.6%
8.6%
8.3%
2013
2014
2015
2016
2017

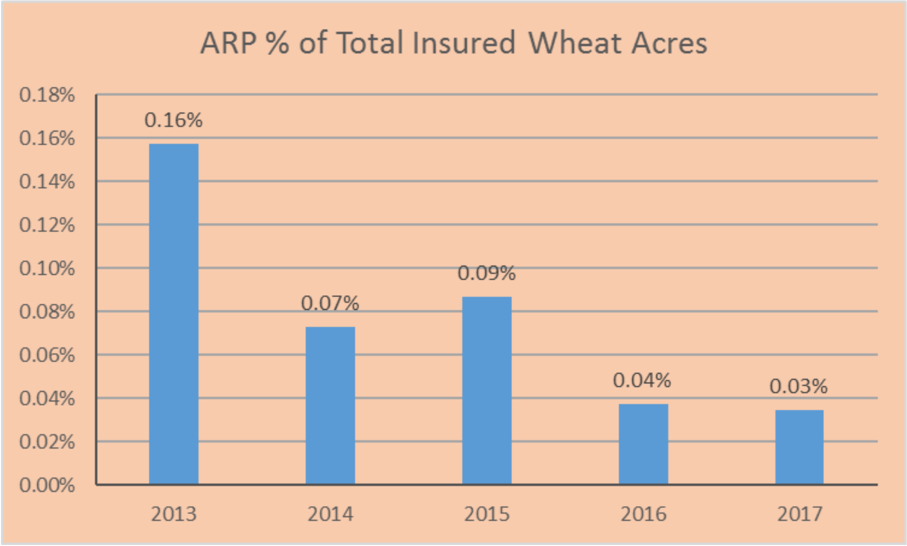


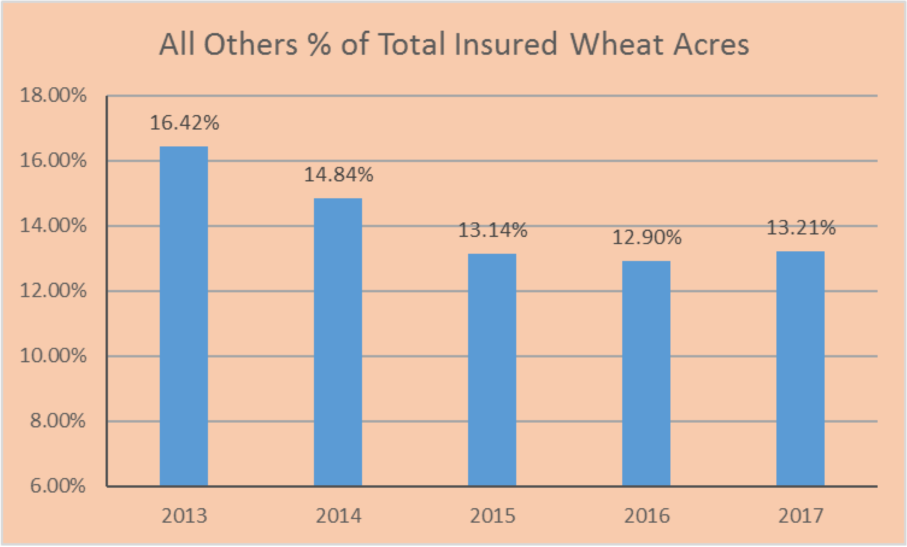




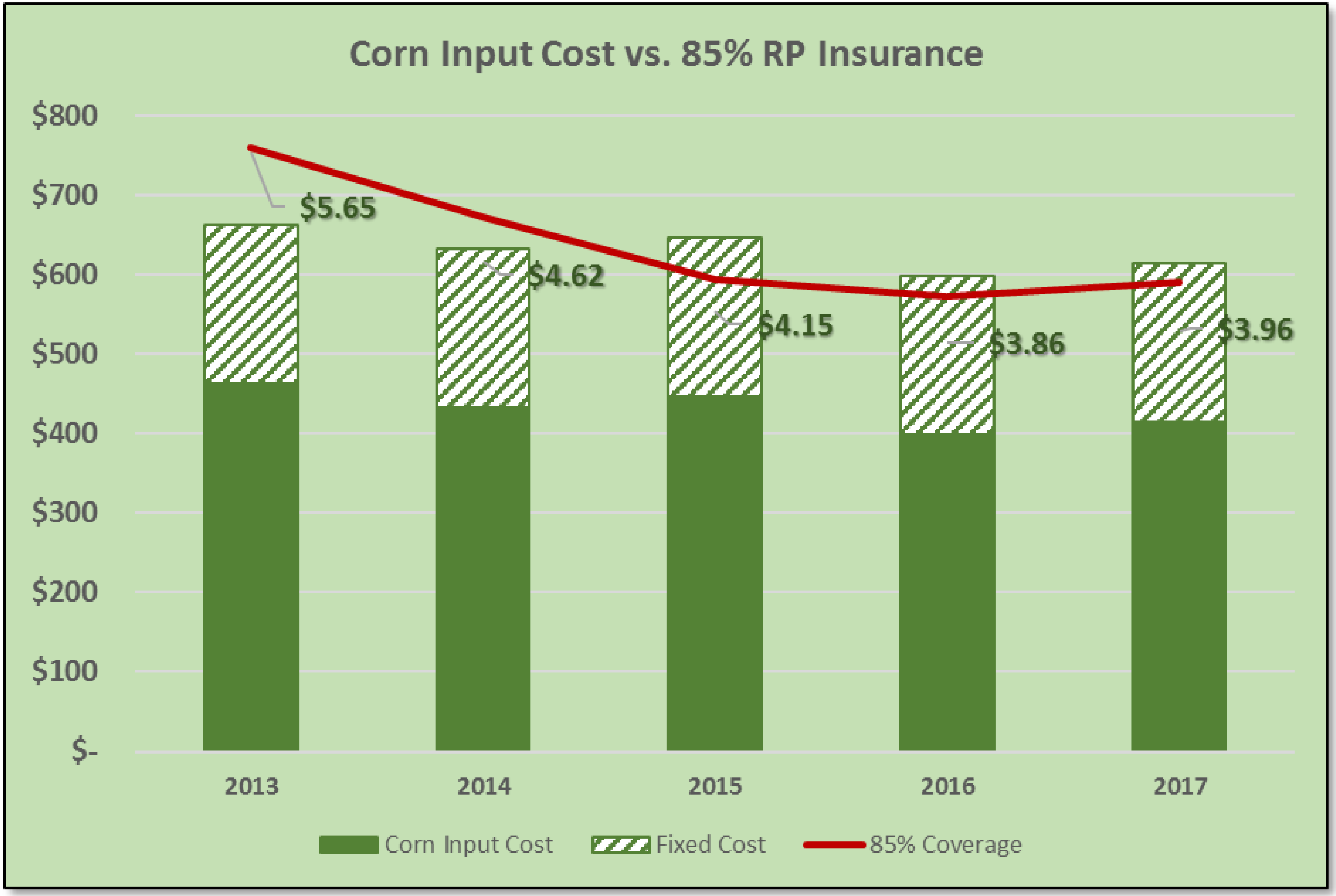
Diversified Services

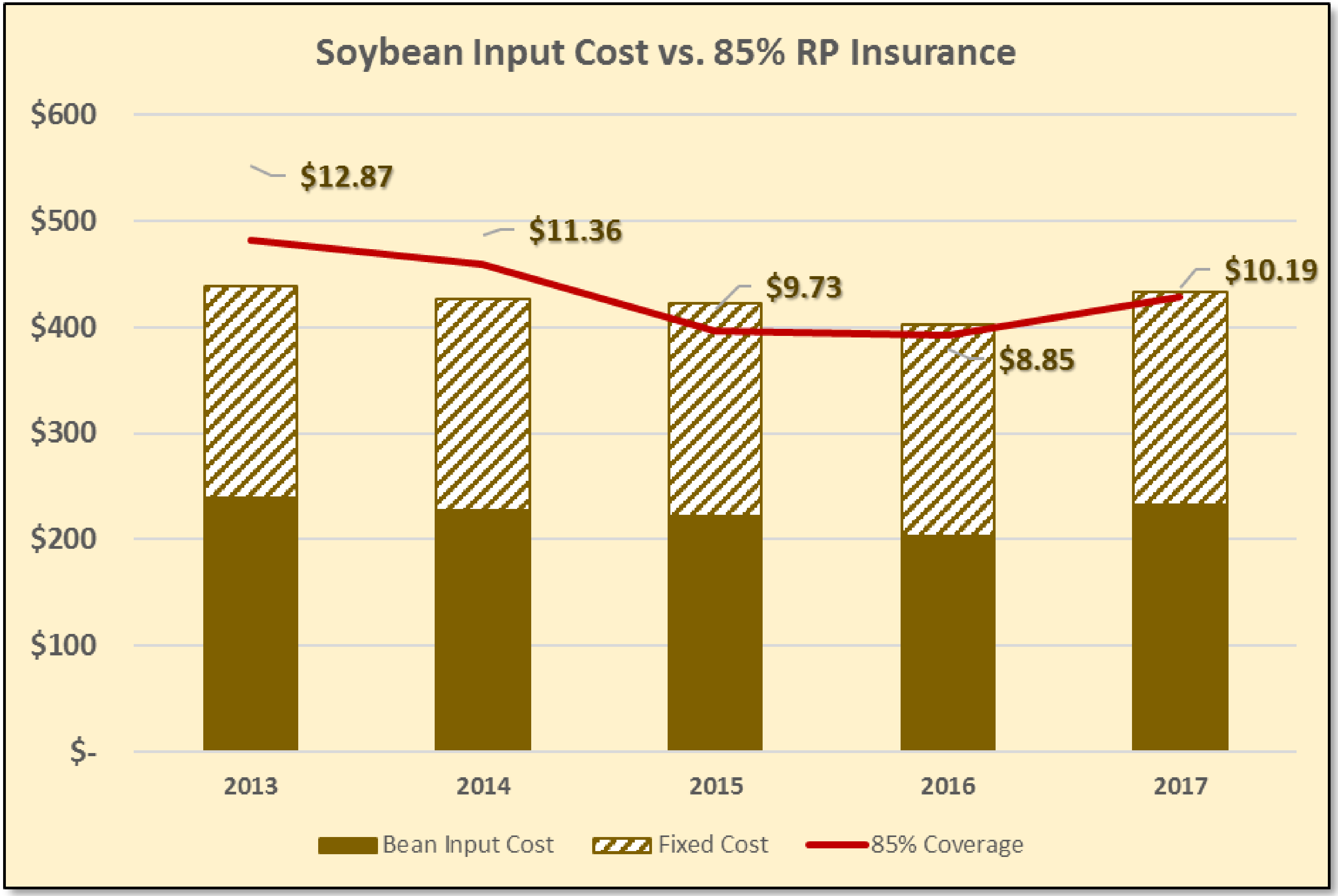

RP % of Total Insured Wheat Acres
90.00%
85.00%
80.00%
75.00%
70.00%
65.00%
60.00%
83.42%
83.82%
83.42%
76.55%
66.30%
2013
2014
2015
2016
2017

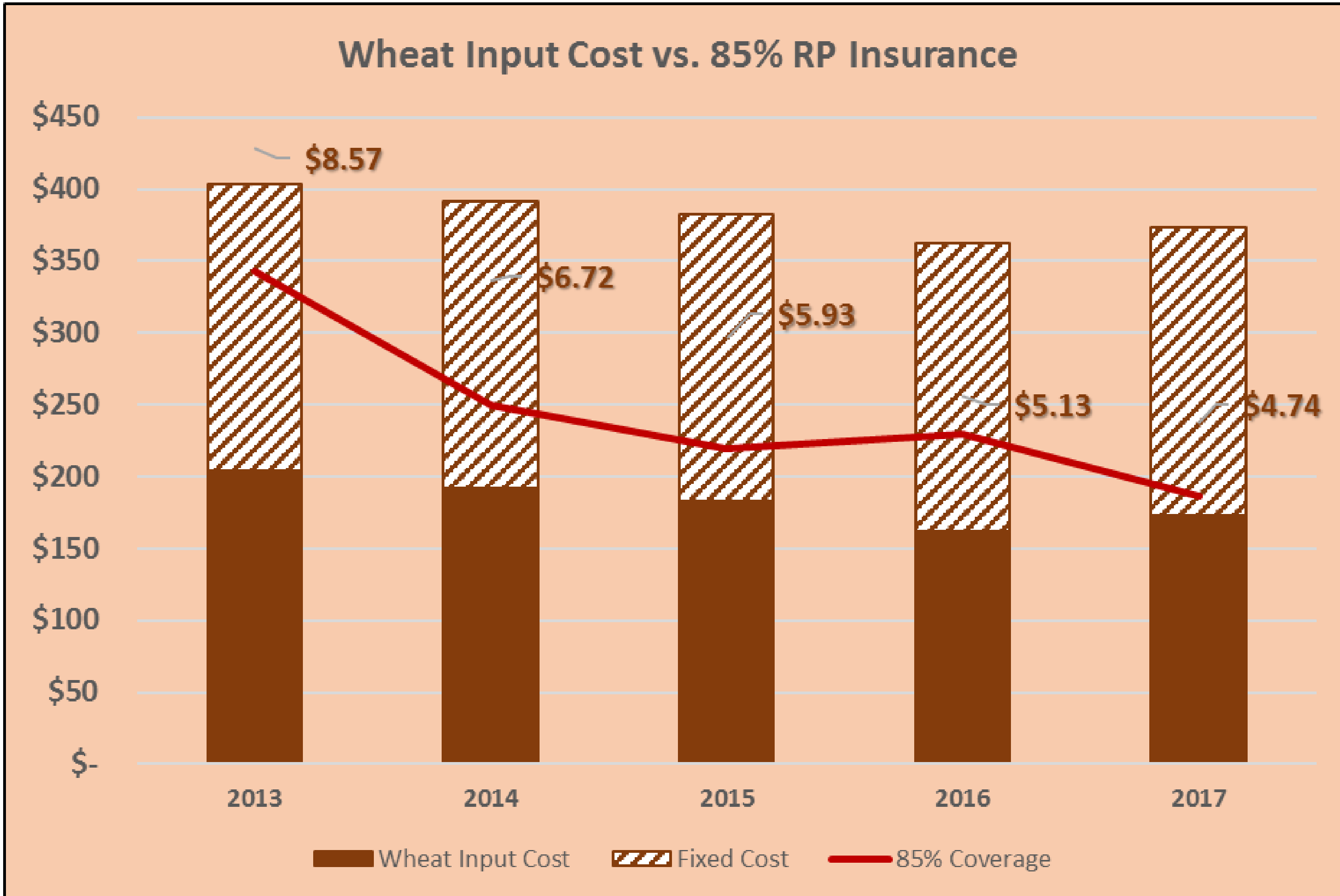

ARP % of Total Insured Wheat Acres
0.18%
0.16%
0.14%
0.12%
0.10%
0.08%
0.06%
0.04%
0.02%
0.00%
0.16%
0.07%
0.09%
0.04%
0.03%
2013
2014
2015
2016
2017


All Others % of Total Insured Wheat Acres
18.00%
16.00%
14.00%
12.00%
10.00%
8.00%
6.00%
16.42%
14.84%
13.14%
12.90%
13.21%
2013
2014
2015
2016
2017

What is your RISK APPETITE?

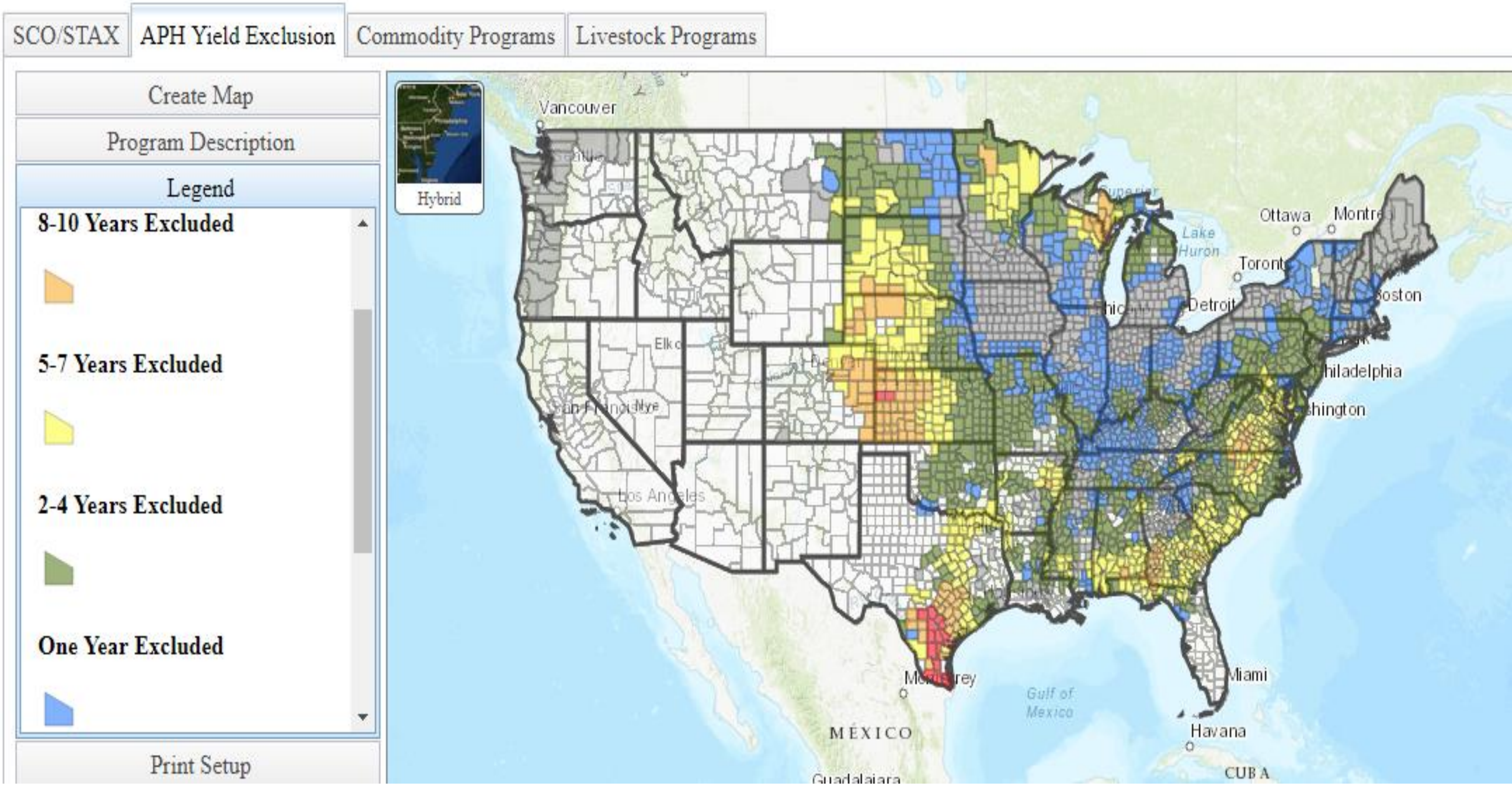

Corn Input Cost vs. 85% RP Insurance
$800
$700
$600
$500
$400
$300
$200
$100
$-
$5.65
$4.62
$4.15
$3.86
$3.96
2013
2014
2015
2016
2017
Corn Input Cost
Fixed Cost
85% Coverage


Soybean Input Cost vs. 85% RP Insurance
$600
$500
$400
$300
$200
$100
$-
$12.87
$11.36
$9.73
$8.85
$10.19
2013
2014
2015
2016
2017
Bean Input Cost
Fixed Cost
85% Coverage

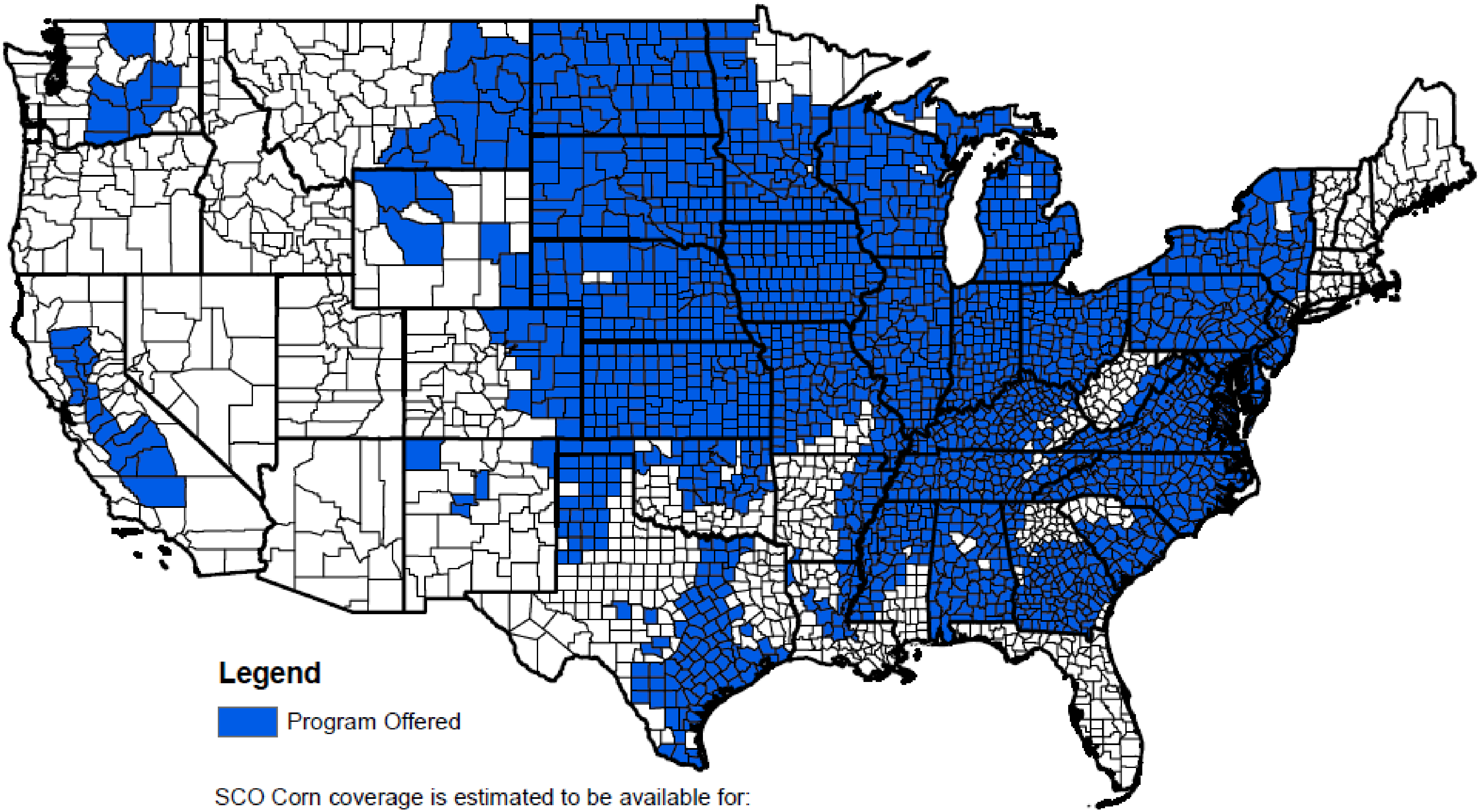


Wheat Input Cost vs. 85% RP Insurance
$450
$400
$350
$300
$250
$200
$150
$100
$50
$-
$8.57
$6.72
$5.93
$5.13
$4.74
2013
2014
2015
2016
2017
Wheat Input Cost
Fixed Cost
85% Coverage

CI Enhancements - APH Yield Exclusion

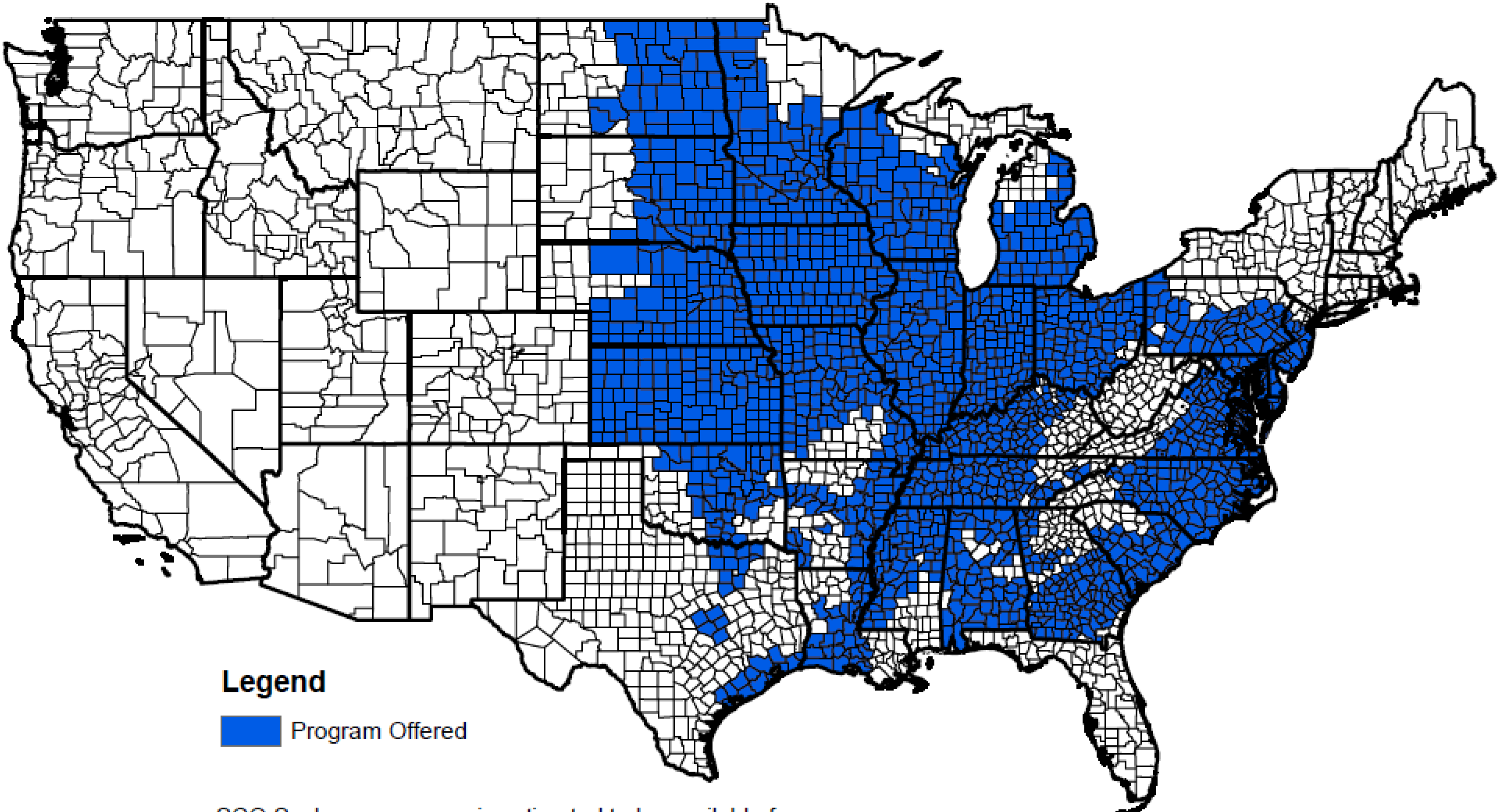


2015 Crop Year Supplemental Coverage Option (SCO) Availability for Corn



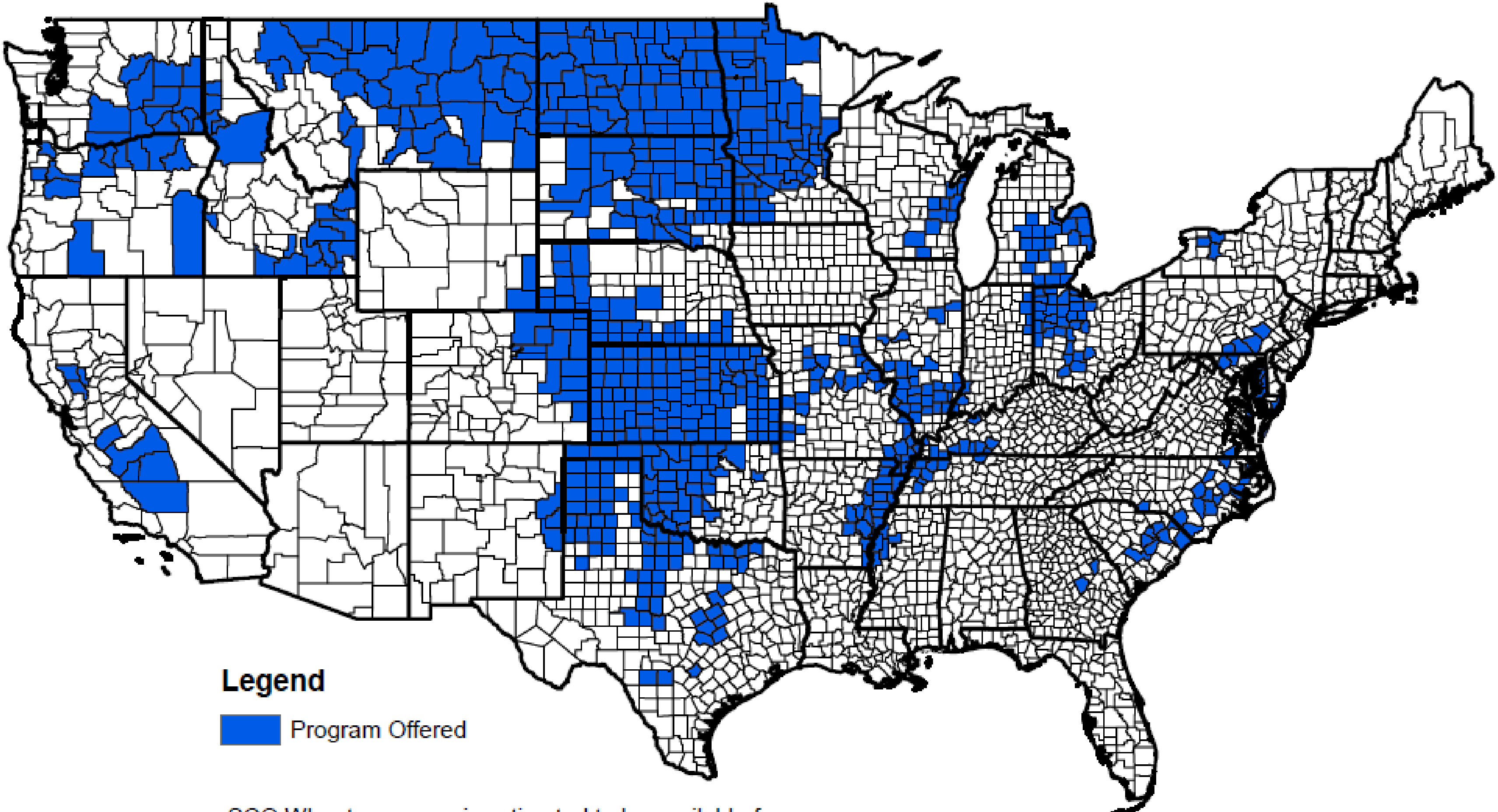
SCO Corn coverage is estimated to be available for:
99% of acreage insured (based on 2013 crop insurance participation)
98% of all planted acreage (based on 2013 NASS estimates)

2015 Crop Year Supplemental Coverage Option (SCO) Availability for Soybeans

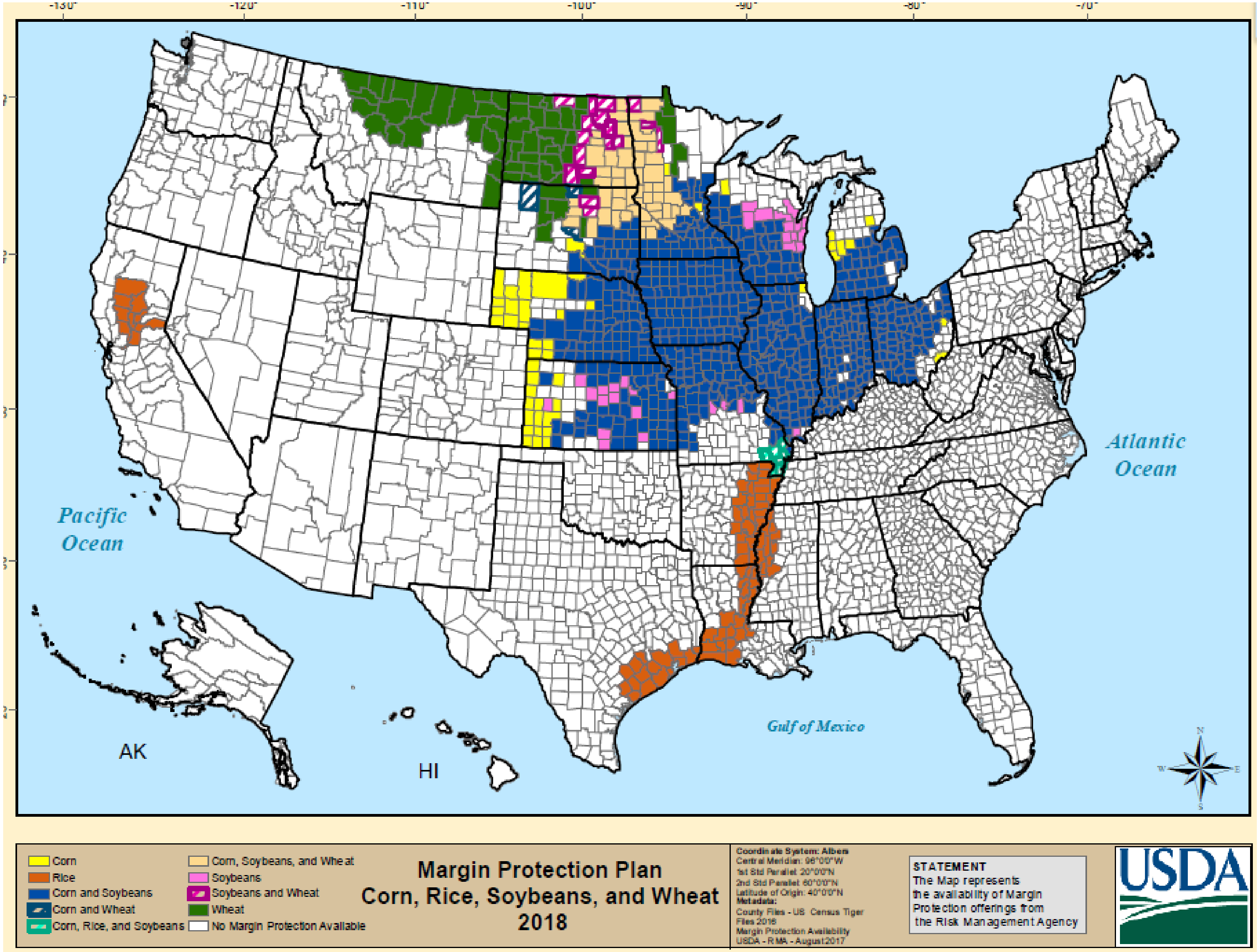


SCO Soybean coverage is estimated to be available for:
99% of acreage insured (based on 2013 crop insurance participation)
98% of all planted acreage (based on 2013 NASS estimates)

2015 Crop Year Supplemental Coverage Option (SCO) Availability for Wheat



SCO Wheat coverage is estimated to be available for:
89% of acreage insured (based on 2013 crop insurance participation)
82% of all planted acreage (based on 2013 NASS estimates)

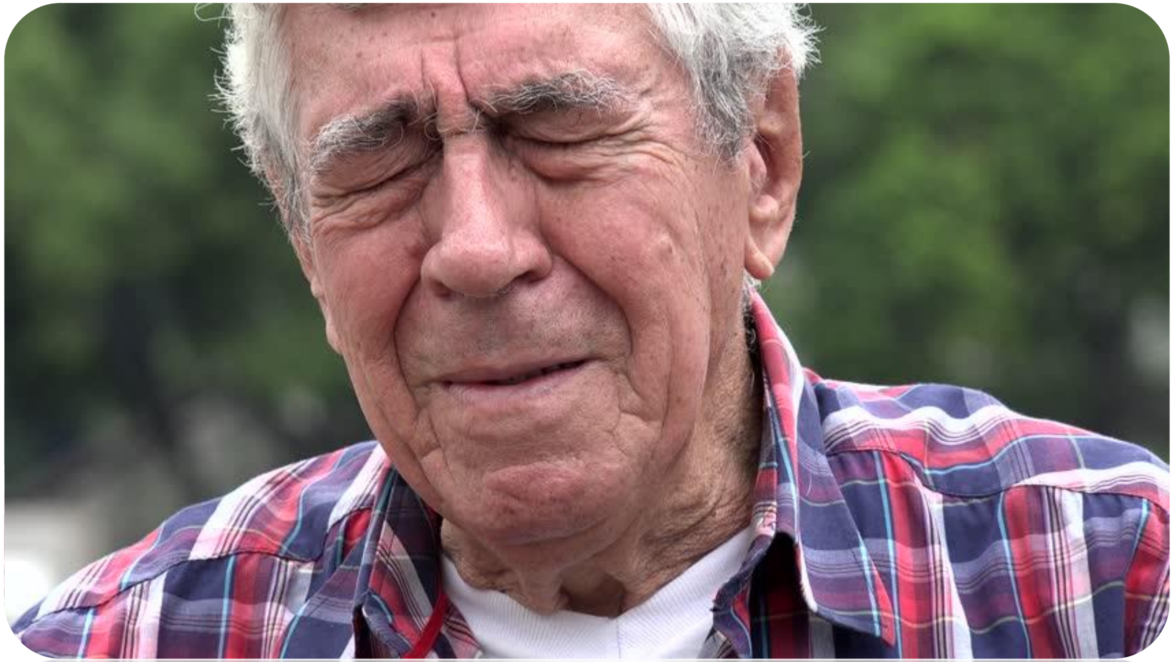


Diversified Services

Available Enhancements

- APH Yield Exclusion
- SCO/STAX
- Trend Adjusted APH Endorsement
- Margin Protection
- Private Products…

What now?



FOCUS on REVENUE

Price/Bushel	Yield/Acre	REVENUE POTENTIAL
$ 4.50	156	$ 700
$ 4.00	175	$ 700
$ 3.50	200	$ 700
$ 3.00	233	$ 700

KNOW YOUR COST

- Key to surviving current market environment
- Absolute imperative to building your 2018 Risk Management strategy
- Digest the amount of “risk” you can take on!
- **PAIR YOUR CROP INSURANCE WITH YOUR GRAIN MARKETING!**

Thank You for Attending

From KCoe Isom and Diversified Crop Insurance Services