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THE FARMER'S EDGE

Hurley & Associates
Agri-Marketing Centers

The Future of your Farm: Preparing for Farm Succession

By Joe Kluender

No plan, no success, it's just that simple.

"I want to take over, be in charge, be the boss." This is often the sentiment of the younger generation on a family farm. They've grown up living the farm life and watching the farm business, and are anxious to give it a go themselves. So eager to finally have the responsibilities and pride of ownership, many underestimate what this new role entails. Their fresh energy and perspective may stimulate the business, but unique challenges come with these changing dynamics.

The transition of trust

One thing that makes farming unique is that, over time, the family develops a tremendous amount of social capital. But the trust earned over many years with the farm's lenders, vendors, and landlords does not necessarily transfer to the successor. The lender may require greater collateral for loans, place more scrutiny on the financial reports, and challenge the assumptions of business plans. Continued access to rented land may depend on the careful transitioning and continued nurturing of the long-term relationships with landlords.

Incoming owners should make time early on to meet with the landlord to help build trust. Unless the transition of authority is handled in a way that acknowledges the business relationships already established, a new owner may find it difficult to leverage those years of valuable social capital, and may even need to begin anew.

Take changes slowly

As with any change of leadership, a new generation naturally brings a desire to establish their unique business identity. New ideas, innovative work approaches, and diversifying crops and livestock may be valuable additions to the operation, but beware of the effect on people and pocketbook. For instance, the technology savvy younger generation is often eager to upgrade technology in the field and in the office. But beware, investing in high-tech improvements can be expensive and may not improve efficiency. Drastic changes to the farm can make key

continued on page 2

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IN THIS ISSUE:

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employees nervous and lead to feelings that their jobs will change or that they'll no longer be needed.

Vendors also may be uncomfortable with rapid changes. New ideas or processes may mean they have to put more work into the relationship. On the opposite side, other vendors could see the management shift as an opportunity to introduce their products and may increase sales efforts.

Facing family pressure

New owners will also face challenges within the family itself. Retiring farmers often have a significant part of their retirement investments in the family farm's assets, so the successor carries the burden of managing his or her parents' estate and siblings' inheritance. These changes put additional pressure on these relationships.

Communicating is key to maintaining good family relations. Parents and siblings might question management decisions, and spending significant time responding to these questions takes time away from managing the farm. The senior generation may have difficulty providing the financial and emotional support needed for the continued success of the business. And if the farm does enjoy success, siblings may start to envy the lifestyle of the active farming child and question the fairness of mom and dad's estate plans.

A farm business transition demands that time and energy are spent managing the change in family dynamics and culture. Scheduling regular family meetings can be effective as a formal outlet for everyone to share ideas and concerns.

The pending transition of the family farm is an exciting and often stressful time for all involved. A farm family should discuss the potential issues early on and start addressing them now, so when the new owner takes on all the responsibilities, the rewards of running a family business will continue for many years to come.

Transition without a family successor

Transitions to non-relatives require that everyone be more open and businesslike. Like a marriage, partners need time to assess their compatibility before they commit. We recommend that potential non-family partners go slow and work together several years, because these deals are difficult to unravel tax-wise if things go wrong. Making sure a successor has the ability to think like an owner instead of an employee is one hurdle, so mentoring and coaching are important. Successors must also share the same farm business goals.

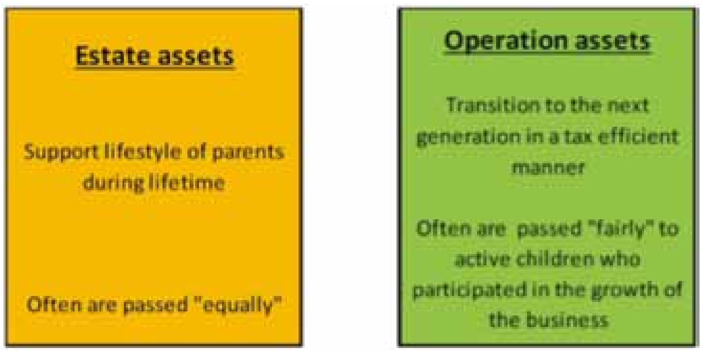
There are really a lot of positives to bringing in a non-family successor. The farm stays more vital and forward looking if there's a successor on board. And it's a great tax management tool to keep assets and earnings on the farm. But to be successful, the arrangement needs to be formal. Actions need to be documented so both parties share the same understanding. Lots of times, what the older partner says and what the younger partner hears are two different things. Sometimes, it's not as attractive an arrangement in practice as it is in theory. What's more, the seller needs to include provisions for a partner in their estate plan, so be sure to communicate the plan to all heirs and stakeholders. If not, heirs or other beneficiaries may assume they can cash in and sell the farm upon the seller's death and the non-family partner is left without the land assets necessary to support the operation.

Estate vs Operational assets

Knowing how your estate is structured is certainly one of the most important things you can do to prepare for succession. Clarity of knowing how your estate will be passed to the next generation is very important to the people taking over the farm. The operation's assets are generally transitioned during your lifetime to children who are active in the farm business; and your estate assets are generally passed to all children upon your demise. Below is an illustration to help everyone visualize the difference between the estate and operations.

continued on page 3

continued from page 2



Having a family discussion to give everyone a chance to offer their expectations and concerns is very important, but ultimately the parents have to decide. Communicating their decision is key to family harmony. Children who take over the farm may have gotten some advantages but they also contribute to the success. These contributions can be very difficult to quantify so some consideration must be given to preserving the business and the family farm legacy.

Operations

In grain operations, the easiest thing is for a junior partner to build a parallel operation and farm side by side, with each partner filing their own Schedule F. That way they don't need to spend a lot of money on lawyers and accountants. Gradually, most farm operators end up leasing their land to their successor. This works best when the family has one child that never marries.

If the family has more than one child and any children are married the plan should be more formal. Often an entity (e.g. Joint Venture, General Partnership, Limited Liability Company or Corporation) is used to combine the owners into on tax entity to operate the business. This entity grows the crop or livestock and sells it to market. The entity would have its own checkbook. Interests in the company (or shares) are transitioned to the next generation over time. As mom and dad gift and/or sell their interest to the next generation they spend the income to support their lifestyle, or shift more of their assets into the "estate box."

Land

Parent's often have an objective of holding together their farm land, both as a retirement income asset for them, but also as a base of land that will benefit the future farming operations. To assure that their farming and non-farming children are not placed in adversarial financial positions attempting to negotiate either rental income for the use of the land or a sales price amount for the transfer of the ownership of the land, we often consider the possibility of using a Family Limited Partnership as a land-holding entity.

These family limited partnerships have advantages to both the farming heirs and the non-farming heirs. From the standpoint of the farming heirs, the partnership assures that they continue to have access to the land, both in terms of reasonable rent and in terms of the ability to eventually acquire the parcels under favorable payment terms. This allows them to use capital to acquire other outside parcels, with the assurance that the family land will remain accessible to them.

From the standpoint of the non-farm heirs, the partnership assures that they continue to receive reasonable rents as long as the land is owned and leased to their farming siblings. If any farmland is sold from the partnership, they also have the assurance that it will be at or near market value rates, although it may be subject to favorable extended payment terms to assure that the cash flow does not put an undue burden on the family farming operation.

A key feature of the partnership is the governing document. This document would serve to provide a set of management and governing rules for how the land was to be rented to the farming children or sold.

continued on page 10

Back to Basics

By David Hurley

There is a phrase in the market place that says: "Markets can remain irrational much longer than you can remain solvent." You hear this phrase used by the spec community a lot when they are caught in a losing position in which the market movement makes no sense at the moment. Each day the market continues to trade counter to what they perceive it should be trading, the market becomes more irrational in their opinion and they become less financially solvent.

There are some great examples of this kind of market price action over the last few years. Look at the price action of corn during 2007-2008, cotton during 2010-2011, coffee in 2010-2011, Cattle from 2010-present day, and Hogs in 2008 then again in 2013-present day. The one thing that stands out is the sheer magnitude of the price movement. Nobody would have ever guessed these markets would move the as much as they did or last as long as they did. These markets basically started with seemingly small sparks and eventually turned into full blown "forest fires."

As producers or consumers of physical commodities, one of the first rules of thumb we have to remember when it comes to futures prices is that "nobody knows." There really is no "holy grail" of price prediction. Once you come to this realization, you are much better prepared to handle whatever the market can dish out.

Hurley has always advocated understanding what your financial bottom line looks like at current market values. Keeping this in mind, you can then take the tools that are available to build a safety net under your bottom line needs. These tools could include cash contracts, futures, options, or a combination thereof. The key being to design a structure protecting your bottom line but leaving open the possibility for improvements in that bottom line.

Hurley has used a set of tried and proven financial ratios over our company's history. One of the main ratios would be the Gross Profit on Cash Revenue. Simply stated, this ratio will determine what you have left over after production cost to pay debt and taxes. This tool may be as close to the Holy Grail for your business as you will ever get. The reason being is that it involves you. YOU are really the closest thing to a Holy Grail when it comes to your marketing results. Using tools and ratios that reflect your business's numbers, which are ever changing over the course of real time markets, will empower you to make hard financial decisions much easier. The market for you will not be irrational longer than you can remain solvent. You will remain solvent long after everyone else has gone broke.

Please take the time to have a Hurley consultant help you understand the tools that are available. They are trained well and as you talk with them throughout the year, together you will make a great team that has a positive impact on your bottom line.

David Hurley is President of Hurley & Associates Inc. and has been a consultant out of the corporate office in Charleston, MO for over 23 years. David's experience in working with clients and, particularly, in working with futures and options is beneficial to the company and our clients.

Economists Watch for Signs of Spring

By John A Johnson

U.S. economists are anxiously awaiting a veritable deluge of economic indicators over the next two weeks to either affirm or dash hopes that the sluggish take-off for the U.S. economy for 2014 has been the result of extreme weather over much of the country for the past two and one-half months. Reports on new home sales, business investment, consumer spending and many others will be parsed and re-parsed to determine if slow downs in all sectors were the effect of brutal winter weather, newly-implemented Obama Care or a more general lessening of economic activity that could be the harbinger of even more economic doldrums ahead for the U.S. recovery. A deluge of negative numbers could inject more uncertainty into financial markets by suggesting the economy has slowed for reasons unrelated to the weather, or a flood of positive results would nourish the perception that the economy is about return to growth rates that would appear to be much more favorable to long term economic recovery.

New home sales are one area that is of particular interest as an indicator. Housing sales are facing a couple of headwinds in that the Case-Shiller Index and others have reported that new home prices are continuing to rise, but at the same time long term interest rates, which govern most mortgage rates, are rising and expected to continue to rise. Either of these increases make new home purchases increasingly problematic for many would-be buyers. Taken together they greatly increase the cost of buying a home. Mortgage applications dropped 10% for the month of February. Was the drop in demand for housing due to weather? Or, was it in response to the increased cost of home ownership? Only time will tell and hopefully we won't have to wait long to see the answer.

We are experiencing a "hiccup" in mortgage interest rates since Federal Reserve Chairwoman Janet Yellen stumbled at her first press conference and indicated that the first hike in short-term interest rates will come sooner than expected. The Federal Reserve in its statement said that it would wait a "considerable time" between the end of bond purchases and the first rate hike. When she was asked to clarify that statement at her press conference, Yellen replied that considerable time "probably means something on the order of around six months or that type of thing."

With QE expected to end in the fall of 2014, that puts the first rate hike in the spring of 2015. The financial markets had generally been expecting rate hikes to begin no sooner than the middle of 2015. This statement (or mis-statement, depending on one's interpretation) set off a firestorm in financial markets. Other members of the committee were on the stump immediately trying to walk back the chairwoman's statement. Again, we can only wait to see the final outcome.

Globally, the euro-zone economy continued to expand for a ninth straight month in March, according to a popular preliminary purchasing managers' index, which came out on Monday. The index was down only slightly from February's 32-month high, but remained in expansion territory. New-order growth accelerated to the fastest pace since May 2011, while the increase in the backlog of orders was the highest since June 2011. Employment rose for the second month, providing the first signs of job creation since end of 2011 for the euro-zone.

The world watches China's economic progress, and amid concerns over slowing growth in their economy in his government report to the National People's Congress on March 5, Chinese Premier Li Keqiang proposed a 7.5% growth rate. It shows that, amid various concerns in the U.S. and elsewhere on the downside and even "hard landing" risks in the world's second largest economy, China will continue to manage a relatively fast growth rate.

continued on page 8

Farm Safety

By Lynn Weeks

Since the lead article in this newsletter is focused on farm succession, I thought, “What better article to write about than farm safety?” Farming over the years has come to be one of the most dangerous professions with it falling in the list of top ten most dangerous jobs in America, according to Bureau of Labor Statistics. Long hours of fatigue and constant working around heavy machinery and equipment represent the bulk of injuries and fatalities.

Growing up on the farm and working in the grain elevator industry for a number of years, I have seen several accidents that could have been prevented with proper education. The people that work on farms are Grandfathers, Fathers, Sons and Grandsons and also others that have given plenty of blood, sweat and tears over the years and would also be considered part of the farm family. It is very tragic if there is a preventable accident that happened to someone - especially if that someone is a family member and all of a sudden there isn’t anyone to leave the farm to. The pain there would be to have to go to work at a job that you were building with your son or grandson that isn’t there anymore because of a preventable accident would be hard to fathom.

Most non-producers see farming as a serene, very laid back lifestyle where all you have to do is drive a tractor up and down the field, get off when it rains, and hunt all winter. What most don’t see is the farmer that is doing 40-50 miles/hour down a gravel road because he has a couple tractors down 15 miles apart and one is a planter with rain coming... An irrigator won’t run and it has been 100 degrees the last several days… Combine is down… Truck broke down on highway… And the list goes on.

I had a tractor that I was driving break down right on the railroad tracks and I had to get the state patrol to shut rail down until we got the truck fixed. The center link had broken on a three-point hitch causing a plow to fall and catch underneath the steel rail. I couldn’t go forward and I couldn’t go backwards and the tracks were a coal run to the local power plant that sees three trains a day. The point here is that farmers work alone, sometimes miles from town, often working extremely long hours under time constraints. Sometimes corners get cut in order to get the job done and, when shortcuts are taken, this opens up a wide area for accidents to occur.

Tractors are one of the major components of any farming operation and without them a producer will not be able to do their jobs. But, they also are one of the most dangerous pieces of equipment on the farm. Safety tips for when working on or around a tractor:

1. Check to be sure the slow moving vehicle sign is on and that all lights and signal lights are working. Tractors are frequently encountered on the road but not all drivers are familiar with ag equipment and the fact that most tractors and equipment pulled take up more than one lane. It is the tractor driver’s responsibility to be aware of what is going on around them.

2. Mount/Dismount safely. Just as with a regular ladder, a three-point contact needs to be maintained when going up and down ladders on equipment. Trying to rush down a ladder or just using a ladder that is wet or muddy can result in a slip and fall.

3. Be sure to check all around the tractor before releasing the clutch. There have been several instances when young children have been playing

continued on page 7

continued from page 6

around the tractors with the driver being unaware that they are present.

4. Be alert to the angle of which you are working and that when working on hills the ROPS is present on the tractor and driver seatbelt is fastened.

5. Make sure that all shields are present on PTO and PTO-related equipment. The PTO shaft spins at 540/1000 rpm so any loose clothing has the potential to get entangled and cause severe injury.

6. Attaching equipment to the tractor usually takes two people with one backing the tractor and one hooking up the equipment. Extreme caution should be exercised and the person on the ground attaching the equipment should wait until the tractor is stopped before stepping behind to latch it to the tractor.

Grain storage is a vital part of the farming business. However, it is also one of the more dangerous components of the operation. Suffocation is the number one cause of bin fatalities. This is usually a result of grain engulfment or exposure to Carbon Dioxide from fermenting wet grain. Another less common danger is dust explosions.

Some tips to decrease the exposure to these dangers are:

1. Be sure that proper protective gear is worn such as protective footwear, gloves, dust masks or respirators, and harness and lanyard when possible.

2. Never enter a flowing grain bin, especially alone. Walking in flowing grain would probably be the equivalent to trying to walk in quick sand. Once someone starts getting buried, the more they struggle the more stuck they become. When a 6-foot tall human becomes half buried, it then takes around 400 pounds of force to pull them out. Buried up to their shoulders, it takes almost 1,000 pounds of force.

3. Shut off and secure all power sources associated with loading and unloading before entering grain bins. Always station someone at the door to watch occupants inside the bin so they will be able to call for help in an emergency.

4. Avoid carbon dioxide. The best way to do this is with an air monitor. Most producers don't have one of these so there should be an even stronger need to have a watchman at the door who can recognize symptoms of fatigue, overexposure, unusual actions, etc. Open all manholes possible to allow the most air circulation and light to enter the bin.

5. Wear a dust mask or respirators to block the dust that can enter the lungs. Moldy grain dust that enters the lungs can cause severe pneumonia.

6. Be sure all equipment guards are in place when operating unloading augers. Augers are either belt driven or chain driven and have several pinch points that can take fingers. Also, be sure to stand behind an operating auger and never get in front as the blades are razor sharp.

Livestock is something I am not real familiar with but have worked around them some. Dairy and beef cattle rank as second and third in injuries among all farming activities. Some tips that I found for those who work in livestock operations.

1. Wear proper protective equipment. A good pair of boots goes a long way in foot protection especially when a hog or cow steps on your foot. You would've wished you had a pair on. Also be

continued on page 8

Farm Safety

By Lynn Weeks
continued from page 7

sure boots have a good non-slip sole as footing can be uneven and slippery.

2. Keep all areas as clean as possible as falls account for around 18% of all animal related injuries. Wet floors and uneven surfaces allow plenty of opportunities for injuries. Also, animals and their excrement carry several diseases and could be deadly when inhaled or entering into the bloodstream.

3. Use extreme caution around live animals as males can be very volatile when they perceive you as moving in on their territory. Also, females can be extremely dangerous when you are around their offspring. Move slow and cautious and keep aware of your surroundings.

4. Transporting animals in a trailer can also be dangerous especially when you have several head loaded and they begin to move and start to shift their weight around making the trailer shift side to side. Make sure all lights and safety chains are working and attached and also make sure all gates are latched.

These tips are just a few ways to reduce obvious safety hazards on a farm. There are others to include, such as recognizing signs of heat exposure and knowing when you or someone else is fatigued and acting unusual. You can help reduce accidents on your farming operation so that you can pass on the operation to your children and grandchildren … and so that you can be around to see them work the operation and give them guidance as needed. No shortcut is worth losing that opportunity.

Lynn Weeks is a Marketing Consultant in the Hurley & Associates Caruthersville, MO office. He was raised on a grain farm in Southeast Missouri. Lynn also worked in the grain elevator industry for 12 years and was the Regional Safety Coordinator for Cargill for three years. If interested in possibly learning more about safety precautions, most rural fire stations and grain elevators have mock safety rescues. Consider giving them a call to see if you can attend. Most of them would probably be glad to have you.

Economists Watch for Signs of Spring

By John A Johnson
continued from page 5

Chinese economic growth only appears to be anemic when compared to their multi-year growth rates in excess of 10%.

The recent G20 meeting of financial ministers and central bank governors in Sydney, Australia, set a quantitative goal for its members to strive for 2 percent higher GDP growth over the next 5 years than is presently projected by current economic policies. This could add over 2 trillion dollars to the world's economy for creating additional jobs. No quantitative goals have ever been set in previous G20 meetings, and it shows that growth and job creation is clearly on the top of their agenda. The absence of statements by the ministers and bankers lauding fiscal austerity clearly relegate austerity to status as a secondary concern. It also clearly demonstrates that the current global economic recovery, although stronger than a year ago, is still fragile and far from being strong.

Commodities Programs & Supplemental Coverage Option (SCO) in the New Farm Bill

By Ross Korves, Economic Policy Analyst

The 2014 farm bill was signed by President Obama in early February. The livestock disaster programs which are retroactive to 2011, 2012 and 2013 are to be among the first provisions implemented with sign-up beginning April 15. Regulations for conservation compliance for crop insurance likely will be released this summer in time for the start of the 2015 crop insurance year. By the end of the year, the USDA's Secretary' office is expected to issue a new definition for 'actively engaged' for commodity programs.

Sign-up for the commodity programs is scheduled to begin this fall and end in early 2015. That will provide farmers with plenty of time to gather market information to make a decision. The implementation regulations for the commodity programs will be completed late this summer or early this fall. This analysis is based on the law as interpreted by most policy analysts. USDA may have a different interpretation based on previous programs and their understanding of how Congress meant the programs to be managed. These are the general provisions that apply to corn, grain sorghum, soybeans and wheat.

Commodity Provisions -The new farm bill requires owners/operators to decide how to manage crop price risks under a Price Loss Coverage (PLC) reference price program or under a county or individual farm Agriculture Risk Coverage (ARC) revenue program. PLC is a traditional income support policy utilizing fixed reference (target) prices for crops to address a sustained period of low market prices. ARC provides assistance in the deductible range of crop insurance based on average revenue in recent years.

First, owners/operators have a one-time opportunity to retain their current base acres or reallocate acres based on crop plantings in the 2009-2012 crop years. Under reallocation, a farm's base acres will be proportional to the four-year average of acres planted to each of the program crops, including any prevented planting acreage. Provisions for acres that exit the CRP are similar to the 2008 farm bill. Reallocating base acres cannot result in an overall increase in total base acres for the farm. Cotton base acres are called generic acres because there is no cotton program similar to the farm program crops.

Second, owners/operators have a one-time opportunity to update payment yields. Payment yields are currently part of the farm records at USDA and, like the Counter-Cyclical Payments program, will be used to calculate PLC payments if PLC is chosen for one or more crops. The new payment yields will be 90 percent of the average yield per planted acre in the 2008-2012 crop years.

Third, for the 2014-2018 crop years all of the producers on a farm (the term 'producer' includes everyone sharing in the risk of producing a crop and entitled to a share of the crop available for marketing from the farm: owners, operators, crop share landlords, tenants and sharecroppers) must make a one-time, irrevocable election among the PLC, county level Agriculture Risk Coverage (County ARC) and individual farm level Agriculture Risk Coverage (Individual ARC) programs. Producers with more than one farm can make different choices for each farm. Producers on an individual farm must make a unanimous decision. Failure to decide for the 2014 crop year will result in no payments for 2014 and automatic election of PLC for the 2015 crop year.

The choice of PLC and County ARC can be made crop-by-crop on a farm, but Individual ARC applies to all covered crops on a farm. If County ARC is chosen for a crop, it is ineligible to receive PLC payments and ineligible for the Supplement Coverage Option (SCO) under crop insurance. If Individual ARC is selected, it applies to all covered crops on a farm, and the crops are ineligible for PLC and SCO.

Under the PLC program, reference prices are fixed for the 2014-18 crops at $3.70 per bushel for corn; 3.95 per bushel for grain sorghum; $8.40 per bushel for soybeans; and $5.50 per bushel for wheat. The price measure for PLC is the average national farm market price for the entire crop marketing year.

continued on page 11

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By Joe Kluender

continued from page 3

Family Harmony

Family values shared by family members are often tested during a change of ownership. A well thought out and documented plan defines the terms of the transition. A family meeting allows the parents to articulate their wishes to all children (and their spouses) and provides the format to share the family values to continue the business after the parent's demise.

No plan, no success, it's just that simple.

Joe Kluender is an independent family business consultant who specializes in farm family dynamics. He facilitates exit strategies for retiring farmers, estate plans that include non-active stakeholders, transition plans that meet the needs of multiple generations and preserve the family farm and business organization for family farms with multiple family members.

Joe grew up on a family farm in southern Minnesota, becoming the third generation farm owner/operator. During the twenty-five years that Joe operated the farm, he developed an intimate relationship with the land and an understanding of the emotional issues surrounding family farms. Joe is a Certified Agricultural Consultant (CAC). Joe developed his expertise in family business dynamics by earning a Certificate in Family Business Advising (CFBA) from the Family Firm Institute in London, England in 2009. Prior to forming Farm Family Dynamics, LLC, Joe was an agricultural business consultant for nine years at LarsonAllen, LLP.

Joe has taken an active role in facilitating peer groups for ag producers. Joe currently facilitates four upper Midwest groups with members from Wisconsin, Iowa, Minnesota, North Dakota, Nebraska, and Montana. He also is a facilitator for Farm Journal's Top Producer Executive Network™ (TPEN) and leads several of TPEN's peer-to – peer advisory board groups.

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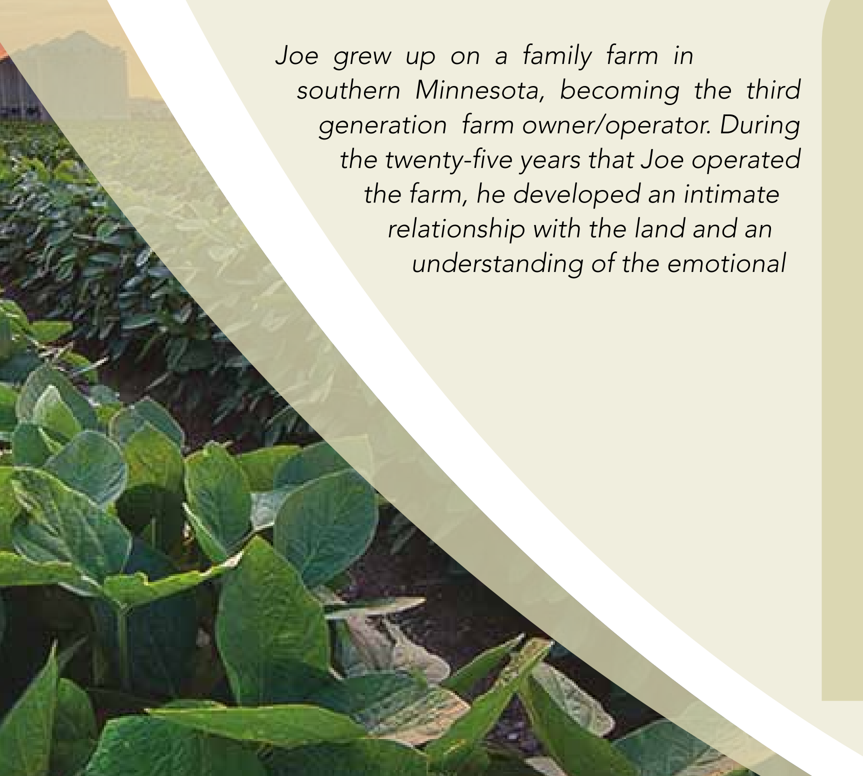

"Let your reason,
not your senses,
be the rule of your conduct,
for reason will teach
you to think wisely,
to speak prudently and
to behave yourself
worthily on all occasions."
- Confucius

Commodities Programs & Supplemental Coverage Option (SCO) in the New Farm Bill

By Ross Korves, Economic Policy Analyst
continued from page 9

County ARC makes revenue-based payments on 85 percent of the crop's base acres when actual county revenue is between 86 percent and 76 percent of the benchmark county revenue. The benchmark county revenue is calculated using the 5-year Olympic rolling average (dropping the highest and lowest years) of county yields for the crop and the 5-year Olympic rolling average of national prices. The County ARC revenue guarantee then equals 86 percent of the benchmark revenue. Total payments per acre cannot exceed 10 percent of the benchmark revenue.

Individual ARC calculations include all crops planted on the farm; revenue-based payments are made on 65 percent of the farm's total base. The calculations for Individual ARC must also take into consideration the individual producer's share of all farms in the same state in which the producer has an interest and for which Individual ARC has been selected. Individual ARC makes payments whenever the actual revenue for all covered crops on the farm is between 86 percent and 76 percent of the benchmark revenue, which is calculated using a 5-year Olympic average of the sum of the revenues (prices multiplied by yields for each crop) for all covered crops. Each crop's price and yields are multiplied for each crop year; the 5-year Olympic averages of crop revenues are added together for the benchmark revenue. Total payments per acre cannot exceed 10 percent of the benchmark revenue.

Dairy Policy – Dairy producers have a new Production Margin Protection Program based on the difference between the price of milk and feed cost of producing milk. A producer elects a coverage level between $4 and $8 per cwt. No premium is paid for the $4 coverage level; premiums are paid for higher coverage levels. Premium schedules are specified for production of 4 million or fewer pounds and for production greater than 4 million pounds.

This margin insurance is a new concept pushed by the dairy industry. The farm bill directs the Risk Management Agency to look at creating margin coverage for catfish producers and rice producers. Other commodities should carefully track these public policy experiments.

Supplemental Coverage Option (SCO) – This program is run by the Risk Management Agency (RMA) of USDA, not the Farm Service Agency (FSA) of USDA, because it is a crop insurance product sold by crop insurance agents. The actual rules for the program are not yet written.

- SCO is an added crop insurance countywide policy that can bought beginning in 2015 for farmers enrolled in the PLC farm program.
- Farmers will make a decision each year on being in or out of the SCO program.
- SCO parallels the producer's individual crop insurance program choice, covering a portion of the deductible using a county-level measure of yield or revenue.
- It covers losses exceeding 14 percent of revenue, meaning it will cover losses below 86 percent of revenue. SCO will cover that gap between 86 percent of revenue and when individual insurance coverage kicks in.
- The underlying plan of crop insurance also determines whether SCO offers harvest price protection or if it is excluded.
- Farmers will pay 35 percent of the actual premium cost set by RMA and USDA will pay the other 65 percent.
- SCO does not have a payment cap because it is an insurance program, not a commodity program.
- The yield component of the SCO guarantee will be based on the same yields used for the Area Risk Protection Insurance (ARPI) programs (previously GRP/GRIP).
- The price components of the guarantee will be based on the price components used for other insurance programs. The amount of coverage provided depends on the coverage level choices for the underlying insurance product.
- For example, SCO with a 70 percent RP policy would provide county-level revenue coverage from 86 percent of the income guarantee down to 70 percent.
- There is a tradeoff between the coverage offered by SCO and the underlying individual insurance plan.

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