Farming Can Be Risky!

Risk Management and Adjusted Gross Revenue Insurance for Growers

Presented under cooperation of the Oregon Department of Agriculture and the USDA Risk Management Agency

Words of Wisdom from a Grower

- "Our risk profile has changed and volatility (in both production costs and commodity prices) is a bigger factor…We now have to do just as good a job managing risks as we do in managing yields."

  -Grower

Growers face many kinds of risk…

Equipment – with lots of horsepower, attachments, hydraulics, booms, sprayers, compressors, conveyors, pumps, and lots of associated opportunities for accidents, breakdowns, loss of time, cost, etc…

Growers face many kinds of risk…

The weather: here's one that not too many other business have to deal with. Droughts, floods, freezes, hail, fire… Mother Nature changes her moods year to year, and throughout the season. It can drastically impact crop yields and the bottom line.

Growers face many kinds of risk…

- **The workplace**: Legality of workers? Sufficient workforce? Training? Worker safety issues, hiring practices, wage and hour compliance, posters and all the other myriad of current legal requirements for farm operations.

Growers face many kinds of risk…

- **The invasives**: weeds, bugs, rodents, diseases, fungus. It's a constant battle with nature. Attracting the good (bees, other pollinators, natural predatory bugs), while keeping out the bad from the crops and animals so damage doesn't happen and destroy the investment and the output destined for consumers.

But… consumer concerns about crop protectant use (chemicals) and other modes of protection may be at risk.

Growers face many kinds of risk…

The marketplace:

For many in agriculture, it's a supply-demand, price-taker situation, not knowing what the year's investment is going to return until well after harvest. For others, contracts and purchase agreements help. But on the whole, it's a risk that requires thoughtful strategic efforts to manage current price volatility.

Growers face many kinds of risk…

- **<u>The costs</u>**: Escalating prices for fertilizers, fuels and lubricants, electricity, equipment and parts, labor, feed, seed, crop protectant products, bailing twine, and just about everything used on a farm or ranch have created new uncertainties, a necessity to conserve on usage, and carefully manage costs.

Growers face many kinds of risk…

- **<u>The food safety factor</u>**: Traceability to the farm is the name of the game. Careful attention to on-farm practices that mitigate any contamination issues will be increasingly important, even though most contamination happens after product leaves the farm. Food safety problems can doom any farm operation.

Growers face many kinds of risk…

- **The natural resources**: agriculture relies on fertile soils and, in many cases, irrigation water at appropriate times. These resources require careful management to maintain and enhance, and often involve uncertainties of availability, endangered species issues, or land value fluctuations.

Growers face many kinds of risk…

<u>The every-changing consumer</u>: *The risks of a changing palette.* Food trends morph almost daily. The egg is in; the egg is out; then back in again. Potatoes and starches are out; then back in. Produce is encouraged at 3-a-day, then 5-a-day, now 7 or more a day. What to grow? How to grow it? Where to sell it? What does the consumer want? What does the store buyer want? Quality, consistent supply, price/cost, production practices – all are important… but what's in style?

Growers face many kinds of risk…

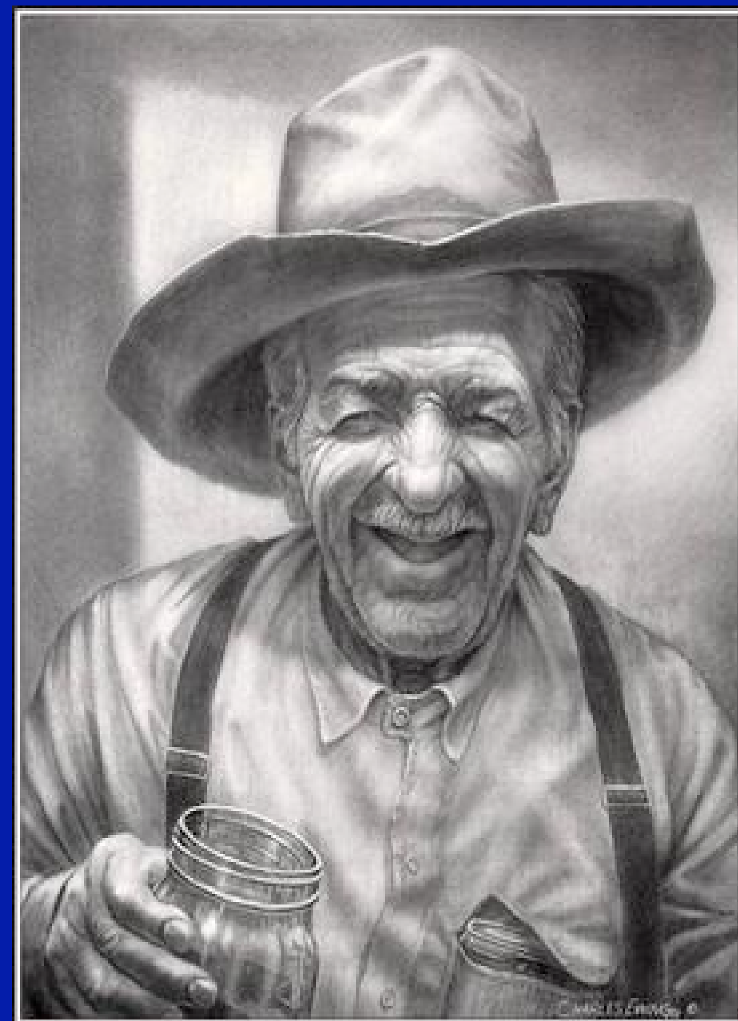
<u>The government</u>:

Regulation, trade policy, Farm Bill, tax policy – need we say more? Unknowns, risks, changing landscape.

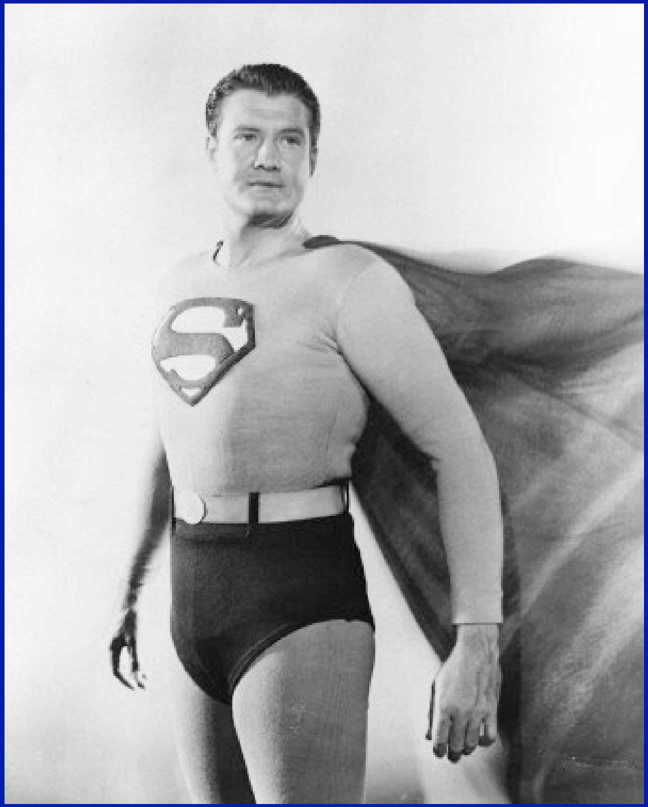
"I'm here to help YOU!"

Growers face many kinds of risk…

The farm: *Transition* – how will it be passed on? What's the succession plan? How to satisfy all the children? Do any of them want to stay on the farm? What if something happens to the owner/operator – what's the contingency plan? What's the retirement strategy?



What’s a farmer to do? Every grower needs a good RISK MANAGEMENT PLAN!



(And relying on this guy probably isn’t it.)

Key Elements to any Farm Risk Management Plan:

1. Generational Farm Transfer/Succession Plan and Will
2. Updated Power of Attorney and healthcare proxy
3. Risk Exposure Plans to address:
   a. **Production Risks** (input cost increases, pest, disease, weather, irrigation, etc.)
   b. **Health/Disability Risks** of owner/operator and employees
   c. **Casualty Risks** (food safety, accidents, chemical handling)
   d. **Market Risks** (prices, consumer preferences, government actions, etc.)

= **Insurance Protection**, including health, property and whole farm insurance.

Problems with traditional Federal Crop Insurance:

- Previously not applicable to specialty crop producers
- Federal subsidies and emergency relief require aggregate losses among a community or geographic area
- Emergency relief by Congress is increasingly rare
- Disaster assistance only addresses wide-scale losses of production, but doesn't address individual whole farm risks like market fluctuation or irrigation failure.

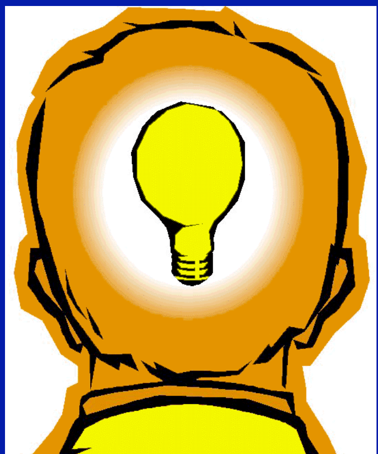



Oregon produces 220 different commodities, hundreds of these in the Willamette Valley. The Federal Crop Insurance Corporation offers multi-peril coverage for a total of 76 different crops. So, **less than 35% of Oregon commodities are covered under a Federal multi-peril policy**. Specialty crop producing states like Oregon have traditionally been left out of insurance coverage options.




Specialty Crops: $$

- Higher value = higher risk of revenue loss due to higher input costs.
- Require precise growing conditions = higher risk of production loss, particularly with more erratic weather conditions.
- Niche markets = higher risk of price fluctuations.



I should'a thought of that!

Whole Farm Revenue Insurance

- Adjusted Gross Revenue (AGR) and AGR-Lite are whole farm revenue protection insurance plans.
- They provide protection against loss of revenue due to:
  1. unavoidable natural disasters, AND
  2. market fluctuations.

AGR Benefits:

1. Revenue guarantee based on a 5-year average farm income.
2. Provides protection for multiple commodities (including livestock, aquaculture, other) under one policy.
3. Protects organic and direct marketing production at realistic prices.
4. Federal government subsidizes up to 59 percent of premium, which is further reduced if coupled with other multiple-peril crop insurance (MPCI).
5. AGR policies meet the requirements for federal disaster assistance programs.

Available coverage

- **AGR** insures up to $6.5 million in annual revenue. AGR is available in Benton, Clackamas, Columbia, Lane, Linn, Malheur, Marion, Multnomah, Polk, Washington, and Yamhill counties.
- **AGR-Lite** insures up to $1 million in annual revenue. AGR-Lite is available in all Oregon counties.

AGR-Lite

- Whole farm, *revenue* insurance protects income, not simply based on yields.
- -Covers crops, animals, and animal products.
- -Designed for small-medium sized operations under $2 million gross revenue annually.
- -Higher coverage level than other products (up to 80% of income coverage possible)
- -RMA subsidizes up to 59% of premium

Coverage Levels:

- **65% coverage level with 75% or 90% payment rate**
- **75% coverage level with 75% or 90% payment rate**
- **80% coverage level with 75% or 90% payment rate**

To qualify for the 80 percent coverage level, the grower must produce a minimum of three commodities.

AGRI-Lite Coverage Levels in detail

Available Protection Amounts

Coverage Payment Level	Coverage Payment Rate	Minimum # of Commodities*	Maximum Annual Income**
65	75	1	$2,051,282
65	90	1	$1,709,401
75	75	1	$1,777,777
75	90	1	$1,481,481
80	75	3	$1,666,666
80	90	3	$1,388,888

*Must meet minimum income requirements. Commodity grouping is available for the 80-percent coverage level.

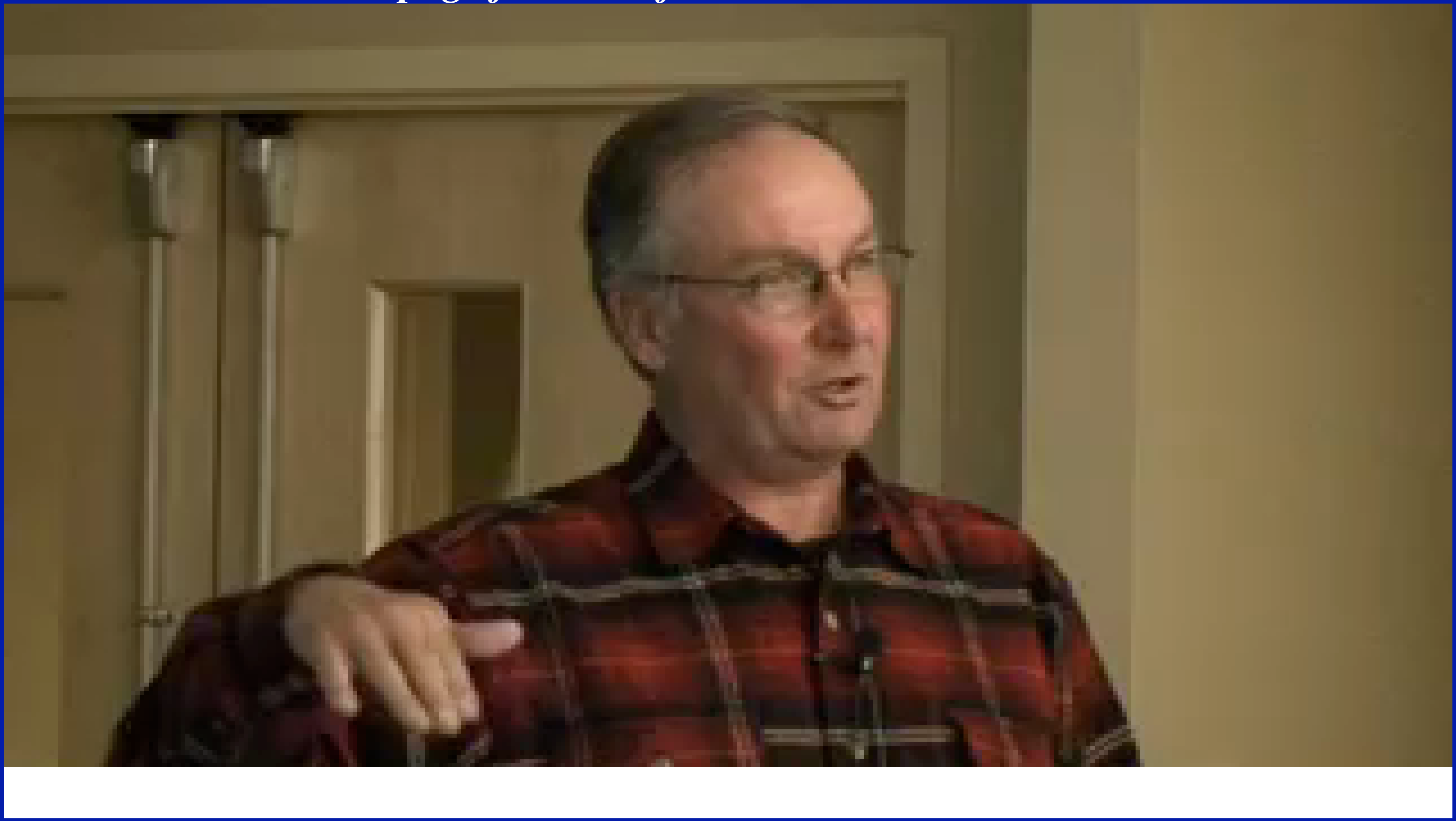
**The Maximum Annual Income represents the maximum approved farm revenue at each coverage level and payment rate to be eligible for AGR-Lite due to the $1,000,000 maximum liability allowed.

Loss Payment Example

- **Assumptions:**
- 80-percent coverage level (20% deductible) and 75-percent payment rate chosen;
- Approved adjusted gross revenue of $100,000; and actual revenue from the farm for the year was $70,000;
- **Max. Liability**: $100,000 x 0.80 x 0.75 = $60,000;
- **Loss Inception Point**: $100,000 x 0.80 = $80,000;
- **Loss Scenario:**
- $80,000 - $70,000 revenue to count = $10,000 loss of revenue; then
- $10,000 x 0.75 payment rate = $7,500 indemnity payment

From the mouth of Greg Bennett, onion grower

See link on webpage for video feed.



Talk it Up!

- AGR and AGR-Lite are part of the tool box for managing farm risk.
- These policies can address many of the farm risks because they **focus on the total operation and provide a guarantee floor for revenue** based on actual farm performance and chosen deductibles.

On-line connections:

- oregon.gov/ODA/risk_mgt.shtml
- Find an insurance agent:

http://www3.rma.usda.gov/apps/agents

- You can calculate what a premium would be for AGR or AGR-Lite coverage before speaking to an agent: http://www3.rma.usda.gov/apps/premcalc