

Farming Can Be Scary!



Risk Management and Adjusted Gross Revenue Insurance for Growers



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

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**: not just the physical protection issues, but 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 lots of strategic efforts to manage.



R. A. Martin

Growers face many kinds of risk...



- **The costs**: Escalating prices for fertilizers, fuels and lubricants, electricity, equipment and parts, labor, feed, seed, crop protectant products, baling 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...

- **The food safety factor:**

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 considerate management to enhance, and often involve uncertainties of availability.

Growers face many kinds of risk...

The every-changing consumer: *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...

The government:

Regulation, trade policy, Farm Bill, tax policy – need we say more?

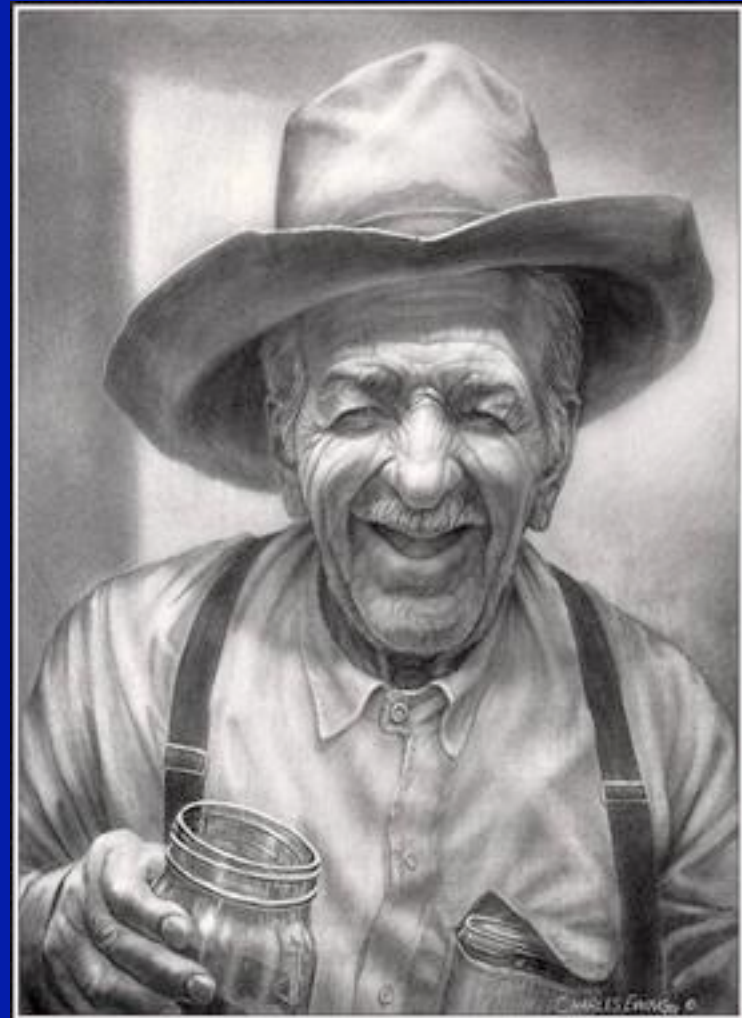
Unknowns, risks, changing landscape.



“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 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.

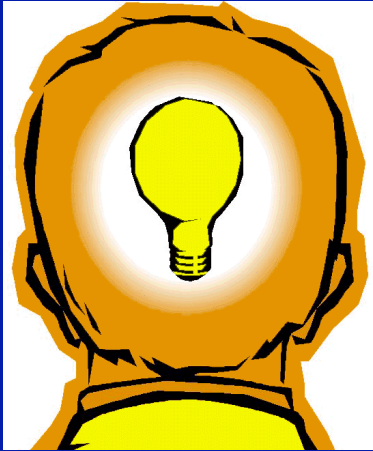


Oregon produces 220 different commodities, hundreds of these in the Willamette Valley. The Federal Crop Insurance Corporation offers multi-peril coverage for a total of 76 different crops. So, **less than 35% of Oregon commodities are covered under a Federal multi-peril policy.** Specialty crop producing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

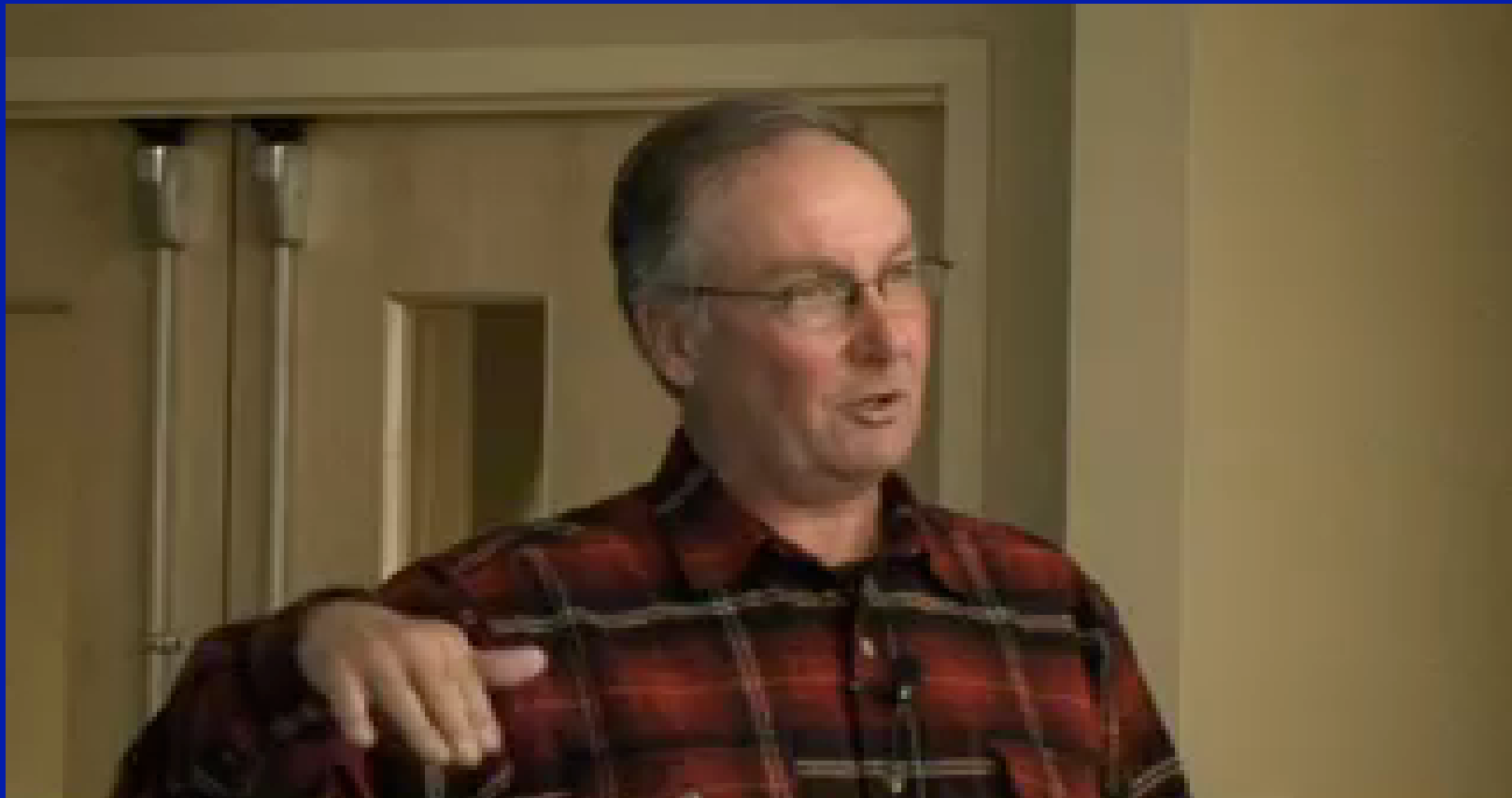
- Whole farm, **revenue** insurance protects income, not simply based on yields.
- **-Covers crops, animals, and animal products.**
- **-Designed for small-medium sized operations**
 - **under \$2 million gross revenue** annually.
- **-Higher coverage level** than other products
(up to 85% of income 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.

From the mouth of Greg Bennett, onion grower



Talk to your farm borrowers!

- 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>