



**2014 Top Producer Summit**  
**Crop Insurance Strategies and Preparation for 2015**  
January 29-31, 2014  
Chicago, IL



**Gulke**  
GROUP

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## Overview

- 2014 Crop Insurance
- Many producers will be well below their break even points before insurance kicks in.
  - A few simple marketing/insurance strategies
  - Private Products
- Preparing for 2015
  - Agricultural Act of 2014
  - Private Products

## Crop Insurance & Marketing

- Could be a big influence for acres in 2014
- Cover expenses – Land Costs, Taxes
- Protects against bushel and/or price loss
- Cost effective way to hedge your crops-Dodd Frank
- Maximize the Revenue Guarantee
- Increases flexibility in hedging effectively
  - Do not just buy and hold. IMPLEMENT!!!

## Insurance Shortfalls

- Does not cover 100% of the crops
- Protects your APH and not your expected yield
  - Hedging, Hail Ins., Buy up PP & Replant Options, Private Products, Weather Ins.
- Could create over confidence - Drought
- Revenue only calculated twice a year
- Does not factor in all dockage, penalties or basis risk

## Four Hedging Strategies Involving Insurance

### Selling a “Covered” Put

Sell Puts at the “strike price” which is the insurance spring price times your deductible level

Works best when the harvest exceeds spring price or in an up market

Ex.  $\$4.50 \times 85\% = \$3.83$  Strike Price  
Sell the CZ14P380 for \$.08



## Selling a Call

Sell Calls at the “strike price” which is the insurance spring price times your deductible level

Works best in a down market

Ex.  $\$4.50 \times 85\% = \$3.83$  Strike Price

Sell the CZ14C390 for \$.67 (NO!)

Sell the CZ14C500 for \$.16

## Insurance Hedge Strategy

Locks in a Total Revenue Per Acre at time of hedge

Hedge put on to protect price from going down between time of hedge and October

Combines insurance, futures and cash sales

Revenue will not go up or down from this point

## Insurance Hedge Strategy

- APH of 180 bushels
- 80% Revenue Protecting
- Guaranteed Bushels of 144 (amount that will hedge/sell futures against)
- Current December contract price is \$5.00
- Actual Production is 100 bushels with limited forward cash sales

## Insurance Hedge Strategy

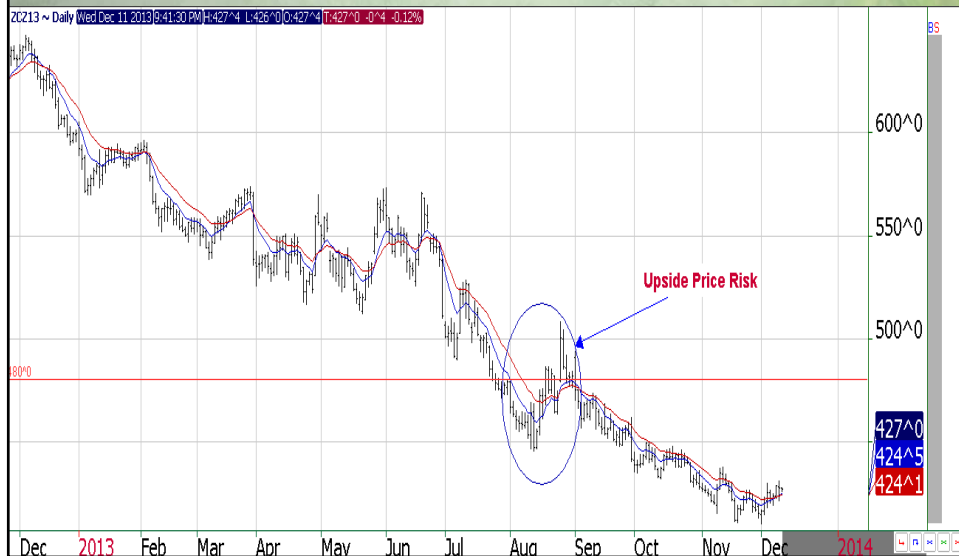
- \$4.00 Oct. Futures Price
- Crop Revenue:  $100 \text{ bu} \times \$4.00 = \$400/\text{acre}$
  - Ins. Indemnity:  $44 \text{ bu} \times \$4.00 = \$176/\text{acre}$
  - Futures Hedge:  $144 \text{ bu} \times \$1 = \$144/\text{acre}$
  
  - Revenue:  $\$400 + \$176 + \$144 = \$720/\text{acre}$

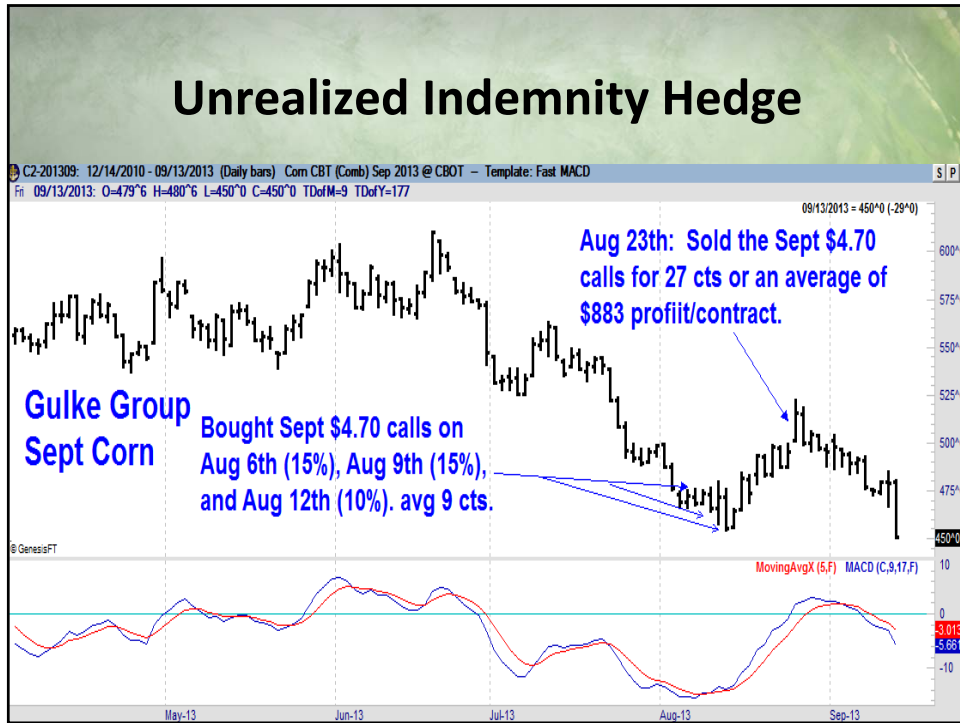
## Insurance Hedge Strategy

\$6.00 Oct. Futures Price

- Crop Revenue: 100 bu x \$6.00 = \$600/acre
- Ins. Indemnity: 44 bu x \$6.00 = \$264/acre
- Futures Hedge: 144 bu x -\$1 = -\$144/acre
- Revenue: \$600 + \$264 - \$144 = \$720/acre

## Unrealized Indemnity Hedge





## Short-Term Harvest Price Hedge

Sell Calls in Early October to hedge prices falling

If price drops you will collect the premium from selling the calls to compensate the revenue lost

If prices go up you will begin to lose the premium you collected from selling the calls but the Harvest Price will be higher



## Private Insurance Products

### Price Protection

Price Flex

Multiple Price Discovery

Maximum Value Protection

Revenue Net

## Private Insurance Products

### Early Pricing

- Creates opportunity for a higher Spring Price which will increase your Revenue Guarantee
- Provides a way to protect year to year price drop
- Gives you more opportunity to lock in a profit before Feb
- Producers gets the “higher of”
- Buy Now Pay Later

**Another tool in the tool box**



## Price Flex

- Has \$1 cap for corn; \$2 cap for soybeans; \$1.50 for wheat and \$.20 for cotton.
- Available July through July
- Sign up by the 20<sup>th</sup> of each month; post summer month bought by March 15<sup>th</sup>
- Can make changes to insurance policy
- Multi-month pricing discount
- Compare them to an ATM Put at the “strike price”

## Multiple Price Discovery

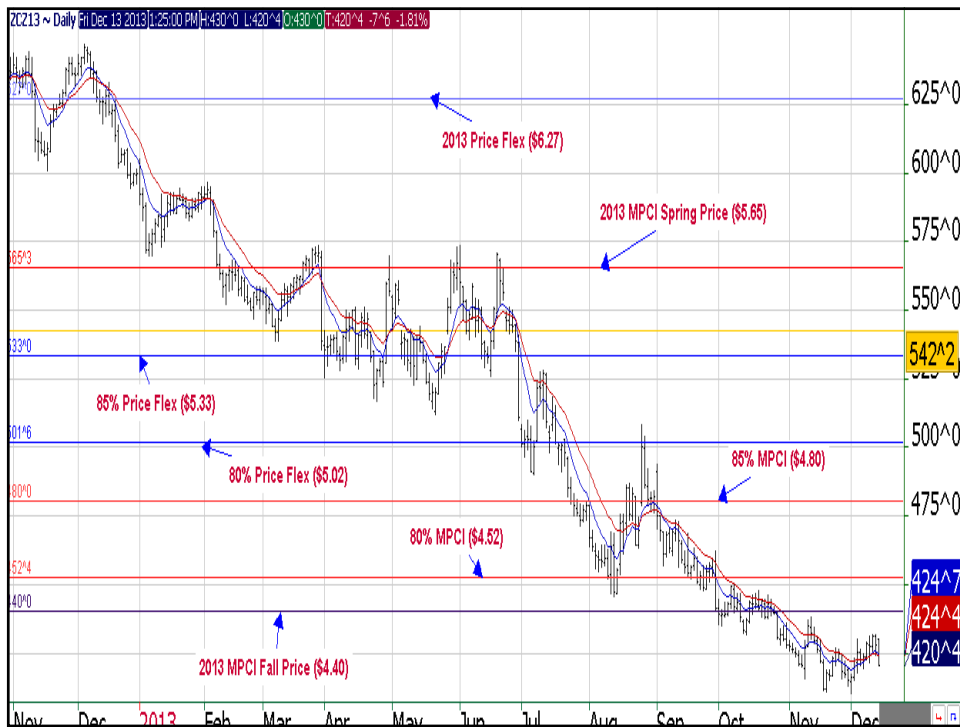
- Has \$.50 cap for corn; \$1 cap for soybeans
- Locks in your MPCl policy
- MPD5 – Nov, Dec, Jan, Feb, March (Nov 15)
- MPD4 – Dec, Jan, Feb, March (Dec. 15)
- Buy Now Pay Later
- Less expensive than Price Flex

**Silveus** **Price Analysis Sheets** **2014 PriceFlex**  
 Insurance Group

Commodity: CORN Contract Month: DEC Projected Price Month: FEB Sales Closing Date: 3/15

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	10 yr	5 yr	
July	237.2	259.9	256.7	305.9	391.5	650.5	383.2	418.3	619.4	619.5	524.1	40%	60%	July
August	241.6	259.7	254.0	295.9	395.1	608.5	381.8	437.4	647.2	644.9	503.5	40%	60%	August
September	240.4	250.2	250.3	292.3	406.6	584.7	374.5	468.4	624.4	644.4	497.5	40%	60%	September
October	240.2	244.1	246.9	322.5	406.2	468.0	413.2	512.3	593.1	632.3	482.3	50%	80%	October
November	244.9	240.7	242.0	350.6	427.6	437.7	437.1	522.1	576.0	627.1	461.0	50%	80%	November
December	248.0	237.0	244.2	361.2	451.8	414.5	434.7	539.9	560.6	621.2	458.0	40%	60%	December
January	265.3	251.4	248.8	383.9	504.8	435.9	416.8	568.1	568.6	585.7		40%	80%	January
February	282.6	231.5	259.2	406.1	539.6	403.7	398.5	601.2	567.8	565.3				February
March	300.3	239.1	257.9	404.7	566.7	411.3	396.8	598.3	559.1	557.8		40%	20%	March
April	317.3	232.6	269.7	379.4	613.5	417.5	383.0	606.1	540.7	539.1		60%	40%	April
May	295.3	229.6	274.3	374.9	626.0	442.5	385.4	657.4	522.7	540.2		50%	40%	May
June	291.3	241.3	264.0	391.3	730.4	433.9	367.0	668.8	553.2	546.3		60%	40%	June
July	244.5	251.1	264.5	343.2	665.1	337.4	391.1	660.6	752.3	497.5		50%	40%	July
August	235.1	228.7	246.5	348.0	568.7	334.0	423.7	724.6	808.6	469.7		40%	60%	August
September	218.0	209.9	248.5	358.6	546.3	325.1	489.2	693.9	763.4	459.5		40%	60%	September
October	205.0	202.1	303.3	357.9	412.6	372.0	545.5	632.1	750.1	441.0		40%	60%	October
November	198.9	193.0	355.8	381.5	373.8	389.9	552.3	627.0	740.1			40%	60%	November

  = higher average than discovery  
   = highest average of the year  
   % = historical chance that month is higher than discovery



## 2013 Revenue Insurance Comparisons

Year/Coverage Level	2013/80	2013/80 PF	2013/85	2013/85 PF
Actual production history	190 bu.	190 bu.	190 bu.	190 bu.
	152 bu.	152 bu.	161.5 bu.	161.5 bu.
Price	\$5.65	\$6.27	\$5.65	\$6.27
Revenue Guarantee	\$858	\$953	\$912	\$1012
Variable & Land cost	\$830	\$850	\$846	\$866
Profit Per Acre	<b>\$28</b>	<b>\$103</b>	<b>\$66</b>	<b>\$146</b>
Cost of production*	\$ 4.36/bu.	\$4. 36/bu.	\$ 4.46/bu.	\$4.46 /bu.

\* Does not include machinery or family living expenses



## 2014 Revenue Insurance Comparisons

Year/Coverage Level	2014/80	2014/80 PF	2014/85	2014/85 PF
Actual production history	190 bu.	190 bu.	190 bu.	190 bu.
	152 bu.	152 bu.	162 bu.	161.5 bu.
Price	\$4.40	\$5.24	\$4.40	\$5.24
Revenue Guarantee	\$669	\$796	\$713	\$846
Variable & Land cost	\$768	\$780	\$784	\$798
Profit Per Acre	<b>-\$99</b>	<b>\$16</b>	<b>-\$71</b>	<b>\$48</b>
Cost of production*	\$ 4.04/bu.	\$4. 04/bu.	\$ 4.14/bu.	\$ 4.14/bu.

\* Does not include machinery or family living expenses

## Private Insurance Products

Bushel Protection

Added Price Option

HarvestMAX

HarvestPRO



## Added Price Option

- Pays when the producer has a yield loss regardless of how high the harvest price goes.
- Gives the option to lock in a projected bushel price higher than the MPCCI projected price without picking an addition month.
- Can be used as additional security to forward contract bushels.
- Is available on Optional Units even if MPCCI is Enterprise Units.

## Added Price Option

- Determine Price per bushel
    - Multiply Spring Price by the following factors to calculate max APO price. Ex. \$4.40
      - 75% MPCCI level = 33.3%
      - 80% MPCCI level = 25%
      - 85% MPCCI level = 17.6%
- If you have a 25 bushel loss under your trigger yield:  
 MPCCI Indemnity would be  $\$4.40 \times 25 = \$110$   
 APO Indemnity would be  $\$.79 \times 25 = \$20$

## HarvestMAX

- Bushel coverage designed to protect against shallow yield losses. Protects 93-96% of APH.
- Works independent of Fed. Crop insurance
- Yield guarantees and losses are determined by an Entire Crop Unit structure.

## HarvestMAX

- Choose deductible
  - Corn: 10-25 bushels; Soybeans: 3-10 bushels
- Choose amount of bushels to protect
  - Corn: 25-50 bushels; Soybeans: 10-25 bushels
- Select price
  - Corn: 30%-120% of \$4.58 (\$1.37 - \$5.50)
  - Soybeans: 30%-110% of \$11.60 (\$3.48 - \$12.76)
- Choose number of acres to insure

## HarvestMAX

1500 acres and producer insures 500 acres

APH = 185 with a 10 bu deductible

Yield Trigger – 175 with 40 bu covered

Elects Market Price of \$5.50

Actual yield average over all acres is 160 bu

HarvestMAX policy pays:

$15 \text{ bu} \times \$5.50 \times 500 \text{ acres} = \$41,250$

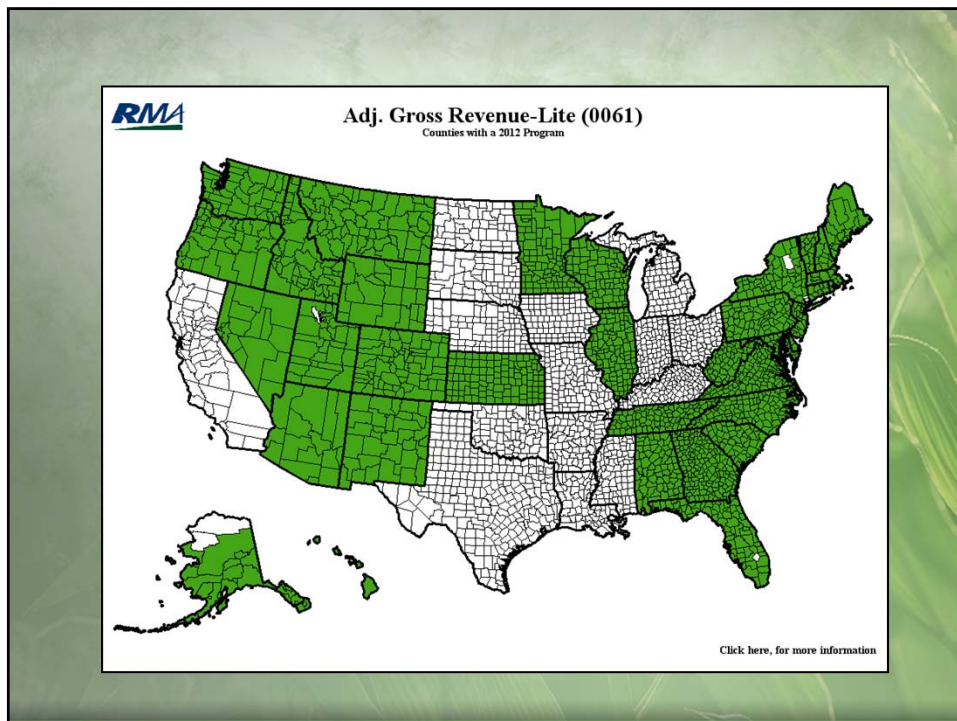
## Other Private Products

- PAR: Private GRIP on Federal RP
- CYA: Private RP on Federal Crop
- Enterprise Plus: Private OU supplement to EU Policy
- PRF O/U: Protection for Ranchers
- HPO “look back”: Pays when harvest is lower than spring
- Many others to research

## Adjusted Gross Revenue Lite

### AGR-Lite

- Whole Farm Revenue Protection (not profit)
- Federal Product – a supplement to MPCl
- Historical Revenue determined by Schedule F
  - ✓ Corp/LLC is converted to Schedule F format
- Need 5 years of history (2008-2012)
- Premium is 50% less if also purchase MPCl





# AGR-Lite

➤ Example - 213 acres of corn will be planted in 2014

### Historical Revenue

2008 = \$201,963  
 2009 = \$118,564  
 2010 = \$166,901  
 2011 = \$269,230  
 2012 = \$197,027  
**Avg. = \$190,736**

**Coverage Level = 75/90**  
 75% coverage /90% payout

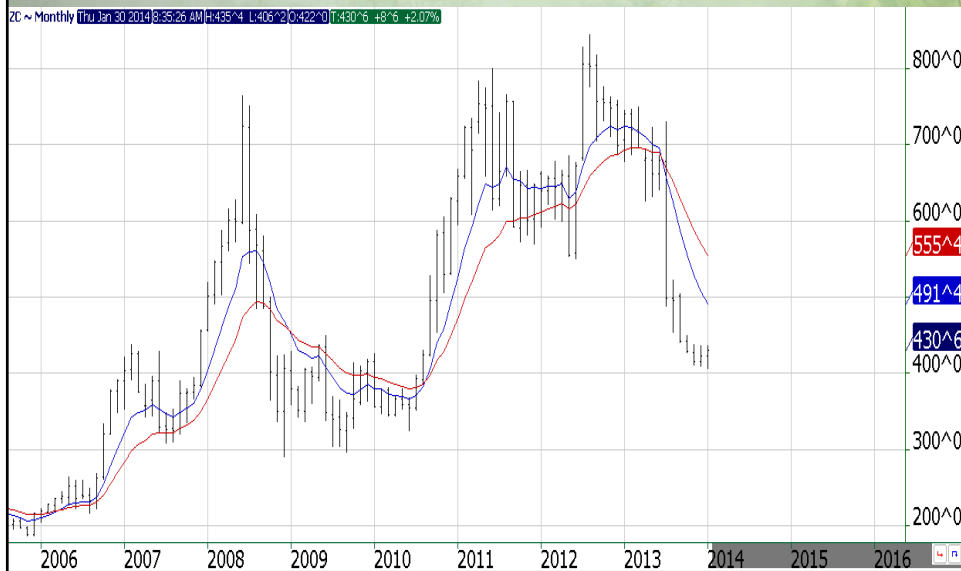
**Guarantee =**  
 $\$190,736 * 75\% =$   
**\$143,052 or \$671.61/ac**

**Loss Example =**  
 Final Revenue = \$120,000  
 Loss = \$143,052 - \$120,000  
 = \$23,052  
 $\$23,052 * 90\% =$   
**\$20,746.80 claim**

### Premium

IL premiums range  
 from  
**\$10 - \$13/ac**

## Why AGR-Lite Now?



## **Private Insurance Products**



**Preparation for 2015**

**Private Products  
Agricultural Act of 2014**

## Private Products for 2015

- As it stands today the early pricing products will start in July, 2014 for your 2015 insurance.
- Capacity Issues unless more programs come on line.
- Additional products will be available adding research time for you or your agent.

## Agriculture Act of 2014

- Strengthens crop insurance.
  - Crop Insurance receive over a \$5 Billion increase in funds.
- Reforms the dairy & cotton program.
- Authorizes livestock disaster assistance.
- Eliminated Direct Payments.
- Tucked away in the back of the bill is the removal of subsidies for ethanol blending pumps.

## Agriculture Act of 2014

- Crop Insurance ties to the Highly Erodible Land and Wetland Conservation.
- FSA must share info and maps with agents.
- CAT policy will get cheaper.
- Starting in 2015 there will be separate enterprise units for irrigated and non-irrigated practices.
- Data collection for RMA purposes.

- Adjustment in APH determination.
- Coverage level by practice.
- Beginning Farmer and Rancher Provision.
  - 10% increase in premium subsidy
  - Can use previous land owners production history or assigned yield.
- T-Yield level increased for 60% to 70%.
- AGI language has been deleted.



- Supplemental Coverage Option

Crops for which producers enroll in ARC (the Title I revenue program) are not eligible for SCO, although those enrolled in PLC (the Title I target price program) are eligible. Coverage is triggered only if losses in the area exceed 14% of normal levels. A 65% subsidy is provided, and the maximum coverage level is 86%.

## Combine Insurance & Marketing

The combination of Federal Crop Insurance and marketing (Hedging & now Private Products) is a powerful tool in creating a marketing plan that will help maximize the profitability of a farmer's operation.



Jamie Wasemiller

Contact me for insurance consultation and/or sign up for a  
30-day free marketing subscription.

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