The time before the fast-approaching **March 15 sales closing/policy change deadline** is a prime opportunity to reflect on risk management strategy.

Is Your 2011 Risk Management Plan Good Enough For 2012?

The 2011 crop year was one of unpredictable weather and unprecedented price volatility, leaving many Delaware farmers wondering what was going to happen next. As in many recent years, Delaware farmers participated considerably in the federal crop insurance program in order to keep their cash flow steady and ensure their livelihoods. Perhaps you were one of them. The time before the approaching **March 15 sales closing/policy change date** for many popular Delaware crops is a prime opportunity to reflect on the risk management strategy your operation executed in 2011 and decide whether or not it will provide you with the safety net you need to succeed in agriculture in 2012.

Before considering your options with crop insurance or other forms of risk management, it is a good idea to assess the status of your farm. Is the value of your crops protected? Does it make sense to put your crops at risk? Does it make sense to self-insure your exposures or do you need more protection? How much more protection is needed to cover increased risk for 2012? A risk management checklist is included with this publication. It is a sound idea to take some time a fill it out before moving on with your risk management strategy as it may expose problems in your operation of which you were not aware.

[GIve your operation a safety net with : Yield Protection, Revenue Protection, or Revenue Protection with Harvest Price Exclusion]

With crop insurance, sometimes the best place to start is to know what your options are. In 2010, the **Risk Management Agency (RMA)** introduced the Common Crop, or Combo, policy. This policy restructured the RMA's crop insurance roster and streamlined and combined outdated policies into a single unit. The Combo policy features three branches from which a farmer can choose to be his/her insurance plan**: Yield Protection**, **Revenue Protection**, and **Revenue Protection with Harvest Price Exclusion.** Farmers have a choice between the three depending on which is best suited for their respective interests.

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Risk Management Checklist

Production

______ 1. Have you recently evaluated your risk in the event of the loss of your crops?
______ 2. Have you recently evaluated your risk in the event of the loss of your animals?
______ 3. Have you investigated other alternative production methods and their consequences?
______ 4. Do you have the necessary knowledge to consider an additional or alternative enterprise?
______ 5. Is your crop insurance protection adequate to cover a severe crop loss?
______ 6. Have you reviewed all of your crop insurance options with your agent?
______ 7. Have you conducted a Strengths,Weaknesses, Opportunities, and Threats (SWOT) analysis for your operation?
______ 8. Are you in an area capable of supporting irrigation?

Marketing

______ 1. Do you have a current, written marketing plan?
______ 2. Have you coordinated your marketing plan with your goals and objectives and your financial and production plans?
3. Managing marketing risks:
______ a) Are you comfortable with your knowledge of marketing opportunities?
______ b) Have you reviewed your marketing options within the past 6 months?
______ c) Do you understand how crop insurance revenue guarantees can enhance marketing opportunities?

Financial

______ 1. Do you have a current business plan?
______ 2. Have you planned for a best-case scenario and developed a plan for how additional income will be used?
______ 3. Have you planned for a worst-case scenario and considered an alternative plan?
______ 4. Do you know your cost of production?
______ 5. Do you know your break-even costs?
______ 6. Do you have the knowledge to create a balance sheet, cash flow, and income statements?
______ 7. Do you have the knowledge to interpret important financial ratios?
______ 8. What is your debt-to-asset ratio?
______ 9. Is the growth of your net worth exceeding inflation?
_____ 10. Have you reviewed your ratio trends with your lender?
11. Is your crop insurance protection adequate to:
______ a) Repay current operating loans?
______ b) Allow you to take advantage of marketing opportunities?
_____ 12. Have you reviewed your tax liability within the past 3 months to determine your tax strategies?
_____ 13. Have you investigated all of your potential financing options?
_____ 14. Have you investigated all available government programs?
_____ 15. Have you considered the trade-offs between maintaining your current investments (certificates of deposit/savings/etc.) and/or reinvesting in expanding your own operation?
_____ 16. Do you consult a financial management consultant, lender, accountant, insurance provider, or other professional when making major financial decisions?
_____ 17. Are you comfortable with your level of debt?

Legal

This list does not cover every legal risk exposure faced by farmers and ranchers, and is not meant as legal advice. You should consult an attorney to review your legal risk exposure.

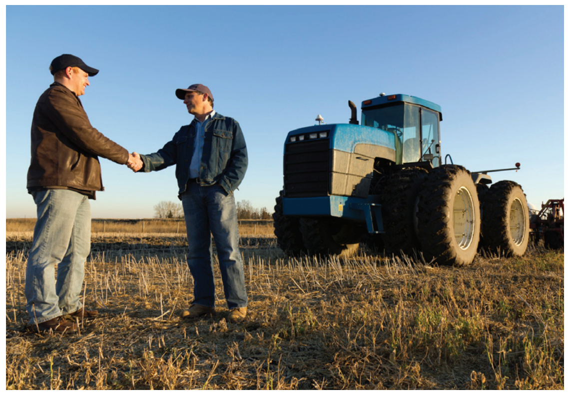
______ 1. Is your will up to date?
______ 2. Do you have a living will?
______ 3. Do you have a farm transfer plan or exit strategy that has been reviewed within the past 3 years?
______ 4. Have you recently reviewed your farm owner's insurance policy?
5. Have you recently evaluated your risk exposure to:
______ a) Liability covering the public entering your property?
______ b) Liability of direct marketing?
______ c) Your State department of agriculture's direct marketing regulations?
______ d) Livestock breaking through fences?
______ e) Environmental and pesticide issues?
______ f) Land use issues with neighbors?
______ 6. Do you understand the provisions of all of your contracts, leases, and loans?
______ 7. Have you recently evaluated all the different business entity options for your operation?
______ 8. Do you have a working relationship with your attorney and accountant and have you reviewed your goals and objectives with each?
______ 9. Are you in compliance with such regulations as worker protection, pesticide use records, vehicle registrations, and necessary safety inspections?

Human

1. Is your personal insurance coverage current:
______a) Do you have adequate medical and disability insurance?
______b) Do you have adequate life insurance to cover your wishes and farm transfer at current values?
______ 2. Have you calculated your risk exposure to employee accidents or dishonesty?
______ 3. Have you provided all employees with comprehensive safety training?
______ 4. Do you have an employee handbook?
______ 5. Are your goals Specific, Measurable, Attainable, Reasonable, and Timed (SMART)?
______ 6. Have you conveyed the goals and objectives of the business to all family members, business team, and employees?
______ 7. Are your goals written?
______ 8. Is everyone in your family (or on your team) employed to the full extent of his or her education, training, and experience?

General

______ 1. Do you have a confident relationship with your risk management advisors?
______ 2. Do you have the knowledge to evaluate new technologies?
______ 3. Are you planning for your children's educational needs and are these savings protected?
______ 4. Are your savings for retirement on course with your plans?
______ 5. Do family members know the location of all important documents?
______ 6. Do you have the knowledge and skills to assess all areas and levels of risk?
______ 7. Are you constantly looking for ways to increase your profitability?

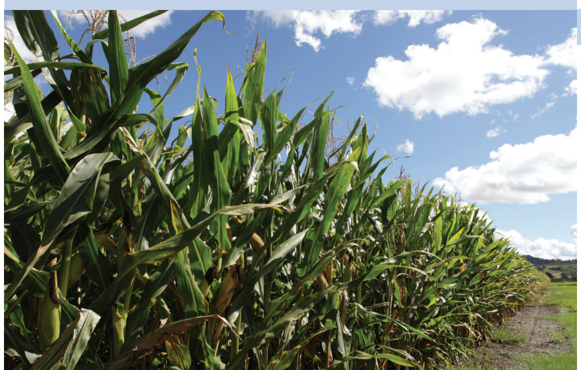

There are a limited number of crops with individual insurance policies available for purchase (In Delaware they are as follows: corn, grain sorghum, soybeans, small grains, green peas, processing sweet corn, processing tomatoes, processing beans, potatoes, and nursery, as well as Livestock Gross Margin Insurance for dairy cattle and swine). Of course, there is a diverse array of crops grown on Delmarva each needing protection from the same perils faced by the great grains. These crops can be covered by Adjusted Gross Revenue – Lite (AGR-Lite) insurance. AGR-Lite is a whole farm plan that can cover operations that grow various crops and can also be used to insure income grossed from livestock. AGR-Lite is especially advantageous for growers of fresh market and organic crops and covers farm revenue for these crops more efficiently than the Non-Insured Assistance Program (NAP). Also, if you already insure individual crops, premiums on AGR-Lite can be discounted when used as an umbrella program. The sign-up deadline for AGR-Lite is March 15.

Which plan best suits your needs?

Yield Protection insures crop yields based on the producer's actual production history multiplied by the level of coverage. Farmers can use yield protection to insure their crops at the catastrophic level, which is 50% coverage at 55% of the projected cost, or anywhere from 50% at the projected price to 75%, with some crops offering as high as 85% of the producer's yield history in certain cases. A projected price is determined, typically fifteen days prior to the crop's specific sales closing date, using prices from futures markets (the projected price, or a percentage of it, is the only price considered for the insurance guarantee for yield protection).

Revenue Protection provides security against a loss of revenue due to a production loss, price decline or increase, or a combination of both. Revenue Protection gets its price election from the greater between the projected price and the harvest price to calculate the insurance guarantee. Therefore, should the projected price of corn be $5.75/bushel, but the harvest price is $6.02/bushel at harvest, the guarantee will use the harvest price despite being at the end of the insurance period as opposed to the beginning at no additional premium cost. One of the strong features of this plan is that if a farmer needs 200,000 bushels of protection as foundation for pre-harvest crop sales, Revenue Protection is the only revenue program that can achieve that.

Revenue Protection with Harvest Price Exclusion forgoes any consideration of the harvest price and sets the insurance guarantee with the projected price. This may be desirable to some farmers who may want to be sure of what their insurance guarantee will be throughout the growing season. Peace of mind is the draw with the harvest price exclusion, but producers have to decide which option is right for their specific operation.




Customize with Unit Options

To start, there are Basic Units, which a producer may designate for all tracts of land they own and/or cash rent, or share rent, within a county, by crop. (Crop land in a different county will have to be insured separately) Each unit is able to carry a different type of policy with different coverage levels, if the farmer so wishes. Naturally, each unit must have separate records kept respectively. Insuring all acres as basic units can result in a 10% discount on insurance premiums.

Fields in a county with differing FSA farm serial numbers that meet the requirement of sectional equivalents by written agreement, or fields where a crop is being grown under distinctly different farming practices, may qualify to be insured as Optional Units, which allow a producer to have a better chance of recouping an indemnity in cases of isolated disasters. Of course, this also results in higher premiums as the cost to cover is greater.

Enterprise Units are an increasingly popular choice for farmers. An enterprise unit combines all acres of a single crop within a county in which the policyholder has a financial interest into a single unit, regardless of whether they are owned or rented, or how many landlords are involved. To be an enterprise unit, one or more basic units located in two or more separate township sections, or with two or more farm serial numbers, must be combined. In addition, at least two of the sections or farm numbers must have at least 20 acres or be comprised of 20% of the insured acres in the county. Because the chances of incurring a small loss that exceeds the deductible over the increased acreage of enterprise units is less than with other options, premiums can be lower, up to 50% lower without reducing the over-all maximum amount of protection.

Whole Farm Units are exactly what they sound like they are. Growers willing to combine all acreage of two separate, but insurable crops (such as corn and soybeans), can insure it as a whole farm unit, for which premiums may be lowered again. The discount will depend on the number of township sections the whole farm unit encompasses. All producers should check with an informed crop insurance representative when making decisions about insurance units for their crops. If you do not have a crop insurance agent, you can find one in your area at http://www.rma.usda.gov/tools/agent.html.

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