





**Crop Insurance Update/Farm Bill Review
2021 Crop Year**

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Agenda

Crop Insurance Enhancements for 2021

1. Quality Loss Option (QL)
2. Enhanced Coverage Option (ECO)
3. Added Value Enhancement (AVE)

Farm Bill Review

1. Review of Features/Changes
2. Key Dates
3. ARC/PLC Refresher
4. Review of Initial ARC/PLC Election Results
5. 2019 Payment Review
6. 2020 Payment Projections
7. 2021 Decision

Quality Loss Option (QL)

- Brand new option for 2021 crop year
- QL option allows the insured to improve their Actual Production History (APH) for years in which they suffered a quality loss
- When QL is elected, insureds may replace a quality adjusted yield with an actual yield based on total production prior to any quality adjustment reduction
 - This is referred to as QL replacement, thereby increasing their actual yields for individual crop years
- QL Replacement only applies when a NOTICE OF LOSS was timely filed and the crop had “quality-adjusted” production to count, regardless of whether an indemnity payment occurred

QL Eligibility

- To be applicable for the current crop year, the insured must elect Quality Loss (QL):
 - By the Sales Closing Deadline
 - On a per crop, per county basis
- The QL option is continuous election that remains in effect unless cancelled

QL

Quality Loss (QL) is available for the following crops:

- Barley, Buckwheat, Canola, Corn, Cotton, Flax, Grain Sorghum, Malting Barley, Oats, Rice, Rye, Safflower, Soybeans, Sunflowers, and Wheat

Quality Loss (QL) Option will be available for:

- Yield Protection (YP)
- Revenue Protection (RP)
- Revenue Protection w/ Harvest Price Exclusion (RPHPE)
- APH

Quality factors that qualify for QL adjustment include:

- Grade, Test Weight, Defects, Sprout Damage, Falling Numbers, Light Smutty, Smutty, Garlicky, Ergoty, Musty Odor, Sour Odor, COFO, Substances or Conditions Injurious to Human or Animal Health

QL

- QL may be used in any combination along with Trend Adjustment (TA), Yield Adjustment (YA), Yield Cup (YC), and Yield Exclusion (YE)
 - Approved APH yields using QL replacement of actual yields are not eligible for Yield Floors
- QL can apply to prior crop years in your APH database that had quality losses if a Notice Of Loss for that applicable crop year was submitted
- There is no limit to the number of actual yields that can be replaced
- QL applies to all actual yields eligible for replacement for pre-quality actual yields for all APH databases unless the insured **opts out in writing** by the Production Reporting Date

QL Example

Crop Year	Quality Adjusted Production	Acres	Quality Adjusted Yield	Pre-Quality Adjusted Production	Pre-Quality Adjusted Yield
2011	782	9.30	84	782	84
2012	630	9.60	66	630	66
2013 L	574	9.50	60	761	80
2014	184	9.30	20	184	20
2015 L	527	9.00	59	555	62
2016	751	9.00	83	751	83
2017	480	5.00	96	480	96
2018	415	5.00	83	415	83
2019 L	528	11.12	47	679	61
2020	874	8.00	109	874	109
Approved Yield:			70.7		74.4

Additional Coverage Options

RMA Options

- **Supplemental Coverage Option (SCO)**
 - County based coverage from 86% down to your coverage level
- **Enhanced Coverage Option (ECO)**
 - County based coverage from either 90% or 95% down to 86%

COUNTRY Financial Options

- **Soil Type Plus (STP)**
 - 90% or 95% coverage level on your farm's individual APH and soil type
- **Added Value Enhancement (AVE)**
 - Additional commodity price protection on band of bushels you select within your federal crop coverage

What is ECO?

Enhanced Coverage Option (ECO) is a new option offered as part of the USDA's Federal Crop Insurance program

- ECO provides Area-Based (County) coverage for a portion of the deductible of your underlying federal crop policy similar to Supplemental Coverage Option (SCO)
- ECO offers 2 Coverage Levels: (Area Loss Triggers)
 - 95%
 - 90%
- Trigger means the percentage of expected yield or revenue at which a loss triggers a claim

What is ECO?

ECO:

- Must be purchased with an underlying individual crop policy: ECO has the same purchase deadline
- Is treated as an endorsement to the underlying individual crop policy and therefore must be purchased from the same company and agent
- ECO is a continuous endorsement to the following plans:
 - YP (Yield Protection)
 - RP (Revenue Protection)
 - RPHPE (Revenue Protection with Harvest Price Exclusion)
 - APH (Actual Production History)
 - YDO (Yield Based Dollar Amount of Insurance)

ECO Availability, Prices and Yields

ECO availability:

- Corn – All counties in IL
- Soybeans – All counties in IL
- Grain Sorghum – Select counties in IL
- Hybrid Seed Corn – Select counties in IL
- Popcorn – Select counties in IL
- Oats – Select counties in IL

ECO Prices and Yields:

- Same Projected (February) and Harvest (October) prices as Individual Plans of Insurance
- Same Expected & Final Yields as Area Plans of Insurance

ECO Coverage Range

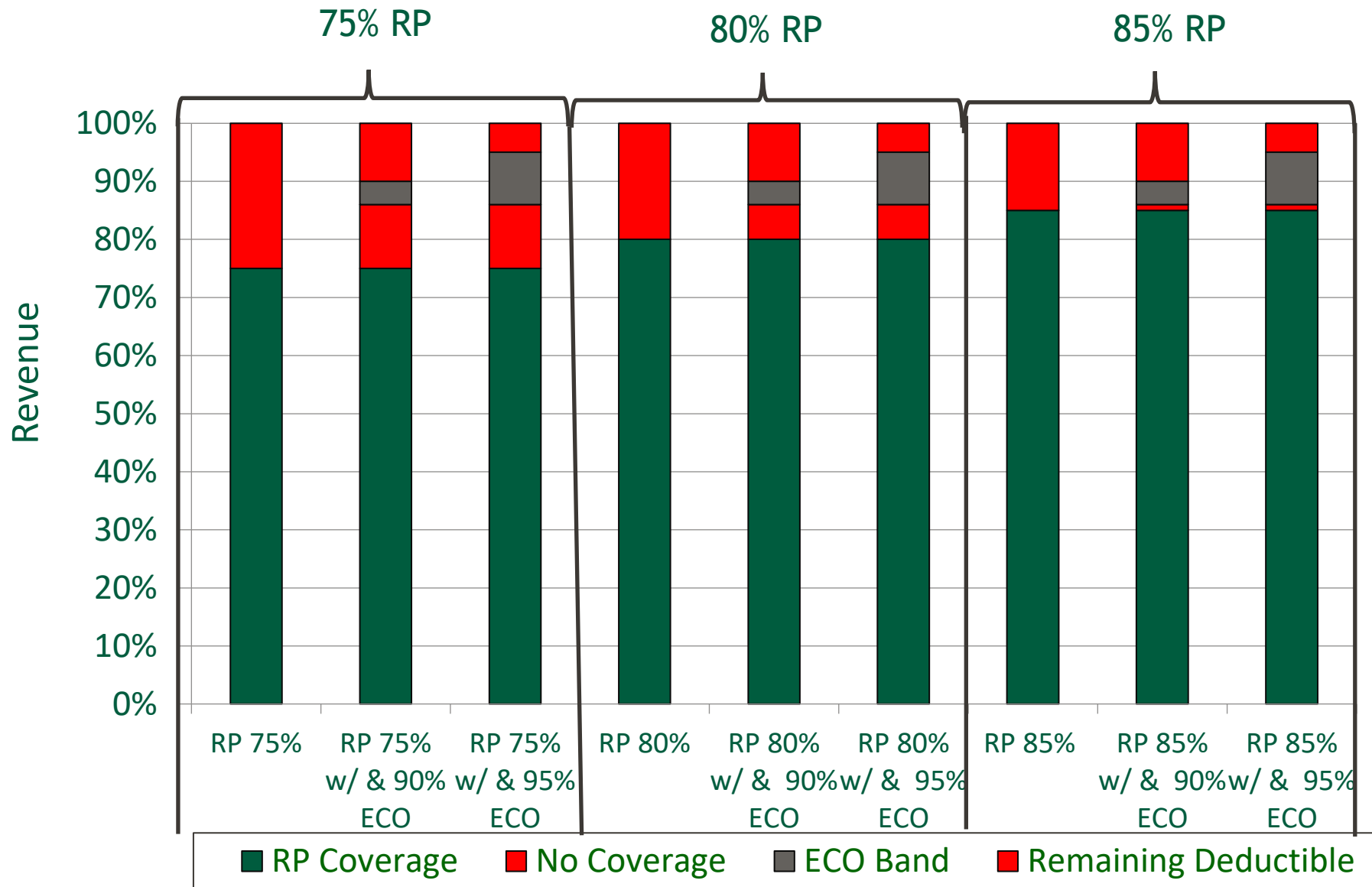
ECO covers a band from 86% (where SCO coverage ends) up to 90 or 95% of expected crop value

- ECO Coverage level 95 provides 9% additional coverage (95% - 86%)
- ECO Coverage level 90 provides 4% additional coverage (90% - 86%)

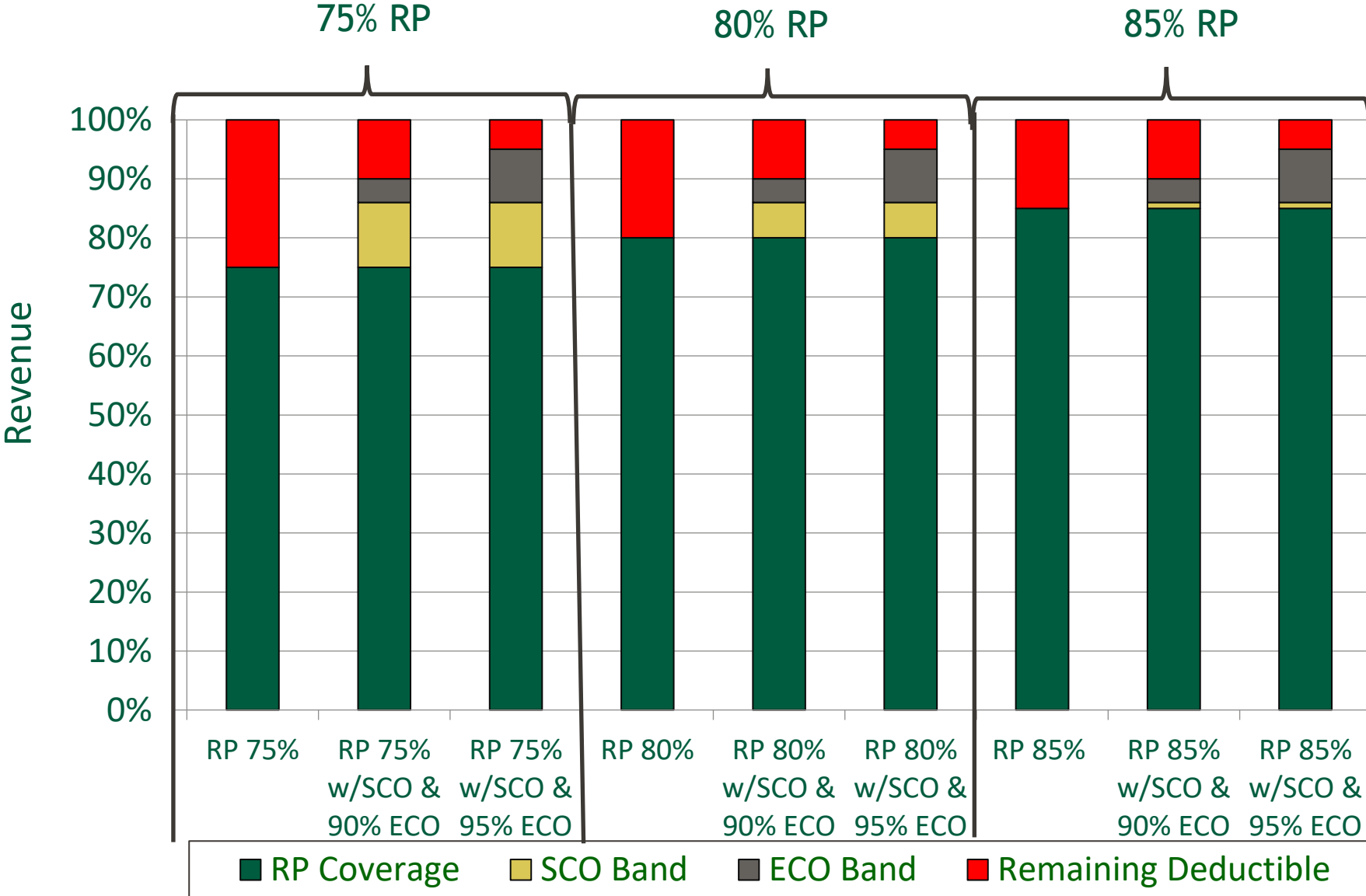
ECO Premium Subsidy

ECO Subsidy Factors		
ECO - Plan	90% Coverage	95% Coverage
ECO - RP	0.440	0.440
ECO – RPHPE	0.440	0.440
ECO – YP/APH/YDO	0.510	0.510

RP & ECO at Various Coverage Levels



RP, SCO & ECO at Various Coverage Levels



Added Value Enhancement (AVE)

- AVE is COUNTRY Financial's newest supplemental insurance policy designed to work in conjunction with Federal Crop Insurance coverage (RP, RP-HPE or YP)
- AVE is a flexible insurance management tool that provides increased coverage per bushel on your riskier levels of production by:
 - Allowing you to increase the grain price used to calculate your guarantee
 - While eliminating the speculative nature of other price additive private pricing products
- AVE provides a Supplemental Coverage Band and Supplemental Price Election selected by the farmer
- Available for Corn, Soybeans, and Winter Wheat (2022)

AVE Details

- AVE works in conjunction with your Basic, Optional or Enterprise unit from your underlying Federal Crop Insurance policy
- Your underlying Federal Crop Insurance policy will be used to establish AVE's supplemental coverage, supplemental price/bushel and premium
 - AVE coverage band begins at your crop insurance guarantee/trigger level and works downward from there
- Coverage for AVE must be elected by the Sales Closing Date for your underlying Federal Crop Insurance policy
- Premium will be due at the same time as Federal Crop Insurance premium

AVE Details

Two simple steps:

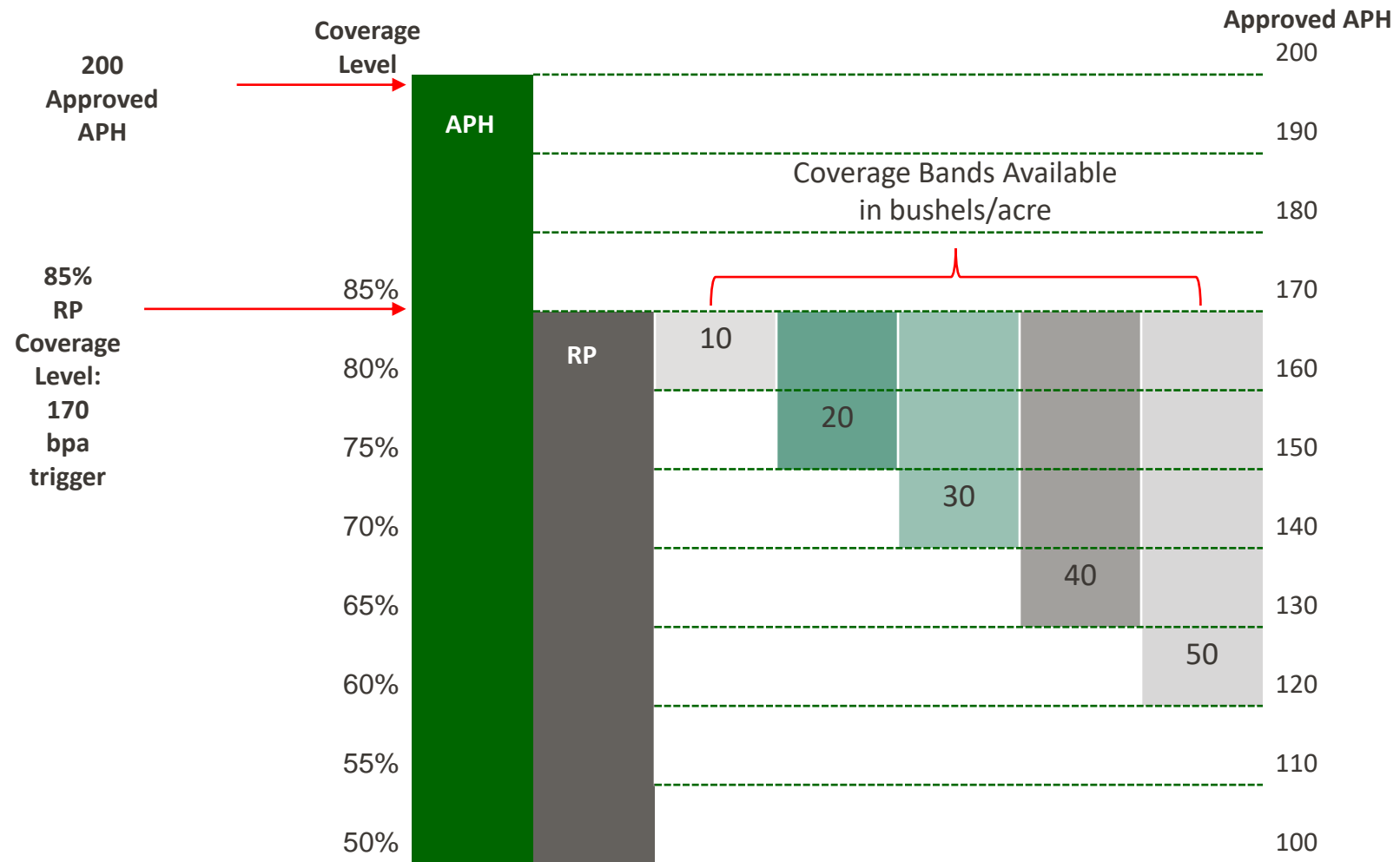
1. You decide how many bushels you wish to protect with this extra coverage (Supplemental Coverage Band)
2. You select how much additional price/bushel protection you want on your selected band of coverage (Supplemental Price Election)

Step 1: Supplemental Coverage Band

- You select the additional coverage you want
 - Maximum Supplemental Coverage available is dependent on the coverage level selected on your underlying Federal Crop Insurance policy
 - Is available in 5% increments

Underlying Coverage Level	Available Supplemental Coverage Band Range
85%	5-35%
80%	5-30%
75%	5-25%
70%	5-20%
65%	5-15%
60%	5-10%
55%	5%
50%	Not Available

Supplemental Coverage Band Example



Step 2: Supplemental Price Election

- You select the additional price/bushel protection you want
 - Supplemental Price is dependent on the base price established on your underlying federal crop insurance policy:
 - February average of December corn futures
 - February average of November soybean futures
 - Is available in 5% increments
 - Maximum of 25%

Supplemental Price Election Example

Corn: February average (base price) = \$4.00/bushel

- Possible AVE Supplemental Price Elections:
 - 5% = \$.20/bushel
 - 10% = \$.40
 - 15% = \$.60
 - 20% = \$.80
 - 25% = \$1.00

Soybeans: February average (base price) = \$10.00/bushel

- Possible AVE Supplemental Price Elections:
 - 5% = \$.50/bushel
 - 10% = \$1.00
 - 15% = \$1.50
 - 20% = \$2.00
 - 25% = \$2.50

RP + AVE Example; Coverage & Guarantees

	Approved APH (bu./acre)	200 bpa
	RP Coverage Level %	85%
	RP Projected Price (Feb avg.)	\$3.88/bushel
	RP Revenue Guarantee/acre (200 x .85 x \$3.88)	\$659.60/acre
Step 1	AVE Supplemental Coverage Band %	15%
	AVE Supplemental Coverage bpa (200 x .15)	30 bpa
	AVE Supplemental Coverage Band	170 - 140
Step 2	AVE Supplemental Price Election %	20%
	AVE Supplemental Price Election \$/bu (\$3.88 x .20)	\$.78/bushel
	AVE Supplemental Coverage/acre (30 x \$.78)	\$23.40/acre

Premium Example

Champaign Cty, Corn, 200 bu APH, RP, Enterprise Units

Supplemental Price Election					
Coverage Band Election	5%	10%	15%	20%	25%
5%	\$.45/a	\$.92/a	\$1.36/a	\$1.83/a	\$2.28/a
10%	\$.77/a	\$1.58/a	\$2.36/a	\$3.17/a	\$3.94/a
15%	\$.99/a	\$2.04/a	\$3.03/a	\$4.07/a	\$5.06/a
20%	\$1.13/a	\$2.31/a	\$3.43/a	\$4.62/a	\$5.74/a
25%	\$1.21/a	\$2.48/a	\$3.68/a	\$4.95/a	\$6.16/a
30%	\$1.29/a	\$2.64/a	\$3.93/a	\$5.29/a	\$6.58/a
35%	\$1.36/a	\$2.79/a	\$4.14/a	\$5.57/a	\$6.93/a

*Using 2020 Base Price of \$3.88

These are only examples of possible premium levels. Please visit your crop agent to discuss your actual premium using your personal selection of policy, coverage level, APH, unit structure, practice, etc.

Comparing Additional Liability Coverage to Additional Premium

Coverage Band Election	Supplemental Price Election					Additional:
	5%	10%	15%	20%	25%	
5%	\$.45/a	\$.92/a	\$1.36/a	\$1.83/a	\$2.28/a	Premium
	\$1.90/a	\$3.90/a	\$5.80/a	\$7.80/a	\$9.70/a	Liability
10%	\$.77/a	\$1.58/a	\$2.36/a	\$3.17/a	\$3.94/a	Premium
	\$3.80/a	\$7.80/a	\$11.60/a	\$15.60/a	\$19.40	Liability
15%	\$.99/a	\$2.04/a	\$3.03/a	\$4.07/a	\$5.06/a	Premium
	\$5.70/a	\$11.70/a	\$17.40/a	\$23.40/a	\$29.10/a	Liability
20%	\$1.13/a	\$2.31/a	\$3.43/a	\$4.62/a	\$5.74/a	Premium
	\$7.60/a	\$15.60/a	\$23.20/a	\$31.20/a	\$38.80/a	Liability
25%	\$1.21/a	\$2.48/a	\$3.68/a	\$4.95/a	\$6.16/a	Premium
	\$9.50/a	\$19.50/a	\$29.00/a	\$39.00/a	\$48.50/a	Liability
30%	\$1.29/a	\$2.64/a	\$3.93/a	\$5.29/a	\$6.58/a	Premium
	\$11.40/a	\$23.40/a	\$34.80/a	\$46.80/a	\$58.20/a	Liability
35%	\$1.36/a	\$2.79/a	\$4.14/a	\$5.57/a	\$6.93/a	Premium
	\$13.30/a	\$27.30/a	\$40.60/a	\$54.60/a	\$67.90/a	Liability

AVE Advantages

- Provides additional coverage-YOU decide how much
- Provides additional grain price guarantee on band of bushels you select; grain marketing advantage
 - Not dependent on a market rally to obtain a better price
- Flexible
 - You decide how many bushels you wish to add the additional protection on
 - You decide how much additional grain price to add to your protected bushels
- Easy to understand
- Affordable
 - You can tailor your additional coverage to match your budget
- Works in conjunction with your federal crop insurance policy and coverage



Farm Bill Update: 2021

Information and Options

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Basic Information

1. Initial ARC/PLC election was for the 2019 and 2020 crop years
2. Annual election after that: 2021, 2022, & 2023
 - Significantly more flexible
3. Modifications to ARC & PLC calculations
4. No Change in Base Acres
 - Base acreage updates and reallocations were not offered in the 2018 Farm Bill
5. Yield Update Opportunity in 2020
 - Good for PLC only – but recommended for all
6. Loan Rate Increases
7. Payment Limits Unchanged

Major Changes from 2014 to 2018

1. PLC:

- Effective Reference Price; new price escalator

2. ARC-CO:

- Protection and payments will now be calculated using the county the land is physically located in
- RMA yields rather than NASS survey yields
- Trend-Adjusted Yields will be used
- Effective Reference Price; new price escalator

Major Changes from 2014 to 2018

3. Ten Acre Rule:

- Farms can now be added together to meet the Ten Acre Rule

4. T-Yield: Plug yields are now 80% of county t-yield, rather than 70% in 2014 farm bill

5. Benchmark Revenue:

- Benchmark yield and prices used to construct county benchmark revenue will lag one year
- Since you are now allowed to change program election yearly, this change will allow you to know the ARC-CO guarantee when you make your election

Key Dates

March 15, 2021:

- ARC/PLC election deadline for 2021 crop year
- If an election is not submitted to FSA by March 15, that farm will automatically default to the previous election on that farm from the prior crop year

Enrollment, signing of the contract, is required each year

- If a producer has a multiyear contract and makes an election change for 2021, signing a new contract will be necessary

March 15, 2022: ARC/PLC election deadline for 2022 crop year

March 15, 2023: ARC/PLC election deadline for 2023 crop year

Summary of Choices

Price Loss Coverage

- Target price program
- Max payment rate: Effective Reference Price (ERP) – national loan rate
- Payments on 85% of a crop's base acres
- Only option that will utilize updated payment yields
- Only option eligible for SCO

ARC–CO

- Revenue program: 5-year Olympic avg. of county yields & ERP
- Separate guarantee for each crop
- Guarantee = 86% of benchmark revenue
- Max payment = 10% of benchmark revenue
- Payments on 85% of crop's base acres
- Not eligible for SCO

ARC–IC

- Revenue program: 5-year Olympic average of farm revenues
- Whole farm program for covered crops
- Max payment: 10% of benchmark revenue
- Payment on 65% of total base acres
- Not eligible for SCO

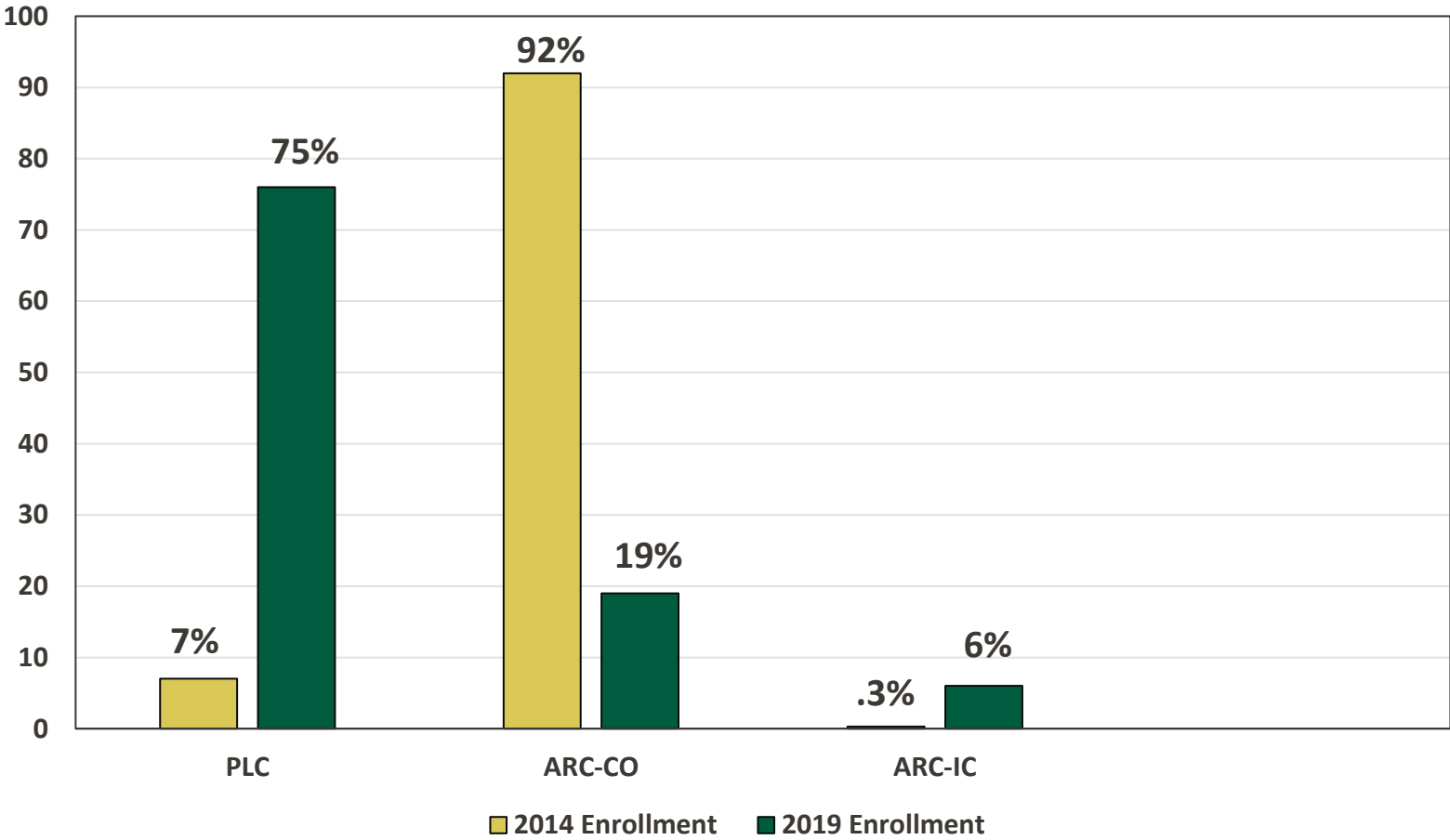
US 2019 ARC/PLC Election Results

	In Million Acres			
	Total US Base Acres	US Corn Base	US Soybean Base	US Wheat Base
PLC	177.0	72.0	7.6	59.0
ARC-CO	66.5	17.7	43.0	3.7
ARC-IC	9.8	5.6	3.3	.7
Total	253.3	95.3	53.9	63.4

	Total US Base Acres	US Corn Base	US Soybean Base	US Wheat Base
PLC	70%	75%	14%	93%
ARC-CO	26%	19%	80%	6%
ARC-IC	4%	6%	6%	1%

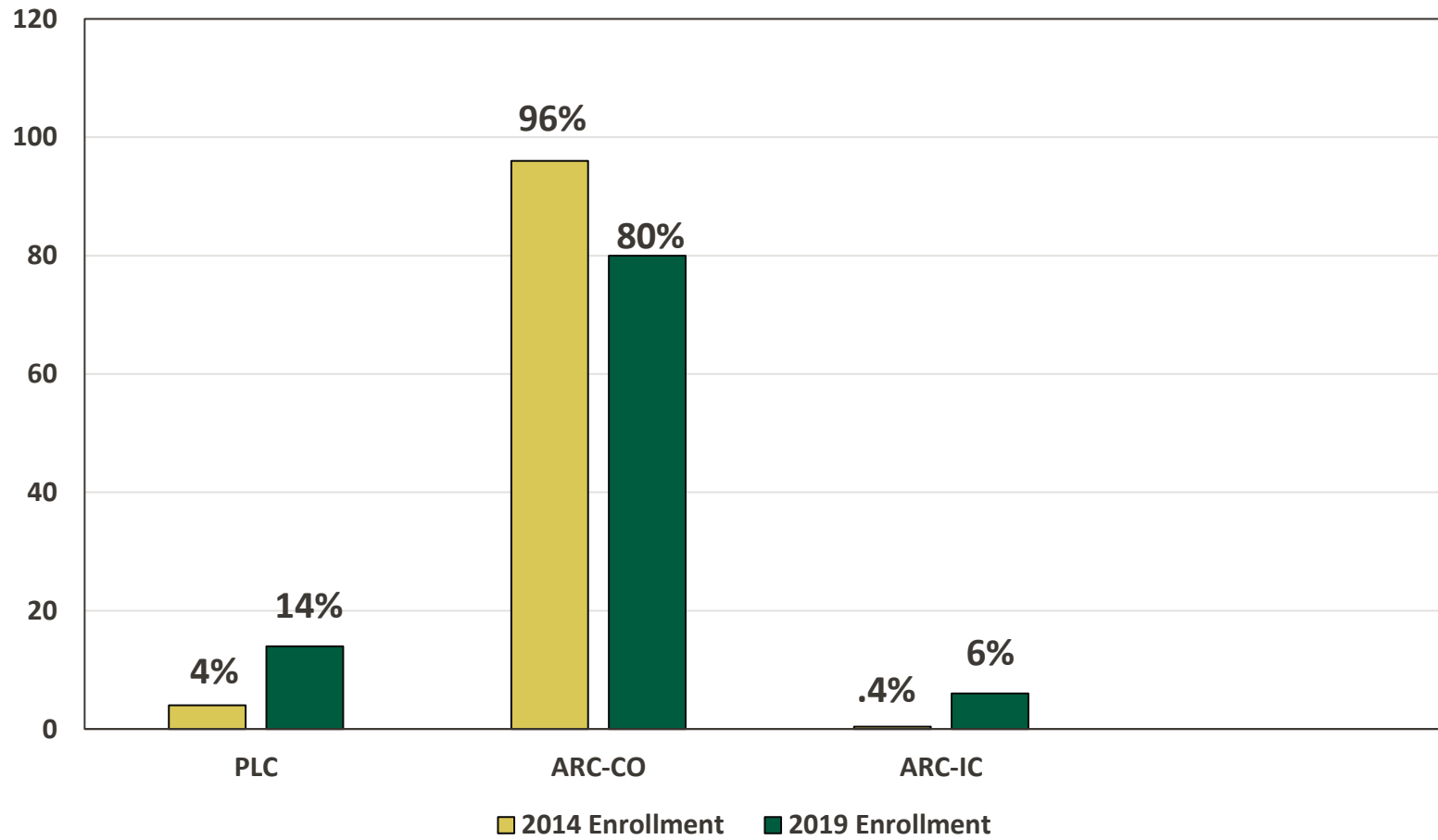
US ARC/PLC Election Results

Corn Enrollment in 2014 FB vs. 2019 Enrollment



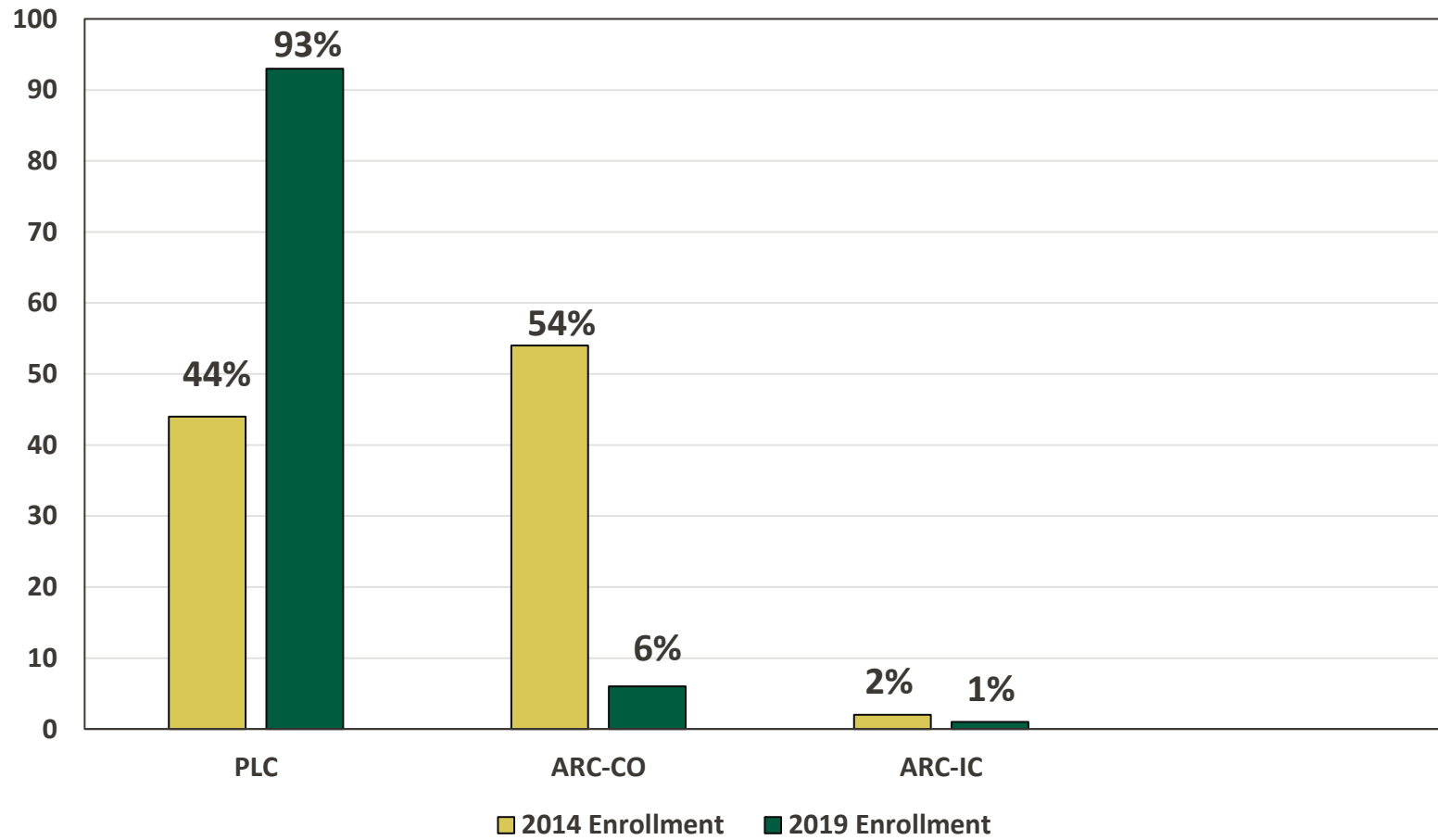
US ARC/PLC Election Results

Soybean Enrollment in 2014 FB vs. 2019 Enrollment



US ARC/PLC Election Results

Wheat Enrollment in 2014 FB vs. 2019 Enrollment



Effective Reference Prices for ARC & PLC

Crop Years 2019, 2020, and 2021

	2019	2020	2021*
Corn	\$3.70	\$3.70	\$3.70
Soybeans	\$8.40	\$8.40	\$8.40
Wheat	\$5.50	\$5.50	\$5.50

*Projected as of December 10, 2020

2019 PLC & ARC-CO Payments*; IL

2019 PLC Payment Rates-Final

- Corn: \$.14/bu (\$3.70 EFR - \$3.56 Final MYA)
- Soybeans: \$0 (\$8.40 EFR - \$8.57 Final MYA)
- Wheat: \$.92 (\$5.50 EFR - \$4.58 Final MYA)

2019 ARC-CO Payments: IL Counties

	Corn Non-Irrigated	Corn Irrigated	Soybeans Non-Irrigated	Soybeans Irrigated	Wheat Non-Irrigated	Wheat Irrigated
# of Counties Receiving Payment	41	22	77	37	95	3
Average Cty Payment	\$11.22	\$27.63	\$24.55	\$20.53	\$31.81	\$20.77
Largest Cty Payment	\$60.30	\$81.20	\$65.35	\$67.16	\$45.68	\$40.74

*PLC and ARC-CO payments are made on 85% of base acres

**Source: USDA/FSA

2020 MYA Projections

Current Crop Year

2020 Crop Year Market Year Average Price Projections
(as of February 9, 2021)

- Corn: \$4.30
- Soybeans: \$11.15
- Wheat: \$5.00

Using those projected MYA prices (which will change), PLC projected payments for the 2020 crop year:

- Corn: \$0.00 (\$3.70 EFR - \$4.30 Projected MYA)
- Soybeans: \$0.00 (\$8.40 EFR - \$11.15 Projected MYA)
- Wheat: \$0.50 (\$5.50 EFR - \$5.00 Projected MYA)

Recent commodity price rallies reduce PLC payments and reduce likelihood of ARC-CO payments

2021 Decision

What we know:

- Effective Reference Prices:
 - Corn: \$3.70
 - Soybeans: \$8.40
 - Wheat: \$5.50
- ARC-CO and ARC-IC Benchmark Prices:
 - Corn: \$3.70
 - Soybeans: \$8.95
 - Wheat: \$5.50

2021 Crop Year ARC-CO Revenue Guarantees per county are available

2021 Decision

Other factors to possibly consider:

- Market outlook
- Your personal risk tolerance preference
- Potential payment projections; U of I's farmdoc 2018 Farm Bill What If Tool (Excel spreadsheet) at:
<https://farmdoc.illinois.edu/fast-tools/arc-co-plc-model>
- Supplemental Coverage Option (SCO)
 - Only available on farms that elect PLC

2018 Farm Bill Resources

FSA:

- https://www.fsa.usda.gov/programs-and-services/arcplc_program/index

Farmdoc:

- ARC/PLC Tool: <https://fd-tools.ncsa.illinois.edu/>
- 2018 Farm Bill What If Tool (Excel spreadsheet) at: <https://farmdoc.illinois.edu/fast-tools/arc-co-plc-model>

Questions?

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Keeping up with the Biden Administration

What do the first three + weeks tell us?

Adam Nielsen

Director of National Legislation & Policy Development

Illinois Farm Bureau



Slew of Executive Orders: 2nd only to FDR

Elections have consequences



Highlights of 28 Executive Orders

- **COVID** – Prioritize economic relief; require mask wearing on planes, trains, and federal buildings. Support school reopening. Worker safety.
- **Immigration** - Reunify families, create orderly process for asylum seekers. Stop border wall construction.
- **Census** – Count everyone regardless of immigration status.

Climate EO getting the most rural attention

- “We have a narrow moment to pursue action at home and abroad in order to avoid the most catastrophic impacts that crisis and to seize the opportunity that taking climate change presents .. together, we must listen to science and meet the moment.”
- Put the climate crisis at the center of U.S. foreign policy and national security.
- Take a government-wide approach to the climate crisis.

Empowering workers by advancing conservation, agriculture and reforestation

- Within 90 days, a strategy for creating a Civilian Climate Corps.
 - Conserve and restore public lands and waters, bolster community resilience, increase reforestation, ***increase carbon sequestration in the agriculture sector***, protect biodiversity, improve access to recreation, and addressing the changing climate.
Goal – conserve at least 30% of lands and waters by 2030.
 - The Secretary of Agriculture shall initiate efforts in the first 60 days to collect input from Tribes, farmers, ranchers, forest owners, conservation groups, fire fighters, and other stakeholders on **how best to use USDA programs, funding and financing capacities and other authorities to encourage voluntary adoption of climate-smart agricultural and forestry practices that protect wildlife, decrease wildfires, and result in additional, measurable, and verifiable carbon reductions and sequestration that source sustainable bioproducts and fuels.**
- Submit a report to the National Climate Task Force recommendations on (chaired by Gina McCarthy) by May 1.

Takes on incoming Biden Administration

- Razor thin Democrat majorities in House and Senate leave the President-elect with little margin for error and rule out overly ambitious agendas.
- Biden will focus on getting cabinet appointees through the Senate, a handle on out-of-control COVID, getting kids in school and people back to work.

A few more Biden Administration Takes

- There will be a brief opening for policy and agreement. Unless something else dramatic happens, he'll have through 2021 to get a couple of his big legislative items through Congress.
- COVID relief now.
- At some point, in the run up to the 2022 midterms, Republicans will become the party of “no” – the 2024 campaign will begin and criticism of ‘out of control’ spending will be prevalent. Democrats are banking on a COVID-primed hot economy. And competent COVID leadership.

Key Cabinet-level Appointments 6 of 23

- **USDA** – Tom Vilsack – Second go around – experienced team, ready to hit the ground running. Big carbon plan coming. Nomination forwarded to full Senate.
- **EPA** – Michael Regan – NC’s Secretary of Environmental Quality, was an air quality specialist at USEPA. Focus on environmental justice. NRDC calls it “the modern day civil rights issue of our time.” No hearing yet.
- **U.S. Trade Representative** – Katherine Tai – former top USTR China enforcer. More recently House Ways and Means Committee trade counsel. No hearing yet.

New IL players to work with

- IL Congressional delegation didn't change much – New Reps. Mary Miller – R15 and Marie Newman – D3
- Senator Durbin's role will be far more significant – Assistant Majority Leader and Senate Judiciary Committee Chairman. Durbin remains on the Ag Committee.
- **House Ag Committee** – Chairman David Scott – GA, Ranking member GT Thompson – PA (IL Reps - Cheri Bustos, Rodney Davis, Mary Miller and Bobby Rush.)
- **Senate Ag Committee** – Chair Debbie Stabenow – MI; Ranking member John Boozman

Biden Priority – Another COVID relief package

- President Biden wants a \$1.9 T COVID relief package – with or without Republican support. Big effort. Believe it's absolutely essential for 2022 election when House and Senate control are up for grabs.
- What it contains: \$1,400 direct checks, money for school reopenings, funds for robust vaccine effort.

Refresher on the last round's goodies for Ag

- CFAP - \$20 per acre for non-specialty crops
- 80% livestock reimbursement for losses due to euthanasia or canceled orders.
- Provides a “top-up” payment to cattle producers to address a portion of the gap between CFAP 1 and CFAP 2 to producers who sold cattle before April and those who sold after.
- Crop insurance and disaster payments may be used to calculate specialty grower sales.
- Marketing loan repayment extended by three months.
- Secretary now has discretion to support domestic biofuel producers from CCC.
- Grant program for small meat and poultry processors to upgrade for inspection programs that permit interstate sale of products.

Last round's PPP changes for Ag

- PPP expanded - \$325 mil for “second draw” loans - must meet eligibility requirements that include a demonstrated 25% revenue reduction. Max. loan -\$2 mil.
- Expenses are tax deductible – provides that business expenses paid for by PPP loan may be deducted.
- Simplified one-page forgiveness for loans of <\$150,000
- Gross Schedule F income instead of net Schedule F income to calculate eligibility. BUT – no new re-calculated first draw loans that have been forgiven.
- No more advance EIDL deduction.

\$15/hr????

Ag's exempt from the Federal minimum wage

- While agricultural goods are produced for interstate commerce, there are Fair Labor Standards Act (FLSA) ag exemptions from minimum wage and overtime provisions.
- Any ag employer who didn't use more than 500 "man days" of ag labor in any quarter of the preceding year is exempt from minimum wage and overtime pay provisions for the current year.
- Other ag exemptions cover immediate family members, those involved principally involved in the production of livestock, and certain local hand harvest laborers.

What we hope to work on in the 117th Congress

- High octane, low carbon biofuels.
- Ambitious trade agenda that expands our markets.
- Incentivize and reward farmers for soil health practices that sequester carbon. Oppose climate policy that would increase production costs.
- Infrastructure investments that cut our costs and make us more competitive.
- Defend essential *Tax Cuts and Jobs Act* provisions.

Support for high octane, low carbon fuels

- Rep. Bustos introduced the [Next Generation Fuels Act](#) that is designed to increase demand for higher octane biofuels while reducing harmful emissions.
- You can discuss the importance of the biofuels industry, the competition between liquid fuel-powered vehicles and EV's.
- General Motors announced a couple of weeks ago that it will be phasing out liquid fuel for passenger vehicles and light duty trucks by 2035.
- We want to underscore the value of ethanol to farm profitability.
- Continue to advocate for E-15 and funding to expand infrastructure of pumps.

USDA Carbon Program

- IFB leaders provided input to the Biden Transition Team
- AFBF is a member of Food and Agriculture Climate Alliance

We hope 2021 doesn't bring another crisis

- 2018 – Trade War – Lost Markets – and MFP 1.0
- 2019 – Late Planting Disaster → WHIP+ Strong production - MFP 2.0 and – Inaccurate crop reports – USMCA passage
- 2020 – COVID, Extraordinary Market Disruption and CARES relief (PPP-EIDL and CFAP 1.0)
- 2021 – CFAP 2

End run around the filibuster?

Potential tactic - Budget Reconciliation

- Budget reconciliation for FY 21 for COVID – so just 51 votes needed.
- If the budget calls for reconciliation, it tells certain committees to change spending, revenues, or deficits by specific amounts. Each committee writes a bill to achieve its target, and if more than one committee is told to act, the Budget Committee puts the bills together into one big bill.
- Under reconciliation, any bills with tax or spending provisions would need only a simple majority. They'll do it again with the FY 22 budget for the Biden tax bill.
- Republicans used reconciliation to move Tax Cuts and Jobs Act.

Biden's USDA will focus early on climate

- Roughly 10 percent of U.S. GHG emissions are attributed to agriculture.
- President-elect Biden's team has talked about establishing a climate bank in the Commodity Credit Corporation (CCC).
- Food & Agriculture Climate Alliance (FACA) began working in July to lay the groundwork and build industry support for a program that would reward farmers for soil health practices that sequester carbon and provide opportunities to sell into a market.
- Illinois Farm Bureau met with the Biden USDA Transition team to further discuss opportunities and implementation concerns.

Mixed bag at EPA – some wins, some challenges

- There's still potentially another shoe that could drop on concessions to the oil industry on RFS as the Trump EPA folds up its tent.
- Otherwise, under Biden we anticipate a much more favorable approach to renewable fuels at EPA.
- Congress will have to address how EPA will set Renewable Volume Obligations after 2022.

Billions in Ad-hoc support + “Beans in the Teens” = A Likely Policy Adjustment/Reckoning

- Less likely to see any additional ad-hoc support past the next COVID relief bill and that could be minimal.
- Looks like March/April at the earliest for \$20/ac CFAP payment enacted at the end of the last Congress. Obviously, no more CFAP or MFPs.
- Carbon will be the next opportunity for “ad-hoc support.” It’s pretty high on the Biden administration’s USDA priority list. No idea on timing or specifics on delivery. Best guess 2022.
- As it looks today, Ag will likely pay a price in the next (2023) Farm Bill.

Defend AG-essential Tax Cuts & Jobs Act provisions

Our biggest challenge will be a proposal **to eliminate stepped up basis for assets in excess of \$100,000.**

Democrats have always like \$3.5 mil per individual/\$7 million per couple estate tax exemption (where we were in 2009). We're currently at an inflation-indexed \$11.7 million per individual (\$23.4 mil per couple).

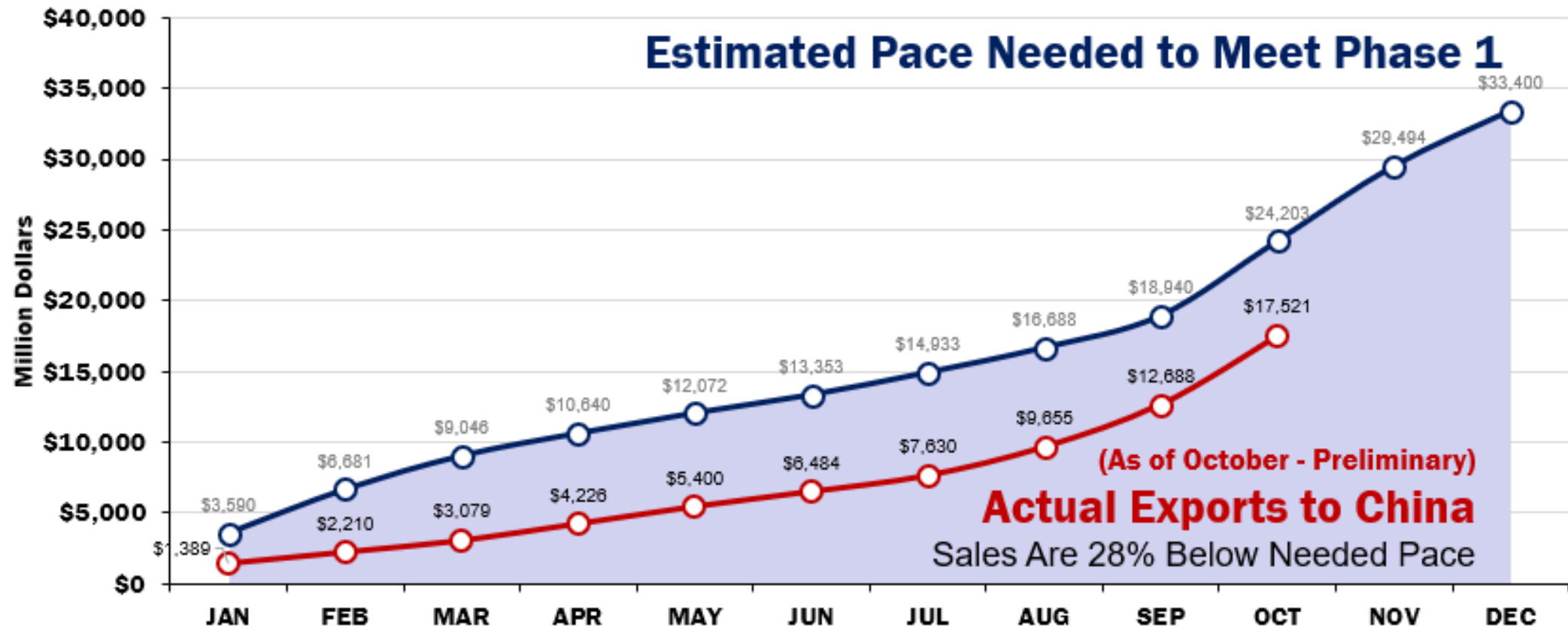
Those are the two big tax issues. Other Biden proposals will likely be:

- Increasing the corporate rate from 21 to 28% - that would reverse half of the rate reduction from 35%
- The top individual rate would go up from 37 to 39.6% for taxpayers making \$400k+
- Taxing capital gains at ordinary rates for taxpayers with AGI's over \$1 million. Most people are taxed now at 15% (incomes between \$40k and \$440k)
- Repeal of the state and local tax deduction cap of \$10K
- Capping itemized deductions at 28% for taxpayers with AGI's over \$400,000

China a little behind on Phase I commitments

Figure 1. U.S.-China Phase 1 Tracker for Agriculture Products

U.S. Exports to China, and Pace Needed to Meet Phase 1 Commitment

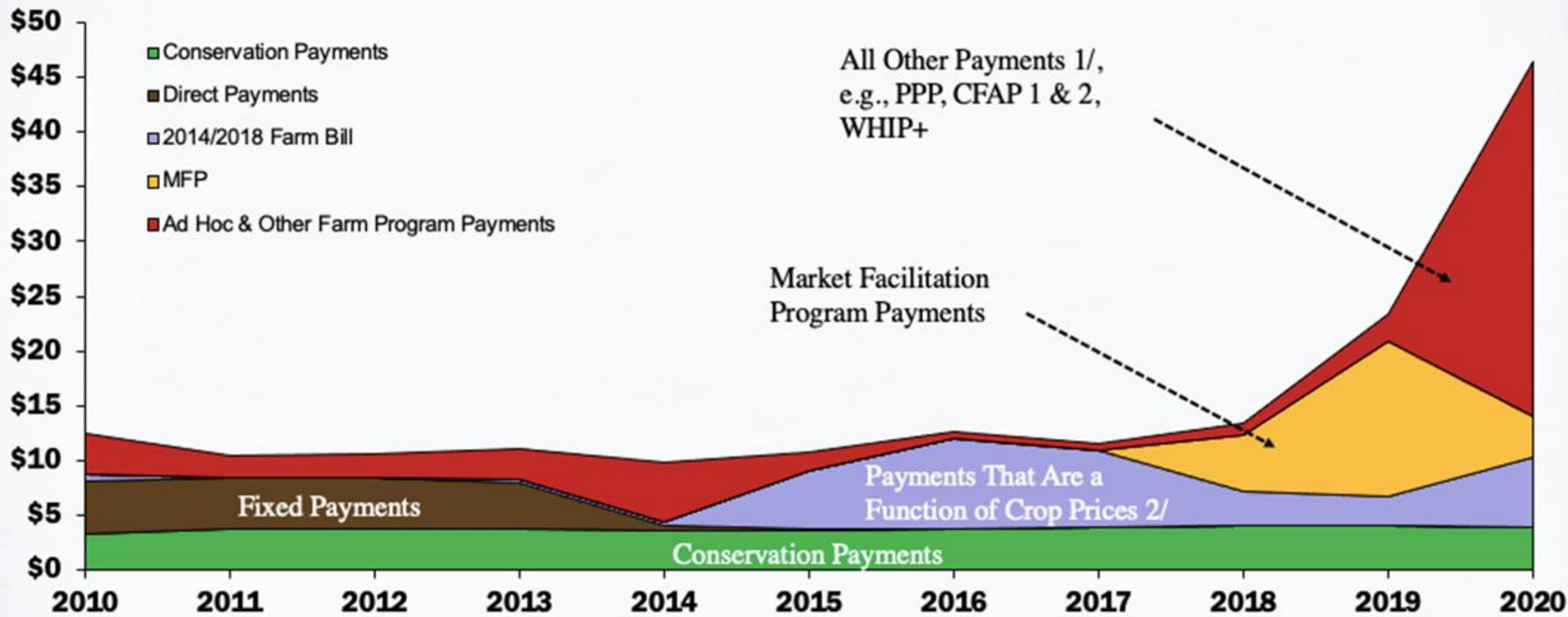


Advocate for an ambitious trade agenda that expands our markets

- China Phase I gains might be seen in our 2021 export figures.
- Value of IL 2020 soybean exports \$786 million v. \$800 million in 2019, and \$2.07 billion in 2017.
- Value of IL 2020 corn exports \$433 million v. \$947 million in 2019. 50% decrease.
- Those numbers will surely increase this year with higher prices.

Direct Government Payments to Farm Producers

Billion Dollars



Source: USDA ERS, FAPRI, Farm Bureau Calculations

1/ "All other program payments" includes supplemental and ad hoc disaster assistance, which in 2020 includes payments from Coronavirus Food Assistance Programs and the Paycheck Protection Program. 2/ Includes Price Loss Coverage, Agriculture Risk Coverage, loan deficiency payments (excluding grazeout payments), marketing loan gains, certificate exchange gains, and dairy payments.







The Farm Legacy – Planning for Tomorrow
Joe Buhrmann, Manager, Planning Support

Why it is Important to Plan

- Identify objectives
- Select proper strategies to accomplish objectives
- Review your progress

*“If you don’t know where you are going, you are certain to end up somewhere else.” **Yogi Berra***

What Are Your Objectives?

- Do you want the farm continued by the next generation?
- Or held for retirement purposes then sold?
- Do you need/want to minimize potential tax liability at death?
- Do you want equitable treatment for farm and non-farm heirs?

Objectives Are Situational

- Every farm family situation can be different
- So each family may have different objectives
- Planning needs depend on your specific situation

COUNTRY Financial® and our representatives cannot give tax or legal advice. Any information we provide reflects our understanding of current tax laws. Tax laws are subject to change and reinterpretation. We recommend you consult legal and tax counsel of your choice before making any decisions regarding your personal planning needs.

Key Documents

- Will
- Durable Power of Attorney for Finance
- Durable Power of Attorney for Healthcare
Living Will
Advanced Medical Directive

Law of Intestacy

- In absence of a will property passes according to state law
- Varies by state
- Common examples
 - One-half would be passed to surviving spouse. The remaining one-half would be passed to the children (regardless of age).
 - If all children are issue of the surviving spouse also, spouse gets entire estate. If any children from prior marriages, ½ to spouse, ½ to children.

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Law of Intestacy

Probate Property	Non Probate Property
Individual's Name	Title – Joint Tenants
Tenants in Common ownership interests	Life Insurance with beneficiary other than estate
Made payable to estate	Retirement plan with beneficiary other than estate
	POD / TOD accounts

Guardian for Minor Child

- Without a will, court will appoint a guardian for the minor child
- No guarantee guardian will be surviving parent
- Reporting responsibilities

Advantages of a Will

- Avoid distribution under Law of Intestacy
- Ability to name guardian
- Waive probate bond
- Choose the executor
- Defer distribution to minors
- Make specific bequests

Other Contingency Planning

- Durable Power of Attorney
 - Finances / Property
 - Health Care
- Living Will / Advance
- Health Care Directive

Meet Our Farm Family

Mary and Clifford Jones

Both Age 65

Mary and Clifford Jones

- 2 adult children – Bill and Bob
 - Only Bill involved in farm
- Own 500 acres
 - Valued at \$4,000 per acre
- Primary objectives
 - Farm continuation
 - Equitable treatment of children

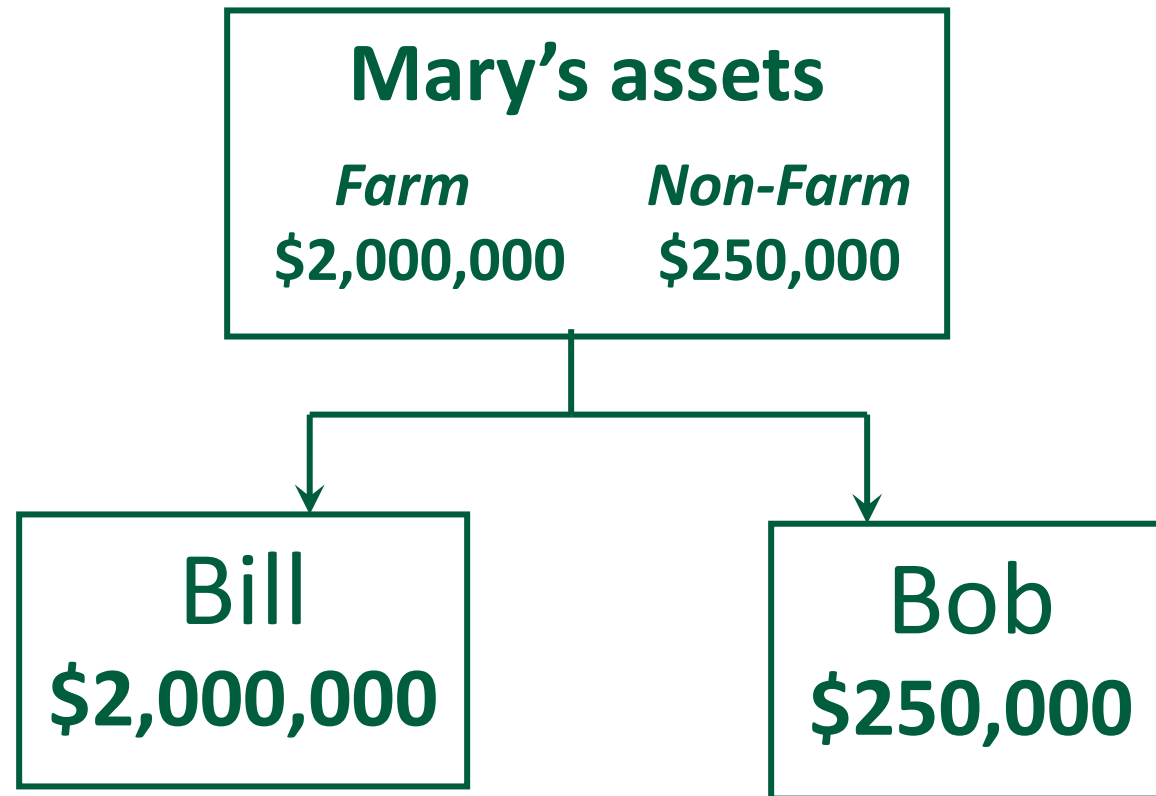
The Jones' Concerns

- Should Bill have the opportunity to continue farming?
- Should we treat both children equally?
- Can we treat both Bill and Bob unequally and still be fair?
- Can Bill who wants to farm afford to buy-out Bob?
- Should the farm be continued as a unit or split up?

Methods For Continuing The Farm

- Outright gifts or bequests
- Option to purchase
- Installment sale
- Buy-sell agreement

Outright Gifts Or Bequests



Outright Gifts Or Bequests

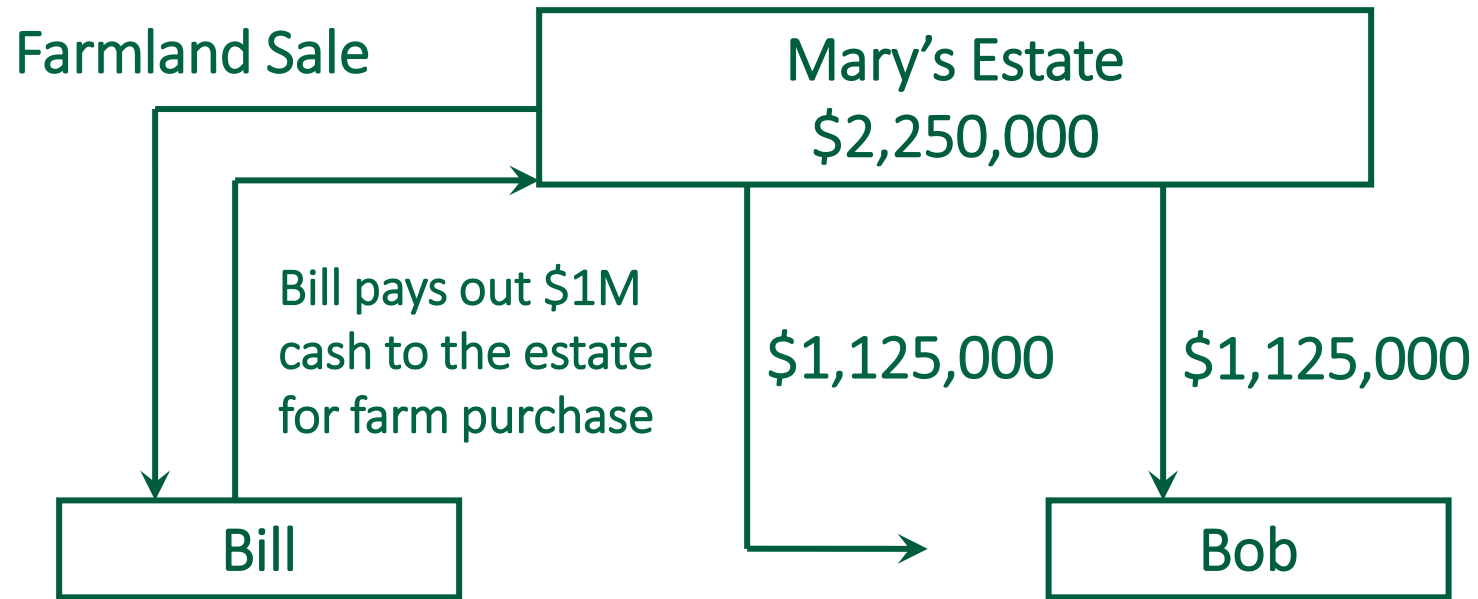
Have they met their primary objectives

- Farm continuation - yes
- Equal treatment – no

Tax issues

- Estate or Gift Tax
- Income Tax
- Basis Transfer

Option To Purchase



Option to Purchase

Will or trust can specify terms

- Price
- Interest rate
- Payment period
- Timing

Non-binding

From the Law Offices of
John Douglas, Attorney at Law
101 S. Main Street
Anywhere, USA 00099

January 2, 2010

Last Will and Testament of Clifford Jones

I, Clifford Jones being of sound mind and body do hereby leave my farm, all the farm equipment, machinery, tools, livestock, feed and all the vehicles or other property licensed and owned by the farm to my children, Bill and Bob Jones.

I direct the farm to be sold at fair market value to my son Bill who is currently the operator. The cash proceeds to be divided evenly between Bill and Bob.

To my son, Bob Jones, I leave my model train sets and my horse Rowdy.
To my son Bill Jones, I leave my coin and knife collections.

Mary and Clifford Select...

Option to purchase method for Bill

- At last-to-die of Mary and Clifford, Bill will act on an option to buy the farm property

Have they met their primary objectives

- Farm continuation - yes
- Equal treatment - yes

How will Bill pay for this purchase?

- Pay Cash
- Save
- Borrow
- Life Insurance

Borrow

How much money is needed for
Bill to purchase the farmland?

Total Farmland	\$2,000,000
Less: Bill's share	<u>-\$1,000,000</u>
Needed to buy out Bob	\$1,000,000
Annual payment required	
6% interest for 20 years	\$ 85,972
Total outlay	\$1,719,434

Borrow

Advantages:

- Interest paid may be income tax deductible
- Spreads payments over time
- Payments are made with an inflated dollar

SCHEDULE F (Form 1040) Profit or Loss From Farming OMB No. 1545-0047
2009
 Attachments Sequence No. 14

▶ Attach to Form 1040, Form 1040NR, Form 1041, Form 1065, or Form 990-B. ▶ See instructions for Schedule F (Form 1040).

Name of proprietor: _____ Social security number (SSN): _____

A Principal product. Describe in one or two words your principal crop or activity for the current tax year. _____ D Enter code from Part IV: _____

C Accounting method: (1) Cash (2) Accrual D Employer ID number (EIN), if any: _____

Part I Farm Income—Cash Method. Complete Parts I and II (accrual method). Complete Parts II and III, and Part I (line 11). Do not include sales of livestock held for draft, breeding, sport, or dairy purposes. Report these sales on Form 4797.

1	Sales of livestock and other items you bought for resale	1		
2	Cost or other basis of livestock and other items reported on line 1	2		
3	Subtract line 2 from line 1	3		
4	Sales of livestock, produce, grains, and other products you raised	4		
5a	Cooperative distributions (Form(s) 1040-PATR)	5a	Taxable amount	5b
6a	Agricultural program payments (see page F-3)	6a	Taxable amount	6b
7a	Commodity Credit Corporation (CCC) loans (see page F-3)	7a		
7b	CCC loans reported as der election	7b	Taxable amount	7c
8a	CCC loans forgiven	8a		
8b	Amount received in 2009	8b	Taxable amount	8c
9	Amount deferred from 2008 (if election to defer to 2010 is attached, check here) <input type="checkbox"/>	9	Amount deferred from 2008	9a
10	Other income, including federal and state gasoline or fuel tax credit or refund (see page F-5)	10		
11	Gross income. Add amounts in the right column for lines 3 through 10. If you use the accrual method to figure your income, enter the amount from Part II, line 51	11		

Part II Farm Expenses—Cash and Accrual Method. Do not include personal or living expenses such as taxes, insurance, or repairs on your home.

12	Car and truck expenses (see page F-5). Also attach Form 4562	12			25	Fuel and profit-sharing plans	25
13	Chemicals	13			26	Rent or lease (see page F-5)	26
14	Conservation expenses (see page F-5)	14			a	Vehicle, machinery, and equipment	26a
15	Custom hire (machine work)	15			b	Other (land, animals, etc.)	26b
16	Depreciation and section 179 expense deduction not claimed elsewhere (see page F-5)	16			27	Pipeline and maintenance	27
17	Employee benefit programs other than on line 25	17			28	Seed and plants	28
18	Feed	18			29	Storage and warehouse	29
19	Fertilizer and lime	19			30	Supplies	30
20	Freight and trucking	20			31	Taxes	31
21	Gasoline, fuel, and oil	21			32	Utilities	32
22	Insurance (other than health)	22			33	Veterinary, breeding, and medicine	33
23	Interest:	23			34	Other expenses (specify):	34
a	Mortgage (paid to banks, etc.)	23a			a		34a
b	Other	23b			b		34b
24	Labor hired (less employment credits)	24			c		34c
					d		34d
					e		34e
					f		34f
25	Total expenses. Add lines 12 through 34f. If line 34f is negative, see instructions	25					35
26	Net farm profit or (loss). Subtract line 25 from line 11. Partnerships, see page F-7. • If a profit, enter the profit on both Form 1040, line 6, and Schedule SE, line 1a; on Form 1040NR, line 9; or on Form 1041, line 6. • If a loss, you must go to line 27.	26					36
27	If you have a loss, you must check the box that describes your investment in this activity (see page F-7). • If you checked 37a, enter the loss on both Form 1040, line 10, and Schedule SE, line 1c on Form 1040NR, line 16; or on Form 1041, line 6. • If you checked 37b, you must attach Form 9100. Your loss may be limited.	27			37a	All investment is at risk.	37a
					37b	Some investment is not at risk.	37b

For Paperwork Reduction Act Notice, see page F-7 of the instructions. Cat. No. 11324H Schedule F (Form 1040) 2009

Borrow

Disadvantages:

- Must come to terms with lender
- Must pay back principal + interest
- Profitability must be increased to cover loan payments
- Must accumulate a down payment
- Interest rates and profitability fluctuate

Life Insurance

How much money is needed for Bill to purchase the farmland?

Total Farmland	\$2,000,000
Less Bill's share	<u>-\$1,000,000</u>
Needed to buy out Bob	\$1,000,000
Annual premium required	
20 years*, SUL, both age 65	\$ 17,540
Total outlay	\$ 350,800

*Dividends not available with all types of life insurance and cannot be guaranteed.
Rates are an example only.

Life Insurance

Advantages:

- The event (death) that creates the need, also creates the money
- Death benefit is paid income tax free
- Built in inflation guard (dividends*)
- Facilitates buy-sell agreement
- Minimizes disputes among children

COUNTRY FINANCIAL	
\$100,000 Life Insurance	
Name:	Clifford Smith
Address:	1120 N. Second Street Anytown, USA 00000
Beneficiary Name:	Mary Smith, wife
Address:	1120 N. Second Street Anytown, USA 00000
Secondary Beneficiaries:	Bill Smith, son Bob Smith, son Carol Smith, daughter
Options:	\$100,000 Term Life Rider for Clifford, insured \$50,000 Term Life Rider for Mary, wife Waiver of Premium for Disability

*Dividends not available with all types of life insurance and cannot be guaranteed

Life Insurance

Disadvantages:

- Premiums must be paid in advance
- Not everyone can get life insurance

COUNTRY
FINANCIAL

\$100,000 Life Insurance

Name:	Clifford Smith
Address:	1120 N. Second Street Anytown, USA 00000
Beneficiary Name:	Mary Smith, wife
Address:	1120 N. Second Street Anytown, USA 00000
Secondary Beneficiaries:	Bill Smith, son Bob Smith, son Carol Smith, daughter
Options:	\$100,000 Term Life Rider for Clifford, insured \$50,000 Term Life Rider for Mary, wife Waiver of Premium for Disability

Which Option Is Best?

\$1,000,000 Needed

Method	Amount Per Year	Number of Years	Total Outlay	Per Acre
Borrow	\$85,972	20	\$1,719,434	\$6,877.74
Life Ins	\$ 17,540	20	\$ 350,800	\$1,403.20

Sample life insurance rates. Your rate may vary.

Federal Tax Issues

- American Taxpayer Relief Act of 2012 Tax Cuts & Jobs Act of 2017 – ‘permanent’ fix
- 2020 / 2021 estate exemption - \$11,580,000 / \$11,700,000
- Maximum estate tax rate – 40%

State Tax Issues

Varies by state

- Claim maximum federal credit
- State inheritance tax
- State estate tax

State estate tax exemptions for 2021

- Illinois \$4,000,000
- Minnesota \$3,000,000
- Oregon \$1,000,000
- Washington \$2,193,000

Summary

- Your family's specific objectives
- Operating child's needs versus the non-operational family members
- Different farm continuation solutions
- Funding options - cash, saving, borrowing, or life insurance

How Can COUNTRY Help?

- One person you know and trust backed by a team of experts
- Putting our experience and financial strength to work for you
- Providing a tangible plan to help achieve your financial security

Disclosures

Life insurance policies issued by COUNTRY Life Insurance Company®, Bloomington, IL.

Fixed Annuities issued by COUNTRY Investors Life Assurance Company®, Bloomington, IL.

Investment management, retirement, trust, and planning services provided by COUNTRY Trust Bank®.

Not FDIC Insured

No Bank Guarantee
May Lose Value

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Thank you

Let us know how we can help you.

COUNTRYFinancial.com

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