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Are Farmers Getting Older? Of course!

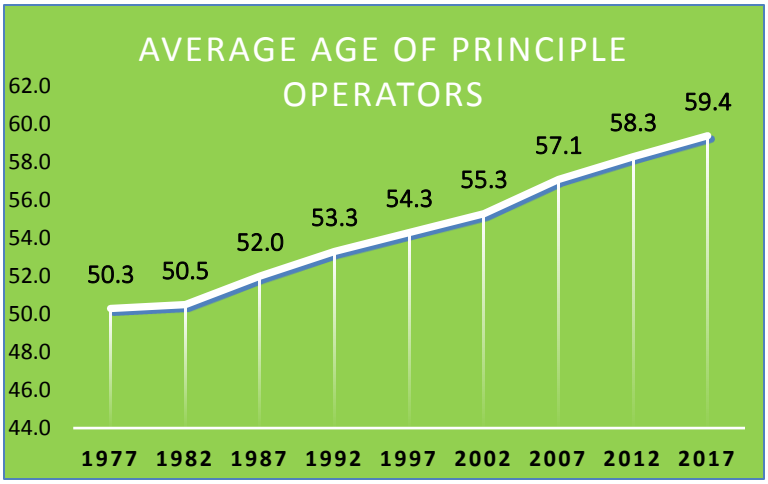
-Steve Isaacs

As the story goes, the company CEO sent a message to the Human Resources department asking, "How many employees are approaching retirement age?" The literal-minded and entirely accurate HR Manager sent the following reply, "All of them."

The 2017 Census of Agriculture asked the same question…with the same reply. The better question, perhaps, is, "How many farmers are NEARING retirement age?" The answer, "A lot, and some of them appear to have passed it."

This question of the aging of American farmers has long been a topic of discussion. We are, of course, all getting older. It's the average age of farmers that some find troublesome, and it has been increasing for a good while, by about nine years over the last eight census cycles since 1977.

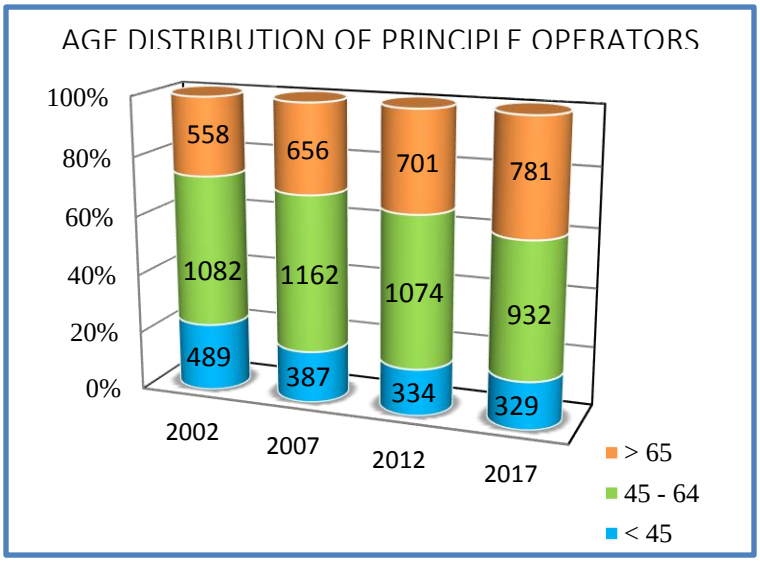
It is important to note in census terminology that this is "principle operator." Principle operator has been defined as the person on a farm who made the most decisions. In the 2017 census the term "principle operator" was changed to "primary producer" while other persons involved in decision making on the farm were designated "principle" or "non-principle" producers. Data were collected on up to four "producers" with one being designated the "primary producer." For most farms this is likely to be an older producer. Thus, the Age of Principle Operators overstates the average age of all producers. For 2017 the average age of "all producers" was 57.5, still the oldest occupational category in the U.S.



The Bureau of Labor Statistics which collects data across hundreds of occupational categories reports that Farmers, Ranchers, and Other Ag Managers have a median age of 56.4. That is the highest median age occupation reported by BLS. The next five are Judges (56.0), Motor Vehicle Operators (55.9), Tailors (54.3), Clergy (53.4), and Bus Drivers (53.2). Want to work with young people? Lifeguards, Restaurant Hostesses, and Counter Attendants are all under 22.

The distribution of primary producers across age categories is a better indicator of how many farmers are approaching retirement. The second figure reflects the distribution of producers across three age categories. The values on the columns are the number (by 1,000s) of primary producers in each age category. Over the past four census cycles the percentage of farmers over 65 has increased from 26% of the total to 38% of the total while the percentage of those under 45 has decreased from 23% to 16%.

Problem or opportunity? With nearly two in five primary producers over 65, it is clear that transition of assets and management will soon occur on a significant scale. For while we all get older, none of us live forever. Transition planning should already be under way, regardless of age, for "all of them."



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Lender Relationships

-Lauren Turley

Agriculture, from row crops to poultry, is a capital intensive industry. Add to that, the fact that net farm incomes across the state have taken a hit over the last couple of years, and the importance of the lender relationship is obvious. A great relationship between farmers and their lenders is critical to the success of the operation. Banks and lenders are aware that the farm economy is struggling. Some banks have become hesitant to lend to farmers, regardless of their financial stability. Now, more than ever, it is important for the farmers to have a good relationship with their lenders. The lender should be a key member of the business team. There are several keys to building the lender relationship including treating the lender as a partner and being open, meeting in person, not letting emotions take over, providing complete information, asking for lender input, and looking at all of the options the bank has to offer.

Farmers and lenders need to have a strong and trustworthy relationship in order for the farm business to thrive and overcome financial stress. The lender needs to be treated as a partner and have the same goals for the operation. Lenders should want to see the operation succeed and grow. Farmers need to be open with their lenders and make sure everything is communicated clearly. The lender should hear about not only the successes of the operation, but also any problems that arise. It is better for the lender to hear about the problem directly, rather than from another member of the team. Open and honest discussions between farmers and lenders will go a long way in developing a positive relationship.

Another factor to improve this relationship is to meet in person. So much can be learned, by both the farmer and the lender, with face-to-face interaction. In this technology driven world, it is easy to communicate via other options, but face-to-face interaction takes a bit more effort and should prove that the relationship is valued. Farm visits actually

allow the lender to learn more about the operation than can be learned over the phone or through an email. The hard work and strengths of the operation will be evident and this should provide positive reassurance to the lender.

It is important for farmers to not take the everyday frustrations of farming out on the lender. The markets may be down or rain may have caused replanting, but the lender is trying to survive in the same environment. The emotions of all of the hard work of farming should be "checked at the door" during lender conversations. It is important for farmers to be respectful and stay focused on the goals rather than letting frustration and emotions drive the conversation.

Just as important as being open and communicating clearly, is making sure complete information is provided. Farmers need to ensure that accurate and complete information is given to the lender. The lender needs the full financial picture in order to meet the needs of the operation. At the end of the year, the lender will be able to see the accuracy of the information. Trying to hide additional liabilities is only going to hurt the relationship in the end. If farmers can provide the lenders a budget or projection in addition to complete financial statements, credibility with the bank will be built.

The lenders are not only a source of borrowed money, but can also be a source of constructive input to the farming operation. Asking lenders to give guidance and insight on how to ensure the success of the operation will strengthen the relationship.

Farmers should be open to the different debt financing options the bank may have to offer. In the lender relationship, it is important to advocate for the needs of the operation but also to understand what solutions are available. The farmer should demonstrate that they care about the money the bank is lending as the banks aren't designed to shoulder huge levels of risk. The presentation of effective and well thought out plans for the borrowed money is important to the lenders.

The relationship between farmers and trusted lenders is one key for reaching goals. Farmers should make an effort to work closely with lenders and be willing to fully disclose the financial situation of the operation. Just as growing an excellent crop takes hard work on the farmer's part, building a strong and trustworthy relationship with the lender requires dedication and hard work from both the farmer and the lender.

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Dairy Margin Coverage Very Attractive for 2019

Kenny Burdine

One of the most significant changes in the most recent farm bill involved the creation of the Dairy Margin Coverage (DMC) program. The program works a lot like the MPP-Dairy program, but is much more attractive to producers as higher coverage levels are available, premiums are lower, and margins are calculated monthly. Producers are also able to participate in the DMC program at the same time they participate in LGM-Dairy or purchase dairy revenue insurance. Since passage of the farm bill, an additional change has been made in the feed cost formula to include premium and supreme alfalfa hay. This change increases the cost of alfalfa used in the formula and lowers the DMC margin, making payment even more likely.

Signups are ongoing for the DMC program for 2019 and the decision for dairy producers is very easy this year. Payments from DMC are going to greatly

exceed premiums for 2019 on covered milk up to 5 million lbs. This is probably best illustrated by a quick illustration. Let's consider a dairy operation with a production history (based on the highest level of milk marketing's from 2011 to 2013) of 3.158 million lbs. (roughly 150 milking cows and a rolling herd average of a little over 21,000 lbs.). I choose this level simply to make the math easy. At 95% coverage, this dairy operation could cover 3 million lbs. or 30,000 cwt of milk.

Premium for the $9.50 coverage level, on up to 5 million lbs. of production, is $0.15 per cwt. For this illustration farm, covering 3 million lbs. of production, this works out to $4,500 (30,000 cwt @ $0.15 per cwt). Additionally, this farm would pay a $100 enrollment fee, for a total cost of $4,600. However, DMC margins have been below the $9.50 level for the first five months of 2019. Since enrollment this first year is retroactive to January, the DMC program is literally in the money right now. For this hypothetical operation, total payments for the first five months of 2019 will exceed payments by more than $8,000. A more detailed summary, with calculations, can be found in Table 1.

While enrollment for 2019 is pretty straightforward, one decision that producers likely will want to ponder is whether to sign up for all 5 years (2019-2023) at the $9.50 level. Producers who do so will receive a 25% discount on their premiums, bringing the premium to $0.1125 per cwt per year for five years. Some producers may elect not to do this, pay the higher premium level, and make their coverage election annually. I understand this and agree that it provides more flexibility should market conditions change in the coming years.

However, I do think a relatively strong case can be made for signing up for five years and taking the 25% premium discount. A simple way to think about this is that one would want to decline the discount if they felt they would want lower coverage than $9.50 two of the five years. Since we already know that 2019 will pay, this really means two of the next four years. I went back and ran margins, premiums, and indemnities over the 10-year period from January 2009 to December 2018. If the DMC program were in existence during that 10-year period, payments would have exceeded premiums in 9 out of the 10 years at the $9.50 coverage level.

Table 1: DMC Margins, Payments, and Enrollment Costs
(January through May 2019, $9.50 Coverage on 3 million lbs

	January	February	March	April	May	Jan – May Total
US All Milk	$16.60	$16.80	$17.50	$17.70	$18.00	
MPP Feed Cost	$8.89	$8.89	$8.84	$8.88	$9.00	
MPP Margin	$7.71	$7.91	$8.66	$8.82	$9.00	
Payment per cwt*	$1.79	$1.59	$0.84	$0.68	$0.50	
Total	$4,468.83	$3,978.83	$2,110.38	$1,689.67	$1,247.84	$13,495.54
		Payments through May				$12,658.82**
		Enrollment Cost for 2019				$4,600.00
		Net Gain through May				$8,058.82

Assumes 95% coverage, at the $9.50 margin level for a dairy farm with production history of 3,157,895 lbs.
Figures may be slightly different due to rounding
*This is paid on 1/12 of production history (30,000 cwt / 12 = 2,500 cwt)
**Estimated payment is reduced by 6.2% for sequestration ($5,875 x 93.8%)

History certainly doesn't predict the future, but I do think this is worth noting. The only year that the program would not have "paid out" would have been 2014, which was an amazing year for dairy producers. Given this, I think I would lean towards taking the premium discount and enrolling at the $9.50 for all five years.

There is a very good decision aid available to help dairy producers as they consider DMC program enrollment. The tool allows a producer to enter production history for their operation and will calculate premiums, and estimate payments, based on current market expectations. The tool will show how "in the money" DMC currently is, will forecast margins for the remainder of the year, and can be found at: https://www.fsa.usda.gov/programs-and-services/farm-bill/farm-safety-net/dairy-programs/dmc-decision-tool/index.

The FSA DMC fact sheet can be found at https://www.fsa.usda.gov/Assets/USDA-FSA-Public/usdafiles/FactSheets/2019/dairy_margin_coverage_program-june_2019_fact_sheet.pdf

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Latest Round of MF Payments Announced

Will Snell, Todd Davis, and Kenny Burdine

USDA has announced the specific details regarding the latest round of Market Facilitation Payments (MFP) totaling up to $14.5 billion of direct payments to eligible farmers. These payments are in response to the estimated adverse impact that U.S. farmers are experiencing related to retaliatory tariffs and other non-tariff barriers being assessed during the on-going trade dispute. This new round of trade mitigation payments following $9.6 billion of payments allotted last year which was distributed in two different sets of payments. According to Kentucky's Farm Service Agency (FSA), Kentucky farmers received over $150 million during for the first two sets of MFP payments, accounting for approximately 10 percent of annual net farm income for Kentucky. This current round of payments will total approximately $240 million to Kentucky farmers, assuming all payments occur.

The latest MFP covers several Kentucky crops including alfalfa, barley, canola, corn, cotton, millet, oats, rapeseed, rice, rye, sorghum for grain, soybeans, sunflowers, triticale, and wheat. Only hogs and dairy are included for livestock enterprises.

For a complete list of eligible commodities/criteria and application/payment details go to www.farmers.gov/manage/mfp.

Unlike the initial round where MFP payments had a specific payment rate for each crop, this round will be based on a single county payment rate for acres of production in a specific county multiplied by a farm's total plantings of MFP-eligible crops in aggregate within that county for 2019. Payment rates are based on USDA's estimates of the impact of trade distortion had on individual counties. USDA is expected to provide details on the calculation methodology in the coming weeks.

A producer's total payment acres for this round cannot exceed total 2018 plantings. Producers who filed prevented planting claims then planted an MFP-eligible cover crop prior to August 1, 2019, with the potential to be harvested, are eligible for a $15 per acre payment.

National crop payments ranged from $15 to $150 per acre of eligible crops planted in 2019, with Kentucky counties ranging from a low of $24 per acre in Elliot, Johnson, Magoffin and Whitley Counties to a high of

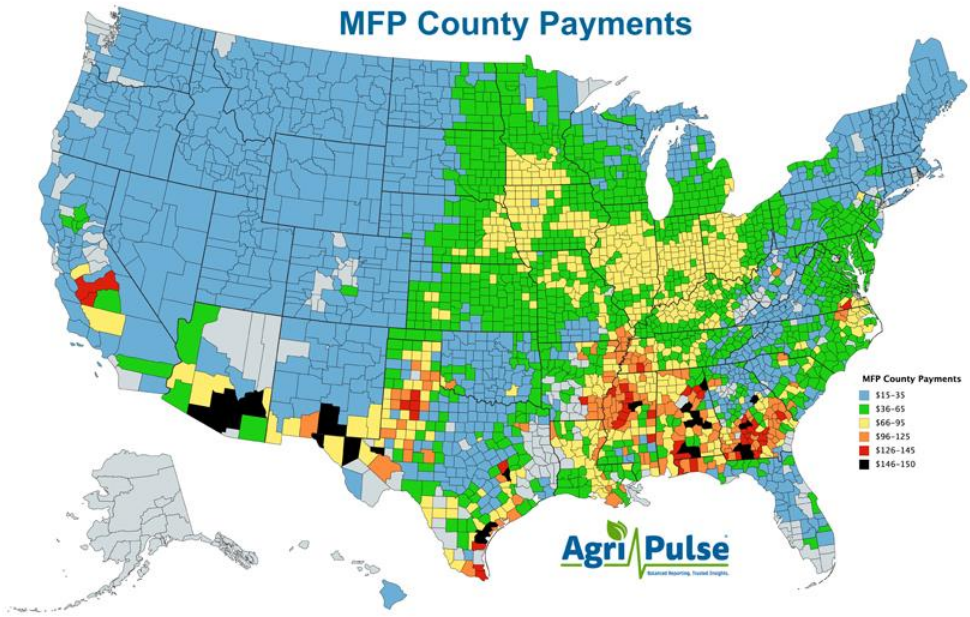
$93 per acre in McCreary County. Most west Kentucky grain counties were in the $55 to $80 per acre range. See table on the following page for individual Kentucky county payment rates.

According to USDA, payments for the latest round of MFP payments will be made in three different installments or what USDA refers to as tranches. The first payment, which will be made in mid-to-late August, will be the higher of either 50 percent of a producer's calculated payment or $15 per acre. The second and third portions will be reevaluated based on the trade environment later in the year. If conditions warrant, the second portion will be made in November, and the third in early January.

On the livestock side, dairy producers (who were in business on June 1, 2019) will received $0.20/cwt based on production history, and hog producers will receive a payment of $11 per head based on the number of live hogs owned on a day selected by the producer between April 1 and May 15, 2019.

To be eligible for MFP payments, applicants must had either have an average adjusted gross income AGI) for tax years 2014, 2015, and 2016 of less than $900,000, or derive at least 75 percent of their adjusted gross income from farming. According to USDA, "MFP payments are limited to a combined $250,000 for non-specialty crops per person or legal entity. MFP payments are also limited to a combined $250,000 for dairy and hog producers and a combined $250,000 for specialty crop producers. However, no applicant can receive more than $500,000."

Sign up began on July 29, 2019 and will continue until December 6, 2019. Check with your local Farm Service Agency (FSA) office for more details.



Source: AgriPulse, www.agri-pulse.com/articles/12457-map-a-look-at-where-the-mfp-payments-are-going

MFP Payment Rates by Kentucky County 1/

ADAIR	$65		CUMBERLAND	$72		KENTON	$52		NICHOLAS	$42
ALLEN	$57		DAVIESS	$79		KNOX	$60		OHIO	$77
ANDERSON	$69		EDMONSON	$72		LARUE	$76		OLDHAM	$72
BALLARD	$63		ELLIOTT	$24		LAUREL	$44		OWEN	$49
BARREN	$62		ESTILL	$61		LAWRENCE	$43		OWSLEY	$72
BATH	$61		FAYETTE	$71		LEE	$86		PENDLETON	$69
BELL	$65		FLEMING	$68		LEWIS	$80		POWELL	$44
BOONE	$60		FRANKLIN	$73		LINCOLN	$64		PULASKI	$67
BOURBON	$66		FULTON	$71		LIVINGSTON	$64		ROBERTSON	$60
BOYD	$44		GALLATIN	$66		LOGAN	$57		ROCKCASTLE	$55
BOYLE	$62		GARRARD	$44		LYON	$56		ROWAN	$51
BRACKEN	$57		GRANT	$47		MADISON	$42		RUSSELL	$73
BREATHITT	$40		GRAVES	$65		MAGOFFIN	$24		SCOTT	$63
BRECKINRIDGE	$79		GRAYSON	$72		MARION	$63		SHELBY	$76
BULLITT	$74		GREEN	$75		MARSHALL	$63		SIMPSON	$54
BUTLER	$71		GREENUP	$83		MASON	$69		SPENCER	$82
CALDWELL	$57		HANCOCK	$81		McCRACKEN	$65		TAYLOR	$72
CALLOWAY	$60		HARDIN	$70		McCREARY	$93		TODD	$58
CAMPBELL	$58		HARRISON	$56		McLEAN	$72		TRIGG	$55
CARLISLE	$68		HART	$71		MEADE	$69		TRIMBLE	$75
CARROLL	$82		HENDERSON	$77		MENIFEE	$52		UNION	$63
CARTER	$52		HENRY	$66		MERCER	$63		WARREN	$61
CASEY	$60		HICKMAN	$64		METCALFE	$59		WASHINGTON	$54
CHRISTIAN	$59		HOPKINS	$75		MONROE	$52		WAYNE	$74
CLARK	$78		JACKSON	$47		MONTGOMERY	$47		WEBSTER	$70
CLAY	$76		JEFFERSON	$76		MORGAN	$60		WHITLEY	$24
CLINTON	$69		JESSAMINE	$70		MUHLENBERG	$67		WOLFE	$88
CRITTENDEN	$58		JOHNSON	$24		NELSON	$63		WOODFORD	$73

1/ A complete list of crop payment rates by U.S. county by are available by clicking here.

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