Addressing the Equity Retirement Program

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Farmers Friend cooperative has been discussing their value package to their producer members. The first element is service. The cooperative has been growing it assets (in excess of depreciation) by around 5% a year. That has allowed them to make some progress in meeting their members need for speed and space but many complain that they are falling behind the power curve. The second element is cash patronage. The cooperative has been paying 40% cash patronage with the remainder of member profits distributed as qualified stock. The final element is equity retirement. The cooperative has been using a revolving fund (age of stock) program and the current duration is 27 years. The CFO prepared a set of feasible alternatives for the cooperative. ***Which alternative would you recommend that the cooperative adopt?***

Current Program: 40% cash patronage, 5% growth, 27 year equity revolving period

Improve retirement-slow growth; 40% cash patronage, 3% growth, 25 year equity retirement

Maintain growth but reduce patronage: 35% cash patronage, 5% growth, 25 year retirement

Address retirement period: 30% cash patronage, 3% growth, 20 year retirement period