Survey Insights into Equity Redemption Programs

Phil Kenkel
Bill Fitzwater Cooperative Chair

The recent “Annual Cooperative Business Survey” conducted by the Wisconsin Center for Cooperatives provides some interesting snapshots of the cooperative business sector. The survey examined agricultural, rural electric and grocery cooperatives. One of the areas examined was equity retirement.

Age of stock (revolving fund) programs were used by over 50% of the agricultural cooperatives 40% of grocery cooperatives and 45% of the rural electric cooperatives. Revolving cycles ranged from 3-30 years. Age of patron retirement systems, which are common in Oklahoma, were evident only in the agricultural cooperative sector. Sixteen percent of smaller agricultural cooperatives used the age of patron method, while none of the over $500M ag cooperatives retired equity based on patron age. Percentage of all equities programs were used by almost 30% of the rural electric cooperatives but less than 10% of agricultural cooperatives. Estates only programs were surprisingly common, with over 40% of the agricultural cooperatives, 50% of the rural electric cooperatives and 40% of the grocery cooperatives reporting that method. Unfortunately there is truth to the joke that you have to die to get value from your cooperative stock! Base capital plans were used by 12% of the agricultural cooperatives (likely regional cooperatives) and were not prevalent in the other sectors.

In the comment section, the respondents reported lots of concerns related to equity capital and equity redemption. Many of the comments related to the balancing act between retiring equity and replacing and improving infrastructure. Respondents also expressed concern over changing member demographics, and the cash flow requirements of looming retirements. The comments also suggested that many cooperatives were attempting to reduce their revolving periods and/or reposition their programs to appeal to the patron of the future. Respondents also mentioned board policies on the maximum amount of unallocated equity, the shift to nonqualified allocations and the miss-match between the regional cooperative’s program relative to the local.

Equity retirement is a complex part of cooperative financial management. It is interrelated with both the value of the cooperative to the member and the stability and growth of the firm. The OSU cooperative financial simulator can be used to compare equity redemption alternatives for your particular cooperative situation. Let me know if you would like to take a look at equity redemption alternatives.

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